



# FEDERATED FARMERS

SUBMISSION ON:

TSO Reform and Funding

Telecommunications Development

# SUBMISSION

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**SUBMISSION ON:** TSO Reform and Funding Telecommunications Development

**FROM:** Federated Farmers of New Zealand

**DATE:** 2 November 2009

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# 1. INTRODUCTION

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- 1.1 Federated Farmers welcomes the opportunity to comment on the TSO reform proposal.
- 1.2 We wish to be consulted before this submission is made publicly available.
- 1.3 Federated Farmers has a vital interest in ensuring reliable supplies of

telecommunications and other utility services are supplied to rural consumers at reasonable prices. Our interest in telecommunications is illustrated by the large number of submissions and other engagement the organisation has had with Government at all levels.

## 2. IMPORTANCE OF AGRICULTURE TO THE ECONOMY AND NEED FOR GOOD TELECOMMUNICATIONS

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2.1 The primary sector is New Zealand's economic engine room, responsible for 64 percent of everything we export and contributing around 17 percent of GDP once downstream processing is accounted for.

2.2 People in remote and rural areas are subject to the tyranny of distance and thus require a reasonable quality of telecommunications services for everyday life.

2.3 Farming in the new millennium is a highly technological business for which reliable telecommunications are essential. There can be little doubt that businesses and communities who do not have access to reliable and reasonably priced telecommunications services will suffer.

2.4 This prospect has serious implications for the nation's economy, given that it has rural New Zealand as its engine-room. We are concerned that the Government's agenda for economic growth will struggle without a well-connected primary sector. The quality of telecommunications services received in the rural sector is therefore an issue of national concern.

# 3. THE FAILURE OF THE TSO

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- 3.1 The TSO aims to ensure that the residential local telephone service is available to rural customers at a price and quality comparable to urban customers, that it offers toll-free local calling, limits price increases to the rate of inflation and funds emergency 111 calls. Federated Farmers supports these goals.
- 3.2 Given that the state of the network in many rural areas is poor, with even basic voice service not available in some areas unless at very high capital cost, it is clear that TSO instruments have failed to deliver adequate levels of telecommunications services. It is also evident from the analysis in the discussion document that Telecom has been over-compensated for its TSO obligations. It is not clear how much of the money raised under the TSO that Telecom has spent on rural telecommunications upgrades. Federated Farmers therefore supports greater measures for transparency so that the amount of money spent on particular clusters of uneconomic customers can be determined.
- 3.3 The TSO has clearly led to inequalities in the provision of telecommunications services between rural and urban communities. As such, the Federation contends that any decision on the future of the TSO should address this inequality of provision. If it does not, we believe the gulf between the “haves” and “have not’s” will continue to increase, seriously disadvantaging the rural community.
- 3.4 One of the objectives of the TSO is that local residential telephone service be available in rural areas at a quality comparable to local service available in urban areas. Federated Farmers submits that in many areas this objective is not being met. There are many problems with the quality of telephone services in rural areas, interference from electric fences being a common problem.
- 3.5 Federated Farmers submits that measures need to be put in place to ensure that the quality of telephone services received in rural areas is in fact comparable to urban areas.
- 3.6 **RECOMMENDATION:  
Federated Farmers supports greater transparency and performance measurement and recommends that the Ministry of Economic Development should further explore amendments to the TSO that support needed improvements in rural telephone services.**

# 4. COMPENSATION TO TELECOM

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4.1 The discussion document effectively proposes that urban Telecom customers continue to pay above cost in order to subsidise commercially non-viable rural customers. If the costs ever become too much, Telecom will be able to apply for more TSO compensation.

4.2 Telecom has not been spending enough on upkeep of rural telephone service as is. Federated Farmers submits that Telecom needs to be encouraged to spend more

on maintenance and upgrading the rural network. We are concerned, however, that it will be difficult to encourage Telecom to spend more when it is going to receive less money for doing so thanks to the proposed abolition of the TSO levy and replacement with a new telecommunication development levy which will raise \$20 million less per annum.

# 5. THE NEW TELECOMMUNICATIONS DEVELOPMENT LEVY

- 5.1 The discussion document proposes replacing the TSO levy with a new levy to be used primarily for the deployment of rural broadband. The levy is proposed to be set at \$50 million per year for six years, dropping to \$10 million per year thereafter.
- 5.2 It remains unclear why the proposed industry levy will raise only \$50 million per year while the TSO levy collects \$70 million per year. Over a 20 year time frame, a \$70 million per annum levy amounts to \$1.4 billion dollars of investment in rural telecommunications infrastructure. Under the proposed new plan, over a 20 year time frame the levy will raise \$440 million<sup>1</sup>. Therefore an analysis based purely on the quantum of funding concludes that over a 20 year horizon, the new proposal will result in \$1 billion less funding allocated to rural telecommunications.
- 5.3 Compounding the issue is the fact that currently the \$70 million per annum TSO funding goes toward uneconomic rural customers which make up only three-four percent of all customers. The fact that less funding (\$50 million per annum) is going to be used to cover more people (the most rural 25 percent) raises additional equity issues.
- 5.4 Federated Farmers submits that there is no reason to reduce the levy funding that Telecom and Vodafone must provide from \$70 million down to \$50 million, when that money could be used for real investment and upgrade of rural telecommunications infrastructure. Once ultra-fast broadband to schools has been rolled out, \$120 million (the additional amount that would be raised over six years if the levy funding were not reduced) would go a long way in providing high-quality broadband to the majority of New Zealand farms.
- 5.5 Federated Farmers rejects any notion that the big telecommunications companies need to be 'cut some slack' by paying a reduced
- levy, as the discussion document basically presents a case that Telecom has been over-compensated for several years for meeting the TSO.
- 5.6 In addition, Vodafone has been allowed (unfairly) to make significant (in the billions) revenue out of Mobile Termination Rates from fixed line customers calling Vodafone mobile customers. In fact, an argument can be made that had MTR's been regulated from the beginning, this transfer of revenue from Telecom's fixed line customers to Vodafone would not have occurred and more money would have been available for upgrading rural telecommunications infrastructure.
- 5.7 Federated Farmers is somewhat fearful that in the clamour for broadband infrastructure, the long term funding for basic telephone voice service in rural areas may be lost. The Federation strongly recommends that the priority of providing funding for and access to basic voice service is maintained.
- 5.8 There is a history of over-charging and under provision in rural telephony. The TSO has failed to ensure adequate investment in the rural network. Telecommunications companies can afford to pay a higher levy which will mean rural New Zealand gets the telecommunications upgrade it sorely deserves.
- 5.9 **RECOMMENDATION:**  
**That the Telecommunications Development Levy is set at \$70 million per annum on an ongoing basis rather than \$50 million over six years. This extra revenue (\$120 million over six years) should then be made available for rural broadband deployment.**

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<sup>1</sup> \$48 million from government + \$42 million over six years + \$10 million over 14 years

# 6. TRANSPARENCY AND ACCOUNTING

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- 6.1 Federated Farmers strongly supports public disclosure by Telecom of what money it spends on commercially non-viable customer clusters relative to the TSO compensation it receives.
- 6.2 Federated Farmers also supports that Telecom be required to publicly disclose where commercially non-viable customer clusters are located so that other potential providers can offer lower cost (and/or higher quality) solutions.

# 7. TSO DETERMINATION PROCESS

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- 7.1 Federated Farmers supports the proposed new TSO determination process.

# 8. RESPONSE TO QUESTIONS

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8.1 The discussion document poses the questions below. Here Federated Farmers sets out its answers.

***Are there any aspects of these objectives which should not be retained?*** NO

***Do you consider the current TSO methodology for calculating TSO charges for local service over-compensates Telecom?*** YES

***Do you consider public disclosure by Telecom at a customer cluster level to be adequate?*** NO

***Do you consider the proposed new TSO determination process is feasible?*** YES

***Is the process outlined for applying the new industry levy feasible?*** YES

# 9. ABOUT FEDERATED FARMERS

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9.1 Federated Farmers of New Zealand is a primary sector organisation that represents farming and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand farmers.

9.2 The Federation aims to add value to its members' farming business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.