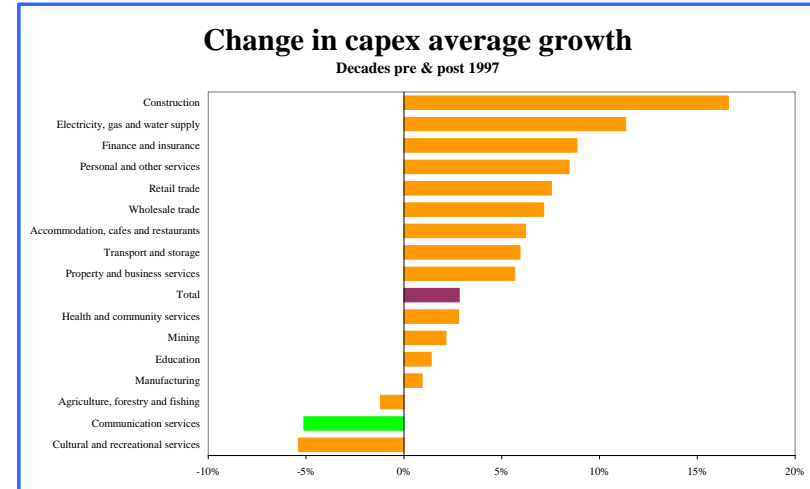
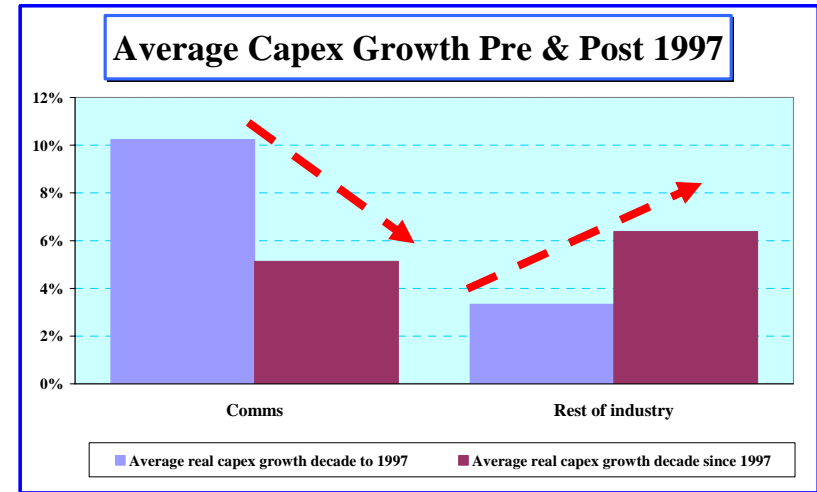


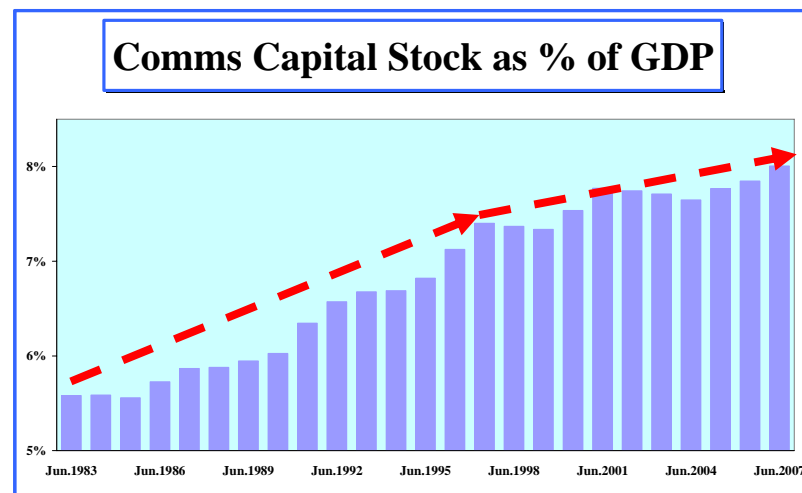
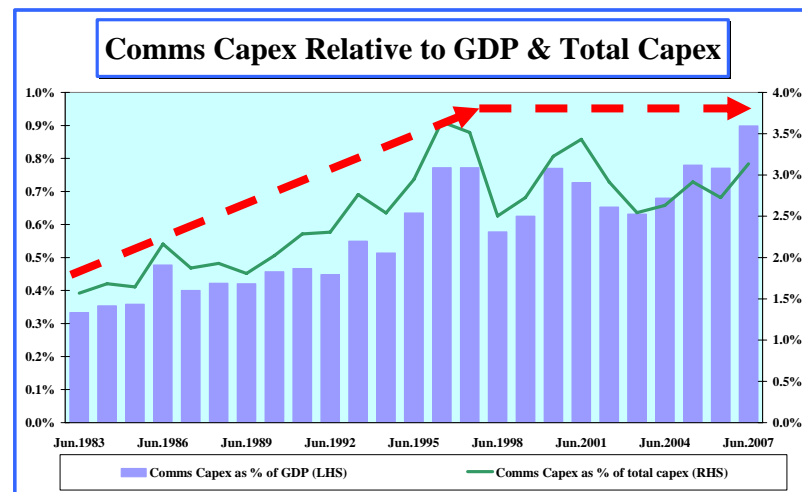
Comms Sector Capex – long-term trends

- ◆ ABS data indicates there has been strong Capex growth in the Comms Sector in recent years. This growth has been in the unregulated mobiles market and in government subsidised services.
- ◆ In the regulated fixed network market, there has been little transforming Capex either to Telstra's copper network or the Optus HFC.
- ◆ Historically, growth in Comms sector Capex has significantly out-performed other sectors.
- ◆ Since 1997 however, there have been significant periods of under-performance.
 - ◆ Average annual growth in Comms Capex in the decade to 1997 averaged 10.2% (compared with non-Comms capex growth of 3.3%).
 - ◆ Average annual growth in Comms Capex in the decade since 1997 has averaged 5.1% (compared with non-Comms Capex growth of 6.4%).
- ◆ Since 1997, Comms Capex has nearly halved while non-Comms Capex growth has nearly doubled.
- ◆ Comms is one of the few sectors where Capex growth in the decade since 1997 has been slower than in the decade prior to 1997.



Comms Sector Capex – a declining share

- ◆ A longer term focus also reveals that prior to 1997 Comms Capex represented a steadily rising share of both total Capex (across all industries) and real GDP.
- ◆ Since 1997 those trends have been significantly muted.
- ◆ The net value of capital stock in the Comms sector steadily rose in the decade prior to 1997.
 - ◆ As a share of GDP, Comms capital stock rose from 5.9% in 1987 to 7.4% in 1997 (a gain in share of 1.5% points).
 - ◆ In the decade since 1997, Comms capital stock has increased from 7.4% of GDP in 1997 to 8.0% in 2007 (a gain in share of 0.6% points).
- ◆ Comms capital stock as a share of GDP has slowed since 1997



Conclusions

- ◆ Analysis based on recent strong growth in Comms Capex cannot be used to claim that investment incentives for the Comms sector are appropriate.
 - ◆ Such short-term analysis is flawed because:
 - ◆ investment incentives operate with a time lag;
 - ◆ Capex in the Comms sector is lumpy and cyclical;
 - ◆ technology advance is a key driver of recent growth;
- ◆ Longer-term analysis reveals that:
 - ◆ annual growth in Comms capex has slowed in the decade since 1997 (now 5.1% pa compared with 10.2% pre 1997). Capex growth in other sectors has accelerated over the same time period;
 - ◆ over the same time period, Comms Capex has declined as a share of GDP and as a share of total Capex;
 - ◆ gains in capital stock operated by the Comms sector relative to GDP have slowed since 1997 (increased share of GDP by 0.6% points over 1997 to 2007) compared with the decade immediately prior to 1997 (increased share by 1.5% points).
- ◆ The recent surge in Capex partly reflects the following:
 - ◆ a cyclical upsurge due to technology advance, especially in non-regulated assets;
 - ◆ non-Telstra preference to buy rather than build fixed access infrastructure;
 - ◆ non-Telstra investment in support infrastructure (eg DSLAM's) rather than basic fixed access infrastructure. Moreover, this access seeker DSLAM investment duplicates Telstra investment.
- ◆ These are symptomatic of inadequate investment signals in fixed access infrastructure.
- ◆ The analysis supports the conclusion that intensive access regulation of existing fixed networks significantly reduces investments in alternative infrastructure-based competition.