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## **PANEL SESSION 1**

# **Telecommunications following deregulation**

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### **Invited paper 1**

## **Telecommunications following deregulation\***

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**Auckland University**

\* Comments made by Dr Ergas are summarised in the following pages for the readers convenience. They are based on his article, 'Telecommunications Across the Tasman: A Comparison of Regulatory Approaches and Economic Outcomes in Australia and New Zealand' in 'Deregulation of public utilities: current issues and perspectives, edited by Megan Richardson (1996).

**The following is a summary of the presentation made by Professor Henry Ergas**

In this paper, Professor Ergas reported on comparisons between the reforms of telecommunications regulation in Australia and New Zealand, and on the impacts or outcomes of the reforms in the two countries.

Australia and New Zealand both began the process in the latter part of the 1980s. However they followed very different paths. In New Zealand, the Government immediately pursued a light-handed approach by removing constraints on entry and competition, avoiding industry-specific regulations covering access to the network of the incumbent (Telecom Corporation of New Zealand or TCNZ) by competitors, and privatising TCNZ. In contrast, Australia engaged in a lengthy process of deregulation, beginning with liberalisation of value-added services and customer premises equipment, subsequently licensing one additional fixed network carrier (Optus, which purchased the assets of Aussat from the Government) and two additional mobile carriers, instituting an industry regulator (Austel), and retaining government ownership of the incumbent (later renamed Telstra). Regulatory restrictions acted to protect the fixed network competitor and increase the sale price of Aussat.

A consequence of these different approaches was that Australia developed a more complex regime than New Zealand, involving more pages of legislation and more staff and greater expense in administering and dealing with the regulations.

The effectiveness of the regulatory systems is primarily assessed by examining the outcomes or results of these systems in terms of their impact on the productivity of the telecommunications industry, telecommunications prices, quality of service, social objectives (in particular universal service obligations) and profitability and state of competition of the industry.

Although there are serious measurement difficulties, available evidence suggests that productivity has increased more rapidly and overall consumer prices have decreased more rapidly in New Zealand than in Australia. Prices now appear to be lower in New Zealand, especially for business customers. There has been a greater degree of tariff rebalancing in New Zealand with large increases in residential access rents and very steep falls in long-distance rates. The percentage of all households with a phone is about 96% in both countries, and the penetration of telephones in low-income households in New Zealand has not been significantly affected by the relatively high access rents.

Life has been extremely difficult for the new competitors in New Zealand, not having any assistance from the regulatory regime. In Australia, the duopoly environment in the fixed network (until 1 July 1997), and industry-specific regulation, have given protection to the new competitor. Nevertheless, the market share lost by TCNZ to competitors (principally, Clear Communications) has not been greatly different from the share lost by Telstra to Optus.

It can be argued that market share is not necessarily a good indicator of competitiveness. When evaluating the success or failure of the policy, the issue is not market share but efficiency of the incumbent and the benefits to consumers induced by the state of competition. On this basis the “light-handed” regulation and privatisation policies of New Zealand appear to have been more effective than the “heavy-handed” regulation of the Australian authorities.

