



**NEW ZEALAND INSTITUTE FOR THE STUDY  
OF COMPETITION AND REGULATION INC.**

# **LESSONS FROM AUSTRALIA AND NEW ZEALAND**

**Presentation to the OECD/DEV/AfDB Seminar**

**“Open Access Policies: What is the right balance between government  
and private investment?”**

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**CORPORATE MEMBERS**

*Contact Energy*

*Fonterra Co-Operative Dairy Group Limited*

*MainPower Trust*

*Meridian Energy*

*Powerco*

*Telecom Corporation of New Zealand Ltd*

*Victoria University of Wellington*

*Westpac Institutional Bank*

# THE TYRANNIES OF SCALE AND DISTANCE

## Australia, New Zealand

- small (relatively), distant, isolated economies
- internal capital constraints – reliance upon foreign investment

## Australia

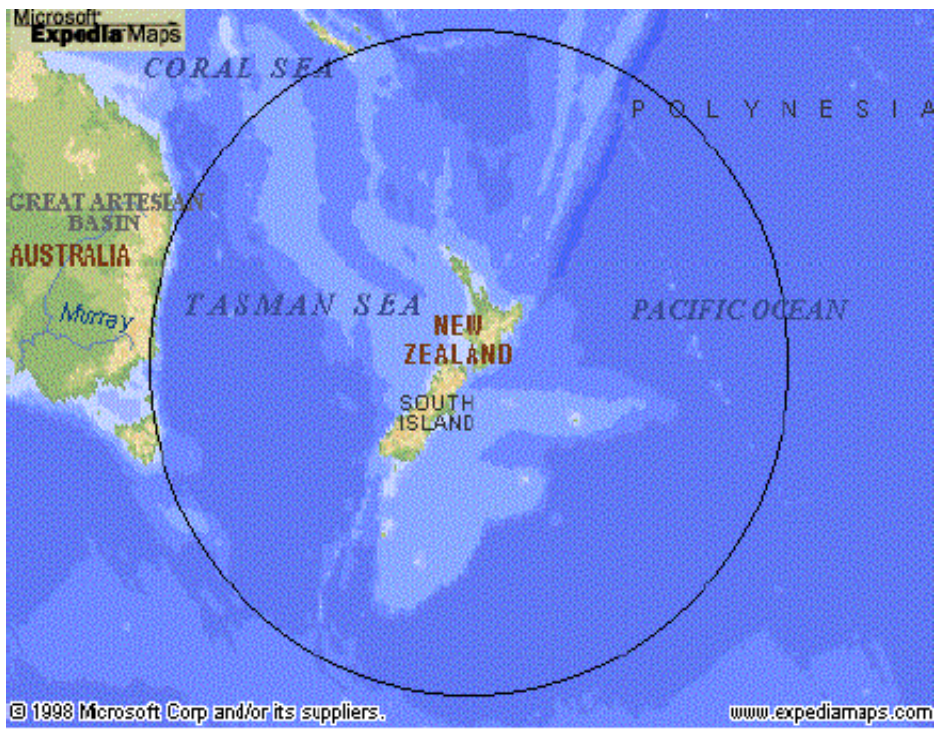
- population 22.5 million – focused on eastern seaboard
- one city of international scale (Sydney, 4.5 million)
- distance Sydney-Singapore 6300km

## New Zealand

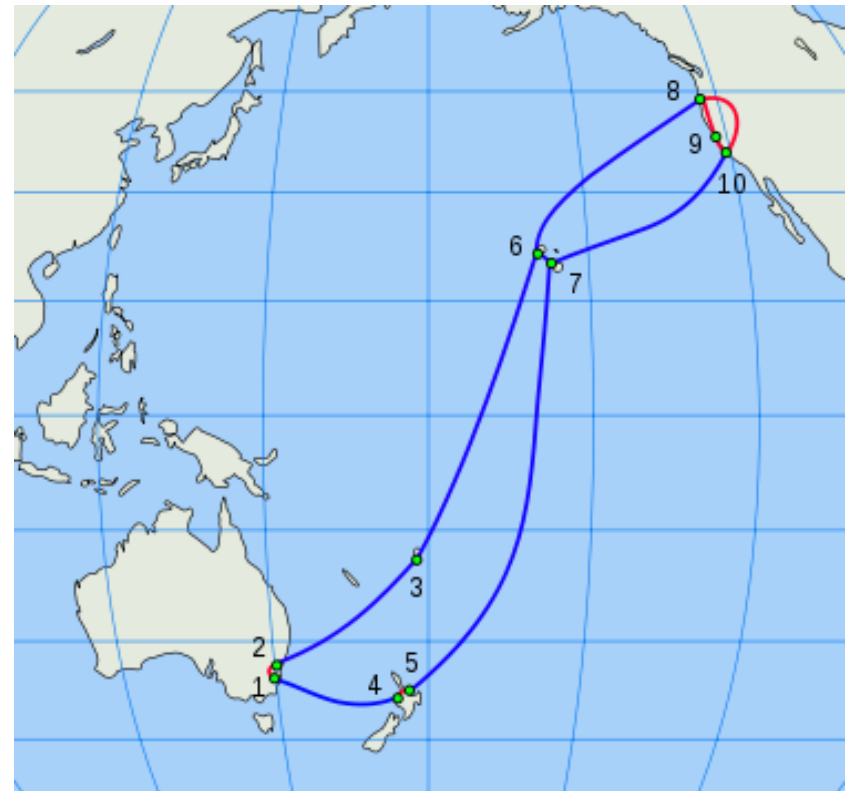
- population 4.5 million (Auckland 1.4 million)
- distance Auckland-Singapore 8400km (Sydney 2151km)
- 3-firm concentration ratio > 90% for most significant industries (even those without high fixed, sunk costs)



# WHERE 2000km WILL TAKE YOU



# LIMITS TO CONNECTIVITY



# APPROACHES TO OPEN ACCESS

## Australia

- consistent with OECD-advocated open access and unbundling principles
- plus accounting separation of Telstra
- a sense that its small scale makes infrastructure competition a difficult pursuit
  - despite Australia being one of the OECD's most urbanised economies

## New Zealand

- competition law and 'light-handed' regulation 1988-2001
  - 'rebellious' against the 'world order'
- access regulation 2001-2006
  - 'light-handed' access regulation - trying to have it 'both ways'
- local loop unbundling 2006
  - 'world's best practice' regulation - conformity
- functional separation of Telecom 2007



## IN 2010

Both countries world leaders in the proposal of national government-funded proposals for the construction of FTTH networks



# QUESTIONS

## Analysing the ‘natural experiment’

- has introduction of open access regulation in NZ achieved improvements in industry performance
  - relative to Australia?
  - relative to other OECD countries?

## Government FTTH investments

- a response to failure (‘market’ or ‘regulatory’)
- or far-reaching policy objectives to curb the ‘tyrannies of distance’?



# PERFORMANCE

## Efficiency gains (Howell, 2007)

- NZ outperformed Australia, OECD average to 2001 in
  - Telco price index
  - infrastructure availability (by territory and customer availability), and service quality
  - number of internet connections per capita
  - minutes of internet use per connection
  - timing of investment in next generation technologies (ADSL)
  - pricing of ISP services (although NZ had only 1/3 of the number of ISPs per capita, prices were 13% to 30% lower)

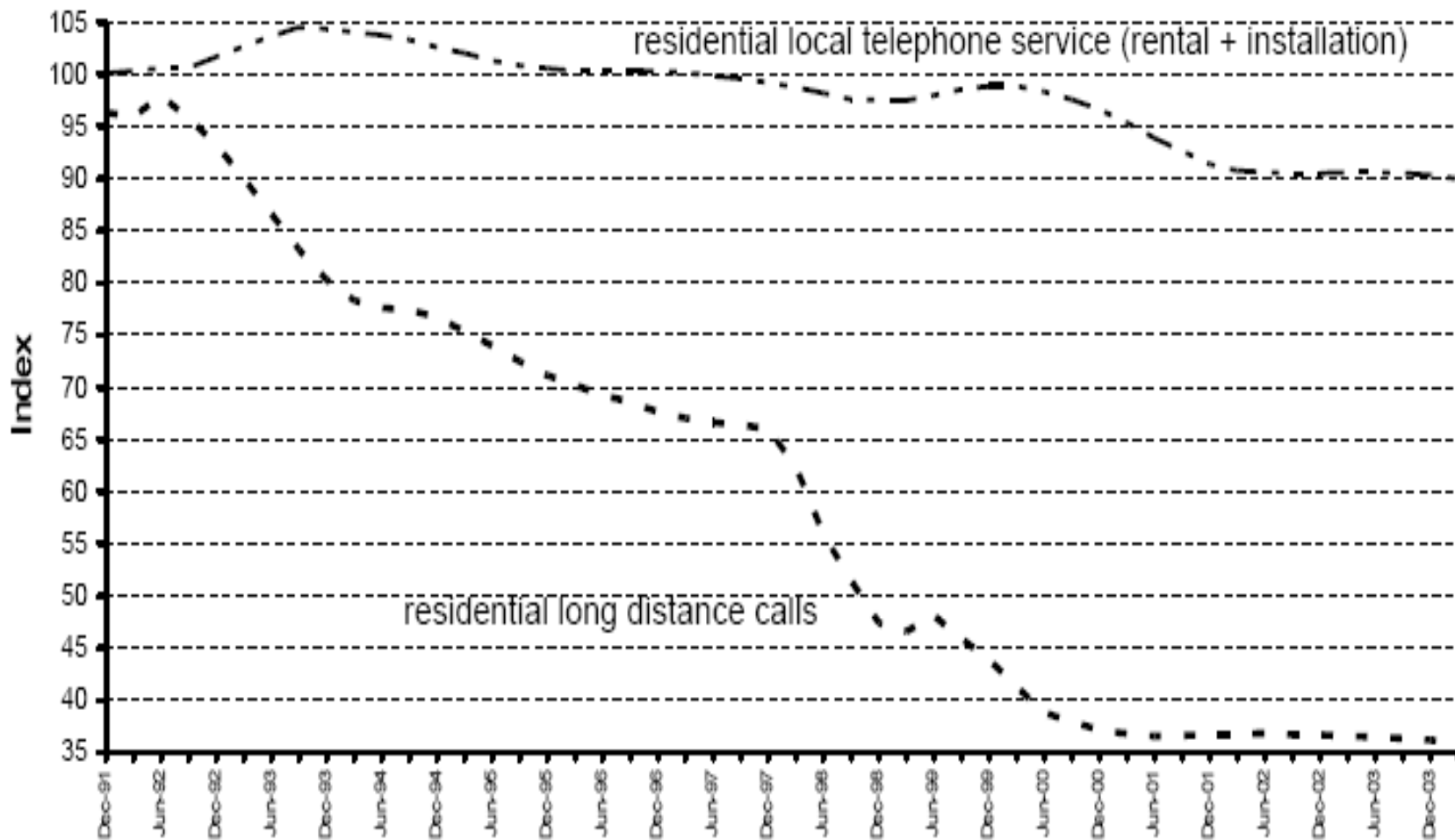
## Introduction of access regulation in 2001

- NZ efficiency statistics have reverted to (or below) Australian mean



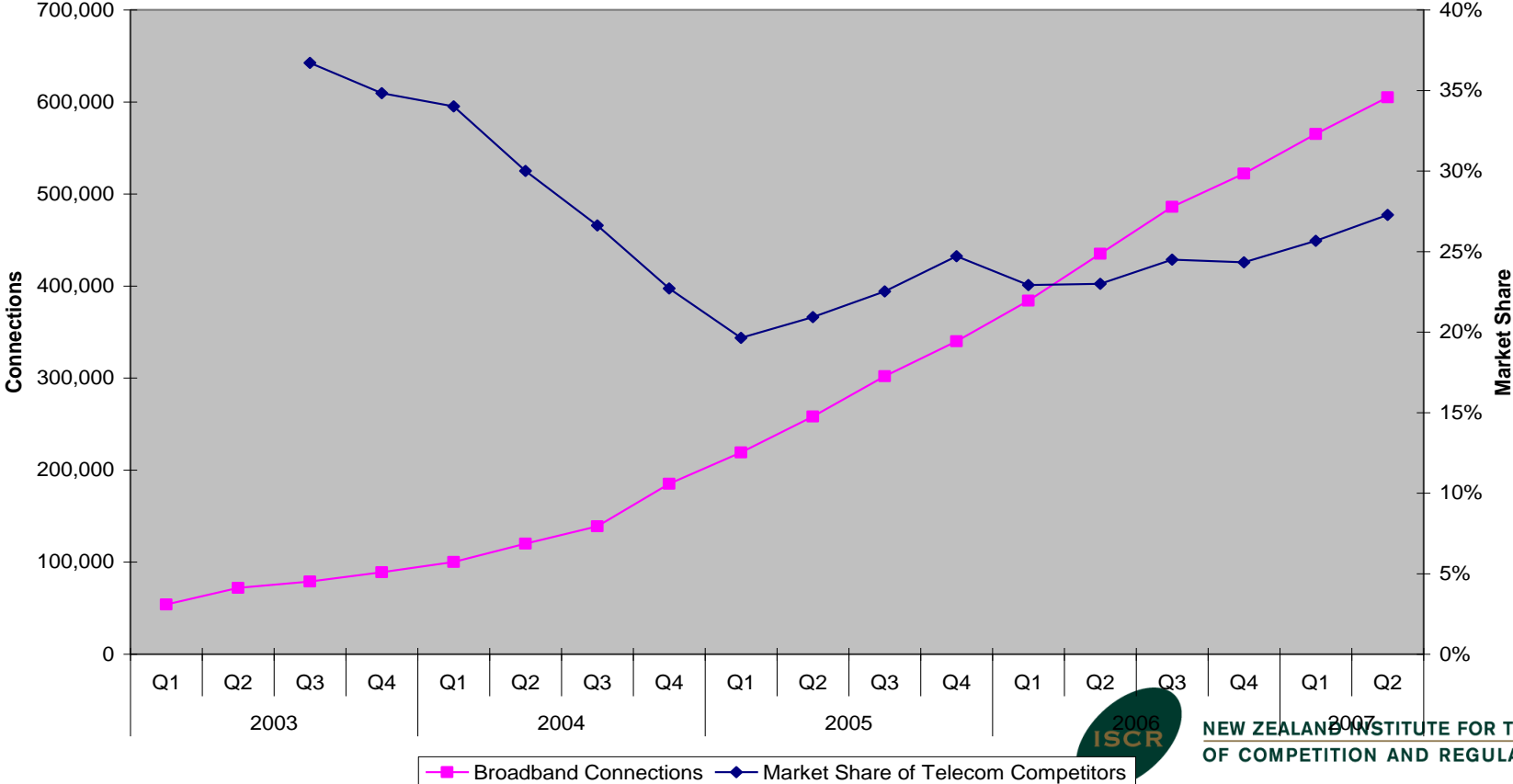


# Statistics NZ Real Residential Telephone Service Price Index: March 1991 Base = 100



# NO EVIDENCE INCREASED ACCESS REGULATION HAS LED TO INCREASED 'COMPETITION', BROADBAND UPTAKE PER CAPITA

New Zealand ADSL Market 2003-2007



# ACCESS REGULATION => STALLING OF PRIVATE SECTOR INVESTMENT

TelstraClear CEO, November 2002, following first regulated access determination in New Zealand (justifying earlier suspension of investment in their CATV network when access regulation enacted):

“we believe its more industry efficient for TelstraClear to buy from Telecom rather than build duplicate networks to reach consumers who are widely spread throughout New Zealand”

## NGN Investment

- (in)famous standoff between Telstra CEO and Australian government over NGN investment 2005-8
- fraught processes in New Zealand following functional separation – eventually resolved with undertakings by Telecom to invest (co-incident with decision to increase regulated unbundling prices) - 2007



# THE RETURN OF CENTRAL PLANNING

Government-funded FTTH networks a fundamental part of national elections

- Australia NBN 2007 \$43 billion network
  - key factor in coalition-forming following 2010 ‘hung parliament’
- NZ UFB 2008 \$1.5 billion

Main features

- government funding
  - Australia – direct ownership; NZ – investment via PPPs
- structurally separate (retail from Layer 1 & 2 infrastructure)
- ‘nation-building’ policies
  - making Australia/NZ the ‘centre of the internet world’
  - keeping up with/ahead of international competitors
  - absence of cost-benefit analyses to support



# COMPETITION IMPLICATIONS: Australia

Infrastructure competition has been eliminated as a policy goal

- Government ‘buyout’ of Telstra network assets
- subsidised network can ‘compete away’ unsubsidised competitors (cable has around 15% market share)

Focus now is on equivalence of access by retailers to new government-owned fixed line fibre network

No consideration yet given to competitive implications for other infrastructure operators (e.g. mobile, satellite, wireless)



# COMPETITION IMPLICATIONS: NZ

Competitive position of Telecom still not resolved

- a partner with government (as in Australia – with regulatory focus on access regulation and services competition)?
- or a competitor (with regulatory focus on infrastructure competition)?

Apart from Telecom, no significant competing retail-operating infrastructure owner (i.e. TelstraClear, Vodafone, Kordia/Orcon) has tendered to become a FTTH infrastructure partner with the government

- despite all having been active unbundling investors
- Telecom has submitted both a ‘compliant’ (including full structural separation) and ‘non-compliant’ bid



# IMPLICATIONS: BOTH COUNTRIES

Sector investment from all existing participants has stalled

- on both existing and competing fixed line infrastructures
- by both incumbent owners and entrants

Private investment in new networks has effectively been crowded out

- in NZ, most potential partners are electricity lines companies – many are consumer co-operatives



# ANSWERS TO THE QUESTIONS

On balance, the case study supports contentions that

- gains from access regulation may not be as large as anticipated (and may be strongly negative, especially in respect of dynamic efficiency in countries where there is lack of scale and capital to invest)
- Government investment is both a response to ‘regulatory failure’ resulting in reduction in private sector investment, and a further contributor to the reluctance of that private sector to invest





# OTHER LESSONS

What is the objective of open access regulation in the first place?

- ‘increasing competition’ not always synonymous with ‘increasing efficiency’ – especially in small, remote economies

What type of competition is desired?

- facilities or services?
- regulations must be consistent with the type of competition pursued
- regulation supporting services competition makes the outcome a self-fulfilling prophecy – even when facilities competition already exists

Regulation must seek efficiency-based sector performance

- rather than focusing on predetermining industry structure

