

18 July 2008

Broadband Investment Fund Submission
ICT Regulatory Team
Ministry of Economic Development
PO Box 1473
WELLINGTON

Dear Sir/Madam

Re: New Zealand's Digital Pathway: A Fast Broadband Future

I am writing in response to the Government's release of '*New Zealand's Digital Pathway: A Fast Broadband Future*' document, which is open to public feedback.

While Business New Zealand does not wish to provide extensive comments on the range of questions asked in the document, we would like to raise a few points regarding some issues on the future outlook for the process.

Business New Zealand's overall view on telecommunications is that a reliable and advanced telecommunication infrastructure is needed that is updated and available throughout the country. We view broadband as one of the key means by which businesses can improve their productivity growth, and therefore welcome steps for the higher uptake of the service as long as actions do not impede both fundamental property rights and investment in New Zealand. Without question, the path to improving New Zealand's broadband uptake will involve significant investment, which we have always viewed as best initiated by the private sector.

Business New Zealand has not always sided with the Government regarding various regulatory changes that have taken place in the telecommunications sector over recent times. In particular, past decisions have failed to take into account the investment recognition and property rights of the existing participants. However, moving forward, it is important that any new policies introduced make the most of the new environment which the telecommunications industry finds itself in, which needs to create the right settings for future infrastructure investment in the sector. In addition, policies going forward need to ensure that the sector remains significantly attractive to attract highly skilled technology people from within New Zealand and internationally.

Overall, Business New Zealand believes there are positive aspects of the Broadband Investment Fund (BIF) to enrich New Zealand's broadband uptake. It is pleasing to see that the Government has not continued with a hard line approach in respect to

further steps, but instead has been more pragmatic in its announcements. There is often the temptation to 'do something quickly' if indicators show a perceived need for action. However, if these solutions are not well thought out, and the effects on related areas such as investment and business decisions are not taken into account, then the cure can be equal to, if not worse, than the problem at hand.

Whether the BIF leads to New Zealand moving into the top quartile of OECD countries for broadband speed is debatable. However, we need to be careful that such a goal does not become an end objective that causes adverse outcomes in its pursuit. Some commentators have assessed that the proposed BIF is more likely to allow New Zealand to catch-up, or lessen the gap compared with other countries we typically compare ourselves with, than move us into the top quartile of OECD countries. One could argue that such a position is not enough to facilitate extensive broadband uptake, and we would support further opportunities for development. In particular, we would support those that encourage further private sector involvement without adverse regulatory actions that would place risks on an industry that has experienced significant changes in recent years.

In terms of the specific content of the BIF, we are pleased to see that one of the key areas to which the BIF has allocated the \$325 million operating and \$15 million capital funding (over the five years) is facilitating high speed connections to include businesses in urban areas. While the delivery of high bandwidth services to other stated areas such as health organisations and tertiary institutions is important, such services to businesses in high density areas provide the best foot forward in creating economic growth. Overall, the focus on providing funding where the biggest gains can be made is welcomed.

Second, we note the BIF takes different approaches to criteria for funding in urban and rural areas. Overall, we agree with this approach, and endorse the statement in the document regarding rural funding that '*the most appropriate mechanism is a contestable and technology neutral process that has sufficient flexibility to support the deployment of backhaul links, 'last mile' broadband solutions and demand-pull initiatives*'. In addition, given any rural deployment would require a higher profit threshold for the private sector, we agree with the lighter stance taken by the Government involving less onerous requirements for criteria setting.

In relation to the criteria outlined for the urban fund, we do not have any substantive comments on the details of the fund. However, we would echo the statement in the document that the draft criteria needs to be flexible enough to allow a wide range of projects and diversity of technology options to be considered, given the ongoing changing landscape of broadband. In addition, it is important that possible impediments to projects of net economic benefit, such as existing legislation (i.e. the Resource Management Act), and the role of Territorial Authorities are adequately examined. If the BIF is to succeed in terms of the roll-out of broadband, there needs to be the minimisation of potential barriers to investment.

Regarding funding allocation, Business New Zealand has always advocated for a transparent and methodical process. Where the contribution of public funds is

concerned, the process for final funding decisions in the BIF seems rather more excessive than usual. We also note that the time period from expressions of interest through to applicants being informed of funding decisions is close to one year. We would be keen to see some tightening of the process by way of DSSG Sub-Group involvement, as we believe there are opportunities to shorten the entire time frame so that applicants are informed of funding decisions by say, April 2009.

Last, regarding the section examining international connections, Business New Zealand approves the deployment of a second trans-Tasman cable to improve competition and resilience of New Zealand's international communication links. While the document states that the Government will act as an anchor tenant for its deployment, as well as private sector activity already occurring, we hope that sufficient private sector activity will ensure deployment is carried out sooner rather than later.

In conclusion, Business New Zealand looks forward to the BIF's establishment over the next few months, and to significant private sector involvement in the years ahead.

We thank you for the opportunity to comment.

Regards,

A handwritten signature in black ink, appearing to read 'P. O'Reilly', with a long horizontal stroke extending to the right.

Phil O'Reilly
Chief Executive
Business New Zealand