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?”
African Development Bank, Tunis, Tunisia
November 12 2010

Bronwyn Howell
General Manager

http://www.iscr.org.nz; bronwyn.howell@vuw.ac.nz
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
  • ‘rebelling’ 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
NO EVIDENCE INCREASED ACCESS REGULATION HAS LED TO INCREASED ‘COMPETITION’, BROADBAND UPTAKE PER CAPITA

New Zealand ADSL Market 2003-2007

Connections

Market Share

Q1 Q2 Q3 Q4
2003 2004 2005 2006 2007

Broadband Connections
Market Share of Telecom Competitors
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