

# Declaration of anchor and direct fibre access services

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## Executive Summary

Interim Maori Spectrum Commission (IMSC) welcomes the opportunity to provide submission on the Ministry of Business, Innovation and Employment (**MBIE**) Consultation Document, "Declaration of anchor and direct fibre access services - Exposure draft of regulations to be made under sections 227 and 228 of the Telecommunications Act 2001" (**the Consultation Document**).

IMSC is focussed on the outcomes delivered by the fibre regulation. Therefore, our comments are focussed on the outcomes and not on the technical details. We have the following high level comments on the proposed anchor and direct fibre access services (DFAS):

- The proposed pricing structure does not promote fibre uptake in lower socioeconomic communities. This disproportionately affects Maori communities. Data published by Crown Infrastructure Partners (CIP) shows that there is correlation between low fibre uptake and lower socio economic areas. CIP data also shows that the uptake is poorer outside the main centres in these areas. Generally these outside areas tend to have higher Maori population. The MBIE proposal is likely to reduce the affordability of fibre broadband.
- The pricing structure proposed by MBIE does not suit lower socioeconomic communities. It assumes that those who sign up for fibre services will be able to make regular monthly payments. Popularity of prepay mobile services among lower socioeconomic communities highlight that is not the case. MBIE should consider options that will enable pay as you go fibre services.
- The MBIE proposal is not likely to encourage competition and innovation. The Commerce Commission benchmarking of OECD average fibre prices shows New Zealand fibre broadband prices perform poorly against other OECD countries. The wholesale fibre cost makes up a significant portion of the retail prices. With local and international backhaul costs increasing due to increase in usage, there is limited room for fibre retailers to compete. Therefore, it is important that the wholesale fibre is priced at a level that will encourage competition. The anchor product proposed by MBIE is inferior to what 5G can offer. IMSC encourages MBIE to propose products that are likely to meet future fibre demands.
- The proposal ignores general trends in the Telecommunications market. The cost of telecommunication services have generally been declining. This is supported by the Commerce Commission benchmarking of OECD fibre retail prices. OECD fibre prices have declined at a faster rate than New Zealand fibre prices. MBIE's proposal to increase the wholesale price appear to ignore the general trends in the market.
- Direct access fibre pricing should encourage the uptake of mobile broadband. Fibre backhaul will be increasingly critical for mobile cell sites. The IMSC encourages MBIE to ensure the DFAS pricing and technical definition encourage mobile broadband.

## Introduction

The Interim Maori Spectrum Commission (IMSC) welcomes the opportunity to provide a submission on the Ministry of Business, Innovation and Employment (**MBIE**) Consultation Document, "Declaration of anchor and direct fibre access services - Exposure draft of regulations to be made under sections 227 and 228 of the Telecommunications Act 2001" (**the Consultation Document**).

IMSC is focussed on the outcomes delivered by the fibre regulation. Therefore, our comments are focussed on the outcomes and not on the technical details. We have the following high level comments on the proposed anchor and direct fibre access services:

- Proposed pricing structure is not likely to promote fibre uptake in lower socioeconomic communities, and disproportionately affect Maori communities.
- The pricing structure proposed by MBIE does not suit lower socioeconomic communities.
- The proposal is not likely to encourage competition and innovation.
- The proposal ignores general trends in the Telecommunications market.
- Direct access fibre pricing and technical definition should aid uptake of mobile broadband.

The rest of the document provides additional details on the above points.

## Unlikely to promote fibre uptake in lower socioeconomic communities

Fibre uptake has been hailed as a success in New Zealand. However, the fibre uptake statistic hide some underlying issues. According to CIP March 2021 Quarterly Connectivity Update<sup>1</sup> the national fibre uptake average is 64% of total houses passed. However, only Auckland and Bay of Plenty have a higher uptake than the national average, i.e. Auckland fibre uptake is lifting the national average.

Further fibre uptake is low in lower socioeconomic areas and areas with high Maori population. Table 1 provides a summary of fibre uptake based on March 2021 Quarterly Connectivity Update and population and income information extracted from Statistics New Zealand<sup>2</sup>.

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<sup>1</sup> <https://www.crowninfrastructure.govt.nz/wp-content/uploads/CIP-Broadband-Quarterly-Update-Q1-March-2021.pdf>

<sup>2</sup> <http://nzdotstat.stats.govt.nz>

Table 1: Fibre uptake in lower socioeconomic and high Maori population regions

Area	Uptake %	Maori Population	Average income below to national average
Northland	57%	40.2%	-11.4%
Waikato	62%	27.6%	-1.1%
Bay of Plenty	65%	32.8%	-7.4%
Gisborne	56%	56.4%	-6.7%
Hawke's Bay	55%	30.7%	-6.7%
Manawatu-Whanganui	57%	26.4%	-13.1%

Data in Table 1 shows there is correlation between lower average income and low fibre uptake. We note that Auckland average income is 6.9% above the national average and the fibre uptake is 72% (versus the national average of 64%).

A closer look at the uptake data in Table 1 indicate that high uptake are in localised areas and masking poor uptake in other areas. Table 2 provides details of fibre uptake in sub areas of the regions in Table 1.

Table 2: Makeup of fibre uptake in lower socioeconomic and high Maori population regions

Area	Uptake %	Sub area uptake %
Northland	57%	Waipū 72%, Hikurangi 69%, Whangārei 67%, Kerikeri 60%, Mangawhai 59%
Waikato	62%	Whatawhata-92%, Morrinsville 88%, Horotiu 88%, Te Kauwhata 82%, Hamilton 75%
Bay of Plenty	65%	Tauranga 75%, Rotorua 62%, Whakatāne 59%, Ōmokoroa 56%, Kawerau 53%
Gisborne	56%	Gisborne 63%, Ruatoria 55%, Tolaga Bay 45%
Hawke's Bay	55%	Bay View 73%, Havelock 64%, Napier 61%, Takapau 57%, Wairoa 55%
Manawatu-Whanganui	57%	Longburn 72%, Palmerston North 65%, Feilding 64%, Summerhill 60%, Levin 59%

We established there is correlation between low fibre uptake and lower socioeconomic areas in Table 1. Table 2 shows that even within these lower socioeconomic areas, fibre uptake is high in some areas, leading to the conclusions that uptake is low in other areas. Further, these areas happened to have high Maori population too: resulting in disproportionately affecting Maori communities.

In this backdrop MBIE is proposing a pricing regime where fibre wholesale prices will increase over time. Broadband is now an essential service and a necessity to access education, healthcare and other services such as banking etc. The MBIE's proposal is likely to put this essential service out of reach of lower socioeconomic communities.

## Pricing structure does not suit lower socioeconomic communities

The pricing structure proposed by MBIE assumes that those who sign up for fibre services will be able to make regular monthly payments. Popularity of prepaid mobile among socioeconomic communities is an example of how regular monthly payment is not suited to lower socio economic communities. Mobile operators are able to service prepay and post pay market segments with large difference in value. The Commerce Commission Mobile Market Study – Findings in September 2019 found that prepay ARPU is \$12 versus \$43 for post pay mobile<sup>3</sup>. If MBIE wants universal fibre uptake then it should consider options that will enable pay as you go fibre services.

## Not likely to encourage competition and innovation

New Zealand fibre broadband prices have been performing poorly by OECD standards<sup>4</sup>. Table 3 is a summary of New Zealand naked broadband prices ranked against OECD prices (based on benchmarking exercise carried out by the Commerce Commission for their annual monitoring report). For example in December 2020, Medium user : 150GB 30Mbps service in New Zealand was ranked 30<sup>th</sup> among 37 countries benchmarked by Commerce Commission.

Table 3: New Zealand fibre naked fibre prices ranked against OECD countries.

Service	Dec-20	Dec-19	Sep-18	Sep-17
Medium user :150GB 30Mbps	30/37	27/35	26/41	
High user : Unlimited (500GB) 100Mbps	26/37	27/33	26/40	23/37
Ultra-high user : Unlimited (500GB) 900Mbps	12/33	9/21		

Conclusion from Table 3 is New Zealand fibre prices perform poorly among OECD countries. When New Zealand mobile services performed so poorly in the OECD benchmarking, the Commerce Commission carried out investigation into mobile termination access service (MTAS) which resulted in wholesale mobile termination price getting slashed.

In contrast MBIE is proposing a pricing regime that will increase over time. Such a proposal will only worsen New Zealand's broadband service ranking among OECD countries.

The wholesale fibre price makes up significant portion of the retail price. As the speeds increases, the volume of data used will also increase, leading to cost of local backhaul and

<sup>3</sup> [https://comcom.govt.nz/\\_\\_data/assets/pdf\\_file/0022/177331/Mobile-Market-Study-Findings-report-26-September-2019.PDF](https://comcom.govt.nz/__data/assets/pdf_file/0022/177331/Mobile-Market-Study-Findings-report-26-September-2019.PDF)

<sup>4</sup> <https://comcom.govt.nz/regulated-industries/telecommunications/monitoring-the-telecommunications-market/annual-telecommunications-market-monitoring-report>

international capacity increasing. With guaranteed annual price increases the retailers are constrained on what they can offer. Fibre retail providers compete by bundling other services, but there is limited competition. MBIE proposal will further limit competition in the fibre broadband market. Eventually fibre retailers will be forced to increase the price of fibre broadband, which will result in New Zealand slipping further down in OECD ranking.

Fixed broadband is intended to offer better speeds, latency etc compared to wireless broadband services. Fixed Wireless Access (FWA) services offered by mobile operators using 4G cellular technologies can provide better speeds than 30/10 fibre service and provide comparable service to 100/20 fibre service. With the introduction of 5G services, the FWA offerings are likely to be better than the 100/20 fibre offering.

In this context MBIE setting 100/20 service as the standard anchor service is not aspirational. History shows that without regulatory backdrop, monopoly providers have not always played in the interest of the market. Therefore we encourage MBIE to include the 1GB and possibly other faster services in the list of anchor services.

### Ignores general trends in the Telecommunications market

The MBIE proposal allows fibre whole sale prices to increase in accordance to CPI. General trend in the Telecommunication market is decreasing prices. This is supported by annual benchmarking data provided by the Commerce Commission.

Table 4: Average broadband prices in New Zealand and OECD

Year	Dec-20		Dec-19		Sep-18		Sep-17	
	NZ	OECD	NZ	OECD	NZ	OECD	NZ	OECD
NZ vs OECD								
Medium user :150GB 30Mbps	\$73	\$58	\$70	\$57	\$75	\$76		
High user : Unlimited (500GB) 100Mbps	\$73	\$67	\$83	\$68	\$90	\$99	\$85	\$79
Ultra-high user : Unlimited (500GB) 900Mbps	\$73	\$111	\$85	\$175				

What is observed is, there is a general decline of average OECD prices across the board: New Zealand prices have declined at lower rate than the OECD average. It is not clear how MBIE can justify price increases when the Commerce Commission data clearly shows the price of fibre services have been declining internationally.

### Direct access fibre proposal should encourage mobile broadband

As the mobile broadband speed increases, mobile cell sites will increasingly require fibre backhaul to meet the capacity demands (instead of microwave). DFAS pricing and its

technical definitions are important for ensuring mobile operators are able to take advantage of regulated fibre services. Therefore, we encourage MBIE to set the price and technical definitions that will encourage mobile broadband services.

**Ends..**