

Productivity Commission inquiry into the Telecommunications Universal Service Obligation

Terms of Reference

I, Scott Morrison, Treasurer, pursuant to Parts 2 and 3 of the *Productivity Commission Act 1998*, hereby request that the Productivity Commission undertake an inquiry into the future direction of a universal service obligation in an evolving telecommunications market.

Background

Historically the standard voice telephone service has provided the basis of a ubiquitous telecommunications service which has been a fundamental part of Australian society. To ensure the benefits of this basic service are as widely available as possible, the regulated standard telephone service and payphones Universal Service Obligation (USO) provides for access to a standard telephone service and payphone services to consumers, where provision of those services might otherwise not be commercially viable. The USO is supported by a combination of ongoing funding from the Australian Government and an annual levy on carriers.

The Australian telecommunications sector has undergone significant changes over the last two decades, in market structure and technology, and will continue to evolve. There has been rapid and continuing technological development and innovation across the industry, with significant expansion in the availability, use and sophistication of mobile services, and ever increasing demand for broadband data services (including Voice Over Internet Protocol services). Demand for standard (fixed line) voice services and payphones has reduced and continues to decline.

The Australian Government is rolling out the National Broadband Network (NBN) which will use a range of technologies to provide a capped price wholesale-only broadband platform to all premises. NBN Co will deliver fast broadband to Australian premises as the infrastructure ‘provider of last resort’. The availability of universal broadband will provide a platform for increased competition in the development of retail products and services for consumers.

In the context of these and other changes, the current USO arrangements may not be effective.

Scope of the inquiry

The primary policy question to be addressed in this inquiry is to what extent, in the evolving Australian telecommunications market, Government policies may be required to support universal access to a minimum level of retail telecommunications services.

This will involve a consideration of the nature, scope and objectives of a universal service obligation, whether the retail market for relevant services will deliver appropriate outcomes for consumers without Government intervention and, if not, what options should be considered by Government to deliver universal services and the costs and benefits of these interventions.

In undertaking this inquiry, should the Commission recommend the retention of Government interventions in the market, it should make recommendations on:

- what objectives are appropriate for a universal service obligation arrangement or its equivalent;
- what would be the scope of the services needed to be provided to achieve those objectives;
- whether particular sections of the Australian community have differing needs to which additional Government intervention should be directed e.g. low income, rural and regional;

- who should bear cost or regulatory burdens from those interventions, if any;
- the optimal funding model(s); and
- transitional arrangements from the current USO model.

The Commission should also have regard to:

- the need for a durable framework that is flexible enough to accommodate technological changes;
- the role of, and impact on competition in relevant markets;
- contractual commitments that the Government has for the provision of the existing USO;
- the significant investments already made by Government, including in the NBN rollout;
- the current telecommunications regulatory framework and the Government's response to the 2014 Vertigan NBN Market and Regulation Report;
- additional policy reviews being undertaken by Government on a broader range of telecommunications consumer protections;
- relevant approaches adopted in other countries, particularly those with similar characteristics to Australia; and
- the report of the 2015 Regional Telecommunications Review and the Government's response to that report.

Process

The Commission is to undertake an appropriate public consultation process, including holding hearings, inviting public submissions from industry, consumer groups and the broader community and releasing a draft report to the public.

The final Report should be provided to the Government within 12 months of the receipt of these Terms of Reference.

S. MORRISON
Treasurer