# TUANZ TELECOMMUNICATIONS DAY, 8 MAY 2008

## Presentation by Ernie Newman, Chief Executive, TUANZ (Telecommunications Users Association of NZ Inc)

This is the tenth consecutive year I've been at the TUANZ Telecommunications Day, but never before have I had such a sense of strong recent progress and optimism for the future. Some bold policy changes, attitudinal shifts, and very hard work by many people have converged to change the character of the telecommunications environment. Users have a great deal to be satisfied and hopeful about.

The sweeping policy changes of the past several years are now behind us. These umbrella policies have been underpinned with detailed operating and technical standards, huge operational reconstructions, and market rules and practices. Industry-wide issues such as local loop unbundling, wholesale markets, number portability, and customer transfer processes have been put to bed. A code of practice on customer complaint handling, backed up with a robust disputes resolution process that puts the customer first, has been signed off and implemented by every service provider of consequence.

That's not to say all the work has been done. In this dynamic and interdependent ecosystem there will always be outstanding issues, and I'll talk about them. But the hard yards are past. The copper fixed line telecommunications market in this country is more dynamic and competitive than it has ever been before.

Change is happening every couple of days, and nearly all of it is good for users. For instance in the past month:

- TelstraClear has announced a major new broadband partnership in Whangarei alongside Northpower
- The National Party has announced its telecommunications policy for the general election, a $1.5 billion government investment in fire alongside the private sector
- Telecom launched a broadband deal of $16.95 a month for six months, including a free modem, to entice dial-up customers to upgrade
- Kordia and PIPE together announced plans to invest in a new trans-Tasman cable
- Vodafone launched its new Office product, allowing customers to answer calls on any device such as an IP desktop phone, mobile, soft phone or laptop – that brings fixed/mobile convergence a stage closer
- Orcon announced it is now adding one exchange a week to its list of unbundled service areas, and has accelerated its entry into Wellington to the third quarter of this year.

That's not to say all is well – isn't. There are regular very public horror stories of service lapses, while time on hold at the industry's contact centres is often at the extreme boundary of acceptability.

And often the inadequacy of the infrastructure is a major show stopper. Even Ross Patterson cannot regulate to get broadband blood out of a 10-20km copper stone!

But within those constraints we are getting better utilization and competition out of the copper network than ever before.

I am fortunate to attend regular international meetings of people who specialize in this rather curious field of telecommunications policy – APECTel every six months and INTUG, the International Telecommunications Users Group, once or twice a year. Until recently New Zealand's telecommunications policy environment was looked upon as a peculiar international basket case. Now my counterparts in these fora look on us with envy for our operational separation, as well as the mounting political commitment to next generation fibre. Two years is a long time in telecommunications.

It's useful to think about the market under three headings – copper fixed lines, mobile, and the fibre future.

<u>The Copper Fixed Line Network</u>

Thanks to the parliamentary consensus around the Telecommunications Act 2006, followed by very hard work by officials, the Commerce Commission, the Telecommunications Carriers Forum, and within various carriers, the policy work is nearly complete, but there are still a few outstanding issues.

Telecom's operational separation is but five weeks old. The two industry-facing units – Wholesale and Chorus – are well established and rapidly gaining the trust of external service providers. There may be occasional off-the-ball spats, but the days when bitter complaints by rivals against Telecom's alleged anti-competitive behaviour were on the business pages every week are well gone. Yesterday the arena for the industry's battles focused on parliament, the courts and the media. Today, the battle is in the marketplace. Customers are the winners.

One outstanding element of separation is a lack of clarity around the role of the Independent Oversight Group. Many observers were surprised to see that the independent members comprise senior professional people without specific telecommunications experience, and this has led to concern about how closely the Group will be in touch with the market. I hope Telecom will take an early opportunity to introduce the group to the stakeholders and explain clearly how it will operate. It's a crucial element of the checks and balances within the separation process.

Yet nothing should detract from the very positive manner in which Telecom has embraced the separation challenge. The leadership from the Board and especially Dr Paul Reynolds have been incredibly heartening. Certainly there are a few elements of the Undertakings that might have been worded a little more tightly, but the most important element of separation is the incumbent's mindset.

The menu of access and wholesale services comprising DSL, naked DSL, unbundled Bitstream and the like, is now an established part of the landscape. Competition is happening as fast as Telecom's competitors, and Telecom itself, can achieve. With around half of all new broadband connections coming from retailers other than Telecom, and wild swings in the ratio month by month, customers are indeed in a happy place.

Number portability, a key prerequisite of a competitive market, has just entered its second year. Generally it appears to be working well, yet there has been anecdotal evidence of problems over recent weeks sufficient that TUANZ is surveying members to ascertain whether there are any residual issues.

Mobile

While its satisfying to talk about fixed lines as done and dusted, the same cannot be said of mobile.

New Zealand remains one of a very small number of first world countries with only two mobile operators, and the negative impact on competition is exacerbated by their being on different technologies. Until recently we have shown up vary badly in OECD price comparisons, but recently our ranking appears to have improved due in part to New Zealand prices not rising as fast as in some other countries, and in part to changed methodology.

Yet price is not the sole barometer. The question has to be asked why mobile competition has not emerged in this country as in others.

Why has New Zealand Communications, which as Econet announced its arrival as far back as 2000, not yet got its network running?

Early in 2006 Vodafone announced that it had signed agreements with M2, Orcon and Call Plus to host mobile virtual networks. Why have none of these companies brought their new services to the market two years on?

Why has a company with the substance of Telstra had such an incredibly convoluted path in this country trying to maintain a consistent mobile presence?

Why are we still working on a code for mobile co-location that in other markets has been a feature of the industry landscape for a decade?

In my view the answer is that the existence of a duopoly means that several parts of the mobile market are failing. The co-location market is one; the MVNO market is a second.

The reason is all about incentives. Where there are multiple service providers on a compatible technical platform, there is ample incentive to host co-locations – it makes better business sense to have the newcomer pay of some of your own overheads than those of your competitor. But if the counterfactual is that the new entrant cannot get into the market at all, the incentive to the established operator is to use the absence of co-location as an entry barrier.

My point can be illustrated by contrasting the environment in Australia where specialist independent co-location operator Crown Castle has 1400 cell sites hosting every significant service provider, with New Zealand where more than 99% of cell sites house only one operator's equipment.

A similar logic applies to MVNOs. Where the dynamic is such that virtual operators have a choice of networks to host them, the parent networks have an incentive to enter these partnerships in order to increase their network utilization. But where there is only a single GSM service provider, the incentive is to keep these people at bay.

The Commerce Commission is on the case with these issues. But in mobile, regulatory progress is happening at dial-up pace. We need a circuit breaker, ideally in the form of a well heeled new entrant who will come into this market with a hiss and roar and shake competition into life. I hope someone is listening.

<u>The Fibre Future</u>

My most satisfying moment in the past year was to sit alongside John Key last month here in this building to hear him announce that a National government, if elected, will commit $1.5 billion over six years to bring fibre to almost every home and premise in New Zealand, supported by wireless and satellite technologies. And the smart money says that despite its initially adverse reaction, Labour will announce something similar.

At this stage the detail is less important than the principle. Its now firmly established that the way of the future in this country is for network resources to be shared and competition to take place in the services that run across them. It's further accepted that for government to share with the private sector the burden of inter-generational infrastructure investment, telecommunications networks included, makes economic and logical sense.

TUANZ can claim some of the credit. Not all – many others were there too. But our manifesto document "Towards leading edge connectivity" released in March proved to be a prophecy as well as a call for action.

What we all need to do now is focus on the detail. There are some important principles that we need to work through collectively so that the learnings from the first generation of privatised utilities are put to good use in the second.

First and foremost we need to establish without any trace of doubt the crucial need for networks with public investment to be open access. We must define with absolute clarity what “open access” means, and enshrine it in the rules from day one with absolute certainty. Such a definition will be crucial to telecommunications investment, but may also have application in other network industries where there is a public stake – for example, the railways.

We must also enshrine the public investment as being for the good of the public as telecommunications users. We don’t want some enthusiastic future revenue minister seeing it as a sneaky new way to gather taxation under the radar.

We need to raise expectations of ultra fast broadband way beyond the 75% of New Zealanders that National has so far promised to deliver fibre to. The TUANZ manifesto talks of fibre to every home, business, farm, and marae.

This is totally achievable if we go about it correctly. Fibre cable is not expensive – it is a commodity. The biggest cost is the installation. Holes in which to bury cable are expensive – you can’t import them from China under the new trade deal, nor buy them second hand and shift them into place! So we will have to find imaginative ways to roll out the technology using kiwi “number eight” initiative.

The solution to me is simple. Practically every farm and rural property in this country already has a line of poles going to it. Stringing fibre cable across the existing electricity or phone corridor, possibly using community labour such as groups of farmers under professional supervision, would lower the cost dramatically. It’s a matter of thinking about users pushing lines in towards the network, rather than telcos pushing lines out to the user.

This implies of course, that we can get around the Resource Management Act issues. Here, balance is required. The enormous economic and social benefits of high speed connectivity are matched by environmental benefits – telepresence reduces commuting and transport; environmental resources such as water and fertilizer can be better managed through increased information; health and education can be improved hugely. So if the environmental flip side is that a string of fibre cable is added to the power poles in provincial and rural areas, that seems to me a very easy trade off. Its crucial that we are realistic about the balance between the desire for services to go underground, and the economic and environmental benefits that ubiquitous fibre will bring to areas with low population density.

What about wireless? Yes, it has a role but as an extender, not a substitute for fibre. The rise of the Boeing 747 cargo aircraft has added a whole new dimension to the international freight market, but air freight and its supporting infrastructure is inherently more scarce and expensive than bulk shipping, so will always be a valuable alternative at the top end of the market rather than a substitute. The same comparison applies to wireless and fibre optic.

Another key question to be resolved is the role of local government. Central government has been at best ambiguous and at worst outright contradictory in the signals it has given to local authorities about their role in telecommunications. Clearly there is an expectation that councils will be involved in some way in the next generation of telecommunications development and quite a number have already seized the initiative, but the scope of the role is very unclear. And there is a wide diversity of financial resources available among various Councils – if government looks to them all to take a role what will happen to those councils that genuinely do not have money available, and their citizens? A better definition of the expectations for the future is required.

## The Digital Strategy

Meanwhile the Board of TUANZ as with many other organizations is looking at the government's proposal for the ongoing administration of the Digital Strategy. The proposal on the table involves three new organizations – a Digital Development Council, Digital Development Board, Digital Development Forum, and potentially a new grouping of supply side industry vendors.

TUANZ has consistently supported the concept of a strong digital strategy for New Zealand. Our Board affirmed yesterday that it supports in concept the establishment of a group of stakeholders to oversee this. But there is serious concern that the private sector is being asked to sign off on a complex administrative structure with neither clearly stated objectives, nor a sense of scale about the extent to which government is planning to entrust key decisions to the proposed new bodies. So any commitment by TUANZ to support and participate is conditional on seeing the detail of the new bodies' purposes and missions.

## Conclusion

There are many complex issues ahead. There are others I could have mentioned – our chronic skills shortage at a trades level as well as an engineering one, the overall financial burden of the move to a digital New Zealand, or the challenge of major infrastructure investment at a time of many competing government priorities. But it can, must and will be done.

The end point of all this is a very different New Zealand.

We'll become a country where kids have equal opportunities in education to others anywhere on the planet regardless of where they live. A country where the aging population is able to deal with day to day health issues on line, and live in their own homes longer through electronic support. A country where our world leadership in efficient pastoral farming is lifted several notches through the addition of the communications technology layer. A country where people routinely go on line to reduce unnecessary commuting and long distance travel. A country to which wealthy migrants aspire, and successful expats seek to return. A country where the weightless economy forms an ever-growing component of our GDP. That's the end game.

We are lucky to have many excellent people in the right places – this is an industry of stars. Seriously capable and talented newcomers like Paul Reynolds and Ross Patterson. Highly competent older hands like Russell Stanners, Malcolm Alexander, Matt Crockett and Allan Freeth. Upwardly mobile entrepreneurs like Paul Clarkin and Scott Bartlett. And many, many more. And regardless of ones personal politics, it is great to see telecommunications being fronted in the two major parties by two of the smartest people in parliament - John Key and David Cunliffe – with many capable people in support.

That's why I am optimistic. We are on the cusp of serious progress. Join the movement!