NEW ZEALAND UPDATE

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“Lesson 1
If there is war between a phone company and a government, the government, eventually, will win”

ATUG Conference presentation March 2007

Agenda

- The copper network:
  - Local loop unbundling and related services
  - Operational separation of Telecom NZ
  - Next generation network
- The future and fibre
  - Realisation market forces won't deliver in a timely way
  - Strong pressure for action/investment by central and/or local government
- Mobile
- Other policy issues
- The digital future

The Copper Network: LLU

- Local Loop Unbundling:
  - Regulatory, and industry self regulatory work almost complete
  - Exchange roll out under way
  - Collision course with cabinetisation an issue
  - Range of VoIP and LLU based services now available
  - Expectation of increased competition
  - As a crucial by-product Telecom NZ has become a willing wholesaler

The Copper Network: Separation

- Operational Separation:
  - Three parts:
    - Access Network Services (Chorus)
    - Wholesale (Telecom Wholesale)
    - Retail – one or many (Telecom, Gen-I, Xtra….)
  - Latest draft undertakings rejected by Minister
  - Sticking points: Wholesale incentives; de minimus wordings; IP interconnection/NGN – not show stoppers
  - Positive acceptance by TNZ

The Future and Fibre

- Increasing public acceptance that
  - FTTP is crucial to economic development
  - Incumbent's incentives, and nation's needs, do not align
  - Intergenerational infrastructure investment deserves/demands some public participation in funding
- Local government taking into own hands, but constrained by funding
- Even Fibre to the Farm is being seriously floated
- Control of the timetable for new generation telecommunications investment must move from the incumbent, to the community
- Meanwhile there are interesting local initiatives by local government and power lines companies
- This issue has a very big head of steam

Mobile:

- Still the only OECD country with only two networks
- Compounded by having a GSM monopoly
  - Lack of network competition distorts adjacent markets:
    - Handsets and CPE
    - CoLocation – less than half of 1% of sites; no independent broker
    - MVNOs – currently none of these off the ground
  - Regulator dealing with these issues
- MTR still very high – govt over-rode regulator

Other Policy Issues:

- Telecommunications Carriers Forum highly effective:
  - LLU and related technical codes
  - Consumer/SME disputes scheme
  - Disconnection code
  - Mobile premium code
- Universal Services review – little discernable progress from Ministry of Economic Development; TCF making good headway
- Rural Services review – Local Government NZ making running along with Internet NZ, Federated Farmers, TUANZ, et al
- Chronic shortage of ICT skills; no solution in sight

The Digital Future

- Digital Strategy missing the mark:
  - absent a time-bound vision
  - plagued by Inter-departmental turf issues
  - staff instability
  - private sector Advisory Group sidelined by bureaucracy
  - Flawed assumption that the investors of the future will be the same as the investors of the past
  - too few Ministers seriously understand the digital age
  - serious change needed
- Question: Are traditional bureaucracies inherently incapable of moving at the pace the new digital age demands?

Market scan – Tier 1 Carriers:

Telecom NZ

-Under huge pressure from regulatory catch-up

-Refreshing style of new CEO Paul Reynolds

-Willing wholesaler; industry leadership

-Fixed line service quality good, but its ISP and mobile appallingly accident-prone

Vodafone NZ

-Cruising to dominance against lacklustre effort from Telecom Mobile

-Some evidence getting more internationally price-competitive

TelstraClear

In the wilderness – has the mother ship forgotten it?

Market scan: Tier 2/3 carriers:

- CallPlus/Slingshot – frustrated by cabinetisation and slow growth of Whangarei wireless project
- Woosh Wireless – continues to struggle
- WorldxChange – the industry's thought leaders. VoIP services a winner. One to watch
- Ihug – sold and fully subsumed into Vodafone
- Kordia – state owned; ready to become a real force
- Orcon – sold out to Kordia
- Vector and other power companies – working with Councils on fibre networks; significant progress
- Econet/NZ Comms still not launched 3rd mobile network

Summary:

- Operational separation is poised for introduction in 19 days
- LLU policy-wise is practically complete; market issues will affect uptake but the indirect benefits are already apparent
- Fibre for the future may become an election issue; mounting acceptance that public sector must share the investment load
- Barriers to entry for mobile should be removed within months

Thank you

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