

# VICdirector

Issue 16 : July 2011

companydirectors.com.au



Harrison Young

## Leaders' Edge Luncheon: Governance Puzzles with Harrison Young Chair NBN Co

Harrison Young (Chair of NBN Co Ltd, Chair Better Place P/L, Director CBA, Director Bank of England) was the keynote speaker at a well-attended Leaders' Edge Luncheon in early June. He expressed his keen personal interest in governance and also that a dozen years or so ago he had predicted the rise in status of governance. His initial comments focused on how NBN Co is a Corporations Act company and that the board's foundation responsibilities are no different from those of any other company's board. After highlighting what the government wanted from NBN Co he went on to say that it has been designed both as an operating entity and a sort of think tank, which receives and tests and tries to carry into practical effect developing government policy.

In a simile that would gratify both Arthurian and Hunters and Collectors fans, he spoke of the Holy Grail of telco policy being the separation of Telstra's wholesale and retail arms. Although this would be "tiresome and expensive" another path would be to decommission their copper network and migrate households to the NBN fibre network as it rolls out. In finding a

commercially attractive way of fulfilling the core purpose of rolling out a national broadband policy, NBN Co will also be helping out the government attain the Holy Grail.

On the topic of financial returns he was clear. It is a 30 to 40 year project and that, on current projections, the internal rate of return is slightly better than 7% per annum; a figure that precludes private sector investors. This is why the government is doing it "as governments have built most of the world's infrastructure". The Statement of Expectations from the government also calls for "uniform national wholesale pricing", on this topic Mr Young compared NBN Co to Australia Post which is required to charge the same price for a standard envelope whether in Perth or Melbourne and which is protected against being "cherry picked", a technical term referring to other providers picking up business in the more profitable markets by cutting price.

Mr Young was then interviewed by Alan Kohler, publisher of Business Spectator and host of ABC's Inside Business and took questions from the

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floor. Alan didn't pull any punches with his first question which was about whether Mr Young had learned anything about Mike Quigley, the CEO of NBN Co, from an article in The Australian. Mr Young surprised many in the room when he admitted the article was the first time he had heard about the nature of the US Securities and Exchange Commission's five year investigation of Alcatel. Mr Quigley was in an executive position at the time with Alcatel, but there is no suggestion that he was involved in any corruption. Mr Young told the guests that he was completely comfortable with Mike Quigley and that he thought it was "over".

At times Mr Young replied very succinctly to the questions and this engendered some amusement in the room. He compared the broadband network to the Sydney harbour bridge... "for the first two years nothing much is happening, but then it all comes together" and that it would be difficult to sell a "half built house" when questioned if NBN Co could be sold.

He also commented on some of the other businesses he is on the board of such as

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## Leaders' Edge Luncheon: Governance Puzzles

with Harrison Young Chair NBN Co (Continued from page 1)

Better Place P/L which is working to produce a market-based transportation infrastructure that supports electric vehicles and the Bank of England which elicited the comment about the UK "they're in a bad spot, it will take time".

We look forward to seeing you at the 30 July Leaders' Edge Luncheon on the Rugby World Cup 2011 with Peter McGrath Director International Rugby Board (IRB) and Mike Miller CEO IRB.

**Please contact the Victoria Division on 03 9211 9255 if you have any questions about upcoming events.**



L to R: Chris Feil, Lisa Woolmer and Kathy Bell MAICD



Rowan Wilson and Donald Fraser FAICD

## Where convergence exposes divergence

Richard York, Frontier Economics



In the past, communications and entertainment services were provided through separate distribution channels. Telecommunications services were provided over copper wires; television services were provided by broadcasters using radiofrequency spectrum; and written news content was provided in printed newspapers and magazines.

Often, control over individual distribution channels conferred significant market advantages on those organisations delivering services over them. For instance, the limited amount of radiofrequency spectrum made available for television services meant that only a restricted number of television broadcasters could operate in any given geographic area. For this exclusive access to scarce spectrum, broadcasters are presently required to pay licence fees. These are levied as a proportion of revenues.

Further, limited numbers of broadcasters meant the government could support the local entertainment industry by imposing local content quota obligations on broadcasters. To the extent local content is more expensive (or attracts less advertising revenue) than other content, broadcast quotas are being used to subsidise local industry indirectly.

### Convergence is threatening business models and some government policies

In March 2011, the Australian government commenced a "Convergence Review". A key motivation for this review is the recognition that digitisation means there is now a common way to deliver many alternative types of content to consumers. Where previously consumers received their news, video entertainment and telecommunications services separately via unique delivery platforms (i.e. print, television or telecommunications networks), all of these services can now be provided together over competing delivery platforms (e.g. broadband internet; digital TV etc).

In turn, this is challenging traditional commercial models for television broadcasters, who are increasingly facing competition to provide video content from online service and content providers. Evidence already suggests that the average time spent viewing free-to-air (FTA) and pay TV is in decline, while the amount of broadband data downloaded is increasing.

Convergence is also threatening historical sources of government revenue. For example, income earned from advertising on FTA television is subject to licence fees, but income earned from advertising on the internet is not. To the extent advertisers respond to the increase in online activity by consumers and substitute more of their advertising dollar away from broadcast TV, government reliance on revenue from broadcast licence fees is undermined.

Convergence also poses a threat for the local content industry, as existing licence holders that are obliged to broadcast a quota of local content are increasingly sidelined by alternatives. It is much harder to impose such quotas on online content because consumers are able to download content from anywhere in the world. This contrasts with traditional platforms where broadcasters could control what viewing options consumers had by controlling the delivery and scheduling of programs across a limited choice of channels. The emergence of a substitute platform that works on a "pull" basis (whereby consumers pull content towards themselves) creates difficulties for local content quotas that presently rely on "push" distribution platforms (whereby broadcasters have control over what content is delivered to consumers).

### Convergence requires a fresh approach

A key principle in economics is that efficiency will usually be enhanced when different activities are treated equally – that is, where government policies create as little distortion to consumer and producer choice as possible. However, historical differentiation in the treatment of different platforms may create distortions as and when these platforms converge. As indicated above, the different treatment of revenues earned by TV broadcasters and online content providers could distort the flow of advertising expenditure between different content delivery platforms.

Ideally, one hopes the government will try to remove these distortions in its Convergence Review, and to "level the playing field" to

*Continued on page 3*

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enhance economic efficiency. For instance, this might mean that instead of charging broadcasters a licence fee based on revenues for their use of spectrum, broadcasters are required to purchase spectrum through an auction. This would be consistent with the way other users of spectrum, such as mobile network operators, are required to pay for their exclusive use of spectrum.

If the government's focus is instead on maintaining its revenues, however, it could consider imposing taxes on a broader (and therefore less susceptible to shrinking because of convergence) base of activities than current broadcast licence fees. For example, in the United Kingdom and a number of other European jurisdictions, consumers pay a licence fee to own a television. But even this might be problematic as computers become substitutes for TVs in many households. It may also be tempting for government to tax other content pathways, such as the internet, but the logistics of doing so are likely to be prohibitive.

In this environment, the challenge for broadcasters will be to find ways to diversify and maintain their revenues, while also managing government moves to recover lost licence based revenues. For their part, local content providers may feel compelled to lobby governments for more direct forms of assistance as mainstream broadcasters lose prominence. For example, a 'screen tax' levied on all gadgets capable of viewing local content – regardless of the pathway – could be used to directly subsidise local content.

### Conclusion

Convergence is having a significant impact in the media and communications space, and the Australian Government's Convergence Review is likely to lead to regulatory changes in response to this. We believe that the government's focus should be on improving economic efficiency by minimising the distortions it creates across converging industries. This could be achieved by determining the optimal level of revenue that should be raised from a converged industry, removing taxation distortions between content pathways, and increasing transparency around the costs of providing local content.

Doing so, however, may not be easy. Such reforms will create winners and losers in a number of different industries, from FTA, pay-TV and radio broadcasting to media and content and broadband internet providers. For directors and boards of these companies, it is important they engage in this review and understand the implications of any potential changes in government policies in this area. Failure to do so may mean they face unexpected (and unwanted) changes at the end of this review. This could include the imposition of additional taxes on their business, changes in obligations to support local content and/or changes to the fees they must pay for acquiring spectrum necessary to provide broadcast TV and radio broadcasting services. In the absence of clear leadership in this area, there may be little convergence between all parties on the appropriate policy framework.

Paul Geyer, State Manager Victoria Division Australian Institute of Company Directors adds; "If there is reform in this area the rate of change in content and the way it is delivered will dramatically increase. Directors need to understand this area in order to assess the impact these changes will have in their organisations".

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Managing Director  
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## Member profile: Des Blake FAICD



**Des Blake FAICD**  
Senior Consultant  
Deloitte, PNG

Des is now a Senior Consultant with Deloitte PNG based in Port Moresby, Papua New Guinea. Prior to establishing his own consultancy in 1989, he worked for 12 years in strategic operational roles in BP Australia. He later became CEO of the Lord Mayor's Charitable Fund.

After his stint as CEO of the Lord Mayor's Charitable Fund Des worked as a Strategic Management Adviser in Papua New Guinea under the auspices of AusAID. Following this, Des then moved to the role of Group GM with Data Nets, one of PNG's pioneering IT companies.

Des's adviser position was with the PNG Institute of Public Affairs (IPA) which had been established under the Australian administration of the country and which has a list of well known alumni which includes former Prime Minister, Sir Michael Somare. It was while they were at the IPA that Sir Michael and his colleagues formed the nucleus which was to become the government of the newly independent country. Managed by Australia with international staff, the Administrative College as it was known in those days, would have been a vibrant, learning community for the young ambitious Papua New Guineans. Its library traces this history with shelves full of 1970s journals on public administration and governance from all over the world. Sadly, the flow of these ceased in the 80s.

*Many of the things that we take so much for granted in Australia have to be put in place and taught in PNG. Having said that the local people have the capacity to adopt and adapt new technology as well as anywhere in the world.*

For all its challenges as a developing country, Papua New Guinea is an exciting place to be at the moment with the ExxonMobil-led LNG project having a massive impact locally. In essence, this project involves transporting LNG from the highlands through 700Kms of pipelines to new liquefaction, processing and LNG loading facilities in Port Moresby. This has seen a surge in employment, the arrival of many new contractors, and consequently, hugely increased demand on the infrastructure and available talent of the young country.

It is interesting to compare the relative impact of PNG's LNG project with the North West Shelf Prelude project. Roughly comparable in size, Prelude barely causes a ripple in Australia or gets a mention outside of the occasional business page. Yet you cannot move in PNG without seeing and feeling the presence of its major LNG project. And it is only one of several large resource projects underway or planned.

Simple day to day living has been transformed for everybody in the major cities and regional centres. Over the past three years the volume of new cars and trucks arriving has resulted in hitherto unseen traffic congestion; inflation has been rising; accommodation shortages have seen rents going through the roof – for everybody; skilled workers are scarce; and building construction has never been so prolific. The ports are struggling, road maintenance is bereft, and peak hour public transport is now an overcrowded phenomenon.

But the benefits of the project are slowly cascading across the whole community and business in particular. And with these, is increased demand for higher end products and services. Due diligence and good governance, demanded as standard practice in Australia, needs to be reinforced, and in many cases, taught, in PNG. Engendering the sense of public value is a critical issue.

Many of the things that we take so much for granted in Australia have to be put in place and taught in PNG. Having said that the local people have the capacity to adopt and adapt new technology as well as anywhere in the world. Mobile telephony has been opened up, although PNG unfortunately remains one of the highest cost countries in the world for ICT services.

*It is interesting to compare the relative impact of PNG's LNG project with the North West Shelf Prelude project. Roughly comparable in size, Prelude barely causes a ripple in Australia or gets a mention outside of the occasional business page. Yet you cannot move in PNG without seeing and feeling the presence of its major LNG project.*

Des has recently joined Deloitte PNG as a senior consultant and is an Overseas Member of our organisation. Local companies and government enterprises need support developing their board structures, governance and operational capacity. Deloitte is very pro-active in all these fields with a strong, long established and experienced presence in PNG. Des and his colleagues find access to Company Director online resources, Company Director magazine and other Company Director publications very valuable in supporting their work.

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## Regional round-up

### Ballarat Leaders' Luncheon

Company Director members and guests in Ballarat were privileged to hear Australia's pre-eminent retailer, Bernie Brooks, present the Myer re-invention strategy at our recent Ballarat Leadership luncheon.

Bernie's in-depth knowledge and understanding of all aspects of retail was clearly demonstrated by his funny and insightful presentation. Describing the Myer journey from 'dinosaur' to market leader, Bernie highlighted the importance of cultural change at Myer, an organisation losing \$60 million in 2006 when he became CEO.

An initial focus on supply chain and IT upgrades led to significant savings in cost of goods and transit costs. Bernie's obvious love of retailing and dedication to the new focus on customer service and unique brands was apparent to all.

Today Myer has just completed its \$300 million refurbishment of the Myer Bourke Street store and is embarking on a program to refurbish 22 stores and open 15 new stores.



Bernie Brooks



L to R: Daniel Sutton, Antony Ford MAICD, Graham Harvey, Gerry Farnell, Jodie Managan

### Upcoming events - July/August

In the coming month we have number of exciting luncheons and breakfasts scheduled across the various regions

#### 20 July

##### **Bendigo Directors Breakfast:**

*Business Continuity Planning – disaster proofing your organisation*

#### 27 July

##### **Albury Leaders' Luncheon with H.E Tim Fischer:**

*High speed rail, border and beyond*

#### 29 July

##### **Geelong Directors on Location:**

*Site tour of Barwon Waters Black Rock Water Reclamation Plant*

#### 2 August

##### **Warrnambool Directors' Breakfast:**

*Board Evaluation and Performance*

#### 4 August

##### **Gippsland Director Breakfast:**

*What drives your organisation's good strategy or operational management*

**For further information please contact Larissa Vaughan, Regional Events Executive on 03 9211 9255**

### Regional Company Directors Courses

The Company Directors Course is a comprehensive director program first delivered in Australia in 1975 making it the most established director program in the world. The course consists of 10 modules and is suitable for those who want to understand the performance and compliance issues of directorship, and those who want to develop or grow their directorships.

**Geelong** - Monday 8 August to 5 September

**Mildura** – Monday 22 August 19 September

**Shepparton** – Monday 12 September to 10 October

**Horsham** – Monday 14 November to 12 December

\*All the above courses run for 5 consecutive Mondays