

QUANTIFICATION OF COMPETITIVE DETRIMENTS AND PUBLIC BENEFITS OF PROPOSED REGULATIONS FOR MODIFIED DIVISION 1

Prepared for New Zealand Rugby Union

Brown, Copeland & Co Ltd
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Competitive Detriments

1. Allocative Efficiency Losses: On the basis of the discussion contained in the previous Brown, Copeland & Co Ltd report accompanying the authorisation application (dated 8 November, 2005) a maximum of 3 player “misallocations” was estimated as an upper limit for the average per team for the Premier Division as a consequence of the salary cap. This would seem to be too high as the upper limit for the effect of the proposed amateur regulations for Modified Division 1 given the expected small impacts of the regulations on the actual levels of remuneration, the much lower levels of remuneration involved and the small impact player (non) payment will have on the distribution of playing talent.
2. Taking an upper limit of 1 “misallocation” on average per team, implies a maximum of 12 player “misallocations” per annum as a consequence of the proposed regulations for Modified Division 1.
3. The previous paper suggested a possible range of [] per player “misallocation” for the allocative efficiency loss due to the proposed salary cap regulations for the Premier Division. Having regard to comparisons of key data, it is clear that any allocative efficiency losses in relation to the Modified Division 1 regulations are at least one order of magnitude less. For the 10 teams previously in the NPC Division 1 and the 12 teams to be in Modified Division 1, the following comparisons can be made on the basis of 2004 average team data: []
4. Adopting a range of [] per player “misallocation” (i.e. one order of magnitude lower than for the impacts of the salary cap in the Premier Division) for the amateur regulations proposed for Modified Division 1 implies an upper limit of [] for the annual allocative efficiency loss.
5. Productive Efficiency Losses: As already covered in an earlier response from NZRU to the Commerce Commission it is not anticipated that there will be any significant additional administrative costs associated with the proposed regulations. The authorisation application suggested a maximum figure of [] per annum for all 12 unions (see paragraph 28.2.3).

6. Innovation Efficiency Losses: The NZRU does not believe there will be any innovative efficiency losses associated with the proposed regulations for Modified Division 1, indeed quite the reverse – see authorisation application itself (paragraph 28.2.4).

Public Benefits

7. Improved Financial Performance of NZRU and Provincial Unions: With respect to financial impacts on the NZRU, the previous Brown, Copeland & Co Ltd report (see paragraph 51) stated the income from TV broadcasting rights and major sponsors is principally derived as a consequence of Division 1 of the NPC and is therefore dependent upon maintaining or enhancing interest in the new Premier Division. However NZRU advise that they expect to achieve a new sponsorship specifically for naming rights of the new Modified Division 1 competition. NZRU expect a minimum figure of [] for this sponsorship. []
8. Whilst NZRU would lose this funding, the sponsor would retain the funds involved. Using the 10 percent estimate of the loss in producer surplus (see previous Brown, Copeland & Co Ltd report paragraph 52) this implies a public benefit of [] per annum if the regulations proposed for Modified Division 1 ensure the continuation of this sponsorship.
9. The NZRU has an arrangement with Air New Zealand enabling very favourable ticketing arrangements. [] On the basis of 2004 cost data, the cost of air travel for the 12 Modified Division 1 teams is estimated at around []¹. Therefore the benefit to NZRU [] is significant given the range between minimum and maximum fares and the forfeiture of pre-payments for the cheapest fares when changes need to be made.
10. Because of the difficulty of measuring accurately the value of this benefit to the NZRU no attempt has been made to estimate the public benefits of the proposed regulations in maintaining interest in the Modified Division 1 competition. []
11. The 2004 GARAP information provides totals for the 12 Modified Division 1 unions for merchandise and royalties []; NPC round robin match income []; NPC round robin signage []; and team sponsorship cash and in-kind []. These four categories total []. Using the same percentages applied in relation to the salary cap and the Premier Division in the earlier Brown, Copeland & Co Ltd report (see paragraph 59) – i.e. a 10 to 20 percent increase (or retention) in the 2004 amounts and a 10 percent producers' surplus – this implies public benefits ranging between [] per annum.

¹ []

12. Increased Spectator Enjoyment: The public benefits in terms of increased spectator enjoyment from a more even and “community-based” Modified Division 1 as a result of the proposed regulations has been calculated on the same basis as in the previous Brown, Copeland & Co Ltd paper for the salary cap and the Premier Division using the following assumptions:
- An average attendance per game of 725²;
 - An average ticket price of []³;
 - 54 games per year in the new Modified Division 1;
 - A price elasticity of 1;
 - The impact of the regulations on crowd size ranging between 5 and 20 percent.
13. On the basis of these assumptions, the additional public benefits range between [] (for a 5 percent increase in crowd size) and [] (for a 20 percent increase in crowd size) per annum.

Balancing of Competitive Detriments and Public Benefits

14. The quantified competitive detriments have an upper limit of between [] and [] per annum. The quantified public benefits total between [] and [] per annum, suggesting that the public benefits outweigh the competitive detriments for the proposed regulations for Modified Division 1.
15. The quantification of public benefits has taken no account of the possible withdrawal of [].
16. The NZRU has previously emphasised to the Commerce Commission, that key reasons for the proposed regulations include better cost management amongst these 12 Provincial Unions leading to a more economically sustainable financial position and more resources freed up from contracting players to concentrate on innovative ways of developing local talent. The unquantifiable benefits from maintaining a financially sustainable and vibrant amateur rugby base in regions outside the main metropolitan areas of New Zealand are additional to the quantified public benefits of this report.

² Based on a weighted average (4 Division 2 teams and 8 Division 3 teams) of an average attendance of 1,376 for NPC Division 2 teams and 400 for NPC Division 3 teams in 2004. (Source: NZRU).

³ []