

**Description:**

Retail parity is an environment where the wholesaler has the genuine opportunity to give their customers the same (or better) experience than the incumbent's retail customers.

This experience should cover:

- Provisioning and moves, adds, changes (MACs)
- Fault handling
- Billing
- Network key performance indicators
- Product availability - including geographic coverage and launch timing.

**Background:**

Parity has been an issue in the New Zealand telecommunications industry since deregulation and the advent of new entrant service providers reselling Telecom services.

Telecom has used its dominant market position to take a significant advantage, as evidenced by the following examples:

- Various types of bundling:
  - tolls with broadband
  - tolls with local phone service
  - capped calls to mobiles etc.
- Launch of retail products ahead of wholesale:
  - 1 and 2Mbps Jetstream launched ahead of UBS in 2004.
- Product termination:
  - JPP (Jetstream Partner) wholesale products withdrawn completely whereas the equivalent retail full-speed broadband products were grandfathered.
- Provisioning inconsistencies:
  - UBS initially provisioned much slower than retail broadband
  - Some customers couldn't get UBS but could get Telecom retail broadband
  - UBS can't be provisioned in parallel with toll NCA
  - UBS customers moving address experience significant outages which do not occur with a retail customer move.

Telecom does appear to have learnt that the regulatory pressure they now face has been brought about, in part, by these matters and in April 2006, launched its new wholesale charter. This proposes a number of improvements to the relationship with their wholesalers, encompassing:

1. Consistent experience between retail and wholesale.

2. Consistent commercial launch of wholesale broadband and data products between retail and wholesale.
3. Transparency and communication, including system and process development.

Only time will tell whether or not these proposed improvements will reach every area within Telecom that impacts wholesalers' ability to compete fairly.

Overseas experience indicates that consumers benefit from greater government intervention than the levels seen in New Zealand. A recent study commissioned by the European Competitive Telecommunications Association found that customers pay more and are offered fewer telecommunications services in European countries where regulators have done a poor job of weakening former monopolies.

Australia and the United Kingdom, who both rank much higher than New Zealand in terms of broadband penetration in OECD countries, are evidence of this trend. In Australia the ACCC monitors Telstra's behaviour and has powers of sanction and in the United Kingdom Ofcom has helped to bring about voluntary operational separation of BT.

The Government is considering possible forms of separation of Telecom. Telecom has proposed a voluntary operational separation of its wholesale division. However this would leave its own ISP, Xtra, with an unique relationship with its network division and therefore does not guarantee parity.

#### **Issues:**

A lack of wholesale-retail parity means that it is virtually impossible to compete in this increasingly commoditised marketplace. If the wholesaler provides substandard provisioning, faults, network performance and product availability compared to its retail operation, not even cheaper prices (along with the subsequent reduced margins) may be enough to attract customers from the incumbent retailer.

Furthermore, resellers of Telecom's wholesale services and their customers suffer from a lack of information that can impact service levels and lead to disputes with the end customer. Examples of this include:

- Early availability of installation timing
- Likely performance levels and the availability of the service (e.g. ADSL broadband)
- Real time usage data where charging is based on this
- Information on network problems including congestion causes.

#### **Position:**

ISPANZ believes that wholesale-retail parity is essential to enable fair competition in the New Zealand telecommunications industry, for the benefit of ordinary New Zealanders.

ISPANZ recognises that Telecom has announced its intention to improve the situation with the launch of its wholesale charter and related initiatives, but we believe that voluntary efforts at creating wholesale parity are highly unlikely to be enough to create true parity.

Therefore ISPANZ believes that some form of government intervention will be necessary. The likely options are:

1. **Internal reorganisation:** that is, a separate wholesale division as proposed by Telecom. Overseas experience has proven that this is unlikely to deliver true equivalence of supply.
2. **Operational separation:** a solution that has been favoured in Australia and the UK. The Ofcom agreement with British Telecom has resulted in the creation of BT OpenReach, a company with 30,000 employees launched in January 2006, which is seen as a model for operational separation.
3. **Structural separation:** whereby distinctly separate companies are formed to manage the new network/wholesale businesses. A variation on structural separation could involve the Government taking a strategic or controlling interest in the network business (i.e. network ownership including the local loop.)

The first option does not eliminate the incentive for monopolistic behaviour and would therefore be little improvement or would require a level of monitoring and policing incompatible with the fast-moving technology industry.

ISPANZ believes that if Telecom is required to structurally or operationally separate the operations of both the local loop network and the wholesale services provision from its retail services, the following benefits will ensue:

- Full transparency of revenue and costs on the local loop – which would assist with calculating the costs to be shared for Telecom Service Obligation (TSO) obligations.
- Fair and equitable treatment of all local loop network access seekers – Telecom retail would be treated exactly the same as any other access seeker.
- Regulation of line rentals and access to services, universal service obligations etc could be made with a far better knowledge of the costs involved.

In line with the Government's telecommunications stocktake announced May 3<sup>rd</sup> 2006, ISPANZ recognises the challenges that structural separation presents, particularly the considerable implementation time involved i.e. up to 5 years. Therefore a staged process, beginning with the stronger powers enshrined in the Telecom Amendment Bill and then strong operational separation, can be considered that will see more immediate benefits delivered in the short to medium term. With such an approach, it is then possible to determine the extent to which wholesale-retail parity has been achieved at each stage before moving on to subsequent stages.

Following the broadband roadmap for New Zealand (*please see [ISPANZ Broadband Roadmap Position Paper](#)*), which is only possible with regulatory support, will create an environment whereby competition occurs at a number of levels from multiple competitors. As a result:

- Our poor international ranking for broadband uptake will improve
- New Zealand businesses will be more competitive in the international market
- The average New Zealander will be able to benefit from lower prices and better services
- New Zealand as a country will reap the significant economic advantages of a broadband enabled society.

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**About ISPANZ:**

ISPANZ is a non profit, industry group that represents most Internet Service Providers operating in New Zealand. Our membership includes all the major ISPs outside those of Telecom and TelstraClear; plus a broad range of medium and small ISPs. We exist to promote a fair and fully competitive Internet marketplace where our members can deliver the full benefits of the Internet to the New Zealand public and our economy. Our primary goals are to:

- Improve New Zealand's poor International ranking for broadband uptake,
- Enable New Zealand businesses to become more competitive internationally through use of Internet enabled technology,
- Improve Internet pricing and services for ordinary New Zealanders,
- Enable New Zealand to reap significant economic benefits as it becomes a broadband enabled society.

For more information please visit [ispanz.org.nz](http://ispanz.org.nz)