

## CommsDay Auckland Summit - 18 May 2010

In the time available to me today I considered outlining the technical merits of the alternative models of fibre to the home provision, and then maybe taking up Paul Reynolds' recent suggestion and discussing the options for reform of New Zealand's current telecommunications infrastructure regulatory regime.

However, I thought I could take the debate to a different level by talking about an Australian supermodel.

I chose this option. Not just because we are in the after-lunch session of today's conference and some of us probably need a bit of mental caffeine, but also because this particular Australian supermodel has something very important to say to New Zealand about investment in broadband infrastructure. Strange, but true.

I am speaking of course about Lara Bingle, who has sprung to fame recently for her passionate interest in the Australian cricket team, although you may remember her as the star of an infamous 2006 Australian tourism campaign with the slogan, "So where the bloody hell are you?"

If you recall, the campaign showed images of iconic Australian settings, such as an outback pub, Ayres Rock, kangaroos sauntering across a golf course, and so on, each of them designed to whet the various appetites of winter-bound Europeans. The ad culminated in a bikini-clad Ms Bingle walking out of the surf on a pristine sandy beach and asking pointedly, "So where the bloody hell are you?"

Surprisingly, this is the image that came to my mind when I read the report of the National Broadband Network Implementation Study released recently by the Rudd Government.

This report has not had the attention it deserves in New Zealand. It maps out a convincing case for Australia's \$43 billion broadband investment strategy. As you will know, the scheme involves the Government creating an open access fibre network whilst bearing the design and construction risk, with the private sector ultimately taking on the role of operator once the infrastructure is in place.

The report demonstrates a modest financial return – some say too modest - for the Government's share of the investment. But as the report argues, a below-market return for the Government is a price worth paying to secure the broader benefits to Australia from creating a platform for economic growth and a fundamental step-up in productivity.

That is, the indirect benefits will clearly provide major economic returns.

As the Australian Communications Minister, Stephen Conroy, noted in releasing the report, it demonstrates that, "the National Broadband Network is achievable, financially viable and will transform life and business in Australia."

The report concludes that the scheme will become self-financing after year six, with the required Government investment peaking at \$26 billion of the required \$43 billion. For that investment, the Government secures a world-class open-access telecommunications network with plenty of spare capacity to cater for the forecast – and the as yet unimagined – needs of the Australian economy and people.

Most significantly the analysis shows that the numbers stack up without reference to the incumbent. In other words, the short-term cost-savings that might be available in the build phase by opting to marry the new network with Telstra's existing infrastructure do not justify the ongoing risks of having the incumbent operator as a large shareholder, along with its copper access network constraints and legacy incentives.

For that reason the report recommends that NBNCo should not award equity for vended in assets.

As I'm sure Michael Clark would work out, in cricketing terms, an incumbent deal is like an endless string of home games, where one team prepares the pitch, provides the gear, chooses the umpires and gives their supporters all the best seats.

No matter what measures are taken to ensure fairness and transparency, the reality is that granting the incumbent a permanent home-ground advantage will stymie competition.

So it is significant that the analysts, McKinsey and KPMG, are saying that the incumbent's existing assets are not necessary to make the NBN a viable investment. While there are some synergies to be gained to renting space in Telstra's existing ducts, there is no benefit from connecting the new fibre to the existing Telstra network, and there are risks in encumbering NBNCo with the existing copper.

Those risks are comparable to the risk of holding all trans-Tasman and Ashes test matches at the MCG.

The report is very clear that a vertically separated fibre network business is essential to promote the competitive outcomes that will fully exploit the

capacity of the network. Allowing the NBN to retail or to own a retail business would hamstring that growth.

The report envisages a process whereby the fibre network becomes the predominant fixed-line telecommunications infrastructure over time by pricing for affordability and take-up and ensuring continuity for existing services.

No doubt aspects of the analysis will be debated, particularly around the rate of uptake, the level of taxpayer contribution required and the timeframe for self-financing. The report does, however, provide a helpful peg in the ground where there has only been speculation, and it makes clear that a Greenfield NBN is what the experts recommend to achieve the outcomes Australia wants.

What does this mean for us here in New Zealand? Two things.

First of all, the report is a useful point of reference for New Zealand as we go through the process here to deliver a national broadband strategy.

For example, it stresses the importance of a network design that preserves options for active-layer competition and the facilitation of shifts in technology.

It also advocates a ministerial discretion allowing large corporates to establish themselves as telecommunications carriers with direct access to the National Broadband Network. This would enable, say, a bank or media company to create a retail services arm to access the network for internal services and also to deliver a range of its services directly to customers without having to go through a retailer. The point is that new retailers in the telecommunications space could come from unexpected places, and we should not create any barriers to their entry.

The report also has important things to say about what effective competition would mean in a telecommunications market based upon broadband capability, and how to maintain momentum during the build stage so as to encourage migration to the new network.

For instance, it suggests the concept of an “overbuild tax” to discourage any rival from cherry-picking by building a “super-fast network” confined to high-value, low-cost areas. The Australians became sensitive to this risk after Telstra overbuilt the Optus cable network. Whether or not this is the best instrument for New Zealand to use, it is a risk that needs to be addressed in ensuring the creation of a viable national broadband network which is committed to providing affordable coverage to all New Zealanders.

Clearly, New Zealand decision makers within Crown Fibre Holdings, the Ministry of Economic Development and Commerce Commission will be engaging with these arguments.

But beyond its value as a precedent, the report is important because if, as appears likely, the Rudd Government endorses its general approach, that endorsement **in itself** would fundamentally change the equation here. And here is where Lara Bingle comes back into the picture.

The message to New Zealand is that Australia is committing itself to an open access fibre to the premises solution that will reach the vast majority of its 25 million consumers, and that means we need to ask ourselves: “Where the bloody hell are we?”

There is a lot of talk about build cost etc here, but not enough about where retailers and new solutions providers will come from and look to address an exciting market.

So, as you will be aware, much of the debate in New Zealand hangs on the question of the growth in demand for high-speed broadband services.

Will New Zealand businesses, public services and households rapidly re-engineer their activities around retail services that rely upon high speed broadband? Or will uptake in the initial period be gradual, and for the first few years limited largely to a small number of businesses and a cabal of video-gamers and home theatre enthusiasts?

Those who foresee a long, slow take off, with high-speed broadband only gradually becoming the dominant telecommunications and business infrastructure, tend to support a conservative approach which favours factoring in the existing telecommunications infrastructure to provide economies of scale.

Those who foresee a relatively rapid transformation are less convinced by the logic of "let's build upon what we already have". And as a result, they focus less on the cost of building the system, and more on ensuring that we can create a new generation of retailers and solutions providers, and secure the indirect and direct benefits in many areas including the health and education space.

You only have to look at what is occurring in Asian countries such as Korea and Singapore, and have listened to Taylor Reynolds from the OECD to be reasonably informed.

I don't believe you have to be much of a visionary to see that the single biggest boost to the New Zealand and Australian economies in the next decade will be the expansion of access to an ultra-fast broadband network driven by cutting edge technology.

The NBN report has been criticised for predicting a take-up rate of 70-90%.

Yet fibre is rapidly becoming the fixed infrastructure of choice worldwide. We are already seeing penetration rates of 30-40% in the US and Scandinavia, and much higher rates in Japan and Korea. Whether it takes five years, one decade or more, it seems beyond dispute that fibre will become the critical utility of the 21<sup>st</sup> century.

The question of the speed of uptake hangs on the issue of whether a raft of providers will come forward with retail offerings relevant to the needs of New Zealand businesses and households. New Zealanders have shown themselves to be relatively rapid adopters of new technologies, and the New Zealand government, like Australia's, have indicated that it is happy for public services such as health and education, and major state-owned utilities, to form a cornerstone of demand for broadband services.

But the question is: how quickly will high-speed broadband offer New Zealand the opportunity to transform not just health and education, but also logistics, accounting, banking, design, customer service, entertainment, retail, media and so on?

What the recent Australian developments remind us of is that our estimate of the growth of retail services should not be blinkered. We should not limit our estimate to those services that are based in New Zealand.

This, after all, is the infrastructure which overcomes the tyranny of distance which has always dogged Australasian culture. With fast speed broadband, the world is at our keyboard or mouse, and most New Zealanders know that.

In light of this it is entirely plausible that many New Zealand consumers will look to Australian retailers for a wide array of services. And in the same way, New Zealand retailers will have an unparalleled opportunity to sell services into a market we already know well.

We do not need to speculate on whether New Zealand's 5 million consumers will be sufficient to get prospective investors in the retail space over the line. If New Zealand gives a clear signal that its broadband infrastructure investment will keep pace with Australia's, then retailers on both sides of the Tasman will automatically factor in a potential market of 30 million customers.

If we do not give that signal, then we will become progressively more irrelevant to the development trajectory of our nearest and dearest market. And we will be asking ourselves, "How the bloody hell did we get here?"

By equipping ourselves with fibre to the premise as our primary telecommunications infrastructure, New Zealanders will be able to tap into a vibrant eco-system of vendors, carriers and 30 million end-users.

New Zealanders are used to the idea that we have to fight hard to convince the developers of innovative technology to include New Zealand in their field of vision. And they are instinctively suspicious of any argument that our small population and geographic remoteness mean we should only get access to the cherry after everyone else has had a good bite. Take another entertaining TV ad and we just get the Pineapple Lump!

As you will be aware, Vector is currently running a campaign to inform public debate on broadband and to raise awareness of its potential to alter the way we live. We have had very enthusiastic responses, via You Tube

and elsewhere, to our advertisements which ask consumers to imagine what life would be like if water were delivered to their premises through a drinking straw.

In short, I believe there is pent up demand throughout the New Zealand economy for the kind of practical life-and business-enhancing innovation that a national broadband infrastructure would allow. And I believe the logic of a vertically-separated open-access fibre network holds for this country as much as it does for Australia.

All of this brings me back to Lara Bingle's question – so, where the bloody hell are you?

As a vibrant eco-system gathers momentum across the Tasman, we in New Zealand need to raise our sights beyond our own economy.

We can imagine a worst case scenario in which Australia has built its fibre network while New Zealand is stuck in a limbo of our own making. The hi-tech inter-connected future that we imagine for our exporters and entrepreneurs, and for our health and education systems, will turn into a depressing series of away games, where we compete on someone else's wicket using yesterday's technology. We don't need to be the second XI.

In the next year or so will we choose to be part of that vibrant eco-system, with its promise of growth and change and innovation on an exponential curve? Or will we prefer to limit ourselves and our vision to a localised and linear view of what is possible for New Zealand, based on the legacy of the last decades?

I think the answer is obvious. And what's more I think we need to ensure that New Zealanders have the option of making that choice for themselves.