Telstra can blame its Labor deal

Price of progress

The telco makes lower profits from broadband – and consumers are better off. But that happens to be what the company signed up for.

Paul Fletcher

Earlier this week Telstra's chairman argued that NBN Co needs to cut its wholesale broadband prices so Australians can have lower retail broadband prices.

There is nothing wrong with NBN's customers, such as Telstra, arguing for NBN to charge them lower prices.

But it is interesting to note that 10 years ago when Telstra was the near monopoly provider of broadband services, it charged retail prices that were markedly higher than consumers are paying today.

In those days Telstra had EBITDA profit margins of more than 80 per cent in its "copper local loop" – the fixed line access network serving Australian households. Most Australians got their broadband via ADSL, a technology delivered over Telstra's copper lines in its local network.

Telstra used its market power to follow a very profitable strategy of delaying the rollout of high-speed broadband over its network.

With ADSL there was no guarantee of the speed you would get; the farther your home was from the exchange, the lower your speed would be. Two-thirds received less than eight megabits per second. Yet for this "no guarantees" service you typically paid $110 a month in today's dollars, including monthly line rental.

Today the NBN is rapidly becoming the dominant fixed-line access network. Two-thirds of NBN's fixed line customers take 50 Mbps plans or higher; and the typical cost of a 50 Mbps plan is $80 a month.

Ten years ago there were monthly download limits and customers on average downloaded 11 gigabytes a month; today there are no download limits on most NBN retail plans and the average fixed-line NBN customer downloads 255 gigabytes a month.

Australians are getting much faster broadband, downloading vastly more, and paying a lot less, than 10 years ago.

Of course, the flip side of Australians paying less is that Telstra today makes much less profit from broadband and other local loop services.

This reflects a decision by Telstra during the Labor government years to enter into the "definitive agreements" with NBN Co under which Telstra would gradually cease operating its local loop network and transition to being a reseller of NBN services.

Telstra's chairman suggests that if other telcos were free to build their networks in competition with NBN Co, that would deliver lower wholesale prices.

If he is referring to the fact that Telstra is restricted from doing this, it is important to recognise that this is based on the definitive agreements.

Telstra voluntarily contracted with NBN, in the years when Labor was in government, to accept this restriction – in exchange for a stream of payments that will continue for at least 35 years from commencement and which this year will see Telstra receive $1 billion in nominal terms from NBN Co for lease payments.

In nominal terms NBN Co will also pay Telstra and Optus about $10 billion for all customers connecting to the fixed-line NBN from legacy networks.

If Telstra's chairman is referring to other telcos building networks to compete with NBN, there is nothing in the legislation that prevents this.

Nor is there any restriction on Telstra and other mobile operators using their 4G or their emerging 5G networks to compete against the NBN.

Our Coalition government is clear – we would not have designed the NBN in the way that Labor did. So I would certainly agree with Telstra's chairman that a better strategy might well have seen much of the network upgrade funded by the private sector (although not, as he rightly concedes, in regional and remote Australia).

Australia could, for example, have followed a similar approach to New Zealand – where the equivalent company to Telstra was split into two separate entities, and the network-owning company (now Chorus) upgraded its access network to deliver high-speed broadband services (100 Mbps and beyond) with the aid of government subsidies (concessional loans, not grants).

Of course, history shows that under earlier boards and managements Telstra was fiercely opposed to such industry transformation.

And it is also a matter of historical record that when our Coalition government took office in 2013, we inherited the model Labor had locked in. It had spent $6.5 billion on the NBN, entered contracts to spend many billions more – and had connected barely 50,000 premises to the fixed-line network.

We judged that the best course of action for the nation was to complete the rollout as quickly as possible – and by moving away from Labor's ill-judged plans to our multi-technology mix, the NBN will be delivered for $30 billion less and four years earlier than under Labor's plans.

Today more than 10 million premises can connect, over 6 million are connected, and by next year the rollout will be complete, with 11.5 million premises able to connect.

That has happened with a lot of hard work from NBN Co – and from its key resellers such as Telstra.

It is undeniable that today's broadband business model is less profitable for Telstra than 10 years ago. It is also undeniable that Telstra's board and management freely entered into the deal that has led to today's outcome.

The most important public policy question is whether broadband consumers are better off – and the answer unambiguously is yes.

Paul Fletcher is the federal minister for communications, cyber safety and the arts.

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