

# When the PM's biggest decision was up in the air

Federal Politics

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It was while Kevin Rudd was flying high above the earth that he learned that one of his biggest election promises had just plummeted, dead, to the ground.

The obituary for Rudd's promise of a world-class national internet broadband system was read to him by his Minister for Broadband, Stephen Conroy.

It hadn't been simple for Conroy to see his leader at one day's notice. Like most of Rudd's cabinet ministers, Conroy had trouble finding an opening in the Prime Minister's program.

Conroy, also the Deputy Leader of the Government in the Senate, had scrambled from Melbourne to Sydney to get onto a plane with Rudd for the opportunity of a meeting. It was January 21. Conroy found himself heading back to Melbourne on the VIP flight.

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As they flew, Conroy told Rudd that he had just been given the report of the expert panel that had spent two months assessing the six proposals to build the broadband system.

The company that was best equipped to build the system was Telstra. It was also the least co-operative. Incredibly, its proposal to build the broadband system failed on a very basic point.

The Federal Government, which was offering to contribute \$4.7 billion towards the cost of the \$10 billion network, had specified that every proposal needed to explain how it would address the needs of small and medium businesses. Telstra's submission devoted precisely one sentence to small and medium business, according to an official familiar with the bids. It was so obvious a failure in so big a deal that the Government couldn't believe Telstra could be so careless. Or unco-operative. Or stupid.

The expert panel took five separate pieces of legal advice on the glaring omission - "We thought, 'it's so obvious, what are we missing here?' " - before declaring in December that Telstra had failed to meet the conditions of the proposals process. The country's communications leviathan had shut itself out. Telstra's share price fell 11 per cent on the day.

So the expert panel considered the five remaining proposals. Conroy now had to tell Rudd that the panel, comprising the secretary of the Department of Broadband, Patricia Scott, the Secretary of the Treasury, Ken Henry, an investment banker, two people from the communications industry and two academic experts, had found none of the bids suitable.

"All proposals were to some extent underdeveloped," said the expert panel, according to an extract released publicly by Conroy. "No proposal, for example, provided a fully developed project plan. None of the national proposals was sufficiently well-developed to present a value-for-money outcome."

Yet in March 2007, Rudd, then the Opposition Leader, announced his "historic" proposal to build a national broadband network to great applause.

"We believe this is a critical step when it comes to Australia's long-term economic future," Rudd had said. He blamed the Howard government: "This is a gaping hole in the government's economic performance to date."

Now, it seemed, there would be a gaping hole in the Rudd Government's economic performance. And its political performance. It would be billed as the first big broken promise of the Rudd Government. What to do?

Rudd wanted to keep talking to Conroy about their problem but the flight from Sydney to Melbourne was not long enough. The next day, January 22, Conroy found himself on another VIP flight with Rudd. Now it was Melbourne to Brisbane.

They had several options. One would have been to announce the end of the tender process and open negotiations with Telstra. This, presumably, was what Telstra had been counting on. Telstra owns the copper wire network that the broadband system would need to deliver connections into the homes and businesses across the country. It seemed sure the Government couldn't act without it.

But, if so, Telstra had fundamentally miscalculated. It failed to understand that its arrogant bellicosity had turned the entire Australian political class against it.

Telstra's dominance and under-investment is the problem in the Australian broadband story, not the solution. The annual reports by the Paris-based club of rich countries, the Organisation for Economic Co-operation and Development, is a Telstra shame file - among its 30 member countries, it lists Australia as 16th in broadband penetration and 20th in the competitiveness of average monthly broadband subscription prices.

In those first airborne conversations, the Prime Minister barely hesitated. He decided that, if the private sector was unable to build the system, the Government would. In an era of dramatic market failure, the state would supply the public good of next-generation national infrastructure. It would need to find more money, but that might not be insurmountable.

But without Telstra, the Government faced another problem - an even bigger one. Labor's election promise was to build a system of fibre-optic cables that ran to every local neighbourhood, but then connect with the local Telstra copper wiring to run the "last mile" into houses and companies. This is, in the industry jargon, known as a "fibre to the node" system.

The moment the Government's super-fast fibre-optic cables connected with the local copper wire of the old Telstra system, the Government could be fouled by Telstra's lawyers. As Conroy told the *Herald's* Phillip Hudson this week: "This would probably, on all legal advice, be deemed an acquisition of property and require compensation. No piece of legal advice I received or saw or discussed suggested it would be less than \$20 billion."

The Government confronted the prospect of years of litigation and a potential liability of \$20 billion or more.

The expert panel had given Conroy a word of advice on this. The panel's letter of transmittal suggested that the Government consider leapfrogging the fibre-to-the-node system to go to the cutting-edge of broadband systems - fibre-optic cable that runs all the way to the front door of every home and business, so-called "fibre to the premises".

This would have two big advantages and one big drawback.

The first advantage is technological. The physics of fibre-optic cable means there is no practical limit to the speed of data flow. It moves, literally, at the speed of light. The limits are on the boxes at either end of the cable. The cable can adapt almost infinitely to technological advance.

In a fibre-to-the-node system, the data connection has to make the final leg of its journey down copper wire, which is a bottleneck. But fibre to the premises delivers light-speed all the way. This is why the most advanced internet countries - South Korea and Japan - are already building fibre-to-the-premises systems.

The second advantage is that it would sideline Telstra completely. Fibre to the premises means there is no need to tap into the copper wire. No time-consuming litigation, no costly compensation. Adios, amigos!

Rudd instantly saw the attraction of this option. The big drawback? The cost. It would cost much more than the \$10 billion or so for the original proposal. Next came the detail work.

Rudd convened the gang of four that runs the Federal Government - Julia Gillard, Wayne Swan, Lindsay Tanner, and Rudd himself - and set to work with Conroy to develop a detailed plan.

In the event, the gang of four decided not to spend any more money from the budget on broadband. The extra share of public funding, up to a total of about \$22 billion, would, at Rudd's suggestion, come from infrastructure bonds open to public subscription.

On Monday night, Rudd hosted a dinner for his cabinet at Kirribilli House. He briefed them on the final plan for a special purpose company, owned 51 per cent by the Government, to spend up to \$43 billion over eight years building a national fibre-to-the-premises broadband network. It would operate a wholesale system, allowing private firms to deliver retail services. Five years after completion, it would be sold. The technology would transform the productivity of the economy.

But the Foreign Minister, Stephen Smith, wanted to know about the cables that would need to be installed in every street. Would it cause the same sort of environmental ruckus that the fat, ugly Foxtel cables had stirred years ago?

The cabinet met formally at 7 am the following morning in Canberra to endorse the plan. To reassure Smith, Conroy arrived with two lengths of cable. One was the current legally allowable cable with a 12 millimetre girth. The other was a fibre-optic cable, 18 millimetres around. Conroy's point was that the light-speed wire was thicker, but not by much. The point was taken but lost in the mirth. As Conroy produced his cables, his cabinet colleagues chided him to put the leashes and restraints away: "We don't want to know what you were doing last night, Conroy!"

Conceived at lofty heights and born with low humour, the plan for the biggest single piece of infrastructure in Australia's history was approved.

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