

24 June 1999

**Hunter Economic Development Corporation
Submission to the Productivity Commission Inquiry
“Impact of Competition Policy Reforms on Rural and
Regional Australia”**

The Death Knock for Regional Australia

The Inequity of Telecommunications Services in the Hunter Region

The profit driven telecommunications environment created by Competition Policy means rural and regional Australian is severely disadvantaged in the Information Age.

A major criticism that the Hunter Economic Development Corporation has of the Draft Report prepared by the Productivity Commission is that telecommunications infrastructure has not been included in Section Five *NCP-Related Infrastructure Reforms*.

The issue of telecommunication service delivery in rural and regional areas was only briefly covered in Section Six *Commonwealth Reforms Telstra*.

The HEDC feels, based on the following key assumptions, that telecommunications infrastructure is as vital to regional development as the roads, rail and other utilities covered in Section Five and would be better discussed in the section.

The assumptions are:

- World class information technology and telecommunications infrastructure will provide a competitive advantage for industry in the 21st century.
- Jobs are increasingly knowledge based and dependent on quality IT&T services.

Modern telecommunications was meant to overcome the tyranny of distance for those outside metropolitan areas. But today's competitive delivery and servicing environment means distances are widening for rural and regional Australia, both economically and socially.

In a few short years, we will be speaking over distance, face to face, on the internet. Business will be able to smile at customers, better express sincerity, form relationships, and read the thousands of invaluable signals facial expressions reveal.

Families divided between Sydney and Melbourne, for instance, will “reach out and touch” the face of a loved one.

In a purely competitive environment, such as the one we have now, people in non-metropolitan areas will never have the luxury of this vital service.

The realities for rural and regional Australia will be a resistance by business to expand in or locate to these areas. People will be less likely to move into these areas. If people were able to see and speak to family members in other places, they would be more likely to locate in rural and regional Australia.

This inequity will certainly sound the death knock for many regional areas, and small towns already struggling with negative flows in population and investment.

The result of competition policy will be a faster flight from rural and regional Australia to metropolitan centres, creating concentrations of people on our coasts. This will mean social problems not only for regional Australia, but also for metropolitan Australia.

Increased competition has forced telecommunications service providers to be profit driven instead of service driven, and the best return on investment is in the population dense areas.

To achieve financial efficiencies, infrastructure has to pay for itself in minimum time and the equipment has to be utilised to a maximum. Therefore, services cannot be offered profitably to areas where the number of users or customers does not provide adequate utilisation.

We are already seeing this in the provision of internet access in the Hunter region.

In the more densely populated area of Newcastle and Lake Macquarie with a combined population of approximately 330,000 people, there are 39 local service providers as well as the larger national providers such as Telstra, AAPT and OPTUS. This provides competition to drive down internet rates, and rates are around \$1 per hour for internet use.

In the Upper Hunter's Murrurundi with a population of less than 1,000 people there is no Internet access at the cost of a local call. With only one service provider available to this market, internet costs are \$7 per hour.

The same inequity applies to all telecommunications affected by the Competition Policy as follows:

Mobile telephony.

Telstra, OPTUS and Vodaphone all compete for mobile access in the built up areas of the Hunter, leaving scores of smaller towns plus major and minor roads without mobile access. This applies even to large sectors of the New England Highway in the Hunter Region.

Already this situation is acting as a deterrent for business. For example, companies are reluctant to hold conferences in areas such as the Hunter

vineyards, Singleton, Muswellbrook and Scone because of the lack of mobile signal. Bayswater Power Station, near Muswellbrook, hosted an international mining conference in 1998. The conference was hampered because organisers and delegates were unable to use their mobile phones over a three day period.

Telephone Services

Long distance call pricing has dropped due to competition, however “short haul” long distance calls that rural townships are forced to use due to the present charging regime have not dropped in the same proportion and are a major factor in restricting rural development.

Data Service Provision

In metropolitan areas, Telstra, OPTUS and other major communication providers have installed large amounts of optical fibre to supply pay TV, telephony, high speed data and internet services to office blocks and houses. In the Upper Hunter, as in other regional areas, customers still have to depend on a pair of copper wires to deliver these services.

The data speed delivery of copper wire is not comparable to modern alternatives such as optical fibre and wireless local loop depending on distance from a phone exchange.

Although new technologies such as X Digital Subscriber Line (XDSL) technologies will lift the performance of copper wire to a more acceptable level, it will be limited by distance from the telephone exchange to the customer. This is also a problem with the delivery of present ISDN services where they are available. In regional areas, most customers are not within five kilometres of a telephone exchange.

In conclusion we understand the Federal Government is currently considering the introduction of asymmetrical satellite services to provide high speed internet access to rural and regional areas under the Universal Service Obligation.

These services use a high-speed link from the internet service provider via satellite to the user, combined with a slow speed “up link” back. This service is adequate for “early generation” use of the internet e.g. for down loading files in a timely fashion and E mail use. However, sophisticated users such as “Voice over IP” and “Video over IP” need fast data speeds in both directions. Already this technology is a vital tool for business.

To provide asymmetrical satellite services to regional Australia is to provide a second rate service, only suitable for low sophisticate users.

The internet is already replacing normal means of communications such as telephony, data, and video transmission for efficiency and cost reasons.

Rural and regional areas will find it increasingly difficult to attract new companies to situate in regional areas when it is seen that modern communications facilities are not deliverable in these areas.

Competition has meant the wiping out of regulation that has underpinned regional development and jobs.

This has created an inequity that under current policies will only worsen. High density population areas reap the benefits of competition, and less populated areas languish in pre-competition technology.

This gap will widen unless policies are instituted to give people in rural and regional areas access to technologies that will deliver the same telecommunications products at the same costs as metropolitan areas.

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Please note the Hunter Economic Development Corporation has drafted an audit report on telecommunications hardware, use and skills in the Hunter Region. This document can be made available through Networking the Nation upon publication.