

## Category – Liaison to enter

### **NBN AND THE OECD ECONOMIC SURVEY OF AUSTRALIA**

#### **IN ITS LATEST ECONOMIC SURVEY OF AUSTRALIA, THE OECD FINDS THAT THE NBN “HOLDS THE PROMISE OF DELIVERING POTENTIALLY LARGE BENEFITS” AND “WILL IMPROVE INTERNET SERVICES FOR THE ENTIRE POPULATION”**

- The NBN is a \$43 billion nation-building project expected to provide every person and business in Australia access to affordable, fast broadband. It is expected to support up to 25,000 jobs a year, on average, over the eight-year life of the project.
  - The NBN is a transformational infrastructure resource for the economy. It will enable new and enhanced ways of delivering business and government services and facilitating communication.

#### **THE TELSTRA DEAL WILL REDUCE THE COST TO TAXPAYERS OF BUILDING THE NBN AND ENSURE THE STRUCTURAL SEPERATION OF TELSTRA**

- The OECD's Economic Survey notes that some have expressed concern about Telstra agreeing to shut down its hybrid fibre coaxial (HFC) and copper network.
- This will not weaken competition in Australia's broadband market. Instead, the roll-out of the NBN as a wholesale-only, open access network will fundamentally transform the competitive dynamics of the Australian telecommunications sector.
- As the OECD notes, the proposed NBN arrangements will allow for fairer competition to take place at the retail service provider level.
- The NBN will also continue to face wholesale competition from wireless services. And the NBN Co-Telstra deal will be subject to the scrutiny of the ACCC.
- The Government considers that the migration of Telstra customers to the NBN is an important step in delivering the structural separation of Telstra. This historic microeconomic reform will ensure Australia finally has a genuinely competitive telecommunications industry which works for all Australian households and businesses, and helps to drive long-term productivity growth in our economy.

#### **THE NBN IMPLEMENTATION STUDY FOUND THAT THE NBN WILL HAVE A STRONG BUSINESS CASE AND CAN BE CONSTRUCTED FOR LESS THAN EXPECTED**

- The NBN Implementation Study was not a formal cost-benefit analysis, but includes detailed financial analysis of the project, including revenue and cost modelling.
- The Implementation Study indicates that, under a range of realistic scenarios, NBN Co will be a viable business and that the Government can expect to generate a rate of return consistent with the long term bond rate, allowing the Government to fully cover its cost of capital.

## **OPPOSITION POLICY**

- On 25 October 2010, the Coalition introduced the National Broadband Network Financial Transparency Bill 2010. The Bill would require NBN Co to prepare and publish a detailed business plan and the Productivity Commission to undertake a cost-benefit analysis of the NBN.

## **BACKGROUND FACTS**

- The OECD's latest economic survey of Australia is due to be published on 12pm 14 November 2010. The Survey discusses Australia's response to the global financial crisis and looks at major challenges on the medium-term horizon. The Survey also analyses the rollout of the NBN.
- In summary, the Survey notes that the NBN has the potential to deliver large benefits to Australia. The Survey considers that the NBN will improve Internet services for the entire Australian population and will promote more competition between private firms on retail services. The Survey also raises some criticisms of the NBN.

## **Financial Implications**

- The Survey notes the cost of the NBN and suggests that this will entail substantial financial uncertainties.
  - There is always an implicit risk with any major investment or undertaking that a government enters into. This is why the Government commissioned the NBN Implementation Study.
  - The Implementation Study indicates that, under a range of realistic scenarios, NBN Co will be a viable business.
  - The Government has provisioned \$18.1 billion in equity over the forward estimates for the roll-out of the NBN, based on the recommendations of the NBN Implementation Study, with a total provision of \$25.8 billion.

## **Telstra Deal and the Impact on Competition**

- The Survey raises concerns about NBN Co entering into a deal with Telstra involving it shutting down its copper and HFC network and transferring its wholesale customers to the NBN. The Survey recommends that it would be preferable to maintain competition between technologies in the broadband sector and, within each technology, between Internet service providers.
- The Survey also recommends that, while government intervention seems necessary for developing the NBN infrastructure, the Government ought to take a prudent approach to ensure that it does not trigger a weakening of competition in the wholesale broadband services to protect the viability of the NBN.
  - Australia's relatively small population size compared with its large land mass makes competition between rival fixed line technologies unrealistic in most geographic regions in Australia.

- Telstra’s HFC and copper networks would have been unlikely to provide speeds and service of the nature provided by the NBN.
- In return for Telstra agreeing to shut down its network, the Government has obtained agreement from Telstra to structurally separate, which will promote genuine retail competition in Australia’s telecommunications industry. By gaining access to existing Telstra infrastructure, the Telstra deal will also benefit taxpayers by reducing the costs of developing the NBN.

### **Cost-Benefit Analysis**

- The Survey implies that it would have been useful for the Government to have undertaken and published a cost-benefit analysis of the NBN.
  - The Survey recommends that Infrastructure Australia improve transparency when selecting infrastructure projects. This includes publishing a cost-benefit analysis for all projects evaluated and auditing larger projects.
  - The Survey does not explicitly state that the Government should have undertaken a cost-benefit analysis for the NBN. The Survey notes that the Implementation Study was undertaken. However, the Survey cites the NBN as an example when recommending that Infrastructure Australia improve transparency.