Unbundling the local loop

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Context

• What is New Zealand?
  • God’s own country: a paradise on earth
  • A large country with a small population
  • Middle class in wealth terms
  • Physically isolated, internally & externally
    • Remote from many of the world's trouble spots
    • Highly transport dependent
  • Reasonably well educated
    • And with enough social infrastructure to improve

• So, we’re OK, and we have prospects
Outlook

• A carbon constrained world
  • Round trip to UK with a 747 emits X tonnes of carbon
    • So tourism is under threat
  • Major physical exporters are energy intensive
    • Aluminium & Steel
    • Pulp & paper
    • Dairy
  • Food miles are already becoming an issue

• Our entire export sector is at risk
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• F&P
• Provenco & Cadmus
• Rakon
• Software of excellence
• Up and comers
  • Argent
  • English to go
  • VCU Technology

• We are growing a new export sector
Economic transformation

• A meaningless and tedious catch cry?
  • Or this decade’s TINA?

• Widespread broadband uptake is essential
  • Obviously, for the firms that might transform us
  • Also, obviously, for our existing export sector
    • And for efficient domestic production
  • And, crucially, for the next generation of entrepreneurs
    • Potential entrepreneurs are all around us: they’re our children
    • We need them to be great with communication technologies
    • It doesn’t matter if they get great by playing CounterStrike
Regulation for competition or rent control

• What sectors are “in the frame”?
  • Airports
  • Telecommunications
  • Electricity & gas networks
  • Possibly water, depending on how it evolves
  • Dairy, but only to preserve domestic competition

• The pattern?
  • They all sponsor ISCR?
    • Yes, but they do that because they’re in the frame, not vice versa
  • Domestic focus
    • We (NZ) need them to help us succeed internationally
    • And we really need for them to not drag us down
Telecommunications

• Purpose of the Act is to promote competition
  • Regulation is the tool
  • The Commerce Commission are the mechanics & drivers
  • Competition is the engine
  • A better NZ is where we’re heading

• The Act avoids retail price regulation
  • It is entirely focused on inter-firm trade
  • Why?
    • Because otherwise, market power could forestall competition
  • It is inevitable that Telecom is the main target
Fixed broadband

- Currently regulated through UBS
  - Telecom determines DSL rollout
  - Access seekers buy a bitstream service from their customer to the nearest ATM
    - Backhaul to their POI is a separate service

- What does unbundling add?
  - The ability for access seekers to
    - invest in their own DSL equipment,
    - attach it to Telecom’s network, and
    - just rent the local loop, not the whole bitstream service
The impact?

• Advantages
  • Direct
    • Removes an entry barrier for one business model
    • Promotes facilities-based competition
  • Indirect
    • Makes Telecom a more enthusiastic wholesaler

• Disadvantages
  • Direct
    • Costs of regulating
  • Indirect
    • Risk of not getting regulated prices right
Unbundling common in other areas

- Voluntary, when unilateral action is feasible
  - Google ads target individual readers
  - iTunes – just the song, not the album
  - Writing – subscribe to what you like, using RSS

- Involuntary, if it would be resisted by incumbents
  - Electricity – split natural monopolies from potentially competitive activities
  - Rail – same principle
  - Cable TV – FCC currently pushing for individual channel subscriptions
Unbundling not a panacea

- Potential problems
  - Data caps
  - Long feeders
  - DDD

- Ways to address them
  - Make backhaul contestable
  - Allow co-location at cabinets
  - Wholesale / Retail split