Betting on broadband policy: Australia vs NZ
(Comms Day, 15 April , 2010)

The Australian and New Zealand governments are making very big but different bets on broadband. Both bets are risky.

Both governments' plans for fibre-to-the-premises (FTTP) are very ambitious by global standards. In Australia the government will provide equity of $4.8bn and issue $6.3bn in (government-backed) infrastructure bonds; a total of $11.1bn or $504 per head. In NZ the corresponding cost to the public purse is NZ$1.5bn (A$1.154bn) or $267 per head. They are big spenders: *"Both of these plans, should they be put into effect as announced, will place the two countries as among the most publicly-funded networks in the world"* (Berkman Centre's Final report to the FCC on *Next Generation Connectivity,* February 2010).

The similarity ends there. Some of the differences are make-or-break bets.

First, Australia is cajoling the incumbent into cooperating with NBN Co. while New Zealand chooses to ignore the incumbent's existing network and FTTN build-out: *"In the case of residential access networks, such as Telecom's copper and TelstraClear's cable networks, it is clear that they do not have the capability to compete with the performance of fibre-to-the-premise networks in the medium to long term"* (NZ MED, October 2009).

Both governments express roll-out targets in terms of coverage. But what matters for financial viability and economic transformation is take-up. Covering or connecting 70 or 90 per cent (NZ and Australian targets) is futile if customers do not take-up the enabled services. Achieving a break-even take-up rate within 10 years in NZ against competition from existing networks looks optimistic to me. And, whatever the KPMG-McKinsey report claims, I think the same issue applies here. So a deal with Telstra to migrate its customers is vital to the NBN.

Second, while both countries have set-up new government enterprises to implement their broadband plans, their focus is very different. NBN Co. has to build and operate a national network from a standing start. Crown Fibre Holdings (CFH) only has to select and invest in partners, Local Fibre Companies (LFCs), who do the hard yards. But the NZ approach has issues too. CFH has tendered 33 franchises and if this results in many LFCs it will stretch resources; unless Telecom NZ is involved in most regions.

The UK experience of multiple franchises is a warning for NZ. In the early 1980s cable franchises aimed at providing triple-play services were awarded. By the end of 1990 almost 15 million homes had been included in franchised areas, but only 828,000 of these had been passed by broadband cable and only 149,000 were actually subscribing (Cable Authority, Final Report and Accounts 1990).

In Australia, the original idea to let Telstra build the FTTN would have been quicker, cheaper and more certain. Now we can only hope that Telstra is enlisted to assist NBN Co.

Third, NBN Co. has announced that it will not sell dark-fibre; only layer 2 (bitstream) services with different QOS. In NZ, the LFCs must sell dark-fibre and only optionally may it sell bitstream; so long as LFCs use their own money. NZ came late to unbundling the local loop, and it does not want to repeat the mistake. But, the world has changed. With the de-layering of the industry that comes with next generation (all IP) networks, service providers do not need or want to be vertically integrated across carriage and content. The access business will likely come to resemble electricity distribution with smaller margins. NBN Co has reported no interest in dark fibre (NBN Co Response to Industry Submissions, March 2010, p12). Layer 2 enables competition at the higher layers where the benefits of broadband lie.

Fourth, back-haul is not seen as an issue in NZ where four networks provide competition between the franchise (LFC) areas and there are over a dozen that provide back-haul within such areas. NBN Co would like to be a pure access company. But it seems to have agreed to be an instrument of competition policy by not supplying local Ethernet bitstream (LEB) where it back-hauls traffic to an aggregated interconnection point (AEB). The idea is to ensure all service providers face the same cost structure for access. This is not a commercial decision.

If this decision is not reversed, it raises the spectre of the acquisition of Telstra assets since its own back-haul assets become redundant if it is forced to buy AEB. Or, Telstra may continue to use them for its mobiles business. The NBN Co decision commits it to a back-haul programme covering 15 per cent of its fibre footprint; which is a much bigger exercise than the current Blackspots Programme ($250m subsidy to provide 6,000km of transmission).

So, who would you bet on? Australia understands the economics of fixed network competition and dark fibre (points 1 and 3 above) while NZ better understands the need to leverage existing capabilities (point 3; especially if Telecom NZ gets enlisted). In either case, there is much scope for fine-tuning broadband policy.

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