

# Australia: The Labor government's broadband scheme and the profit system

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The final parliamentary session in Canberra concluded late last month with the Senate approving government legislation that breaks up Australia's dominant telecommunications provider, Telstra, between its retail and wholesale divisions. The decision paves the way for the rollout of the \$35 billion fibre optic National Broadband Network (NBN). The enormous eight-year infrastructure project is opposed by the Liberal-National opposition, which has attempted various stalling manoeuvres in parliament without success. Independent MPs in both houses have so far sided with the minority Labor government of Prime Minister Julia Gillard in support of the NBN.

The broadband proposals of the two major parties reflect the rival calculations of different sections of finance capital and big business. Moreover, they underscore the irrational and wasteful character of infrastructure development under the profit system. For high speed internet, as in every other area of public policy, the long term social needs of the population are subordinated at every step to the profit interests of the major corporations.

The Labor Party first proposed the NBN in March 2007, when it was led by Kevin Rudd in opposition. From the outset, Labor promoted the technology as a boon for "Australia's long-term economic future", with Rudd stressing that current broadband services were "retarding the development of Australian business".

Australia ranks 31st in the world for average broadband speed. Among the advanced economies, it is one of the most expensive for household and business services and one of the very few to impose monthly download limits. Several countries are shifting away from the old copper (ADSL and ADSL2+) and cable (hybrid fibre coax, HFC) broadband networks to fibre optic technology, which is far faster and more stable. Those countries that have already installed large fibre optic networks—principally South Korea, Japan, Hong Kong, and the Scandinavian countries—have benefitted from significant new information technology investments.

There was virtually no fibre optic development in Australia during the eleven years of the former Howard government, and so Labor's NBN was enthusiastically welcomed by business when it was first unveiled. While Telstra was the only telecommunications company that had the financial resources and customer base to make significant private investments in the new technology, it refused, because the Howard government rejected its demand for monopoly control of the high speed broadband market. Previously, Telstra had been forced to rent usage of its copper network to other companies, but could not tolerate a similar arrangement with fibre optic lines.

At the same time, the Howard government rejected large-scale public investment in optical fibre, frustrating sections of business. In November

2006, Rupert Murdoch declared Australia's broadband network a "disgrace". The media tycoon said that Telstra and the federal government ought to be spending "\$10 billion or \$12 billion on it, to reach every town in Australia; they do it in Japan, they do it in South Korea, we should be able to do it here. We are being left behind and we will pay for it."

The central orientation of Labor's NBN was towards meeting the demands of Murdoch and his ilk. But the project has since come under pressure from business and the media.

In April 2009, the Labor government announced that the NBN was being recast from a fibre to the node (FTTN) project to fibre to the premises (FTTP). FTTN involves laying fibre optic cables to street cabinets that can be located up to several kilometres away from the broadband user. Existing copper connections then link business and residential premises to the cabinet node. FTTP, on the other hand, lays an optical fibre to every premise. This provides substantially faster connection speeds, and also ensures near unlimited potential for future speed increases.

FTTP is, however, far more expensive, and Labor's FTTN-based NBN was to involve just \$4.7 billion of public funding. The revised project—delivering FTTP coverage for 93 percent of Australian homes, and high speed wireless and satellite services for those in rural and remote areas—is projected to cost \$35.7 billion. Another \$13.8 billion is being handed over to Telstra, to pay for the use of its existing copper ducts and trenches for fibre optic cable.

Telstra will remove its copper lines and restrict its HFC cable to delivering pay television and not broadband—effectively divesting its wholesale operations. The new publicly owned company established by the Labor government, NBN Co., will operate as a monopoly wholesale supplier. Telstra and other telecommunications companies will purchase use of the fibre optic network from NBN Co. and then compete for customers.

The Gillard government had initially intended private investors to have a substantial stake in NBN Co. from the beginning, but as the company's recently released business plan reveals, the expected rate of return is too low to attract such investment. The fibre optic network will remain an effectively nationalised project until NBN Co. is eventually privatised, several years after the rollout is completed.

The corporate elite is concerned with the government's plan on a number of grounds. The first is the comparatively large expense involved. Sections of business remain unconvinced that the NBN is worth the \$35 billion price tag, considering the significant cuts to corporate taxes and other pro-business investments that could be funded with an equivalent

amount of public money.

Secondly, the expenditure stands in stark contrast to the broader austerity agenda that the Labor government has been tasked with implementing. The treasury and finance department briefings issued to Gillard and her ministers earlier this year outlined a series of regressive attacks on pension payments, disability support pensions, aged care funding, and public health care. Both expressed notable caution on the NBN. “The implementation of the NBN also carries significant risks including financial risks for the public balance sheet and risks around competition and efficiency in telecommunications and related markets,” Treasury declared.

Thirdly, widespread unease exists within financial circles over NBN Co.’s monopoly ownership of the fibre optic network. In order to ensure the project’s viability, the Gillard government has moved to restrict the ability of telecommunications companies to offer cheaper broadband alternatives to the NBN via their copper, cable, and wireless networks. A recent OECD report on the Australian economy declared: “While establishing a monopoly in this way [i.e. closing Telstra’s rival networks] would protect the viability of the government’s investment project, it may not be optimal for cost efficiency and innovation... It would therefore be preferable to maintain competition between technologies in the broadband sector and, within each technology, between Internet service providers.”

In other countries with significant fibre optic networks, there has been no need for nationalised monopoly control or restrictions on rival technologies. In Korea, for example, some homes are connected by multiple fibre optic cables, owned by rival broadband companies. In Singapore, the old copper network is being maintained while optical fibre is rolled out. In each of these cases, however, there has been needless duplication and waste, ultimately paid for by the consumer.

In Australia, such waste would be enormously magnified if NBN Co. were not the sole wholesale provider. With a small and low density population spread across vast distances, it is untenable for rival telecommunications companies to attempt to build rival fibre optic networks. Precisely such a situation arose in the 1990s: in a demonstration of the irrational logic of the “free market”, Telstra and Optus each dug up the same streets throughout Australia’s major cities, laying rival cable lines as they competed for the pay TV market. The debacle ended with both companies writing off billions of dollars. Likewise, it is impossible to maintain Australia’s copper wires alongside optical fibre—the decades-old copper network is understood to cost Telstra up to \$1 billion every year to service.

Business concerns over the NBN have now coalesced around the demand that the Labor government instruct the Productivity Commission to conduct a cost-benefit analysis into the scheme. The *Australian* and *Australian Financial Review* are among those in the media campaigning for such a study, backed by the Business Council of Australia, which represents the country’s 100 largest corporations.

The problem for the ruling elite is that there is no obvious alternative to the proposed NBN. Everyone understands there is no “free market” solution to the development of fibre optic technology. In every country where a large network has been established, it has occurred on the basis of a long-term plan and significant state intervention through public investment, subsidies, and promotion of high speed broadband use through education programs and provision of more online government services.

In Australia, the opposition’s plan has received little support. Two weeks before the federal election last August, Liberal Party leader Tony Abbott pledged just \$2.75 billion in public funds towards a limited FTTN network. The policy involved the promotion of wireless and satellite technologies as potential alternatives to fibre optics. Under the scheme, broadband speeds to most premises would be only 10 percent as fast as under the NBN.

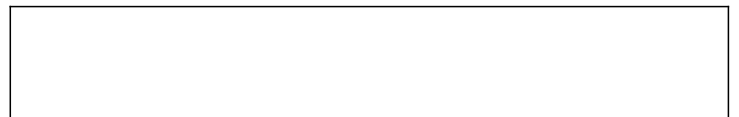
Telecommunications experts were uniformly hostile. Only a number of smaller, less competitive telecommunications companies responded with enthusiasm to the opposition’s proposals. The so-called Alliance for Affordable Broadband includes several companies such as BigAir and Polyfone, which are based around wireless broadband and would likely receive subsidies under Abbott’s plan, while others, such as Pipe Networks, operate small fibre lines that the NBN would make redundant.

For all the demands by the media and corporate elite for greater scrutiny of the NBN, no-one has bothered to question its implications for ordinary working people. In the first instance, this involves the employees of Telstra and the other telecommunications companies. Mass layoffs will almost certainly follow the decommissioning of the copper network, as the large workforce that maintains the lines is not being retrained for fibre optic technology. In Tasmania, the laying of the NBN has so far been carried out by private contractors, rather than permanent Telstra or NBN Co. employees. When the project is completed, the delivery of telecommunications services will be entirely transformed, triggering corporate restructuring measures and the destruction of more jobs, as each company vies to maintain its profit margins. The trade unions are doing everything they can to keep workers in the dark about what is being prepared, and have offered their advance assistance to the telecommunications companies in implementing the cuts.

Moreover, it is unclear what consumers will end up paying for high speed broadband. The government has forecast that the price will be similar to current internet usage charges, but there is no legislative guarantee. Similarly, Gillard promised the rural independents that NBN Co. would charge the same wholesale price for broadband services in remote areas as in the major cities, but the financial press has recently speculated that this will prove financially unsustainable, potentially resulting in rural and regional residents paying far more to access the internet.

There are no rational solutions to the various broadband policy problems within the framework of the profit system. Privately owned telecommunications networks—whether fibre optic, copper, cable, wireless, or satellite—are as absurd as privately owned roads, sewers, or any other basic infrastructure. Access to broadband has become a fundamental requirement for full participation in contemporary society and must be a basic social right for all.

This, however, is only possible on the basis of a planned socialist economy, in which broadband networks are publicly owned, under the democratic control of the working class. Multi-billion dollar investments would be based, not on the competing demands of rival sections of business, and considerations of “international competitiveness” on the global market, but rather through a rational, long-term estimation of the social needs of the population as a whole, not only in Australia but around the world.





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