



**Submission to the
Ministry of Economic Development
on the
TSO Reform and Funding Telecommunications Development**

30 October 2009

Introduction

1. This submission is from the Tourism Industry Association New Zealand (TIA), located in Wellington. If you wish to contact us regarding this submission, please telephone Simon Wallace, TIA Policy Manager on 04 494 1842 or 0272 489 375 or e-mail him at simon.wallace@tiaz.org.nz
2. This paper begins by providing some background on the tourism industry and TIA, along with up to date statistics on how the industry is currently faring both domestically and internationally. The Association has limited its comments to the Rural Broadband Initiative (RBI) as this is of most relevance to the tourism sector. As a member of the Business New Zealand (BNZ) Affiliated Industries' Group, TIA also lends it support to BNZ's submission.

Background on the Tourism Industry

A bedrock of New Zealand's economy

3. Tourism is a major contributor to the New Zealand economy that will always be here – and won't easily go offshore. Tourism takes the lead in promoting New Zealand to the world. Thanks to our 100% Pure positioning, New Zealand is recognised as one of the most beautiful, unspoiled and scenic places on earth. 100% Pure signifies pride in our country, pride in our people and culture, and pride in the unique environment and experiences that New Zealand offers.
4. The brand positioning built by a vibrant tourism industry has become an important source of national confidence and identity and a front window for "Brand New Zealand". Indeed, the clean, green, pure offer that is synonymous with New Zealand tourism has been widely adopted and used to promote New Zealand exports in a range of other industries as well.
5. If New Zealand Inc. is to continue to prosper, to attract investment and to raise its position in OECD rankings, then it is vital that the tourism industry, and the positive image it projects, remain strong.

Delivering Value

6. Below is a snapshot of the economic value provided by tourism to the New Zealand economy.
 - Tourism contributes just over 9% of gross domestic product (GDP) as well as directly and indirectly employing nearly one in ten New Zealanders.
 - Tourism in New Zealand is a \$50 million per day industry. The New Zealand tourism industry delivers \$24 million in foreign exchange to the New Zealand economy each day of the year. Domestic tourism contributes another \$26 million in economic activity every day.

- Tourism expenditure reached \$21.7 billion for the year ended March 2009. This represents 16.4% of New Zealand's foreign exchange earnings, with tourism second only to dairy as the country's largest export industry.
- Importantly, and despite more challenging times in the past 12 months, tourism remains one of New Zealand's largest foreign exchange earners and its contribution is felt at national, regional and local levels.

About Us

7. TIA has been the lead association that represents the interests of about 1700 tourism businesses in NZ since the Association was first established in 1955. The businesses TIA represent cover a range of tourism-related activities – hospitality, transport, accommodation, adventure and activities, attractions and retail, as well as related tourism services.
8. The primary role of TIA is to be the voice of the tourism industry. This includes working for members on advocacy, policy, communication, events and membership and business services. The TIA team is based in Wellington and led by Chief Executive, Tim Cossar.

Tourism Forecasts 2009-2015

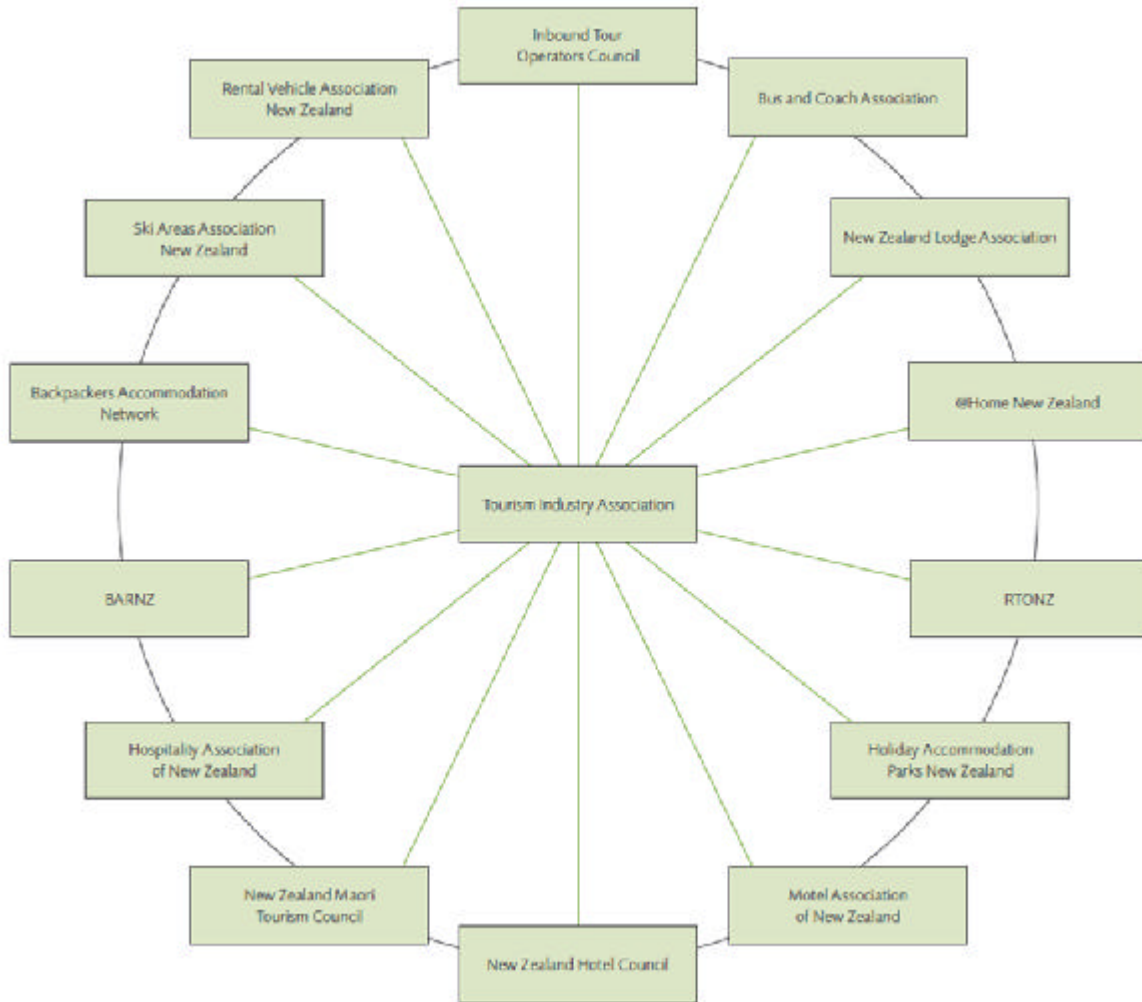
International visitors

9. The tourism forecasts (international visitors) for the period from now until 2015 have been largely influenced by the global economic recession while the outbreak of influenza A (H1N1 or swine flu) has created extra uncertainty for the short-term outlook. The forecast for the next 6-12 months shows falls in most major markets, although this is partially offset by short-haul growth out of the Australia market. The outlook for New Zealand to 2015 includes:
 - A fall in visitor arrivals of 4.2% in 2009 and a slight recovery in 2010 with growth of 2.5%.
 - A strong rebound in 2011 with visitor arrivals up 6.5% driven by global economic recovery and the Rugby World Cup in the latter part of 2011.
 - A gradual return to growth out to 2015 with annual growth of about 3.5%.

Domestic visitors

10. The recession continues to influence the travel patterns of domestic visitors as well. With less New Zealanders travelling overseas, there has been a temporary increase in domestic travel activity in 2009-10 and this has been positive for the tourism industry in the short-term.

Main Industry Associations in the Tourism Industry



Comment

11. TIA welcomes the opportunity to comment on the Ministry of Economic Development's (MED) *TSO Reform and Funding Telecommunications Development* discussion paper. As noted in the introduction, the Association has mostly limited its comments to the Rural Broadband Initiative (RBI). Access to broadband services in rural areas is critical for tourism businesses, especially when online technology is quickly becoming the most important booking tool used by domestic and international visitors.

Government's objectives for rural New Zealand

12. The Association supports the Government's objectives for rural New Zealand in making broadband services widely available. TIA also supports improved telephone services in rural areas as well as the introduction of a Telecommunications Development Levy to fund investment in non-commercial telecommunications infrastructure.
13. TIA reinforced its support for better rural broadband services in a submission it made to MED on 27 April 2009 on the Broadband Investment Initiative. In that submission, TIA recommended the inclusion of a number of tourism regions that had been excluded from the initial proposal. That submission can be read here <http://www.tianz.org.nz/content/library/1Broadbroad.pdf>
14. Given the challenges of New Zealand's geography and topography and relatively small concentrations of population in remote areas, we think the Government will also need to consider subsidising new investment in rural infrastructure. While Telecom plans to spend more than \$300 million on rural infrastructure in the next ten years, it will not be enough to keep up with demand or changing technologies.
15. In order for New Zealand to maintain its position as a world class visitor destination, it must not only keep up with changing technologies, but also have the infrastructure to provide them. By nature, tourism businesses and the visitors who use their services are not confined to the main urban areas. They are spread far and wide to the more rural and remote regions of the country. It is in these areas where broadband investment is needed.

Telecommunications Development Levy and Fund

16. TIA believes the Government's rural broadband initiatives could be better met by making amendments to both the TSO and RBI proposals in the discussion document. The Association supports Telecom by saying that it should be allowed to bid into the Telecommunications Development Fund to finance capital investments that upgrade or replace existing or out-of-date voice services in rural areas, if that are not already part of the RBI.
17. As Telecom has suggested in its submission, TIA believes the approach described in paragraph 16 above would:
 - reinforce the Government's rural broadband policies;
 - provide complete transparency of how TSO funds are spent by Telecom; and
 - lead to a larger Telecommunications Development Fund available over a longer period.

18. The Association understands that only a small proportion of the Telecommunications Development Levy is earmarked for the RBI and this is in contrast to the ultra-fast broadband initiative which is to be funded for half the costs by the Government. To meet the Government's rural broadband objectives, TIA believes the Government should be increasing its investment or working with partners in the telecommunications industry on a model that will share the levy cost across the paying customer base. There should also be some acknowledgement from the Government of the cost to Telecom and other providers of supplying uneconomic customers.

Conclusion

19. In sum, TIA is supportive of the Government's overall intent in bringing broadband services to rural areas. This intent, however, needs to be realised by a n investment from the Government that actually will deliver these services to rural New Zealand. An investment of just \$50 million per annum between now and 2015, or \$300 million in total, will not provide the level of infrastructure needed in a quick timeframe for rural customers. For this reason, the Association thinks the Government, Telecom and other providers need to collaborate more closely on a model that will achieve these outcomes.

Simon Wallace
Policy Manager
Tourism Industry Association
30 October 2009