



# FEDERATED FARMERS

SUBMISSION ON:  
RURAL BROADBAND INITIATIVE

# SUBMISSION

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**TO:** Rural Broadband  
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**SUBMISSION ON:** Rural Broadband Initiative

**FROM:** Federated Farmers of New Zealand

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# 1. INTRODUCTION

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- 1.1 Federated Farmers welcomes the opportunity to comment on the Rural Broadband Initiative.
- 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.
- 1.4 Federated Farmers is supportive of Government's ambition of "providing a step change in broadband services", but we are still deeply concerned about the neglect of the rural sector relative to the huge investment the Government has proposed for urban New Zealand.
- 1.5 Under the proposals outlined in the Ministries discussion documents, the rural sector is to be provided with significantly less funding and will have to settle for slower speeds – this is not good enough. Federated Farmers challenges the Government and the Ministry to be as ambitious for rural New Zealand as they are for urban New Zealand. The Government must commit to providing the step change in telecommunications that rural New Zealand desperately needs to ensure its future competitiveness.

## 2. THE IMPORTANCE OF BROADBAND TO AGRICULTURE & RURAL COMMUNITIES

- 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 arguably stand to benefit most from the roll-out of more affordable and accessible voice and data services with broadband technologies.
- 2.3 Farming in the new millennium is a highly technological business for which fast and reliable data transfer is essential. Central government, local government, banks and other service and supply businesses rely on electronic means to deal with farm businesses.
- 2.4 There are significant productivity gains to be had from increasing the quantity and quality of broadband internet provision in agriculture. In fact, in the modern environment, fast and reliable broadband access is necessary if agricultural businesses are to reach their productive potential and realise their opportunities in the global marketplace. There can be little doubt that businesses and communities that do not have appropriate access to these technologies will suffer.
- 2.5 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. Access to fast and reliable data transfer for the rural sector is therefore an issue of national concern.
- 2.6 The danger of proposing lower speed targets for rural broadband compared to urban is that even if there are little additional productivity benefits from higher speeds now, this situation may not persist into the future. New broadband applications that require ultra-fast speeds may be developed and they may have dramatic impacts on productivity. If this happens, those technologies will be unable to be utilised by the rural sector. The Government may then regret failing to seize the opportunity to future-proof rural broadband.
- 2.7 Arthur Grimes of Motu research has produced what we understand to be world first research on broadband<sup>1</sup> showing that there are significant productivity benefits to businesses from having broadband access. The research showed a 10 percent increase in labour productivity for those businesses that had broadband as opposed to those that didn't. The benefits to rural business productivity were greater than for urban.
- 2.8 This research suggests that rural broadband provision should be given a much higher priority – for the sake of rural businesses and communities, but also for the sake of New Zealand as a whole.
- 2.9 **Federated Farmers recommends that rural broadband be given higher priority.**

<sup>1</sup> [http://www.motu.org.nz/publications/detail/the\\_need\\_for\\_speed\\_impacts\\_of\\_internet\\_connectivity\\_on\\_firm\\_productivity](http://www.motu.org.nz/publications/detail/the_need_for_speed_impacts_of_internet_connectivity_on_firm_productivity)  
[http://motu-www.motu.org.nz/wpapers/09\\_15.pdf](http://motu-www.motu.org.nz/wpapers/09_15.pdf)

# 3. THE ROLE OF GOVERNMENT IN BROADBAND PROVISION

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- 3.1 Any government intervention should be focused on addressing public policy problems that the market is unable to address. Thanks to high population densities, broadband roll-out is likely to be commercially viable in our largest urban areas while the costs of roll-out to more sparsely populated geographically isolated areas make 'rural' broadband much less likely to receive sufficient private sector investment. Given the importance of agriculture to the economy, inadequate investment in rural broadband rather than urban broadband is the larger public policy problem.
- 3.2 Federated Farmers therefore submits that the Government's broadband priorities are back to front. The \$1.5 billion Ultra-fast Broadband Initiative has prioritised the urban areas that need it the least. This will crowd out private investment and leave rural New Zealanders languishing with infrastructure incapable of supporting the higher speeds enjoyed by their urban cousins.
- 3.3 Even accounting for the Rural Broadband Initiative, the 25 percent of New Zealanders in the 'rural' sector are still only going to receive \$300 million in funding (\$48 million from the Government and \$252 million from industry). This compares to \$500 million each in Government funding for every other quarter of New Zealanders. This money for urban broadband will be matched by an amount of private funding at least equivalent to the Government contribution, but probably greater. So the three most urban quarters of the population will receive in excess of \$1 billion in funding each compared to \$300 million for the rural quarter (of which only \$48 million will be from government funding).
- 3.4 When one considers that rolling out broadband to rural populations will be costlier than for the urbanised, Federated Farmers submits that the rural population should be getting more per head for broadband provision, not an order of magnitude less.
- 3.5 Compounding the problem is the fact that there are finite funds that the private sector can afford to put towards investment in broadband infrastructure. Favouring private sector investment away from rural broadband into instead investing in more densely-populated areas will have negative long term impacts on the degree of investment in rural broadband.
- 3.6 While Federated Farmers understands that the Government's \$1.5 billion urban fibre plan is an investment from which the Government expects to make a return and that the \$48 million is a grant from which a return is not expected to be made, from the point of view of the farmer this is irrelevant. Farmers pay taxes like everyone else and have a right to expect that any government backed infrastructure rollout does not exclude them.

# 4. EXTENDING BROADBAND TO RURAL COMMUNITIES

- 4.1 The rural broadband initiative is a proposal to extend fibre-optic cable to the majority of rural schools (and nearby medical centres). This will equip them with ultra-fast broadband and provide a fibre backbone for rural New Zealand to leverage off, with a goal of attaining speeds of 5Mbps or greater for 97 percent of New Zealand households.
- 4.2 This is what the Federation recommended in its previous submission on the Government's \$1.5 billion 'Ultra-fast broadband fund'. The Government has listened to Federated Farmers, for which the Federation is grateful.
- 4.3 However, the Federation envisaged that the linking up of rural schools and medical facilities would be paid for out of the \$1.5 billion fund. This would allow any additional 'rural broadband' money to be used to leverage off this fibre backbone to extend broadband services to surrounding farms and rural communities. Instead, the 'rural broadband' funding will be used in getting broadband to the schools themselves.
- 4.4 In the opinion of Federated Farmers, this will leave very little, if any funding to improve the broadband of surrounding communities. We estimate that under the Government's current thinking, \$300 million over six years will provide barely enough funding to provide fibre to 97 percent of schools in New Zealand. There will be very little if any money left over to extend fibre beyond the school gate or even to achieve the government's targets of 'fast broadband' (5Mbps or better) to 97 percent of New Zealand households through other technologies.
- 4.5 It is the opinion of Federated Farmers that additional funding will need to be provided to extend broadband coverage from schools, to the community. So while the Federation is supportive of the plan for providing a fibre backbone, we believe that the issue of how it is funded should be revisited. Specifically, the source(s) of funding and the amount provided need to be re-examined.
- 4.6 **Federated Farmers recommends that the funding of the rural broadband initiative be re-examined with a view to increasing the amount of money available for extending rural broadband from rural schools to rural communities.**
- 4.7 Federated Farmers has been deeply involved in discussions with broadband providers on how to roll out broadband to farmers. We believe there are innovative and cost effective ways of providing broadband to farmers with speeds far in excess of the targets in the discussion document. During the upcoming process, if such credible alternative proposals are put forward with the potential to provide significant improvements in rural broadband (including or excluding schools), Federated Farmers would be supportive of them.
- 4.8 Given the Government's reluctance to commit more taxpayer funding, there are two main options available to address the lack of funding available for rural broadband:
- 4.9 Firstly, the amount proposed for the Telecommunication Development Levy could be increased from \$50 million per year to at least what is raised by the current Telecommunications Service Obligation (TSO) Levy. An ongoing \$70 million per year levy would generate an additional \$120 million over six years, bringing the total amount available for rural broadband up to \$420 million over six years. This extra \$120 million would allow for rollout of broadband technology past the farm gate. Federated Farmers has recommended that this occur in its submission on the TSO Review.
- 4.10 A second idea is to give rural communities access to the \$1.5 billion urban broadband fund. Certainly, where rural broadband projects have economically rational investment proposals (that generate a return on crown investment) they should already be able to access this government funding.

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But given the likelihood that the market will eventually provide for urban customers anyway, funding should be provided from the urban fund, to rural projects at a discount. Ways that the rural sector should be able to access the urban fund are as follows:

- In order to splice into fibre between urban centres.
- In order to connect rural schools between urban centres.
- In order to splice into fibre between rural schools.

4.11 Clause 55 of the Rural Broadband Initiative discussion document welcomes comment on whether a portion of the \$300 million rural broadband money should be earmarked for “innovative community initiatives that extend upon rural backhaul upgrades”. Federated Farmers has been deeply involved

in investigating the viability of such proposals. It is our view that there is huge potential to extend the reach of rural broadband if a portion of the money is set aside. In our view, as much money as possible (without significantly compromising the ability of the RBI to achieve its goals) should be set aside for these projects. It is essential that the value of any Government investment is maximised.

4.12 **Federated Farmers recommends that at as much as possible of the Rural Broadband Initiative funding be set aside for these initiatives.**

# 5. LEGISLATIVE/REGULATORY ISSUES

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5.1 If successful, the Rural Broadband Initiative should result in a significant backhaul upgrade for the rural sector. However, in order for this upgrade to facilitate the improved quality of services rural New Zealand requires, steps will need to be taken to assure open access to this infrastructure

at reasonable rates. If a complementary regulatory and legislative framework is not put in place which allows the improved network to actually be utilised, then the investment will not provide the needed improvement in rural broadband services.

# 6. ABOUT FEDERATED FARMERS

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6.1 Federated Farmers of New Zealand is a membership-based 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.

6.2 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.