

## Broadband the Highway to the Future: Panel Discussion

NZCID Building Nations Symposium

14 August 2008

Auckland

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It is gratifying that future broadband investment is seen as a high priority, and that the basis of that investment, and the role of public and private sectors in that investment is the subject of vigorous debate.

As the regulator charged with promoting competition in telecommunications markets for the long term benefit of end users, I want to suggest that there are three golden principles which should underpin any initiatives aimed at incentivising investment beyond that which the market will deliver absent such incentives:

- Contestability
- Technological neutrality
- Regional diversity

### **Contestability**

There is clear evidence that there is a direct correlation between telecommunications investment and the level of competition in the market. The greater the degree of competition, the greater the level of incumbent investment boycott threat, in the face of the possibility of regulation promoting competition, has proved to be no more than that: - a threat. In the face of competition, incumbents have invariably increased their investment to minimise their loss of market share in the face of new services and investment from others.

As the British Telecommunications Regulator, Ofcom has noted: *“Competition is one of the single most effective drivers of investment in new technologies and services as outlined in a recent analysis based on a survey from ECTA: Countries with the most competitive telecoms industries delivered the highest levels of net investment.”*<sup>1</sup>

The reforms introduced by the 2006 amendment to the Telecommunications Act are now taking effect in the market place. 20 exchanges have been unbundled to date, with Orcon and Vodafone offering broadband and voice services, and other providers poised to enter the market as unbundling is rolled out across New Zealand. The impact is already apparent:

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<sup>1</sup> Future Broadband, Ofcom 26 September 2007, P10

*Chief executive Paul Reynolds said the year's result highlighted the increasingly competitive nature of the New Zealand telecommunications landscape.*

"In this new environment customers have more choice and opportunities than ever before," he said.<sup>2</sup>

VDSL is currently being trialled and will be available before the end of the year. Prices have fallen, and broadband speeds and quality have increased.

In this context, the suggestion that broadband investment would require a monopoly with a guaranteed rate of return is of concern.

- *A price regulated investment vehicle, called FibreCo, is granted a monopoly over the fibre access network.*
- *The network access price should be determined to give an expectation of attractive returns.*<sup>3</sup>

As the Commission said in its submission to the Minister on the 2007 proposal by Telecom that it structurally separate

*“The idea of a monopoly provider with a regulated rate of return has been discarded in most countries, due to its tendency to lead to ‘gold plating’ of investments and weak incentives to minimise costs. It is less likely to encourage innovation, or uptake, potentially delaying the long term benefits of broadband.”*

We regard competition as the best mechanism to deliver the highest quality and lowest prices, to meet consumers preferences and any incentives programme should embrace the competitive process, not lock it out.

### **Technological Neutrality**

Participants in the broadband debate sometimes use technologically neutral language such as “high speed broadband”, but too often refer typically to one technology in particular FTTH.

In the Commission’s view technology neutrality is very important, particularly in fast moving innovative markets such as telecommunications.

The OECD’s 2008 report on broadband<sup>4</sup> notes that the OECD Council Recommendation on Broadband calls for “*technologically neutral policy and regulation*” as a way to “*encourage interoperability, innovation and expand choice*”.

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<sup>2</sup> New Zealand Herald, Friday 8 August 2008

<sup>3</sup> “Delivering on the Broadband Aspiration: A recommended Pathway to Fibre for New Zealand”. New Zealand Institute, April 2008, p10 & 11

<sup>4</sup> Broadband Growth in OECD Countries, 2008 , P56

The same report also notes that the Canadian Experts Group<sup>5</sup> view that “*Technology neutrality is probably more appropriate in financing of government projects.*”

*Because of the rapid evolution of technology, it is critical for U-Can to be technological neutral. However, no one can say for certain what technology will be the best two, three or five years from now. The Panel is recommending that the U-Can program adopt a competitive technological neutral approach. This approach should stimulate innovation and ensure that government subsidies are not used inefficiently or for obsolescent technologies”*

Telecom is currently engaged in a major fibre to the cabinet project – 3600 cabinets over 4 years to deploy a minimum of 10 Mbps to 80% of the towns using ADSL2+ technology. Other service providers have signalled their intent to employ VDSL, delivering speeds of up to 50 Mbps.

DSL technology is evolving rapidly, with speeds of up to 75 Mbps being promised. Over the next few years, this will be the dominant broadband delivery mechanism in European Markets. The German regulator, Bundesnetzagentur<sup>6</sup> has stated that “*VDSL will be an important access scenario in Germany in the next few years”*.

Wireless Broadband is also evolving rapidly, with LTE trials to deliver 75 Mbps around 2010. Satellite is also being taken up in more remote areas, with affordable commercial offerings of up to 1 Mbps speeds already in the market.

There is no doubt FTTH has an important role to play, and may become the dominant technology ten years from now. However, if DSL and wireless technology quality develops as quickly as its proponents claim, the economics of widespread FTTH may not stack up. What we do know is that we do not know what the best technology will be ten years from now and it is best left to the market to make technology choices.

### **Regional Diversity**

Finally, each technology has its place and each region will have a different solution for its requirements. There is not a “ones size fits all” network provider.

Different technologies are likely to be appropriate for different geographic areas. For example remote rural areas compared to high density urban locations. CBD, suburban, regional and rural areas are likely to each favour differing technologies from FTTH in high density urban areas to satellite in remote rural locations

The national debate has finally focused on how to build the broadband highway. The Commerce Commission focus however is on encouraging broadband uptake by increasing competition, providing choice, quality at a reasonable price and innovation

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<sup>5</sup> Broadband Growth in OECD Countries, 2008, P57

<sup>6</sup> “Approaches to VDSL regulation in European Countries” Dr Iris Henseler-Unger, Bundesnetzagentur, Presentation to WIK Conference on VDSL – The Way to Next Generation Access Networks, 22 March 2007

