New Zealand Commerce Commission
Submission on Mobile Market Study
New Street Research, Australia and New Zealand

About New Street Research

New Street Research (NSR) is the leading global independent research house in the telecom, cable, towers and satellite space. We provide specialist research on these sectors to equity and debt investors in global capital markets. We write research on over 150 companies in the sector across the globe as well as reports on major industry developments including regulation and emerging technology such as 5G. In relation to New Zealand we write research for global investors on Spark, Chorus and Vodafone, although we don’t yet have formal coverage of Vodafone New Zealand.

New Street has over 200 institutional investor clients globally. Our research is produced by a team of over thirty analysts with extensive experience in the telecommunications sector, based in London, New York, Singapore and Melbourne. Our research is differentiated by being idea driven, based on independence of thought and firmly focussed on fundamentals and valuation.

**Good value in a better understanding mobile markets conducted within a rigorous analytical framework**

We consider there is good potential value in the Commission’s purpose to better understand how mobile markets are developing and performing, and to better understand possible competition issues.

We are not so sure that such a study will lead to a common understanding of the future competitive landscape for mobile telecommunication markets or a common view on emerging competition issues. Our experience in Australia and New Zealand of such regulatory reviews and particularly reviews related to network access are that they can give rise to and may encourage claims for industry preference or industry policy to support one or other industry group, rather than competition per se.

For instance the risk of industry preference or industry policy taking precedence over sound policy and effective regulation was evident in the debate over structural separation and benchmark pricing of copper access. In our view these
debates and the regulatory and policy outcomes had significant negative outcomes for long term value investors in the New Zealand telecommunications sector and so are not to the long term benefit of end users.

These concerns are not an argument against conducting such a study as the Commission proposes of the mobile market. We think instead they argue for the Commission to give consideration to the way it goes about the study and deals objectively with the views of industry stakeholders. We think the Commission should lay out a strong analytical framework for considering the long term benefits of end users and objective assessment of where and how regulation may enhance the markets’ capacity to meet the LTBE. We consider the Commission should take as a starting point that markets, including capital markets, are best placed to assess and meet the LT benefits of end users.

Beyond those general points we would like to make two more specific points:

**Regulatory risk and uncertainty**

Regulation and the prospect of prospect of regulation carries significant risk and uncertainty for investors.

Our clients, institutional investors and capital markets in New Zealand generally, are well able to make considered investment decisions in the telecommunications sector. Across capital markets there are a wide range of skills and expertise in assessing sector risks, managing risks including relationships with management and learning from experience. To the extent investors and capital markets do this they substantially lower the capital cost required to meet the long term needs of end users.

Good regulation may reduce risk where it removes or reduces an impediment to efficient investment. Such regulation should be circumspect and applied sparingly in well-defined circumstances and in predictable ways.

Poor regulation including regulation that supports some industry preference or industry policy adds to risks and in some circumstances moves beyond risk to uncertainty. Uncertainty is harder to assess and manage, and may be inherently impossible for even specialist investors to assess and manage. Poor regulation turns investors away and ultimately adds to capital cost and undermines the LTBE.

**Significant investment expected in the mobile sector**

We anticipate a significant increase in investment and investor interest in the mobile sector in New Zealand with the emerging generation of mobile technology including advances in 4G and forthcoming 5G technology as well as enhanced prospects for IoT.

Both Spark and Vodafone have relatively low levels of capital spending currently, in the order of 11-12% of sales. This is below benchmark levels compared with companies already more focussed on next generation mobile network investment; Telstra, Optus and TPG have capital spending at around 16-17% of sales over three years; Verizon recently announced it will commence
commercial trials of 5G service in 3-5 markets in the US in 2018 with the intention of expanding to around 30m premises in 2019.

The timing of such mobile investment in New Zealand isn’t clear yet however we consider it will be substantial. The structure of such investment, notably network investment, between Spark, Vodafone, 2degrees, Chorus and other network operators and service providers is also yet to be established. We consider the level and structure of such investment is best determined in the market in the first instance between industry operators and service providers and with them making the investment case in capital markets.

We think such a study as the Commission proposes can aid that investment process but there is a possibility that it may undermine it, for instance if it adds to investor perceptions about regulatory risk and uncertainty.

We think the Commission should bear in mind that where a network operator commits substantial capital to expand or enhance network capacity, and increases its capital at risk, there is then an enhanced interest by that operator in working with service providers who may help to build and monetise network utilisation and increase the prospect of achieving a commercial return. A well established and effective access regime is a key part of this market process in certain circumstances of market power. Beyond the fall-back of access regulation this is a discussion best left to the market players themselves.

If the proposed study opens up the possibility ex ante of regulation, particularly regulation to achieve some industry preference or industry policy, it may stifle and undermine that market discussion and so reduce or delay or inhibit network investment.

Rather than simply considering all stakeholder views as of equal merit, we consider the Commission should discriminate between views based on their objectivity and push back on those views that seek to game the process for industry policy purposes, or other purposes not to the LTBE.

In summary, we expect an increase in market investment in the mobile sector and we think the LTBE is enhanced if the Commission’s study doesn’t add to regulatory risk or uncertainty. Instead if the Commission supports the market and capital markets in effective investment in future mobile networks and services we consider there is a far greater likelihood of such investment being to the long term benefit of end users. It’s certain to be a better outcome for end users than the alternative.

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