MEDIA MONITORS

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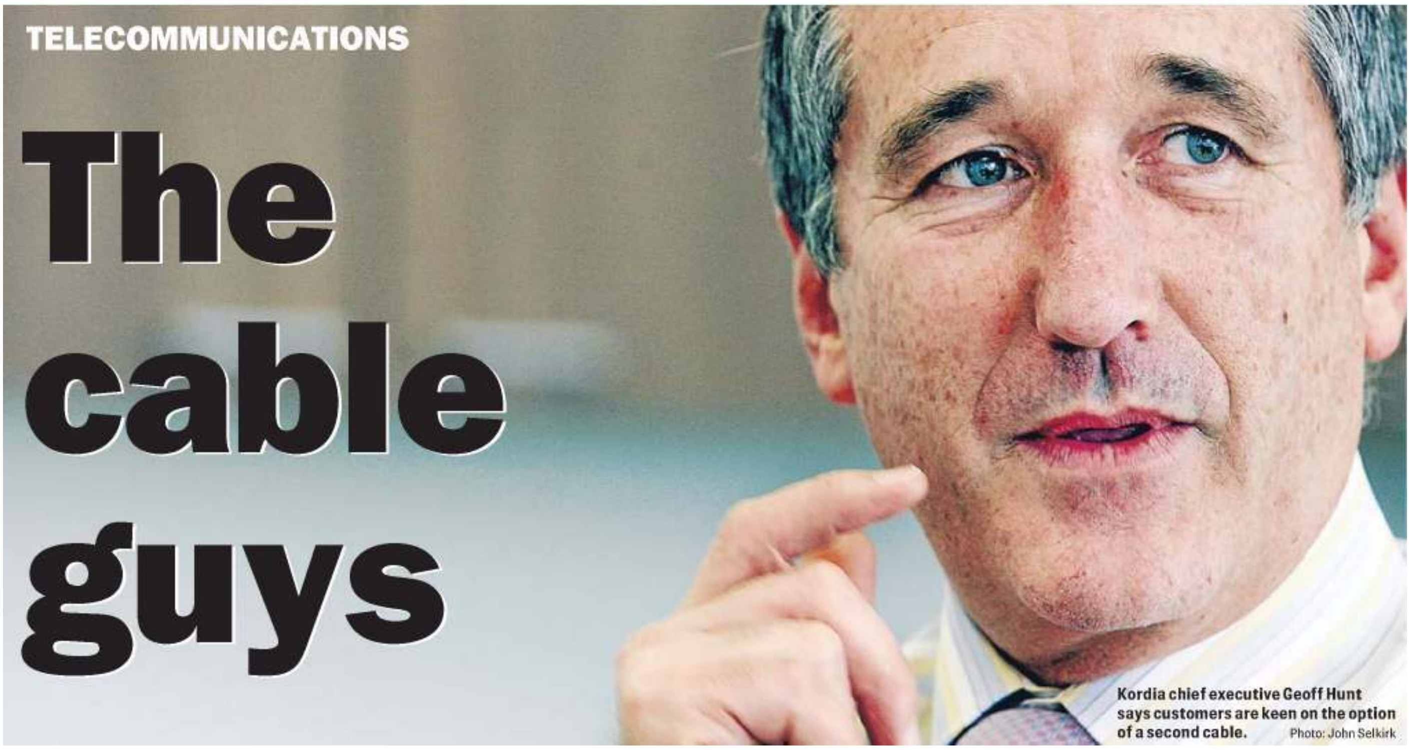

TELECOMMUNICATIONS

The cable guys

Kordia chief executive Geoff Hunt says customers are keen on the option of a second cable. Photo: John Selkirk

Market forces are at work on international data rates, writes Tim Hunter.

IF GOODWILL were bankable, a new trans-Tasman fibre optic cable would be coming ashore at Karioitahi Beach on South Auckland's west coast within 18 months, breaking a long-standing Telecom-controlled monopoly.

It isn't, so Kordia chief executive Geoff Hunt still has a lot of work to do.

Those who want a better broadband deal should hope he succeeds, because the $150 million-$200 million project could have a huge effect on the price and quality of internet services.

"Stage one is to assemble the business case and determine whether it makes sense as a commercially viable project and, a month ago, the Kordia board signed off on that," said Hunt.

The next stage is to get customers on board. "We actually finance the project essentially on IRUs [long-term contracts called indefeasible rights of use] from foundation customers. So we wouldn't push go on construction until we have signed contracted IRUs with foundation customers."

How's that going?

"It's coming along OK."

Talk to potential customers and it looks like Hunt can get his finger on the button.

CallPlus, a substantial broadband and telco service operator through Slingshot, is keen to see Kordia's scheme in place.

"We're very positive towards what they're doing," managing director Malcolm Dick said. "We'd bend over backwards to be a customer because we've basically got a monopoly and no back-up."

FX Networks, a provider of internet services to businesses and government departments, is another supporter.

"We love competition in all parts of the network because it drives a better proposition for end users," managing director Murray Jurgeleit said. "We're deeply engaged with Kordia on being a participant." Although, "having said that, we'll buy

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at the best price".

Their enthusiasm is understandable. Despite the focus on domestic broadband speed, New Zealanders download more than 85% of internet content from overseas and, as usage increases, there is only one way it can get here – through the Southern Cross cable owned by Telecom (50%), SingTel Optus (40%) and Verizon (10%).

Southern Cross has no shortage of capacity – it is currently delivering 360 gigabits/second of bandwidth and can easily crank up to 1.2 terabits/second. The problem is the price.

An industry submission in April on the government's broadband scheme laid it out plainly. "Typically an IRU for 10 gigabits from North Asian destinations, eg, Tokyo, Hong Kong, Seoul, to the USA can be purchased for $US3m-$US5m for a new customer. Similar capacity on Southern Cross is priced at $US20m-$US30m for a new wholesale customer."

Hunt said the impact of international connectivity costs was significant.

"As we give consumers better, faster local access, guess what? They use more international bandwidth, so the cost increases."

The cost has several effects, including increasing the retail price of internet services and causing a capacity bottleneck as internet service providers try to limit their expenditure on buying service from Southern Cross. The trend towards caching – networks storing local copies of overseas content to reduce the use of international links – is one indicator of their efforts to cut costs.

The difficulty for Hunt's cable project is that what he calls "a hell of a margin" is shrinking rapidly. He estimates that since Kordia's OptiKor scheme was proposed, Southern Cross has reduced its prices by 75% – great news for customers, but a surefire indicator that Southern Cross won't lie down and let Kordia take market share.

So where does that leave the business case? Hunt won't go into detail on that score, but he is ready for more price cuts from Southern Cross.

IDC analyst Rosalie Nelson, while strongly supporting a new cable, is less sure the numbers stack up. "It will be interesting to see how Southern Cross responds to the competitive threat and how customers are willing to have a second relationship," she said. "We have already seen boom-bust cycles for submarine cables and the business case tends to be very long term."

Jurgeleit, thrilled to see the effect even the threat of competition has had on Southern Cross, is looking forward to further change in the market.

"Look at the market for bandwidth between New York and London. It's a spot market now. You can buy it now a lot cheaper than the guy who signed up for 20-year IRUs.

"They're selling 10 gigabits on that route for prices we can only dream about in New Zealand. We're not there yet, but what Kordia's doing might create that environment two to three years out."

Analysis commissioned by Kordia suggests he could be right – economic consultancy Covec estimates a net benefit to consumers between now and 2020, in net present value terms, of $2b. That's a lot of goodwill.

'We'd bend over backwards to be a customer'

–Malcolm Dick, Callplus

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