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Speed isn't everything on information superhighway

Fast broadband is not the money machine many hope it is, writes **David Kennedy**.

Telstra's announcement on Monday that it is abandoning its plans for a fibre to the node (FTTN) network comes as no surprise. Both Telstra and the Australian Competition and Consumer Commission (ACCC) have been signalling growing frustration with talks on FTTN regulation in recent weeks.

But don't panic. Australia isn't condemned to be a broadband backwater. And the decision is an opportunity for the industry and the government to start looking harder at the underlying issues that Telstra's FTTN proposal has exposed.

Here's the good news: 2.5 million households already have access to speeds ranging up to 17Mbps on the Telstra and Optus cable networks. Optus has begun to offer fast ADSL services up to 20Mbps. iiNet tells us that it can guarantee at least 6Mbps to most metropolitan areas.

Not all of the fast ADSL infrastructure is in place yet. But by the end of 2007, this combined cable and fast ADSL infrastructure will reach more than half of the premises in Australia. Not bad for a country that is supposed to be a laggard.

So does Telstra's backdown matter? Yes it does, because it would have provided a guaranteed 12Mbps, and up to 20Mbps, to about half of the country. It would also have been the platform for further generations of technology improvement. That would be better.

But the market will continue to develop, and Telstra will participate. I expect Telstra to announce other investment plans to improve broadband services.

For now, Telstra will sit tight on major fibre investments. And the ball has been firmly hit back to Optus and its "Gang of Nine" (G9) colleagues. If they are serious about their alternative FTTN proposal, they now have ample opportunity to prove it. But if they can't make progress over the next year, Telstra will return to the negotiating table in a stronger position.

One way or another, Australia will get a next-generation network.

When Telstra says FTTN is a high-risk investment, it has a point. The returns to services running over these networks is uncertain, and FTTN must compete with other technologies. Those risks can't be eliminated, and any G9 proposal will face exactly the same risks. Setting access prices to account for this risk was a major issue in Telstra's discussions with the ACCC.

This is a situation we've never seen before. Back in the 1990s, regulation was mainly about ensuring access to Telstra's legacy infrastructure. No one was proposing to rebuild the fixed access network at a cost of billions. And this is just the first step. It will take many more billions to get fibre closer to the 10 million premises in Australia.

Competition is just as important as ever. But encouraging investment is the other major policy consideration. It is to the ACCC's credit that it displayed some flexibility on access prices, because it shows it understands this reality.

Promoting industry investment is becoming more difficult all the time. Margins have been falling for the past two years. Competitive conditions are only going to get tougher. Standard telephone revenues are declining steadily as people switch to mobile and voice over internet protocol services, and Telstra is the most exposed. Broadband and mobile growth has been making up for it. But when broadband growth finally dries up (as it must), what then?

Fast broadband isn't the saviour. If you look carefully at broadband prices in Australia, the fast broadband services coming onto the market don't cost you very much extra.

And what does this tell you? There just isn't any huge pool of unmet demand for fast broadband out there driving up prices. Fast broadband isn't going to be the money-spinner that some in the industry are hoping for.

Nor are internet video services going to be the saviour. Fast broadband can be used to deliver pay TV type services. But we had 10 years of pay TV competition in Australia, and the industry made losses in every one of those years. Who wants to relive that nightmare?

The industry looks like it is heading into the perfect storm. But there's no consensus on how to manage it. Telstra and the G9 offer rival visions for the future. It's integration versus separation, infrastructure competition versus service competition.

What we need is an open debate on the policy settings for the next generation of telecommunications infrastructure – how it should be regulated, how it will be funded. If we're going to adjust access pricing principles, let the principles be made clear and public.

Maybe the 10-year anniversary of the 1997 reforms is an opportunity. Let Telstra and the G9 make their case for the industry's future in an open forum, led by a government prepared to make some hard calls. That's what governments are for, aren't they?

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