

Comment

Tendering Universal Service

Since the opening of Australia's telecommunications industry in 1997, companies have been racing to start up businesses in what they see as profitable new markets.

Lately, there's been a new stampede. Carriers are desperate to get into the unprofitable markets. They've been tripping over themselves in their rush to tell Ministers and Senate Committees how much they want to provide the loss-making services that Telstra currently provides under statutory universal service arrangements.

It's not that they're interested in losing money. It's that they think they'll lose less if they provide these services themselves than if Telstra continues to provide them and bills them a share of the costs under Australia's "industry-funded" universal service arrangements.

The *Telecommunications Act* makes it clear that players other than Telstra can be declared by the Minister to be universal service providers. There could be a number of national universal service providers, each providing different elements of the universal service obligation: e.g. voice telephony, payphones, the national relay service, equipment for people with disabilities, digital data capability. Or there could be different regional universal service providers each providing services to different parts of the country.

Right now, some carriers are wondering how they might be able to put up their hand to get the job.

One of the ways that has been talked about is tendering. The Minister would seek bids from carriers interested in providing the required service/s in a particular area. The tender specifications would set out minimum performance benchmarks and the maximum prices that could be charged. Then a selection process would be held to decide who would get the per-versely sought after right to deliver these uneconomic services.

This is where it starts to get complicated. Does the lowest bid win? That is, does the carrier which requests the lowest level of subsidy to provide the uneconomic services get the job of doing so? What happens to the infrastructure of the incumbent (Telstra) if a new entrant wins? Particularly if the existing infrastructure is necessary to deliver the new service (for example, terrestrial infrastructure to provide the back-channel for a satellite Internet access service)? Can there only be one winner?

Tendering for universal service has been talked about a lot. If we can auction access to so vaporous a concept as the radiofrequency spectrum, you'd think we'd be able to work out a way to auction the USO.

But the conceptual challenges are enormous. The CLC has commissioned a paper on the issue from La Trobe University Professor Rod Maddock. It sets out the potential advantages of USO auctions:

- the speed with which they can be conducted;
- the way in which they reveal information about the service provider's valuation of the universal service obligations; and
- the improvement to carriers' investment incentives.

Maddock's paper explores three kinds of auctions:

- where bidders name the subsidy they require, and there is a single winner - the lowest bidder;
- where the government or regulator nominates the level of subsidy which will be available to any carrier who chooses to provide the relevant services;
- a two-tiered auction where bidders specify prices both for an exclusive and a non-exclusive franchise and there can be multiple winners.

The intention of the second two approaches is to encourage competition in the provision of uneconomic services.

Maddock suggests that only the first and third approaches would be appropriate in Australia - the first repeats the problems currently being encountered with disagreements over the costing of the USO. The paper goes on to raise two key potential difficulties with tendering in Australia. The first is the small number of players who might be expected to bid and the consequent possibility that they would infer each other's strategies and hence distort the tender process. The second is the difficulty in defining an appropriate set of administrative processes.

None of this is terribly pretty for policy-makers. But neither is the spectacle of different estimates of the cost of the USO varying by a factor of about seven, as is the implication of Telstra's current USO net cost claim. That has huge implications for the sustainability of the USO model and the twin positions of the government as both regulatory reformer and major shareholder in the company whose share price is on the line.

The challenge is to come up with a model that delivers the benefits of tendering without simply encouraging cut-price service providers. Country Australians deserve to have the complexities of tendering explored thoroughly, but they are wise to be wary of the overnight enthusiasms of new entrants whose primary focus is the cost, rather than the opportunity, of universal service. <

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