

Submission To:

**John Gilbert
Ministerial Inquiry into Telecommunications
PO Box 1473
WELLINGTON**

**MINISTERIAL INQUIRY INTO
TELECOMMUNICATIONS**

Submission From:

**NZ Manufacturers Federation Inc.
PO Box 11 543
WELLINGTON**

1. INTRODUCTION

- 1.1 The New Zealand Manufacturers Federation Inc (ManFed) welcomes the opportunity to provide comment on the draft report by the Ministerial Inquiry into Telecommunications.
- 1.2 This submission is made on behalf of ManFed members. ManFed represents both regional associations and sector groups of manufacturers and has a total membership of about 2,600 companies.
- 1.3 The manufacturing sector is a significant contributor to the economy of New Zealand and represents approximately 18% of total GDP. Manufactured products comprise 87% of New Zealand exports (this includes primary products exported in processed form). Manufacturing sector sales on an annual basis are \$51 billion, and total sector employment is about 280,000.
- 1.4 Telecommunications costs for the sector in 1995 (the latest data available) were \$198 million, a similar cost to ACC levies paid by the sector.
- 1.5 ManFed is generally supportive of the recommendations by the Ministerial Inquiry regarding the initial list of designated services. ManFed, however, considers there to be several issues which need to be addressed further. These include:
 - number portability
 - clarification of the Kiwi Share
 - information for consumers (residential and small business)
 - ongoing assessment and review

2. NUMBER PORTABILITY

- 2.1 ManFed considers number portability to be a key issue for the manufacturing sector since it is seen as an important factor limiting competition between telecommunications providers. A lack of number portability imposes significant costs for businesses wishing to change telecommunications provider. These costs include the need to replace stationery and marketing materials, as well as the cost of call transfer services to ensure potential new customers are not lost.
- 2.2 While there is a process in place which should lead in the future to the introduction of number portability, we are concerned this process is moving too slowly because of a lack of interest by incumbents within the telecommunications industry. The industry should be involved in setting the timetable for introduction of number portability but the process needs to be driven by the Electronic Communications Commissioner, with clear timeframes to be met by the industry.

- 2.3 It would appear that number portability will need to be implemented progressively as Telecom upgrades its network, but the timeframe for this should be clearly set out, with pressure from the Commissioner to ensure that number portability is implemented as soon as practical.
- 2.4 The portability of 0800 numbers should be given very high priority in view of the high level of resources which have been put into marketing specific 0800 numbers, and the high level of consumer awareness that 0800 numbers are toll free.
- 2.5 ManFed also believes that the portability of other numbers should be given a high priority, particularly for the small and medium business sector where the fixed costs of changing telephone numbers can be high, relative to the potential savings from changing telecommunications providers.

3. KIWI SHARE

- 3.1 It is our understanding that one of the initial principles behind the Kiwi Share was to allow Telecom to gradually remove cross subsidies between the residential sector and the commercial sector, particularly in urban areas. While most rural businesses (farmers) traditionally paid residential phone rates, small urban businesses were required to pay much higher rental rates. It was initially expected that the margin between line rentals for small commercial businesses and residential customers would reduce over time. One of the reasons for setting price levels based on CPI rather than a CPI-X formula was to allow this rebalancing over time.
- 3.2 However, we have not seen a significant rebalancing between the small commercial and residential rates, with a significant gap remaining between the two rates. Instead, it appears Telecom has allowed more small businesses to remain on the residential rate rather than moving them to the commercial rate. It has even recently started advertising business services to businesses operating on domestic rentals.
- 3.3 While these changes are reducing the distinction between urban and rural businesses, there are still significant anomalies in this area, with no clear basis for distinguishing between businesses on commercial or residential rates. We, however, believe this issue will be clarified over time as competition for the small commercial sector increases. We are therefore supportive of the proposed Kiwi Share requirements for Telecom:
- we agree with the removal of geographic averaging;
 - the CPI cap is useful since it limits the level of increase where competition with Telecom is not practical, while allowing Telecom to reduce the price in other areas in response to competition; and
 - we support the need for regular four yearly reviews.

4. INFORMATION

- 4.1 One of the key principles of competition is the level of information consumers have on the price and level of services available from competitors. This has become more important in the telecommunications sector than other service sectors, with significant competition in tolls and internet services and customers considering the relative merits of fixed wire and mobile telephone services.
- 4.2 An important service which has encouraged switching by customers in the electricity sector, is the consumer information service provided by internet and phone by the Consumers Institute. The Institute has already produced some information for members on mobile telephone options but there is a need for more information on service options for residential and small business customers.
- 4.3 We, therefore, believe an important role of the Electronic Communications Commissioner is to develop or fund an information service for residential and small business customers, along similar lines to that developed for the electricity sector.

5. ONGOING ASSESSMENT AND REVIEW

- 5.1 One of the major flaws of the reform programme implementation over the last 15 years has been the lack of investment in assessment of the changes made. There is very little information available on how the price of telecommunications services has changed in response to regulatory changes and the introduction of competition for services.
- 5.2 In contrast, the Australian Productivity Commission has prepared a number of comprehensive reviews of the sector and has benchmarked the Australian telecommunications sector against a number of other countries, including New Zealand.
- 5.3 There is clearly a need for much more regular and comprehensive analysis of the industry. There would be merits in considering whether this analysis could be prepared cooperatively with the Australian Productivity Commission, allowing the New Zealand Commissioner to draw on the international benchmarks developed in Australia, while comparing the impacts of the different regulatory structures in Australia and New Zealand.

6. RECOMMENDATIONS

It is recommended that:

- 6.1 Number portability be subject to immediate designation, with a clear timetable set for the introduction of number portability across all of the Telecom network;
- 6.2 the proposed changes to the Kiwi Share proceed, particularly the removal of geographic averaging;

- 6.3 the Electronic Communications Commissioner develop or fund an information service for residential and small business customers; and
- 6.4 that a comprehensive assessment and review of the industry be conducted at the minimum, every four years.