

# Unbundling the local loop

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- 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 worlds trouble spots
    - Highly transport dependent
  - Reasonably well educated
    - And with enough social infrastructure to improve
- So, we're OK, and we have prospects

- 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

- 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

- 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

- 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