.

Business*Spectator*

Commentary
Donald McGauchie's speech

Published 10:01 PM, 23 Jun 2008

**It's Time To Get Serious
about Australia's next generation network.**

The debate about Australia's telecommunications policy is intense and hard fought. That is as it should be – these are vital issues. They merit and deserve careful scrutiny. But that scrutiny will not serve its purpose if it is built on deceptions, misconceptions and half-truths, rather than on credible evidence, reputable analysis and widely-shared truths. It is time to get serious. It is time for principled decision-making that is based on facts and data from Australia and around the world.

The cornerstone principle must be that those who want to impose or perpetuate regulation need to show that the benefits of that regulation will exceed its costs. This principle, emphasised by the Productivity Commission and officially adopted by the government, has been largely ignored in the telecommunications debate. It is the time to set that right.

Nowhere is this more important than in respect to repeated calls for the structural separation of Telstra. Structural separation – the forced dismemberment of a private company – would be an unprecedented event in Australian public policy. Moreover, what is proposed by SingTel Optus and its co-conspirators is unprecedented internationally. It would take Australian businesses and consumers down a one-way street with enormous risks and few or no exits.

To understand what is involved it is important to start from one, crucial, fact: No matter what the proponents of structural separation may say, there is not a single major carrier worldwide that is not vertically integrated – in the sense of both controlling the network over which services are provided and the retailing of those services. That is true for long-standing incumbents as well as more recent entrants.

The reasons for this are simple: there are overwhelming efficiencies to vertical integration. Those efficiencies take many forms, but it is clear that vertically integrated carriers have many benefits to consumers and to the larger economy – including an improved ability to:
· control costs,
· reflect costs in prices,
· assure service quality, and
· manage network and service innovation.

All of these are widely-shared truths outside this country, but poorly understood in Canberra and especially in the ACCC. It is therefore worth spending a few moments explaining them.

The *increased ability to control costs* comes from the capacity to share resources, including skilled people, across the wide range of functions involved in building and operating networks and services. Better cost control from integration also arises in the investment process, as integrated carriers can achieve very substantial scale economies in network planning, purchasing, and network deployment.

The *ability to more fully reflect costs in prices* comes from the fact that our retail operations can face the actual cost structure and level of our network, rather than the artificial access price constructs created by regulators. The reality is that many of our costs are fixed, while the variable costs associated with expanding usage are often low. Our internal arrangements can reflect this, as well as reflecting changes in cost structures over time, in ways that regulated access prices cannot do. This means we can use our internal arrangements to secure fuller and better use of our network, lowering unit costs to the benefit both of our customers and of our shareholders.

The *greater ability to assure service quality* comes from the scope integration offers to monitor network and service status on an end-to-end basis, identify faults, and schedule and coordinate the many tasks involved in quality assurance.

The *enhanced ability to innovate* comes both from the ability to identify profitable opportunities for innovation in retail markets – through our daily close interaction with users – and from the capacity to coordinate the introduction of new capabilities into the network with the launch of retail services that make good use of those capabilities.

At the same time, integration, and control of both retail and network level operations, makes it possible to handle the transition from old to new platforms and applications

as seamlessly, and with as little disruption to users, as possible.

Telstra's own history has borne out the importance of these integration efficiencies time and time again.

The deployment of new networks strikingly illustrates this point. It is fanciful, for example, to think that we could have completed the Future Mode of Operation program, which put the Australian switching and transmission network onto a digital basis, as efficiently as we did, and with as little disruption to users, without being fully vertically integrated.

Equally, full vertical integration was crucial to our recent internationally recognised success in deploying our national Next G, 3G network, in record time and with record cost control. We have set the new global benchmark.

But vertical integration is not only critical to efficiently deploying new infrastructure – it is also critical to ensuring that infrastructure is put to good use.

In the fixed network, for example, we have sought to closely coordinate network upgrading and capacity expansion with the development of services that exploit the ever more advanced features the network can support. Moreover, we can ensure that the pricing of those new services will best reflect the cost structures of the networks and platforms they use. In that way, we can have greater confidence that our network investments will be worthwhile for our shareholders and that consumers will benefit, and benefit promptly, from the new capabilities technological innovation in telecommunications so constantly creates.

Exactly the same logic applies in the mobile network. We could not have achieved the very high levels of penetration we now have for mobiles as quickly as we did without coordinating the deployment of mobile facilities with the aggressive retail promotion of the mobile service, including through the subsidisation of handsets.

And with Next G, deploying the world's largest, fastest, most advanced wireless broadband network has allowed us to successfully market a wide range of new data services. The rapid take-up of those new retail services is not only underpinning our mobile revenues but also transforming the way people live, work, and do business in many parts of Australia, not the least in country areas.

Finally, as many of you will know, we are currently in the process of transforming our information systems, to eliminate unnecessary duplication, increase our systems' capabilities and especially flexibility, facilitate seamless integration of services, and reduce costs. None of this could be done – and done without unacceptable disruption to users – had we not been fully vertically integrated.

Overall, it is a fact that we at Telstra have achieved substantial gains in productivity over a long period of years. Indeed, those gains have been relatively high in international terms, outperforming the US carriers who have struggled with the legacy of the break-up of the Bell system – a legacy I will return to in a moment. We could not have achieved those gains, which are the only way of providing sustainably lower prices and better service to consumers, without the end-to-end control over network and operations that allows us to tightly manage costs, achieve economies of scale and constantly seek and exploit opportunities for improvement.

All of these sources of efficiency will become even more, not less, vital in the years ahead.

It is important here to be clear about the challenge we face as a nation. Not only in telecommunications but also in many other parts of our infrastructure, we have been living off investments made by previous generations. That we have been able to do so is in part the result of the inefficiencies associated with government ownership.

Government-owned and operated utilities – such as the old electricity boards and the Post-Master General's Department – may not have designed and built networks as efficiently as possible, but they built them to last. Reflecting this, in many infrastructure industries, we entered the 1990s with an excess of capacity, in part because capacity had continued to expand in the 1970s and 1980s despite slow economic growth. What microeconomic reform and privatisation did was bring to bear new, much stronger, incentives for full use to be made of that excess capacity. Faced with those incentives, infrastructure providers largely accommodated within existing capacity the strong growth in demand that has accompanied our sustained economic expansion. But that process of squeezing the lemon has now reached its utmost limits.

This is painfully clear in telecommunications. By the early part of this century, over 30 per cent of the copper pairs in the Australian network were more than 30 years old, with more than 5 per cent pre-dating 1950. In many places, there is little or no spare capacity in our customer access network, so that meeting growth and fluctuations in demand has required ever more fiddling with what copper there is. That fiddling itself introduces further faults into the network, increasing costs and making it difficult to support very high speed services. Without a far-reaching modernisation of the "last mile", the difficulties will only become more acute.

Building a new, high-speed, broadband network is therefore crucial if we are to meet the legitimate expectations of the community – and in particular, the expectation that, as a continent that is so large and sparsely populated, and is so far from our primary trading and cultural partners, we will draw every benefit we can from technologies that can help defeat the "tyranny of distance".

No technology can help achieve that goal as effectively as genuinely high speed broadband – a technology that makes the whole world each person's backyard. But that technology is simply not capable of being delivered without a massive transformation of our current copper network.

This is what the Government has now recognised in its Request for Proposals for the deployment of a new, national, Fibre to the Node Network.

It is a complete delusion to believe that the transformation being sought in that Request for Proposals could be efficiently undertaken without tight vertical integration between the network on the one side and the customer-facing retail operations on the other.

The sheer scale and pace of the transformation that is envisaged is a first important factor in this respect.

Our existing network was rolled out incrementally over a period of many decades. In contrast, the Government's RFP contemplates completion of the new network in merely 5 years. It is true that that network will utilise some of the existing infrastructure, but there will still need to be a vast amount of new infrastructure deployed in the field: we estimate, for example, that the amount of existing fibre optic cable in the Australian network will need to at least double.

Achieving that deployment in 5 years involves a breath-taking pace. Meeting the targets set out in the RFP for transition of lines from the existing to the new network would require an average cutover rate of approximately 5,000 lines *per day* – equivalent to a decent sized town or suburb.

It is simply impossible to achieve transformation at acceptable cost on such a scale and at such a rate without making full use of Telstra's capabilities in the field and our detailed knowledge of the local network.

Additionally, even assuming that pace of transformation can be achieved, the only way to avoid massive disruption to users of existing services – many of whom depend heavily on those services for the operation of their businesses and of their daily lives – will be to tightly coordinate the deployment of the new facilities with the management of retail service provision.

If that does not occur, the inevitable result will be businesses – and particularly small and medium sized businesses – left stranded, as crucial telecommunications services are cut off for days, weeks or even months.

The challenge is even greater because this time we will be a technology leader, not a follower.

Our existing fixed network was largely based on technology that, when we introduced it, was in widespread use. This would not be the case with the FTTN, where the scale of the proposed deployment, and the capabilities being sought would place us closer to, if not at, the frontier.

Moreover, we would need to manage the planning and deployment with a technology that is still undergoing rapid development and where the boundaries and demarcation points between the different functionalities it involves are still very much evolving. Again, those shifting boundaries will require, if they are to be effectively managed, close coordination between the network on the one hand and the retail services and applications level on the other.

Adding to that, demand for the services is still highly uncertain – quite in contrast to the existing fixed network, where most of the applications are very mature, making demand reasonably predictable, at least in aggregate. As a result, for the risks involved to come close to being commercially acceptable, it will be crucial for the existing customer base to have confidence in migrating to the new services. It will also be crucial that a wide range of new retail applications, tailored to many diverse customer segments, are made available as soon as possible, so as to stimulate the take-up of the far greater capabilities the new network will offer. And those new applications must be priced in ways that match the cost levels and structures of the new network, ensuring they provide the right signals for usage to grow where it can be most efficiently handled.

It is a pipe-dream to believe that these key aspects of managing the demand side can be secured by a carrier that does not have both full control over the network and a very large retail base. It is even more of a pipe-dream to believe that they can be achieved at all, much less achieved at a record pace and to reasonable cost, working against, rather than with, Telstra.

It would be terrific if I could, at this point, turn to cases where that task – rolling out a substantially upgraded network, and then smoothly migrating to it many millions of customers – had been tried on a structurally separated basis, and show you the outcomes. But the reality is that no country has been crazy enough to even try completely transforming a network on a structurally separated basis, that is, eliminating vertical integration between retail and wholesale operations.

Indeed, in the entire history of telecommunications, there has only been one large scale attempt at structural separation, and that was in the United States, with the 1984 break-up of the Bell System.

But what was tried in the United States bears no relationship at all to what SingTel Optus and its co-conspirators in the G9 have sought to impose on Australia.

Rather, what happened in the United States was separation between _fully vertically integrated_ local networks on the one hand, and _fully vertically integrated_ long distance networks on the other. Thus, the Bell System was broken up into AT&T, which supplied long distance service on a vertically integrated basis, and seven Regional Bell Operating Companies (RBOCs) each of which was assigned an exclusive territory in which it would supply local services, again on a vertically integrated basis.

After that separation, commonly referred to as divestiture, occurred, US telecommunications policy went through a series of phases. A huge amount of time and effort was devoted by the regulators, State and Federal, egged on by aggressive entrants, to promoting forms of competition based on the resale of the facilities of the incumbent operators. By the turn of the century, it had become clear that those efforts were not producing real benefits for consumers. Rather, all they generated were "me too" products, while the requirements to provide access were stifling investment and innovation.

Moreover, the separation between local and long distance – the central element in the Bell System divestiture – was simply leading to the loss of vertical integration efficiencies, compounding the harm to consumers and to the US economy. Leading economist Robert Crandall, from the Brookings Institution in Washington DC, has estimated that the divestiture caused productivity _losses_ of well over US$30 billion, with those costs mounting at a rate of more than $1.5 billion a year.

Faced with those consequences, policy changed course, in two crucial respects.

First, divestiture was effectively buried. Simply put, the vertically and horizontally integrated structure has been recreated. The reasons for that have been succinctly expressed by Alfred Kahn – one of the US's most eminent scholars and practitioners of regulation, and the father of airline industry deregulation – who, drawing the lessons of the US experiment, has said:

The twenty year experience with AT&T's dissolution should have increased our respect for the potentially large economies of scope in telecommunications.[1]

And second, the emphasis in regulatory policy shifted dramatically away from "open access" type requirements, in which competitors can free ride or cheap ride on incumbents' networks, to one based on competition between fully vertically and horizontally integrated rivals, and especially between the telecommunications

companies, with their copper based networks, and the cable television companies, with their hybrid fibre coax networks. Indeed, quite unlike what is proposed here, the incumbent telecommunications companies are simply not required to provide third party access to the high speed networks that they are building at a great pace.

Now, the proponents of structural separation in Australia simply ignore the US experience – no wonder: the facts don't fit their story. Rather, they prefer to point to other cases: but these provide no more support for their claims than does the US experience.

In particular, to demonstrate that complete structural separation is possible, they cite the process currently underway in Singapore, where the government has solicited and is now examining for the construction of a Fibre to the Home (FTTH) network, to be operated as a wholesale, open access platform.

However, it is nonsensical to claim the process underway in Singapore in any way resembles what would be involved in structural separation of Telstra.

To begin with, the Singapore government is not imposing any kind of structural separation requirement on SingTel – the owner of Optus, and a noisy advocate of structural separation for Telstra. Rather, SingTel would remain fully vertically and horizontally integrated, and would compete (or more likely, "cooperate") with the new network operator on that basis. Indeed, there are far fewer transparency and separation requirements imposed on SingTel than on Telstra – and SingTel clearly likes it that way.

Moreover, not only would SingTel be allowed to remain fully vertically integrated – presumably because the Singapore government recognises the costs structural separation would involve – but it is also being allowed to participate in the deployment and management of the new network. There is, as a result, a real prospect that Singapore will simply have two networks, in both of which SingTel and its owner, the Singapore government, will have a controlling influence.

Last but not least, the circumstances in which that second network is being deployed bear no resemblance to the situation in Australia. After all, while Australia is one of the world's largest, most sparsely populated countries, Singapore – a country of less than _one thousand_ square kilometres, as compared to Australia's 7.7 _million_ square kilometres – is an extremely densely populated city-state, in which a very large share of the population live in high-rise apartment buildings. The challenges involved in efficiently managing an advanced broadband network in Australia simply do not arise in Singapore – whether you are talking about deployment, customer migration, or repair and maintenance.

To cite what is happening in Singapore as supporting the structural separation of Telstra is no more and no less than a complete travesty. Rather, careful examination of the process underway in Singapore merely underscores the point I made earlier: that what is being proposed by the advocates of structurally separating Telstra is completely unprecedented internationally – and for good reasons.

As a result, were Australia to adopt the approach SingTel so effectively resists at home but so noisily advocates here, it would be a leap in the dark – and an extremely dangerous one.

In effect, what SingTel Optus and its co-conspirators are seeking is the dismemberment of the Australian network. With that dismemberment would come the complete loss of those efficiencies of vertical integration that are so crucial if we are to successfully build, migrate customers to, and manage, a genuinely high-speed network.

The consequences of losing those economies would be profound and on-going. It is a mistake to think that the transition to genuinely high-speed broadband will be a once-and-for-all event: it won't. Rather, whatever network is deployed in the next few years will need to be constantly upgraded, as innovation occurs both in the network and in the applications for which it is used.

That upgrading will require close coordination between changes to the copper pair network, the nodes and transmission systems that interface with and lead to that network, and the applications that use the platforms all of those network elements combine to create.

No dismembered system will ever be capable of providing that coordination. Rather, what we will see is what Australians have, sadly, come to expect from our vertically separated ports and rail systems: blockage after blockage, endless buck-passing, the failure to invest and ultimately, the queues of ships that are a daily occurrence at Dalrymple Bay, Port Waratah and Newcastle.

But the dismemberment plan is all the more dangerous because it is a one-way

street, with no exit options when things go wrong.

There is a brutal fact here, and it is worth stating brutally: that if the proponents of dismemberment have their way, there will be no Telstra to pick up the pieces.

Telstra won't be in a position to pick up the pieces when tens or even hundreds of thousands of users are stranded in a botched transition from the existing network to the spaghetti junction of the new structure, whatever it may be.

Telstra won't be in a position to monitor service quality on an end-to-end basis and rectify faults when the many different parts of the new structure buck-pass and seek to shift costs.

Telstra won't be in a position to ensure continuity of services, including emergency services, when natural catastrophes or terrorism require tight end-to-end network, asset and service control, and the ability to shift resources from all over the country so as to promptly restore both the network and the applications that run off it.

And Telstra won't be there to ensure on-going network upgrading when the spaghetti junction ownership arrangements of the structurally separated world collapse, as they inevitably would, into squabble after squabble about who will pay for the next major investment.

In short, the dismemberment plan is a risk management nightmare. It is completely unprecedented internationally, could not be undone without huge cost, massive disruption and unending litigation, and would, if adopted, bring nothing but chaos.

It is not a plan any responsible government could sensibly contemplate, much less endorse.

But what about "separation lite", of the kind being attempted in the UK and New Zealand? Isn't that the model we in Australia should adopt, as it allows the network operator to retain the efficiency of vertical integration while providing safeguards for competitors?

Before addressing those questions directly, I want to introduce a new character into our telecommunications policy debate: the regulatory cringer. Who is the cringer? He or she is the contemporary manifestation of Arthur Phillips' well-known character of the same name from the 1950s. Just like Phillips' cringer had a unthinking tendency to defer to whatever came out of the UK literary scene – a deference built on a shallow understanding both of the UK scene and of the Australian tradition, and an engrained preference for corduroy over moleskin – so our all too prevalent regulatory cringers look to the UK as if it was the font of all regulatory wisdom. And just as Phillips' literary cringer mistook for greatness the mediocrity that characterised the British literary scene of that time, so our regulatory cringer seems incapable of understanding the following fact: that the UK is a study in regulatory failure.

In regulatory terms, the UK is the "sick man of Europe".

The UK rail system, subjected to the medicine of structural separation, has become economically unviable, with operating costs doubling or trebling, according to the UK's foremost rail expert, as a result of the system's flawed, vertically and horizontally separated, structure.[2]

The UK electricity system, as well as being subjected to the medicine of structural separation, has suffered from endless regulatory somersaults and back-flips, including vast expenditure, approaching £1 billion, on a new trading system that has yielded no returns.

As for the UK telecommunications it is, simply put, a basket case. This is not to blame BT, though BT made many serious mistakes that Telstra avoided. Rather, the core problem lies in a regulatory system that destroys investment because it is incapable of deciding what it wants.

Initially, all the emphasis was placed on creating competition between BT and the cable operators, inducing those cable operators to spend billions of pounds on deploying networks capable of competing with BT. Then, just as those cable operators were getting into place, the regulator did a complete U-turn and put all of the emphasis on promoting resale competition, based on low cost access by competitors to BT's network. Predictably, the cable operators effectively went to the wall, so all of that investment was wasted. But having done that, the regulator then decided that the lack of competition was not the predictable consequence of its own failed policy, but rather was all the fault of BT.

Obviously, being the UK, the "good chaps" who designed and implemented the policies, and their advisers, could not be said to be at fault, nor bear the shame of failure; rather, it was BT that paid the price, with costly requirements being imposed upon it to separate parts of its wholesale operations from its retail side.

Looked at carefully, the arrangements imposed on BT make very little sense: they combine the insight of Jim Hacker with the clarity and directness of Sir Humphrey Appleby GCB, MVO, MA (Oxon) of "Yes Minister" fame. They undermine the efficiencies of integration without any obvious, corresponding gain. Moreover, they are designed around the existing generation of wholesale services and cannot be readily adapted to the next. And even then, they provide access seekers with fewer and less effective safeguards than we in Australia have long had in place.

All of this is echoed, in almost eerie ways, in New Zealand – as if that most British of colonies had never quite managed to free itself from the apron strings of Mother Britain.

Like the UK, New Zealand is a regulatory disaster zone. The rail system is a complete mess, with a botched privatisation, an even more botched renegotiation of those contracts and now the system's renationalisation.

As for energy, the less said, the better. A complex, overly-engineered, market design has resulted in both an absence of effective competition and a lack of investment, forcing the government to underwrite the construction of new capacity.

As for telecommunications, it has suffered from the British disease: policy flip-flops and an underlying lack of clear direction, much less clear principle.

At first, immediately subsequent to the privatisation of Telecom New Zealand, the government adopted perhaps the most "hands off" policy of any developed country, relying solely on the general instruments of competition policy. Every economic study finds that that period was characterised by very rapid productivity growth, price reductions that more than matched those in the far more heavily regulated Australian market, and service innovation. But then policy did a complete back-flip and introduced a regulatory system that has become ever more intrusive, with the latest step being the creation of a specialised unit, "Chorus", still owned by Telecom, to supply services to competitors and to Telecom's retail units.

The best that can be said for the New Zealand arrangements is that they seem destined to be highly transient. In effect, Chorus will not be required to supply the key access service in the next generation network, that is, the bitstream service. In other words, the Chorus arrangement, for all of its huge set up and operating costs, is not intended to persist in any meaningful form into the future broadband network. As a result, as Telecom makes the transition to that network, it is likely that Chorus will decline into irrelevance, ultimately to disappear.

It is only the worst regulatory cringer that could consider the UK and New Zealand as desirable models for Australia should follow. Rather, there is far more to be said for the countries that have pursued a steady regulatory course, such as France and Germany. These countries have put the emphasis on developing competition between telecommunications networks, much as the United States and Canada do, rather than on promoting the "me too" competition associated with third party access.

Indeed, far from structural separation, the current French and German approach, like that in the United States, is not to require third party access to next generation networks, so as to stimulate genuine facilities-based competition.

Now, some people may argue that we cannot adopt that approach here because we do not have competing networks, as they have in the US and increasingly, in France. Nothing could be further from the truth.

Rather, the fact of the matter is that SingTel Optus owns a hybrid fibre coax network that runs past well over two million Australian homes. Those of you with long memories will remember the then Prime Minister, John Howard, launching that network in 1996, with a phone call to Mrs Verna Cocks, and her 83-year-old husband Bill, who lived in North Sydney. In making that call, Mr Howard credited Optus' "dramatic entry" into local telephony with "breaking down the last bastion … of exclusive telecommunications activity."[3] Optus itself stressed that it intended to be "aggressive" in acting as a "fully fledged" carrier, and would make telephony and broadband available over its network even to those customers who did not want to take Pay TV. Indeed, because it had its own network, Optus promised it would cut telephony charges by 40 per cent or more, as well as offering a suite of ever more advanced broadband services.

How is it then that the Optus HFC network, in which billions of dollars were invested, has simply disappeared off the competitive landscape? How is it that the ACCC

never mentions its existence, and acts as if Telstra's network was the only game in town? The reason is simple: by making it ever more attractive for Optus to use Telstra's network, rather than incur the costs and difficulties of using its own, the ACCC killed the real competition Australian telecommunications could and should have had.

The outcomes have been as completely predictable as they are disappointing. Optus' network is the laziest telecommunications network in world. Even though it is larger than many HFC networks worldwide, it is one of the most technologically backwards, as Optus' owners have no incentive to invest in upgrading that network to current standards. The telephony technology it uses is so primitive, it was out-of-date a decade ago. And even though it runs past a million or so customers who live in units and apartment buildings, Optus – completely unlike even much smaller counterparts overseas – has made no effort to connect its network to those dwellings. Why not? Because it prefers to use Telstra's network where it gets below-cost access courtesy of the ACCC.

What we have in Optus is an extreme case of welfare dependency – the dole bludger of Australian telecommunications. Why upgrade your own network when you can cherry pick someone else's? Why invest in extending your network – as all of your counterparts have done overseas – when you can rely on the regulator to give you an easy ride on Telstra's? Why compete through genuine innovation when the regulatory system allows you to mimic every product Telstra provides? No wonder the SingTel Optus HFC has such a low profile.

If we lack full-scale competition between networks, that is the result of our regulatory arrangements, rather than their cause. Put out regulatory arrangements on a sounder basis, force access seekers to be competitors rather than welfare cheats, and real competition will emerge where it serves a useful purpose. Until we do that, we will get neither competition nor efficiency, no matter how degrees of separation regulators impose.

It is against the backdrop of those realities that the choice we face today needs to be seen. It is a stark choice: between continuing with the errors of the past, or alternatively, facing up to those errors and charting a new direction.

The call for structural separation – be it in the extreme form advocated by SingTel Optus and its associates, or in the watered down versions associated with BT-style "functional separation" – is a solution looking for a problem and is merely a way of aggravating the errors of the past.

They would solve no known problem: after all, the reality is that using the Telstra network is so attractive that we have the disgrace of the Optus HFC going to waste. Additionally, for all the reasons I have listed above, their effect would be to reduce efficiency, compromise service quality, endanger users and impede investment. And what for? Just to appease the Singapore government and increase the value of its investment in Optus?

This would be a move in the wrong direction – wrong for consumers, wrong for Telstra shareholders, wrong for national security, and one that Telstra would have no part of.

It is a move in the wrong direction because it is an answer to only one question – that question is fundamentally wrong.

The question separation asks is "How can we make life easier for Telstra's competitors?". But the question we need to answer is "How can we give Australians a next generation broadband network that is efficient, well-managed, cost-effective, reliable and secure?"

Seen in that perspective, structural separation, whatever its form, is a complete non-starter. It would destroy, rather than harness, the efficiencies of integrated operation that are crucial to making an effective, safe, transition to a national, truly high speed, broadband, network. It would expose Australians to massive risk without any easy way of picking up the pieces when it fails, as it inevitably would.

As for the various forms of structural separation "lite", they are nothing but a loser's response to regulatory failure. Rather than reward success, they seek to prop up failure. They impose costs on the incumbent merely so as to slow it down, thus encouraging further coasting by the also-rans. Out of a misplaced emphasis on ensuring a fair race, they prevent a fast race, which is the one consumers and our economy need. Much as they appeal to the cringers, they simply do not figure in the

approach of those countries that are deploying the kinds of networks to which Australia can properly aspire.

The time has therefore come to draw the line under that debate. The sooner that is done, the sooner we can focus on the real issues the transition to a new, next generation, high-speed broadband network involves. Those are difficult issues; they need and deserve our full attention. I can only hope that they will get that attention. Otherwise, the legitimate expectations of Australians, that we will have a telecommunications network that is genuinely world class, will never be properly realised.

[1] Kahn, A. 2004, *Lessons from Deregulation: Telecommunications and Airlines after the Crunch*, AEI-Brookings Joint Centre for Regulatory Studies, at page 24. See also Kahn, A. *Whom the Gods Would Destroy, or How Not to Deregulate*, AEI-Brookings Joint Centre for Regulatory Studies, for example, at pages 19, 26 and 29.
[2] Sir Christopher Foster, *British Government in Crisis* (2007), page 225.
[3] Transcript of The Prime Minister The Hon John Howard MP, Address At The Optus Local Telephone Service Launch, Darling Harbour, Exhibition Centre, Sydney, 27 June 1996.

http://www.businessspectator.com.au/bs.nsf/Article/Donald-McGauchies-speech-FVSM7?OpenDocument