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SENATE

Official Committee Hansard

ENVIRONMENT, RECREATION, COMMUNICATIONS
AND THE ARTS LEGISLATION COMMITTEE

**Reference: Provisions of the Telstra (Transition to Full Private
Ownership) Bill 1998**

WEDNESDAY, 29 APRIL 1998

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SENATE

**ENVIRONMENT, RECREATION, COMMUNICATIONS AND THE ARTS
LEGISLATION COMMITTEE**

WEDNESDAY, 29 APRIL 1998

Members: Senator Patterson (*Chair*), Senator Schacht (*Deputy Chair*), Senators Allison, Eggleston, Lightfoot, and Lundy

Substitute member: Senator Tierney

Participating members: Senators Abetz, Bartlett, Bolkus, Boswell, Bourne, Brown, Calvert, George Campbell, Carr, Colston, Coonan, Cooney, Crane, Harradine, Hogg, Faulkner, Ferguson, Mackay, Margetts, Murphy, Neal, O'Chee and Tierney

Senators in attendance: Senators Bourne, Colston, Eggleston, Lightfoot, Lundy, Margetts, Patterson, Schacht and Tierney

Terms of reference for the inquiry:

Provisions of the Telstra (Transition to Full Private Ownership) Bill 1998

WITNESSES

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Committee met at 9.14 a.m.

CHAIR—I declare open this meeting of the Senate Environment, Recreation, Communications and the Arts Legislation Committee. Today's hearing in Sydney is the first of our inquiry into the Telstra (Transition to Full Private Ownership) Bill 1998. I also indicate that Senator Margetts is on line from Western Australia on a telephone.

[9.14 a.m.]

CHIPKIN, Mr Stephen David, Director, Corporate Finance, Ord Minnett Ltd, Level 25, Grosvenor Place, 225 George Street, Sydney, New South Wales 2000

LIPMAN, Mr Robert Martin, Chief Executive, Ord Minnett Investment Planning Pty Ltd, Level 24, Grosvenor Place, 225 George Street, Sydney, New South Wales 2000

WILSON, Mr David Andrew, Director, Telecommunications Analyst, Ord Minnett Ltd, Level 25, Grosvenor Place, 225 George Street, Sydney, New South Wales 2000

CHAIR—I welcome representatives of Ord Minnett Ltd. The committee prefers that evidence be given in public, but should you at any stage wish to give your evidence, part of your evidence or answers to specific questions in camera, you may ask to do so and the committee will consider your request. I point out, however, that the evidence taken in camera may subsequently be made public by order of the Senate. The committee has before it submission No. 28, which it has authorised for publication. Are there any alterations or additions that you would care to make at this stage?

Mr Chipkin—No, Senator.

CHAIR—Do you wish to make a brief opening statement?

Mr Chipkin—It may be helpful if I give a brief introduction to Ord Minnett and make some opening remarks in relation to the submission, if that would be in order. For those of you who are unfamiliar with Ord Minnett, it is one of Australia's longest established broking and corporate finance firms. It was established in 1872. It has more than 730 staff in 17 offices around the country, with a few offices overseas as well.

It is consistently in the top three broking houses, with a very strong reputation in research and equity distribution. It has a particularly strong position in the retail broking and advisory market, and that is particularly relevant to our submission. We have more than 200 client advisers, serve more than 120,000 clients and also operate through a very broad network of financial planners. We cover the areas of broking, futures, retirement and investment planning, and lending.

You would be aware that Ord Minnett had one of two joint lead management roles in the first public offering of the Telstra float. That was a joint responsibility for the Australian tranche and, as you will recall, 81 per cent of the offer actually went to Australians—60 per cent to the retail market and 21 per cent to the Australian institutional market. For your information I have brought with me today booklets which set out in more detail the credentials and background of the firm.

As you will see from the submission, we are primarily concerned with the issue of share ownership. There has been a very significant increase over the recent past in the number of Australians holding shares, directly or indirectly. In fact, the recent report by the Australian Stock Exchange indicates that about 5.5 million Australians are now direct or indirect holders of shares and that there are about 3.9 million direct owners. Obviously, Telstra in the first offering was an important part of that process. It brought about 500,000 new investors to the market.

It is our submission that share ownership is important, not only because it involves Australians in the capital formation process and investing in industry but also because analysis over the longer term clearly shows that shares consistently and significantly outperform comparable investments. You would be aware that most Australian assets are tied up in residential real estate. There is no question in our minds that a better investment mix will improve the ability of Australians to self-fund their retirement. Most critically for retirees, shares have proven over time to provide a consistent growth in earnings, and that is critical from a retirement point of view.

As the pool of retirement funds grows—and that is inevitable as a matter of consistent government policy—it is important that appropriate investment opportunities be available. Expanding the supply of equity in that context will be an important part of the process. Our submission does focus on share ownership. It goes beyond our submission to comment on other matters. It is our belief that the government and the parliament should be promoting share ownership in the long-term public interest. It is in that context and with the Telstra bill being debated that we have made our submission. Thank you, Senators.

Senator SCHACHT—In the one-third privatisation, did Ord Minnett have any of the contracts with the government to sell the first one-third?

Mr Chipkin—As mentioned, we did have a role. We were contracted to play a role as a joint lead manager for the Australian tranche.

Senator SCHACHT—How much did you earn from that?

Mr Chipkin—The fee structure is on the public record. It was a fee that was only dependent, in our case, upon actual selling of shares. As I said, the rates are on the public record.

Senator SCHACHT—Just for our record—which people will hopefully read—could you remind us what those rates were?

Mr Chipkin—The rate on institutional sales was 0.8 per cent and the rate on retail sales was a combination of two rates. For the broker firm component, there was a fee of 1.45 per cent—in other words, that firm allocation of stock taken by a broker fetched a fee of 1.45 per cent—and then for stamped applications, which were just prospectuses stamped by a broking firm, there was a fee of 1.1 per cent. It is very much in line with past privatisations that stretch back over the years.

Senator SCHACHT—So there was the 0.8, the 1.45 and the 1.1 per cent. How much revenue did that bring to Ord Minnett?

Mr Chipkin—I am happy to provide that as a matter of private information if that is relevant. We do see that as commercially sensitive. We were an active participant in the process and would prefer not to make that public if that is acceptable.

Senator SCHACHT—You are telling me that, if I went off and took the trouble to take these percentage figures, I could probably work it out for myself. Is that right?

Mr Chipkin—No, that is not right. You could certainly calculate the aggregate fees paid by the government—indeed, that has been publicly commented upon—but you would not be able to discern between the participants. I think it is fair to point out that almost every broking firm in Australia was involved in the float, not all at the top management line. But every broking firm did have a very active role in selling to the retail market and every firm, from the large to the small, would have derived fees from sales to their private broking clients. So

you would not have access to the information that pertains to each individual firm. That is the point I am making.

Senator SCHACHT—I certainly do not want to affect your commerciality and your competitiveness with your colleagues in the industry, so I accept that you could provide that to us as commercial-in-confidence. When you do so, could you provide what you earned by being a participant under contract to the government to sell the shares to the institutional investors and to the retailers at the retail level? Also, could you tell us what you earned by just being another stockbroker advising and by having customers buying shares through the firm? Is that the one covered by the stamped prospectus?

Mr Chipkin—Yes. We can give you a breakdown of the fees that we earned that related to the institutional market, the retail broker firm component and the general stamped applications that we were involved in.

Senator SCHACHT—I would appreciate that. Would this be the most successful income earner for Ord Minnett that you have had in any share issue in Australia?

Mr Chipkin—I will take that on notice. I do not believe that is the case. It would certainly be up there. I think it should be said, though, that our proportion of the aggregate fees paid—you will see this when you compare our fees to the total—is modest in percentage terms. In other words, it was in line with our market share. There was nothing untoward about our rate of participation in this offering. In nominal dollar terms, it may appear a material amount. In percentage terms, Ord Minnett, almost on a daily basis but certainly over time, accounts for about seven per cent of market turnover. That is in all shares, not just Telstra shares. We are talking about the selling of shares. We derive no fee simply by virtue of our position. It was a fee derived from actually selling shares to the market that required us to interest institutions and our retail clients and so on in the offering, as every other broker would have done.

Senator SCHACHT—Were you involved with any international broking companies to sell that percentage that ultimately went to overseas investors?

Mr Chipkin—No, we were not. We sell overseas in the name of Ord Minnett. I should perhaps comment in this respect on our ownership structure. We are one of the few remaining Australian controlled major brokers left, but we have a 50 per cent shareholder in the form of Jardine Fleming, the Hong Kong based firm. Our overseas selling efforts and the research of the product are all done by Ord Minnett through our offices overseas and with our Australian salesmen who are based there. We are a major distributor—every day, I should point out, not just in relation to Telstra—of Australian and New Zealand shares in the major overseas markets.

Senator SCHACHT—Could you provide us with the revenue you received from the 1.45 percentage and the 1.1 percentage of overseas sales?

Mr Chipkin—Yes. I should clarify one point there. I did not mention this previously because it was not a major component of our participation, but for overseas sales the commission rate is 1.75 per cent to overseas institutions. But I can do that as well.

Senator SCHACHT—Thank you very much. Since the privatisation and leading up to the one-third privatisation, how many extra staff did Ord Minnett put on to handle the process? Mr Wilson describes himself as a telecommunications analyst. Could you give us an idea of how many extra people went on to do the job and are now there permanently providing advice to all your shareholders about when to buy and when to sell, not just Telstra but other telecommunications stock?

Mr Chipkin—I will ask David to add to this if I omit something here, but the answer would be very few in terms of our back office staff—in other words, the people who process applications and deal with share offers. If we hired anyone, it probably would have been on a temporary basis. We certainly did not make any long-term additions to our staffing. On the research side, David Wilson has been with the firm for 12 years and previously covered the transport sector, amongst that Mayne Nickless. You will find in the industry that a number of analysts have moved from transport to telecommunications because Mayne Nickless—

Senator SCHACHT—So he is going to follow Mayne Nickless back into health now, is he?

Mr Chipkin—No. Mayne Nickless really went into Optus and that became the focus. The point we make is that, as and when a major sector takes shape in the Australian market, every broker positions analysts around that sector. The same would now be the case, for example, in relation to life insurance. Previously, most brokers would have had banking analysts. You will find that almost everyone now has life insurance specialists and so on. So to answer your question, we have now two permanent telecommunications analysts: one was a new hire; David Wilson is a longstanding member of the firm.

Mr Wilson—You would find that the case with most of our competitors as well.

Senator SCHACHT—What I was getting to is that Telstra will have sacked 26,000 people by the end of this year. I think in the hearings we had for the one-third sale, somebody suggested that there would be new growth in employment in analysts, et cetera, in the stockbroking area. I always thought that was a pretty big ask and you have just confirmed that there would be only one or two. I did not expect you to employ 26,000 or anywhere near it, but you have just confirmed that. With the percentage figures, the bigger the sale price the more your earnings; is that right?

Mr Chipkin—It is a fee referable to price, yes.

Senator SCHACHT—Irrespective of the work that you have to do? It sounds like a bit of a rort actually. Work for value is not actually here. It is just open ended—send the cheque around.

Mr Chipkin—It depends what your view is of work and value. If you believe that shares just sell themselves you would perhaps take the view that this is money easily earned. If you accept though that you have to sell a share rather than have people buy shares—

Senator SCHACHT—You did not have to exactly knock people back with a stick to buy Telstra shares, I noticed. What was the difficulty of selling them?

Mr Chipkin—The difficulty of selling any share is actually involved in explaining what the investment fundamentals are. I do not want to sit here and sound as if I am defending Ord Minnett, but I have to respond to the challenge that we did nothing to derive a fee. The fact is that the market fell, if you recall. The All Ordinaries fell 178 points in the middle of that marketing period. For most companies that would have been potentially disastrous to an offering.

In fact, Telstra was sufficiently resilient. We believe that the positioning of Telstra in the correct way—in other words, its strengths, its market position, its capacity to generate sustainable long-term earnings and growth in earnings—provided support in the context of a market. But a market is a very dynamic mechanism. There is no certainty about anything. It is for that reason that you have to actually market and position the story and sell the shares.

I am not defending the fees earned but that is the reality. If you look at the fees as a rate you would see that internationally the Australian privatisation fees are low, certainly much lower than overseas traditional privatisation rates and indeed materially lower than private company offerings in the open market. That is a fact.

Senator SCHACHT—Do you believe that the issue price of \$1.90 or thereabouts—there was a further payment due in November—was unnecessarily low in view of where the market has taken the price now?

Mr Chipkin—We do not. We defend absolutely that at the time of the offering the price was fairly struck. It represented fair value having regard to the demand.

Senator SCHACHT—The demand was extraordinary. You could have easily started off at a much higher price, one would have thought, in view of the response.

Mr Chipkin—The reality was that the demand from the overseas institutions and the Australian institutions which establish any rise in price was demand at or about the price that it was finally set at. So we believe that in the institutional market it absolutely correctly and fairly reflected fair value and the actual demand. If you recall, the vast bulk of demand was actually from the retail market and that price was a fixed price. It is our view and always has been our view that you have to offer shares to the retail market at a fixed price because the mums and dads do want to know what they are actually subscribing for at a particular price. The price was set having regard to fair value of the company, having regard to market conditions, and at the time it was a fair price. To merely say in retrospect now, 'Look where the price is now. Therefore, it proves the price was low,' is incorrect. If you look at the overall market since that time, Telstra and the overall market have moved largely in sync since that time. That just reflects the dynamics of a market.

Mr Wilson—Telstra was really priced in relation to companies like Woolworths, Coles-Myer, Fosters or AGL. Companies of that ilk have performed at the same sort of level as Telstra post that time. At that time you had a lot of uncertainty. You have had a lot of uncertainty in the market because of the Asian situation. So stocks of that ilk have all performed in line with Telstra.

Senator SCHACHT—The demand for the prospectus amongst the general public meant that people were going to buy, for whatever reason—they may have been quite mistaken—but the price subsequently went up. People predicted that institutions have to go back into the market to rebalance their books because of the percentage of the stock market, which would all drive the price up. It just seems to me that a lot of those predictions have come true. The government may well have undersold Telstra. Mr Quiggin predicted this and he got roundly bagged by the government for saying that Telstra was worth \$60 billion two years ago and, bingo, that is what the figure is today. That is what the market has given and it seems the government undersold the asset.

CHAIR—Senator Schacht, you need to be careful you do not argue against yourself because it would indicate you are saying that there was a large demand, that Australians want to purchase Telstra shares, I would have thought.

Senator SCHACHT—If I am going to be helped all day long by the chairman, that is excellent. We have now had the shares on the market. You may want to take this question on notice: how many of your retail shareholders—the mums and dads, as the Prime Minister describes them—who bought shares have now sold them and have gone out of the market?

Mr Wilson—We will follow this session with a written answer when we have ascertained in more detail, but I can tell you our information is approximately a 95 per cent retention rate. In other words, these are very largely long-term shareholdings or at least so far. You must remember there were two aspects of the offer structure that really promoted longer-term holding. Then I want to come to an area where Robert Lipman can perhaps add some comments.

There is an incentive for the retail investor to hold certainly beyond the first instalment date. There is a further 5c discount if they hold to that date. So that is a natural incentive. It is not a great amount of money in the scheme of things but it nevertheless acts as an incentive.

I think there is a more fundamental point, and really it gets back to more the essence of our submission. Telstra represents and, as David Wilson has said, shares of that ilk represent—and I should comment that shares of that ilk represent the very strong Australian companies with good market position, predictable earnings and likely growth in earnings—a fundamentally important part of a retail investor's portfolio. It would be the fact that retail financial planners and advisers advise their clients—now you are talking about hundreds of thousands of Australians—to actually acquire shares like this. Robert, you might like to comment on that.

Mr Lipman—We do, as advisers, normally recommend investors with a five-year time horizon or longer to acquire with their investment assets about 35 per cent in quality Australian shares, typically industrial shares. The reason is that those shares provide consistent income and income that grows faster than the rate of inflation. If you go back over many years, the share markets both in Australia and around the world have achieved a return of about eight per cent above the inflation rate, or eight per cent real.

If one were to predict inflation going forward at about two or three per cent, that would mean that the expected return on shares would be about 10 or 11 per cent of which one would expect the dividends on those shares to be about four or five per cent per annum. Those dividends in fact grow at about the same rate as the expected growth in the share price of about seven per cent per annum, which is much faster than the rate of inflation. That is what appeals to the investment public. They want a consistent income and an income that grows faster than the inflation rate. That is very often achieved by holding a fair percentage of their portfolio in Australian shares.

Senator SCHACHT—Mr Chipkin, the thrust of your submission is that you want more people to be shareholders in companies because it is the best form of investment for their retirement and whatever. The figures you gave were: 5.5 million owned shares directly or indirectly and 3.9 million directly owned shares. In either case that leaves at the minimum 12½ million Australians without shares. Even with the full-fledged sale of Telstra, how many more Australians do you think will buy shares?

Mr Chipkin—The first comment I would make is that the 5.5 million—which, as I mentioned, is a figure recently published by the Australian Stock Exchange—represents about 40 per cent of the Australian adult population.

Senator SCHACHT—I accept that 60 per cent have not. But, with the full sale of Telstra, how many of that 60 per cent who do not own shares do you predict will buy shares?

Mr Chipkin—It is too early to come up with any prediction. The fact is that the first tranche did introduce about 500,000 new investors and we would expect that that trend will continue. Whether or not that number will be repeated or exceeded would be just speculative at this point.

If you look at the demutualisation of AMP, the public offering of the TAB in New South Wales and so on, you will see that the trend for wider private investment in shares will continue and, frankly, we believe as investment advisers—not necessarily brokers making a commission on this process—that that is a positive trend.

Senator SCHACHT—The government's bill to fully privatise Telstra removes the power of the minister to direct the board, which power is presently there. This present minister has chosen, no matter what the provocation, not to exercise that direction. There are many other submissions coming in that hope that he would, for competition reasons if nothing else, use some power on Telstra. Do you believe with a fully privatised Telstra the minister should have the power to direct Telstra while in the foreseeable future, as you have already said, it is going to dominate the telecommunications market in this country and provide directly and indirectly over 90 per cent of the telecommunication services to ordinary Australians?

Mr Chipkin—We believe, and the market accepts, that strong regulation in whatever form you wish to construct it as a matter of legislation or otherwise is quite proper for matters like consumer protection, competition and the like. We, the market, would expect that there be a strong regulatory regime. We do expect, because past governments have initiated that there will be, a strongly competitive telecommunications sector. In fact, it is our view that the seed to privatisation was probably sown when the second licence was granted, thereby making it a competitive framework.

We see regulation as being quite separate from the question of share ownership. It is with respect that we would say that that is often the confusion. There is the view that you should cover 'regulatory matters' by ensuring that there be a share ownership structure of some sort. We think that is misguided thinking. We think that share ownership is, as we said, desirable from an investment point of view but, frankly, share ownership and the disciplines of the capital markets are relevant within a competitive industry. I do not think you can have anything other than that, but regulation absolutely.

Regulation and matters of consumer protections, universal service obligations, standards, competition can come in the form of a legislative or regulatory framework outside the board structure and, frankly, we would see that that is a more logical place for it. Whether or not the minister should have any residual power in relation to those inside one company but not inside any of the other market competitors in that industry is an oddity but, if that is the way the government wishes to maintain regulatory functions, then that is an option it should consider.

Senator SCHACHT—The company itself—

CHAIR—Senator Schacht, you can wait. Senator Tierney.

Senator SCHACHT—This is going to be a great little hearing with your chairmanship!

CHAIR—You have had nearly half an hour. Senator Tierney has a question.

Senator TIERNEY—With the partial privatisation of Telstra, there was a lot of misinformation around, and of course that is occurring again. Could you outline your view on a fully privatised Telstra in terms of the regulations it would be subject to and things such as price, service obligations and the like. Would they continue under a fully privatised Telstra?

Mr Chipkin—It absolutely will and should continue, but, again, I draw the distinction between the share ownership aspect on the one hand and the regulatory framework on the other. You will be well aware of the regulatory framework that is proposed, that is, under the various telecommunications acts, the Trade Practices Act and so on.

Senator TIERNEY—A wide regulatory framework.

Mr Chipkin—Yes, and that regulatory framework, we believe, should properly sit outside the question of share ownership. Whatever the share ownership structure is, Telstra should be subject to compliance with that regulatory framework. If the debate is whether or not that regulatory framework is strong enough to actually deal with a company like Telstra, that, I suggest with respect, is a matter for fixing the regulatory framework. I do not believe you fix the regulatory framework by ensuring that the ownership structure of Telstra is in some way impeded.

Senator TIERNEY—In your view, would Telstra be subject to more or less scrutiny in a fully privatised situation?

Mr Chipkin—Scrutiny from whom? There is no doubt that the marketplace would give it much greater scrutiny. I suspect that the regulator would—

Senator SCHACHT—Bell Resources and all those other collapsed companies were under scrutiny too. They all went belly-up and lost the shareholders' money.

Senator TIERNEY—Hardly a comparable example. Senator Schacht, I sat here very quietly listening to your questions. Perhaps you could extend the same courtesy.

Senator SCHACHT—With your dorothy dixers, we are going to have a fun time here!

CHAIR—Senator Schacht, Senator Tierney has as much right to ask questions as you have.

Mr Chipkin—The scrutiny of the market will become that much more intense as you have broader share ownership, as people have more capital invested in Telstra. So performance of assets, earnings growth and the like will be very strongly scrutinised. I suspect from a regulatory point of view that Telstra will remain very much under the scrutiny of Allan Fels and his team and the other regulators with responsibility for the regulatory framework.

The other thing to note is, if you look to see where the real spurs for regulatory involvement are coming from—and this is logical—it is very often from Telstra's competitors. Telstra's competitors feel the weight of Telstra in the market every day. You can be quite sure that they will alert the regulators to any actions that they feel transgress the regulatory framework. Yes, I think the scrutiny will continue and there is no reason why it should not merely because the ownership changes.

Senator TIERNEY—One of the major criticisms of Telstra in its monopoly situation was that it did not really respond very well to customer needs. In a fully privatised Telstra, what would your view be on the likelihood of greater response to customer need?

Mr Chipkin—I think it is, again, the competitive framework that is the real answer to that question. When consumers have no choice, the relevant entity does not need to respond as well to customer needs, unless it is culturally within it to do so. Once you have introduced serious and viable competitors—and the telecommunications market here is becoming more competitive; overseas there are many examples where it is now very competitive—consumers do have choice. Providing there is a strong competitive framework, and a regulatory framework that ensures and enhances competition, Telstra, frankly, will have to respond to consumer needs. Otherwise, they will simply lose market share. The capital markets of the world will not allow it to dissipate its value. So, absolutely, it will have to respond competitively.

Senator TIERNEY—Some of the meanest information that was being spread on the original partial privatisation was that a lot of the company would end up in foreign hands. Perhaps you could tell us, now that we have gone through the first tranche, what did happen in relation to foreign ownership?

Mr Chipkin—As you will recall—and there clearly is no intention to vary this from a legislative point of view—the act will prohibit foreign ownership beyond 35 per cent of those shares that are publicly owned. In the event, because of the very strong Australian demand for this Australian company, 81 per cent of the company—obviously I am excluding the shares retained by the government—was sold to Australians: 60 per cent to the retail market and 21 per cent to the Australian institutional market which, it should be said, represents Australian individuals as well because they were generally managers of funds or superannuation funds in respect of which, of course, Australians invest. Nineteen per cent of the offering went overseas. We understand that the percentage retained by foreigners has actually dropped slightly; I think it is somewhere closer to 18 per cent now. So about 82 per cent of this company is Australian owned.

While the legislation allows up to 35 per cent—that is a natural limit—I think it is the natural inclination of Australians to own this company. As Robert Lipman said, ‘It is the subject of strong investment advice that retail investors invest in this company.’ We would expect that the Australian demand for any subsequent tranches of Telstra would be similarly strong. I think the prospect of this being ‘owned or controlled by foreigners’ is an extremely unlikely outcome.

Senator TIERNEY—So, in summary, because of strong local demand, in the first tranche we ended up with just a little over half of what was expected in foreign ownership.

Mr Chipkin—Correct.

Senator SCHACHT—The 35 per cent in the legislation, as you read it: are you saying that, although that is a maximum, you do not expect that to be reached?

Mr Chipkin—Over time there is nothing to stop the capital flows changing. I would certainly say that, as regards any subsequent offer of shares, we would expect Australian demand to be so strong that the overseas component will be well short of 35 per cent again. Over time, in theory—but it would be a considerably long time—that percentage could build up.

Senator SCHACHT—Who is at present the biggest individual institutional shareholder in Telstra?

Mr Chipkin—The AMP is.

Senator SCHACHT—What per cent?

Mr Wilson—It would still be quite a small percentage of that.

Senator SCHACHT—Under five per cent?

Mr Wilson—Yes.

Senator SCHACHT—In relation to the availability of shares for the international sector of 35 per cent—and there is a limit of five per cent for any single individual foreign owner—will they be sold through a trade sale or traded initially on a share issue for the mums and dads of America to buy Telstra if they want to?

Mr Chipkin—I take it the government would consider alternatives, but it would be our advice and our expectation that it be done by way of a competitive public offering as was done with the first tranche. The reason is that, when you have a share that we believe will be as strongly sought by the Australian public as Telstra, it will work well for the government in two respects to pursue a similar approach to the first one. Firstly, there will be a very strong majority of Australian ownership. Secondly, the competitive tension and the shortage of stock

for the overseas market should assist in the price tension and, if you like, the ultimate price achieved.

Senator SCHACHT—The shares that were sold on the international market in the first one-third: the government's view was that this would bring in companies that had expertise in telecommunications and experience which would strengthen the shareholding and, ultimately, interest in the board. But it appeared that most of the international shareholding went to companies which sold within two or three days, took the profit and have not been seen since. If that happened with the one-third, why won't that happen when you sell the rest? People at the international level may say, 'We're going to get up to 35 per cent. We'll get in early, sell within three days, make a profit and say, "Thank you very much Australia."'

Mr Chipkin—David, perhaps you can comment as well. The allocation to individual shareholders is a matter for the government at the end of the sale process. So the government, on advice, would be careful to avoid allocations of disproportionate amounts to individual overseas investors, particularly those that do not have a long track record of investment in Australia.

It is true that we are aware that there were some, but I think it is fair to say that they were a small number of overseas institutions that sold out quickly. Our understanding, as I said, is that from the 19 per cent allocation overseas that was there at the outset, there remains about an 18 per cent retention. So it has not been a very quick in and out process.

Senator SCHACHT—Do you have any evidence—you may take this on notice, as we say in the Senate—that major telecommunications companies and interests, whether they are directly telcos overseas or people with long experience, have bought significant shareholdings in Telstra in the one-third and have maintained them?

Mr Chipkin—I think I can answer that now, and if it is necessary I will follow it up with a letter to the committee. The fact is that allocations were made to institutional investors, not to telecommunications companies as such. So it is our understanding that no telco, itself, has actually invested in any material fashion. But I think the discipline that does come from overseas investment is as follows. Overseas investors—and there are many specialist telco funds from overseas that invest—do invest in telecommunications companies around the world. So, when you talk about the expertise and the knowledge, they have an investor's comparative view of different telcos.

The discipline they bring is one that says, 'We don't need to own Telstra, and we will not continue to own Telstra if it performs poorly relative to its international peers, because we can happily own France Telecom or Deutsche Telecom.' So having a spread of investments is one aspect, but having good performing telco investments is the other. That is part of the scrutiny, if you like, part of the discipline, that the international investor market brings to the table.

Senator SCHACHT—You might want to take this question on notice, too, to give it considered thought. There is already argument in the community that if you want to ensure some time during the next decade that Australia has a telecommunications system that provides world competitive infrastructure to all Australians, no matter where they are, at a reasonable price, the definition of the guarantee of the standard telephone service should be extended to include on-line broadband services, such the Internet, at certain capacity levels.

Everybody knows that that would mean a substantial cross-subsidy occurring within Telstra, or within the present structure, which at the moment is \$260 million but which might run into many hundreds of millions of dollars or more per year to ensure that every Australian has

equity of access. That may not go down very well in New York, Tokyo, Paris or London as a market driven outcome, but it is a very good outcome for all Australians. Would that mean that the international investors will then say, 'This is not a good company to invest in because the intervention by the government to guarantee all Australians in the national interest means that they should get all of these services at a reasonable price?' How do you then tell your international customers, 'Bad luck. This is what the Australian government and the Australian people want. You are going to have to bear it.'

Mr Chipkin—I will take that on notice, but I will make a couple of preliminary comments.

CHAIR—Can you make them as short as you can, Mr Chipkin, because we are running a quarter of an hour over time already?

Mr Chipkin—Okay. The impact will not just be on the overseas investors. I think that is important to note. We are talking about an Australian company here with 80 per cent Australian ownership so, if there was a requirement that Telstra provide a service which was unprofitable, it would have an impact on all investors, and you would have your Australian institutions similarly concerned, if you like, or having to act in a similar fashion to overseas investors. Whether or not it is uneconomic, we cannot comment. Whether or not it is desirable or sensible to expand that base telephone service to include on-line access to data is debatable, frankly. So we will take that question on notice and provide a written answer.

Senator SCHACHT—Just remember that 13 million to 14 million Australians do not hold shares, even under your definition. Under Telstra's shareholding, 17 million Australians do not hold shares in Telstra, but many of them live in areas of Australia that want an increased and equal service in telecommunications in the future, and do not want a two-tiered system.

Mr Chipkin—We will remember that. That is correct. Just note, though, that there is no suggestion that they would not have access to it. The issue is a question of price.

Senator SCHACHT—You are willing to jack the price up for the bush to—

Mr Chipkin—No, that is not the answer.

Senator SCHACHT—That is the answer. The only way you are going to do it is to jack the price up for the bush to pay profit to the shareholders. That is the only way you can get out of this.

CHAIR—Mr Chipkin, you might also like to answer that question in writing and also indicate—

Senator SCHACHT—I would not mind him having a go now, actually.

CHAIR—how many people indirectly own shares through superannuation funds, because we are looking at direct then, rather than indirect, ownership.

Mr Chipkin—Yes.

Senator SCHACHT—It is 5.5 million.

CHAIR—I thank Mr Wilson, Mr Chipkin and Mr Lipman.

Senator MARGETTS—I just have one question and, potentially, it will be taken on notice. It may have been asked, but not everybody is close enough to the microphone for me to pick up every aspect of their questions. Have you actually done a demographic study of the owners of Telstra shares and do you have any expectation of what might change in those demographics with the full sale of Telstra?

Mr Chipkin—We are aware, in broad terms, of how the allocation of shares was made across Australia on a state by state basis. It is our view that that would not have changed

dramatically since the float, particularly because of the high level of retention rate that I referred to earlier. In terms of any subsequent sale, we would again expect a country-wide allocation process that reflects, if you like, the farthest reaches of Australia and the location of individual investors. I think it is fair to say—because we are aware of this—that the government took particular note, in the first allocation phase, of ensuring that all parts of Australia were properly represented or properly participated in the offering.

Senator MARGETTS—Not just parts of Australia, but could you, on notice, provide to the committee your idea of what kind of income distribution might be involved in the Telstra share distribution. Have you got any of those kinds of figures?

Mr Chipkin—No, we would not. Frankly, I think that would be pretty well impossible to establish on a national basis unless you did a survey of the country in that regard.

CHAIR—Thank you, Senator Margetts. I thank Mr Wilson, Mr Chipkin and Mr Lipman for their attendance today.

Senator SCHACHT—Madam Chair, as a matter of process, if we have further questions—because this is going to be happening all day with all the witnesses if senators are not going to be able to complete their questioning—if we lodge within the next few days further questions on notice, would they be willing to take them on behalf of the committee? This is going to happen all day and we are going to run out of time with every witness.

CHAIR—I am not inclined to do that because it makes it very disorderly. We will try to get through the questions as quickly as we can. In that situation, we cannot insist that they actually provide the answers. I think we will try and get through the answers quickly. I will ask the witnesses to be as short in their answers as possible, and you should also be succinct in your questions. Thank you very much.

[10.04 a.m.]

BUN, Ms Mara, Manager, Policy and Public Affairs, Australian Consumers Association, 57 Carrington Road, Marrickville, New South Wales 2204

HORROCKS, Mr Stephen Robert, Senior Policy Officer, Information Technology and Communications, Australian Consumers Association, 57 Carrington Road, Marrickville, New South Wales 2204

CHAIR—Welcome. The committee has before it your submission No. 54, which it has authorised for publication. Are there any alterations or additions that you would care to make at this stage?

Ms Bun—Yes, we would like to amend that submission with a few publications which we have with us today.

CHAIR—You mean add to?

Ms Bun—Just add on.

CHAIR—Have you got those there to table?

Ms Bun—We have.

CHAIR—Do you have any additional statement you would like to make to your submission?

Ms Bun—Yes. We would like to draw the committee's attention to four separate points in summary format. They include: our general views on the current state of play of both competition and consumer protection in telecommunications; the opportunities and risks associated with full privatisation at this juncture; measures of both key outputs that we would seek in a fully competitive marketplace and additional inputs that we think are necessary to

actually get there; and, finally, what we think some of the critical arguments are in terms of the ownership issue.

CHAIR—I suggest that you try to make that as brief as you possibly can because we are running to a fairly tight timetable.

Ms Bun—Given the current arrangements in both competition and consumer protection policy in telecommunications, we would remind the committee that the Australian Consumers Association did not oppose the initial part privatisation, nor did we oppose the full privatisation of the Commonwealth Bank, because ownership, to us, is secondary to the competitive environment and consumer protection rights in place in the marketplace. Our questions, therefore, are about the extent to which we are fully certain that current arrangements will deliver a competitive marketplace and safeguards for the long-term interests of consumers in the marketplace.

The risks at this point of fully privatising are to do with reducing the accountability of a very major company that provides a critical essential service to the public sector when it is not fully competitive in critical areas in an untested consumer protection environment, both of which, we might add, we think are very promising. We think we are on the road to deliver a world-class framework for consumer protection and competition.

What are some of the shortcomings? One of the additions that we would submit is that in the United Kingdom Oftel is currently conducting an investigation about what constitutes full competition in telecommunications. Our sister organisation has provided a document which you will have that outlines the four basic preconditions. They are to do—as you would expect—with issues like whether there is full competition in price across a range of services across pockets of the economy, whether there are market barriers to entry and exit for consumers, whether information flows freely, and whether pricing—both access and user pricing—works in a way that is ultimately accountable.

We would suggest at the moment that, although we are on the right path, there are some shortcomings in the system. To fix those on the competitive side we would certainly encourage the kind of ring fencing requirements that the FCC at the end of 1997 put in place in the United States that forced very hard and transparent reporting requirements and prevented major carriers from discriminating from one class of customers to another. Those requirements do not exist in Australia and, ultimately, it would be fair to say that there is some uncertainty about what costs Telstra currently attributes to what services and whether that is a fair allocation.

In addition, we think further powers are required by regulators. We have outlined some of those. On the consumer protection side, we have an environment which is very innovative, with inclusion of public as well as private sector determiners of consumer protection standards. The problem is that we do not have any standards yet. They have not yet been fully developed. They have not been canvassed in public. They certainly have not been tried and tested. As we receive further information that consumers in Australia do not understand that they have rights in terms of customer service guarantees, do not know that there is a Telecommunications Industry Ombudsman or are yet uncertain about who regulates what, we think it is a bit premature to make major changes.

In summary, the question of what privatisation has to do with consumer protection and competition will clearly—unless a fairly robust competitive environment is in place and unless there are safeguards for those consumers who fail to benefit from that competition—put immense pressure on a monopoly privately held carrier, particularly scrutiny from the markets

to ensure that that monopoly position is held. That would be of risk to the long-term interests of end users.

Senator SCHACHT—If the bill to fully privatise did—from my perspective, unfortunately—go through the parliament, do you think it should maintain the power of the minister to direct a fully privatised Telstra?

Ms Bun—We think this is a crucial element. It is an element that we find in the context of the Wallis debate on financial services. When banks were encouraged in the marketplace to provide a basic standard account for people that was fee free, they resisted. If the Wallis reforms do, in fact, take away the Treasurer's power to actually monitor fees, then we think, yes, there is a very big risk that the markets dictate social outcomes. We think that power to direct is critical and should be reinstated.

Senator SCHACHT—Some evidence has already been given this morning that this will affect the marketplace, that the regulatory arrangements should be the marketplace and that the shareholders would be unnecessarily affected. That is the argument in response. There are 1½ million shareholders in Telstra and, indirectly, there may be more through institutional investors. How much weight do you think should be given to that view of the shareholders—the so-called mums and dads, of which there are several hundred thousand—vis-a-vis the power to direct?

Ms Bun—I suppose there is a general trade-off potentially between shareholders and consumers. Often this trade-off is focused on as the central trade-off. However, there are numerous examples in overseas countries of how demand can be stimulated by good price based competition and that marketplaces, in general, can expand to the benefit of both shareholders and consumers. Having said that, it is fair to acknowledge that those shareholders who went in on the conditions of the initial partial privatisation float understood that those were the terms and that, certainly, strings were attached in public ownership. I would not suggest that they are suffering at the moment. It is also the case that social policy can cost money and, yes, it is the case that governments are able to dictate that policy regardless of ownership. It is also the case that leverage is different when a major carrier is privately held.

Senator SCHACHT—If the power of the minister was removed, even though the present minister has made it clear that he will never use the power—which makes him rather impotent in all sorts of ways; in telecommunications I am talking about—do you think that other regulations in the ACCC area, the Trade Practices Act or elsewhere in the Telecommunications Act would be able to provide as much national interest protection as elsewhere in those acts if you did remove this particular provision of the power of the minister to direct?

Ms Bun—It is possible to develop very stringent regulations that can potentially hold players accountable. However, to enforce those regulations with untested regulators and with untested safeguards and standards is a different matter. I think we would probably support the minister in the sense that, oftentimes, holding the power is the important factor, not necessarily exercising it. We would not expect that kind of power to be exercised in a willy-nilly fashion. It is a power of ultimate recourse.

Senator SCHACHT—The present management of Telstra have already tried once to reduce the estimates scrutiny of Telstra. This committee has rejected that very strongly in a bipartisan, tripartisan or quadpartisan way, without any equivocation. A fully privatised Telstra, I would imagine, would argue even more strongly that they should be completely exempt parliamentary scrutiny through estimates committees and from appearing at hearings such as this or at the

estimates hearings. Do you believe, even if Telstra were fully privatised, that the estimates process on Telstra should continue?

Ms Bun—In light of Telstra's role in the economy and power in the marketplace—which is a critical marketplace—yes, it is important for parliamentary scrutiny to continue. It is even more important, in our view, for the culture of transparency which has developed in the US and in the UK, where pricing regulators force disclosure of key financial indicators and post them on the Internet on a regular basis. That kind of culture of negotiation, in the long term, has the potential to facilitate rational economic outcomes and not anti-discriminatory outcomes in the marketplace. So transparency is a political and a marketplace issue.

Senator SCHACHT—With the development of lots of new technologies in telecommunications we have already seen the beginning of the availability of broadband on-line services which are not covered by the standard telephone definition. Does the ACA have a view that, as those new services develop and become critical for citizens, they should be looked at as being covered as part of the standard telephone system or communication system available to all Australians?

Ms Bun—The ACA participated in the review of the standard telephone service about a year and a half ago. It very strongly advocated in that review that there should be an upgrade of digital data services and that that upgrade should be mandatory right across the nation. We certainly appreciate that there is some uncertainty in terms of technologies that are able to deliver these services to the bush in different cost fashions. That kind of uncertainty needs to play itself out but beyond a year or two in terms of what really is reasonable by way of delivery, and we would have grave concerns if the rights that are available and services that are available for the information society are limited to pockets of big city, high-tech end users.

CHAIR—You said in your submission that you thought that full private ownership should not occur until there is proof of effective price competition. What would you see as effective proof?

Ms Bun—That is an excellent question. That question is addressed partly in this paper 'Defining effective telecommunications competition'. This is a paper from the *Consumer Policy Review* of the Consumers Association in the UK and it is about the situation after 15 years of experience in a privatised and deregulated telecommunications marketplace. The author is Mark Purdy.

Additionally, in March 1997, *Which?* magazine, our sister magazine in the United Kingdom, carried out a comprehensive evaluation of price based competition in local and long-distance telephone services in the United Kingdom. The kinds of variations that occur in that analysis range up to savings for local calls of 27 per cent for some customers, depending on your geographic location. That, we would think, more reasonably approaches competition in local telephony compared with here.

CHAIR—If the government owns Telstra, isn't there less of an incentive for them to be involved in a competitive market and actually to keep prices high so it syphons off a bigger proportion of what can be made in telecommunications?

Ms Bun—If you take the attitude that a shareholder, regardless of who that shareholder is, will maximise profits in the short term and that that could be anti-competitive, we would argue that a private shareholder scrutinised by major offshore institutions is more likely to aggressively take advantage of market power and to really ensure that all regulations, if possible, are deferred, delayed or avoided.

CHAIR—It would be in a different situation from a normal company since there would be quite significant regulations about consumer obligation and those sorts of things. It is not like the privatisation of the Commonwealth Bank. A group of consumers is coming before us later who say that the banks have actually withdrawn from rural areas. There was no community obligation written into the sale of the Commonwealth Bank. I cannot understand the argument you are putting forward; could you repeat what you said?

Ms Bun—In fact, that was one half of the argument; there is an important other half of the argument. I will repeat the first half: if ownership, quite apart from whether it is private or public, seeks to maximise returns, we think the private side would do it better, more efficiently, under greater scrutiny and more rapaciously, because the incentives are certainly there.

The second half of the argument is: clearly, a government has a political stake in the ability of residents, citizens, Australians around the country to use an essential service on good terms—on terms that are competitive, that improve prices relative to other countries and relative to history. A private sector investor does not necessarily have that objective. In fact, they clearly do not.

CHAIR—How come there have been so many complaints about Telstra? If that is your argument and it is now in government ownership and there are significant complaints about it—

Ms Bun—We do not disagree that publicly held monopolies of essential services deliver good customer service. Believe me, we have not opposed the initial partial privatisation of this company and we think it has improved our service, reporting, information and, to some extent, pricing. It is just that we are not quite there. There is an enormous amount of market power in the marketplace at the moment and it is a risk to ordinary residential customers who may fund greater competition in the business sector because the requirements to separate that kind of cost-accounting just are not in place.

Senator LUNDY—With respect to the actual structures of Telstra, recently they have indicated that they wish to play a greater role in the area of providing services to customers. That has resulted in a number of initiatives and pricing packages that may or may not include timed calls for businesses certainly and, potentially, for residential customers. Given that Telstra now seem to be changing the way in which they present themselves to customers, how do you think that those shifts present themselves in the context of actual competition on the ground? Do you think there is the potential for any conflict to arise, given that they are selling a value-added service as well as providing the infrastructure for many customers?

Ms Bun—I might make some general comments and perhaps Steve could make some more specific observations. One set of issues relates to the ability of people to understand a good deal and how that ability—unless there is sufficient requirement for standards and reporting under education and so forth—can be eroded over time. In financial services, we find lots of bells and whistles but not a lot of good old-fashioned price based competition outside of the mortgage market. The risk in this kind of situation is that you have advertising based competition that does not necessarily deliver good value. Again, we look to those full assessments of good value overseas as an indication of what is possible.

A second range of issues is about cross-subsidisation, and that is about competition in one area being funded by a static play in another. A good example of that is the current business packages that combined some measure of timed local calls. What incentive is there for Telstra, with not much competition on local calls, to really force down the price of untimed local calls

as is happening in overseas countries, when they can actually use monopoly profits from that area to fund business competition? Those are some general comments.

Mr Horrocks—Ms Bun has made the point I was going to make. If you look at the example of timed calls for businesses and the opportunity there for Telstra to provide discounts, there is a risk that there is a cross-subsidy occurring and that residential users of untimed local calls are actually paying a little more than they should be, and that subsidy is moving across. The benefits of separation and transparency of network costs are that we have greater accountability within the incumbent dominant carrier to actually demonstrate that there is not a cross-subsidy occurring.

Senator LUNDY—Further to that point, in the context of scrutiny of competition policy per se in an active competitive environment, you have already mentioned accountability and scrutiny but, given that the experience of the parliamentary committee so far has been that that level of scrutiny is not available for parliamentary analysis, how are the various authorities—the ACCC, et cetera—able to make those assessments and judgments in providing some statement or determination as to the fairness of the competitive environment they are actually trying to create?

Ms Bun—There is a significant difficulty which the US has fixed quite recently, in theory if not in practice, to do with the fact that if big carriers argue that their information is commercial-in-confidence and cannot be used, other than by the regulator, how can the regulator really assess the integrity of that information in comparison with other asset allocations? So we would argue again that the principle should be full transparency, full disclosure, publicly available for all carriers. It is the case that both in infrastructure based competition and in access based competition that kind of transparency is critical, not just to the parliamentary system but to the market functioning in an effective way.

Mr Horrocks—Can I add that it is not just a matter of the potential for cross-subsidisation; it is also the potential for the carrier to discriminate against the other operators who are attempting to enter the marketplace. For example, when some of the new players were trying to come in and they wanted to get the preselection issue sorted out, there were some difficulties with them actually having the preselection capacities installed in the network. By actually disclosing a lot of the network costs and separating a lot of the abilities and making sure that there is no discrimination, competition does have an easier run into the market.

Senator LUNDY—Just taking this point to a practical example, particularly in relation to competition surrounding the infrastructure, in the regional areas of Australia obviously you are dealing in a proportion of the infrastructure that is not likely to be highly profitable. How do you apply the competition theories and practices that we have been discussing to an area of the infrastructure that is not likely to be highly profitable and therefore not challenged? And how do you regulate what is a desirable cross-subsidisation given we have a USO but we do not have the scrutiny to be able to assess how the USO is actively being applied in that cross-subsidisation regime?

Ms Bun—Again, that is an important transparency question that I think the parliament needs to address. Broadly speaking, I think we should make clear that we are comfortable that this proposal goes forward with the inclusion of very clear universal service obligations and that, in many respects, those are good obligations. They need some finetuning, but in many respects they are quite good.

The role of those obligations is precisely to deal with the problem you have identified in competition—that it simply will not extend to certain areas. The difficulty is, though, once

you establish the requirement, if you are not able to report back in a fairly transparent and immediate fashion, it is very difficult to assess what is actually happening.

The other difficulty is that there is a lot of delay to do with new technologies that people have been waiting for a long time, in some cases. But, by and large, the general principle must be that everybody comes along at a basic level, and that basic level needs constantly to be upgraded and enforced.

Senator LUNDY—So the theory is, in terms of the level of scrutiny that you are advocating, that quite specific and strident assessments will need to be made of the actual revenues and cross-subsidisations that occur within the corporation.

Ms Bun—Absolutely. If possible, we will provide a further piece of analysis, which we did not bring, again from the consumers' association in the UK which has great experience with privatisation. It is about utility reform and the title of the document, if I recall it, is about secrecy, democracy and price benefits. It compares privatisation of utilities in America with the UK and draws the argument that, because of transparency of information, every memo written by any CEO in any utility in America is subject to freedom of information. The pricing benefits have flowed right through to customers, so it is an argument in favour of transparency.

Senator MARGETTS—I have two questions. Is there a group of consumers—or is the Australian Consumers Association concerned that there will be consumers—who will or might be permanently disadvantaged by the full privatisation of Telstra? If so, could they give us any idea of the demographics or what the description of those kinds of consumers might be?

Ms Bun—We are unable to give you a precise description of how many or where they are. We certainly would suggest that that risk exists, regardless of ownership, and has existed for many decades in relative terms in this country. The question now is, given the objectives for all end users in terms of good, high-quality telecommunication services, will privatisation further risk or put at risk those pockets of customers? Of course, it all depends. And that is the concern that we have.

We have great hope for the new competitive arrangements and consumer protection arrangements. They are not tried or tested. We do not have competition in a range of services from mobile to long distance to data services to local telephony, and we do not yet have consumer protection standards—much less do consumers know about them.

Senator MARGETTS—What kind of permanent disadvantages do you think are risky?

Ms Bun—I suppose the potential permanent disadvantages—and again these are potential permanent disadvantages regardless of ownership—are to do with delaying further expensive upgrades in available services and not understanding who really is getting the benefit of what.

Mr Horrocks—There is another risk that some consumers will be permanently disadvantaged or seriously disadvantaged in terms of their awareness of the opportunities from the competitive framework. That is another issue that does need to be addressed.

Senator MARGETTS—My other question relates to the impact of the changing ownership of Telstra and whether or not the government will continue to have any say in the nature of that ownership or the outcomes as a result of the Multilateral Agreement on Investment. Have you got any opinion on what the potential interconnection might be with the ownership or regulatory abilities of government, any ability for them to maintain promises of outcomes, if the Multilateral Agreement on Investment is signed?

Ms Bun—I suppose I will preface this by saying that certainly the information we get from Europe is that that is a less likely scenario but, in the event that that agreement in fact does

come through, in the short term anyway it is subject to a range of exemptions. Our understanding is that there is a list proposed of those exemptions which does include foreign investment. Whether those are permanent, appropriate, et cetera is a different question.

Senator MARGETTS—What about guarantees of outcomes or consumer protection? Is that likely to be a problem or is there any information that you have received that there is likely to be a problem under the Multilateral Agreement on Investment?

Ms Bun—Without thinking about it, and we are happy to give it further thought, one of the key conditions of that agreement is that there not be discrimination between foreign and local investors. In this case I would imagine Telstra would be arguing that it is being discriminated against relative to foreign investors. So perhaps it may be not so much of an issue, but we will give it further thought.

Senator EGGLESTON—Can I raise some questions about the operation of the customer service guarantee scheme? One of the things which you seem to overlook is the fact that, under new regulations, the minister will have the power to direct Telstra, as well as any additional carriers, in the event of a systemic failure to meet the customer service guarantees. I just wonder if that does not change your point of view because the minister will have that power to direct. Would you not agree that it is quite reasonable and in the consumers' interests that the minister should have a power to direct all service providers?

Ms Bun—That certainly does give us some comfort. There is no doubt about that. We have experienced, over several decades, ministers not using powers because it is not necessarily a popular thing to do.

Senator EGGLESTON—It is if the situation calls for it.

Ms Bun—That is correct. But in a whole range of industries, I should say, beyond telecommunications. I think our concerns are threefold, and they may be difficult to capture under the guise of a ministerial directive or the power to order. Firstly, it is about carriers not actually telling people that they have rights. There are surveys from at least five or six OECD countries about major carriers essentially lying to consumers about price conditions, what rights they have. We would be happy to supply them. Our concern, of course, is that if this becomes systemic it is very difficult to capture. So how does the minister know that this is occurring?

Secondly, the concern is about the coverage potentially being narrow. That is a question of further debate, I suppose, between a range of stakeholders, but we are just flagging that as an issue which has less to do with administration. Finally, precisely to do with administration, how in fact will those rights be utilised by consumers? How will consumers enforce their rights? There are difficulties with the Telecommunications Industry Ombudsman. I assume that will be a subject of greater interrogation by this committee. Do those arrangements need a further looksee? It is just a little bit early to test. Have we got the right set of rights; do we know how to administer those rights, and do people know that they exist?

CHAIR—How would you suggest that they would know? Would the TIO's phone number and a short statement be on every telephone bill from all providers?

Senator EGGLESTON—It is a huge problem to overcome. Consumers are aware of rights these days to a much greater degree than they ever have been in the past, largely due to organisations like yours.

Ms Bun—Let me give a very brief comment and then Steve can answer this in general. It is critical that consumers are aware of their rights. Our central message to this committee is that at the moment Australian consumers do not look at telephone services as something that

is competitive and that they have something at stake with. They can continue to be a public utility.

How do we know that? One way we know that is because every month we do a survey of our own subscribers. We go out to people—I do not know how many people because it depends on the issue—and we ask them, ‘What interests you? What do you want to know more about to shop around?’ Consistently, they say, ‘Food and financial services,’ but never telecommunications. There is no interest there yet.

Senator EGGLESTON—The telecommunications system has been a public utility. I think that you are speculating that things will not change, even though the system is going to change. I think you should perhaps wait to see what the outcomes are because I am sure that consumers—I, for example—will certainly be interested in seeing how services are provided, especially in regional Australia. I am sure that people in those sorts of areas will be very aware of differences in their services and be looking for benefits or losses. I would be interested in hearing your comments about strengthening the mechanisms by which consumers can complain and how that can be implemented and transmitted to the minister.

Ms Bun—Absolutely. We would hope to do that properly, not just in a committee hearing. We would love the opportunity to share our views with the minister.

CHAIR—I suggest you submit that in writing.

Senator LUNDY—Going back to the question of competition in the bush, currently there is an example of Telstra providing a business Internet connection product in the bush. That pricing regime is determined by a number of factors, including their points of presence and the fact that they offer a retail product as well as sell wholesale bandwidth to a number of regional ISPs.

At the moment Telstra offers a discriminatory pricing regime for their business Internet connection product for what appears to be a competitive reason to ensure that they do not undercut the regional ISPs. This obviously is one of the greater ironies of the impact of competition policy on bandwidth pricing in the bush. Can you comment on that particular issue. From the Australian Consumers Association point of view, can you express a view about that particular anomalous circumstance?

Ms Bun—The precondition for retail competition must be wholesale pricing that is fully competitive. One of the comments would be: what are the prices being charged to those ISPs in the bush at the moment relative to the underlying cost? Having said that, in terms of longer-term competition, to expect that somehow Telstra will become rational in the absence of those regional competitors is, I think, irrational as well. We have to somehow foster genuine contestability in a marketplace which, curiously, once the infrastructure is in place has a very low marginal cost. Whether bandwidth is being priced rationally is a completely different question and I am sure you have heard a lot about that.

Senator LUNDY—From your association’s point of view, in terms of that rational pricing, I presume you will make the point about scrutiny, accountability and the ability of parliaments to actually assess and make comparative commentary on the justness, fairness or otherwise of those.

Ms Bun—Parliaments and competitors—that is really critical for the industry.

Senator LUNDY—From a competitor’s point of view, however, because we are dealing with the unprofitable section of infrastructure, what opportunity is there to introduce a competitive infrastructure regime out in the bush?

Ms Bun—Because there is so much uncertainty to do with cost and to do with technology, nonetheless, in talking about that data service in the bush, you can get to a pretty high percentage before you run into supply problems at not totally unreasonable prices relative to what is happening in Australia—that is maybe 95 or 96 per cent. That extra amount is really difficult to cover; that is true. We have to solve it and we have to share those costs. The problem is that the whole structure is overpriced and the access arrangements make it impossible for us to understand how rational or irrational it may be.

Senator LUNDY—Going back to your earlier point about the fact that we know the regional areas will not present a profitable aspect and that their levels of service can only be maintained through a regulatory regime, despite that overpriced nature of the whole system, there still is only regulatory pressure on maintaining or in fact building those services, so that competitive pressure can never be introduced because this is where the cross-subsidisation of services to the bush comes into it. So there does not seem to be that countervailing or complementary pressure to get prices down. I guess what I am getting to is this: can you see the need for quite specific pricing regulations in those areas of non-profitable infrastructure that are only maintained in the first instance by a USO or a similar style regulation?

Ms Bun—Absolutely, and I think the analogy is true for local phone calls as well as for data services. Then the question is what kind of pricing mechanisms, and that is something we have not touched on. We have not begun yet to have a public discussion about what kind of capping regime we are likely to have. If it is a parity regime and if you do not have competition in cities, you are certainly not going to get it anywhere else in terms of pricing benefit. But, yes, there is a role for regulation. There will be pressure by shareholders to minimise that regulation because of forgone profits, and that is something that any government will have to be prepared to wear regardless of ownership.

Senator LUNDY—So you are acknowledging the fact that there is a need for quite specific pricing regulations?

Ms Bun—Absolutely.

Senator LUNDY—I just have one final question. To what degree would a complete lack of scrutiny and full commercial-in-confidence for Telstra affect your association's current ambivalent stance on full privatisation?

Ms Bun—To an enormous degree. Information is the critical tool in assessing the extent of competition, how consumers are benefiting and whether that is fair. So at the moment it is ludicrous for us to be having a conversation about whether the cost of delivering local calls is 5c, 8c or 12c relative to 25c. We know it is not near 25c for starters. How do we have that discussion on a rational basis unless we have full information?

Senator LUNDY—Is parliamentary scrutiny and the opportunity for Telstra to participate fully in, for example, the estimates process, et cetera, contingent on your support or ambivalent stance on privatisation? If it is not available, would that cause your association to actively oppose the privatisation of Telstra?

Ms Bun—Our association is of the view that ownership is less of an issue than full competition and full consumer protection. Certainly, to deliver a fully competitive marketplace—particularly in utilities and essential services—we are convinced that public information and scrutiny is critical, so that is a precondition.

Senator LUNDY—It is a prerequisite to your position?

Ms Bun—Our position has a range of concerns that we think need to be addressed at some point in time.

Senator LUNDY—Thank you.

Senator SCHACHT—On page 2 of your submission, which is page 388 in the way it has been collated for the committee, under the universal service obligation, you comment: For example, the Universal Service Plan has not yet been finalised.

Do you know why the universal service plan has not been finalised?

Ms Bun—Not really. We should say that other consumer organisations have been involved—the Consumers Telecommunications Network, for example—so please ask them.

Senator SCHACHT—As far as you are aware, the plan has not been finalised?

Ms Bun—No, it has not.

Senator SCHACHT—This is a matter of concern to your association. In the development of the universal service obligation, this plan not being available is a hindrance?

Ms Bun—Of course.

Senator SCHACHT—The other thing I want to raise with you is that, on our page 280 of the Telstra submission under section 2.2 headed ‘Company Benefits’, Telstra says:

Where the Government has a majority control over the company, the Board and management are inevitably linked into these considerations, in responding to the expectations of the majority owner.

In this case, it is the government. Then it goes on:

This can lead to sub-optimal commercial decisions.

What do you think is a ‘sub-optimal commercial decision’?

Ms Bun—It depends crucially on what you believe the market can offer. I do not mean to be glib, but if you do believe that growing the market in a competitive environment is possible and desirable, it is a win-win situation. On the other hand, if the strategy is to protect market share and not grow it with declining prices, then clearly, from a commercial point of view, the incentive is to maximise that market share, which is, of course, to the detriment of long-term competition.

Senator SCHACHT—It goes on in the next paragraph to say that these decisions, which may be suboptimal, ‘May also lead to informal and indirect subsidisation of services for particular sectional interests at the expense of other end users.’ Would you think it is reasonable in the national interest that what we call ‘the bush’ in Australia, and what they have obviously called a ‘sectional interest’, should get equal access to telecommunications, as do the rich suburbs of the city?

Ms Bun—Yes. From an equity point of view and from an information policy point of view, we believe there must be access not just for social reasons but for clear economic reasons.

Senator SCHACHT—If you have any further comment to put back to the committee about this after you have had a chance to look at the Telstra submission, I certainly would find that useful to expand. I think this is a critical point of the debate: what they mean by ‘suboptimal commercial decisions’. It is a frightening term. It sounds a bit like Ronald Ziegler using ‘interdict’ with President Nixon as a way of describing bombing or something. I would appreciate your comments on that.

CHAIR—I would like thank Ms Bun and Mr Horrocks for their submission and their attendance today.

[10.47 a.m.]

HORSLEY, Mr Allan Bernard, Managing Director, Australian Telecommunications Users Group Ltd, PO Box 357, Milsons Point, New South Wales 2060

CHAIR—Welcome. The committee has before it submission No. 31, which it has authorised for publication. Are there any alterations or additions you would care to make at this stage?

Mr Horsley—We provided an addition yesterday by fax, and I have multiple copies here if people would like one. It is only a short submission which built upon what was in our main submission.

CHAIR—We do have it; it is No. 31a. Thank you very much. Do you wish to make a brief opening statement?

Mr Horsley—I would. Thank you. ATUG supports the concept of the privatisation of Telstra for some specific reasons: to deliver beneficial outcomes and because we see that it is a sensible way forward. We also see that privatisation will better enable Telstra to take the commercial risks that it may have to in this rapidly developing marketplace.

Having said that, we seek to ensure that the privatisation process is consistent with the objectives of the legislation, which is to bring about benefits in the long-term interests of end users. We would like to think that people focus on the concept of a customer dividend as much as they focus on the concept of a shareholder dividend, which seems to be very trendy in the financial world.

The point that we emphasise is that we are seeking to ensure that there is a services roll-out arrangement for basic or declared type services to ensure that we do get ubiquitous coverage of services throughout the country. That is not a new concept; it was accepted by the government for the roll-out of GSM and mobile services. It was accepted recently by the government in the provision of the WIN television licence in Perth. It has been accepted as a licence condition to acquire a carrier licence, and we all remember that the minister intervened to ensure that Telstra provided a roll-out plan for ISDN. So we think that the concept of roll-out plans are reasonable.

We set out in our submission a process to do that. I think what we are trying to present to the committee is a methodology, not necessarily pushing the precise figures that we put in—that is, once a 50 per cent coverage is achieved, there is then an obligation on the carrier to roll-out by and large to the rest of the country. We see the importance of those threshold targets as being something that can be reviewed by the minister, by the parliament; they give a clear notice to shareholders and management of what is expected.

The second point is that we desperately want to see legislative arrangements which ensure that we still promote competition. We recognise that the current legislative environment was really written for a government owned Telstra, not a totally privatised Telstra. The marketplace is still unbalanced and will remain so for some considerable time, particularly since Telstra has control of 99 per cent of the customer access network. So we see that there needs to be some positive intervention at a policy and regulatory level to ensure that happens. In saying those comments, we do not in any way want to dampen Telstra's ability to develop their services for the benefit of the country.

How do we do that? We have developed a view that we need accounting separation for declared services to make them transparent to the community. We see the way in which that can be done is by giving powers to the ACCC to make available that information. It is a power they do not have at the present time. Also, we see that it is appropriate to emphasise that we

are in a business of network economics, which seems to have gone out the window in the last few months, with comments about why we cannot afford to build this and cannot afford to build that. The reality is that these facilities not only originate traffic but terminate traffic, which seems to be something that is lost.

The final point we want to emphasise, and a model is contained in the supplementary submission, is that we do believe there must be carrier performance standards established—targets which carriers can aim for and targets which they are measured against—and that information should be publicly available to the community. That can be put in place as a condition of a carrier licence and compliance required. It is not a new idea. It is accepted practice in the United States, where carriers have to perform to a set of standards.

We have brought along a list of those standards developed as a result of a scrutiny of American legislation. We would like to think that is something which adds much more significantly to the customer services guarantee in its existing and proposed forms, because we do not think it has broad enough criteria, nor does it set targets. It is more about monitoring and comparisons. We really are on about targets where all carriers can be judged.

That is a thumbnail sketch of our position of wanting to see this proceed, but having in place some better ways of managing the business.

Senator EGGLESTON—One of the things you suggest in your submission is that the government would not be able to intervene in relation to Telstra if it did not own it. But, in fact, the minister will have direction, and that has been extended to all carriers. I think you would agree that there are examples of the government intervening in Optus and Vodafone, which suggests that not only will the government be able to intervene but it will do so in a privately owned Telstra. Isn't the requirement for identity checks and the selling of pre-paid SIM cards an example of how this could occur? Would you like to comment on that?

Mr Horsley—Certainly in the latter case, that was an intervention for national security reasons; it was not an intervention for service reasons.

Senator EGGLESTON—But it still occurred, you must agree.

Mr Horsley—Yes. You are quite correct; it did occur. We see that there have been instances where the minister has intervened. We are concerned that that be made much more clear and, particularly from an investor point of view, that the arrangements are clear to investors—that is, investors understand the terms on which the minister will or can intervene.

We are concerned that the minister may have the inclination to intervene on service issues which are in the national interest if the competitive marketplace is not delivering outcomes to end users. If we conveyed the impression, I apologise, but we did not mean to convey the impression that the minister can only intervene if Telstra is in government ownership. Clearly, the minister has that power. But we see that it needs to be more clearly spelt out so that both the demand side of the industry and the supply side understand the terms.

Senator EGGLESTON—Wouldn't you agree that it is a matter for the new system to evolve? Until recently, we have had a monopoly in telecommunications with Telstra being the only service provider, and we are now moving into a private, competitive regime. Just as other aspects of the law evolve, in this case we have to let the minister's right to intervene and situations in which he will intervene evolve by case development. Would you agree that it is fair to say that we should give this system time to work so that we can see how it evolves and then perhaps review the level of ministerial intervention, after a period of three or five years, to see whether the interests of consumers are being protected?

Mr Horsley—I certainly would agree that we need to allow the arrangements to evolve. At the present time, the marketplace is incredible skewed one way. Our perception would be that some light-handed involvement at the beginning to encourage the industry to develop consistent with the government's policy is better than action after the event when you are trying to correct something. I certainly agree with your thought that ministerial intervention, which might be considered to be reasonable in the next year or so, might need to be backed off in future years, as you suggest, when the marketplace becomes more balanced and more robust. We would tend to err on the side of an intervention capability early on and it being turned down rather than the other way around.

Senator EGGLESTON—There is one other issue that I would like to raise with you. On page 6 of your submission you say that you think competition will not continue to develop. Isn't there a good argument to be made that while Telstra is partly government owned the government has an incentive to keep enjoying the monopoly profits, so it would not be as vigorous in promoting competition while it still had an interest in Telstra as it would be once it had no interest? In fact, the full privatisation of Telstra will be an incentive to more competition.

Mr Horsley—I am not sure that on its own the full privatisation of Telstra is an incentive to competition. Our concerns have come about because of the experience of the past 10 months of the new regime where a variety of impediments have been put in the place of competition by a slow-to-act Telstra. The slow provision of preselection and the slow provision of number portability are perhaps the best two examples of where Telstra does not seem to have had the incentive to provide network capability to bring about competition. So one builds on that experience and says, 'Let us have some motivation in place in the early stages to ensure that we bring about the end result.' We do not argue with the end result; we support the policy direction. We have a view that there needs to be some gentle assistance given to achieve that objective. Perhaps the industry's greatest concern is the concept of delay and we have experienced that already. For instance, we see that the expression in the legislation for the ACCC to be expeditious needs considerable emphasis.

Senator EGGLESTON—Are you happy that the observance of the universal service obligation is being met?

Mr Horsley—Yes, as of the minute we do not have a problem with the USO. We, like others, would support the USO specification being expanded to digital capability and maybe down the track to a broadband capability as communications services develop. We do make the point that it is the tolerance and good nature of the Australian community that brings about the USO—nothing else. We all pay about \$26 per year to ensure that we have a ubiquitous service across the country. The Australian ethos of inclusion allows that to happen. We think that should continue. I guess that as time goes by we would not be overfussed if that contribution grew to ensure that ubiquitous services are provided.

Senator SCHACHT—Mr Horsley, I want to get this clear. You mentioned the power of the minister to direct. The power of the minister to direct Telstra is being removed in this bill for full privatisation. Of course, elsewhere in the Telecommunications Act itself and under the ACCC the minister has got the power to direct on certain specified issues. He has used those powers, as you have described in the submission, but he has never used the power to direct the board of Telstra itself. Do you support that power to direct the board of Telstra being removed in the full privatisation or are you silent about that?

Mr Horsley—We would argue that a power to direct in a defined way—not unlimited—is useful, as I indicated earlier, for a period. We see that it is better to have that intervention capability early on and to water it down as the marketplace develops and Telstra's position is perhaps less influential. But we certainly see a point, for fear that we will not get the pro-competitive marketplace developed.

Senator SCHACHT—You said that in the last 10 months you have not been 100 per cent happy with the evolution of post 1 July 1997 arrangements for competition—that Telstra has used its position and there has been a public debate raging all over the place. If the minister had, during the last 10 months, chosen to use his power to direct Telstra and the board to set a figure on the interconnect and the local loop, do you feel that it would have been an advantage to have that power if the minister had been willing to use it in terms of developing competition?

Mr Horsley—If the minister obtained some considered advice—perhaps from the ACA—and then acted upon that advice, then we would suggest that we would have got quicker outcomes.

Senator SCHACHT—That is what I am getting to. I think you have accepted that, for the foreseeable future, whether it is public, partial or full privatisation or whatever the ownership level is, Telstra, by its very definition and its position with its network, will be the ubiquitous provider of 80 per cent plus or 90 per cent plus. Every day someone will use Telstra's telecommunications system—or most ordinary Australians will. That will not dramatically change in the foreseeable future.

Mr Horsley—I think that is right. That influence, we perceive, is about Telstra's influence in the local loop.

Senator SCHACHT—Yes.

Mr Horsley—We have growing competition in long distance transmission systems—

Senator SCHACHT—And mobiles and international.

Mr Horsley—and mobiles. But, in the local loop, it is 99 per cent Telstra. It is fair to say that, while it is in the local loop, it is likely in the next two or three years to deliver alternative access arrangements for emerging carriers, and I suspect they will also be used by Telstra. We would expect that the coming into service later this year of the low earth orbiting satellites will equally provide alternative access, albeit at a higher price. But for some time—I think it is fair to say this, notwithstanding the visions we might have of the future—Telstra will be very dominant in local access.

Senator SCHACHT—I noticed recently that Northgate in Ballarat—which has been held up as an example that, at a regional level, you can get major local loop competition tied in with a bundle of pay TV, et cetera—has now been ended and the company is now, I think, concentrating on STD calls. Again, isn't that proof that, for the foreseeable future, outside the major capital cities it is highly unlikely that a private company is going to risk its capital and its energy in trying to go into the local loop?

Mr Horsley—That is right, unless it does it in the way which Northgate proposed; none of us are privy as to why Northgate did what they did. You are right that they were held up as a model that could go into regional Australia. I still have a view that that could succeed. But, certainly in non-metropolitan Australia, we would agree that the Telstra access network will be the predominant service player.

Senator EGGLESTON—The point has to be made that they only have 50 local customers.

Senator SCHACHT—The reason is they cannot compete.

Senator EGGLESTON—But that is a marketing or commercial outcome, isn't it?

Mr Horsley—I made the point that we are not privy to all of the circumstances around Northgate. Perhaps we seized on that because we liked that concept of regional competition. They have not been altogether open in saying why they did what they did. I must say that I would like to understand.

CHAIR—I am sorry, Mr Horsley, they made a statement about it and said that they only had a limited number of customers. They were still keeping ISTD. They indicated that they took it off because they had such a limited number of people taking it up.

Senator SCHACHT—Why did such a limited number of people take it up when they were being offered local free calls in Ballarat?

Senator EGGLESTON—It says something about the people of Ballarat.

Senator SCHACHT—If you want to attack Mr Ronaldson's local constituents, the Liberal Party can do that if it wants to. I would have thought there are issues here about the running of a telecommunications system in a regional town that Northgate ran into and that Telstra, as the ubiquitous existing carrier, has a lot of advantages which Northgate could not get on top off. I understand that Northgate only rolled out a very small proportion of actual cable around the streets of Ballarat. Even in the local loop they could not provide much connection.

Mr Horsley, I want to move on to the other part of your submission. In the supplementary material you just provided us with this detail on carrier performance criteria, and it is also supplementary to what you concluded in your main submission about carrier performance standards, et cetera. If the parliament accepted all the significant amendments—I do not think you would decry their significance; a lot of other people might have a view about that, but nevertheless they are significant—do you want those operating for a period of time before Telstra is fully privatised so that you get a better lie of the land and of what is actually happening, or do you want them to start operating as soon as possible, even it was at the same time that Telstra became fully privatised?

Mr Horsley—We would like to see those operating as soon as practicable. We have the view—and it is experience that has come out of working with the community over the customer services guarantee, version 1—that more was needed. It is prompted by the fact that many people are saying they do not want the compensation; they want the approach used to motivate better quality delivery by the carriers.

Our thought was, and looking upon the work of the ACA which is measuring performance in a comparative sense on a very limited number of criteria, that the time had come to put in place something that is much more detailed, comprehensive and robust. We would not see this delaying the privatisation of Telstra, but being brought in as soon as practical. It is obviously something that would be administered by the ACA. It is within their competence to do that if the parliament agreed that the concept of a suite of carrier performance criteria targets be set and performance measured against those targets. That seems to be something that is relatively simple.

CHAIR—If you do not achieve those targets, what happens?

Mr Horsley—The concept of the fine as proposed already and ultimately—consistent with what happens in the US—the licence gets withdrawn. We see this as a sensible management tool as well as a public assessment of performance tool.

Senator SCHACHT—Mr Horsley, on page 9 of your major submission you have a proposed amendment to section 105, which says:

The ACA must monitor, and report each financial year to the Minister on all significant matters relating to the performance of:

It goes from (a) to (j), and then there is a new subparagraph (1A). Is that the actual amendment that you believe covers these new performance criteria? Is this the actual formal wording?

Mr Horsley—We do, Senator. The supplementary information was provided merely to give people a feel of what we were talking about rather than asking you to provide an amendment without knowing what was coming.

Senator SCHACHT—When you drafted this within the ATUG association, had any of your carrier members, advisers, et cetera, had a chance to look at this? Have they actually commented on it?

Mr Horsley—No.

Senator SCHACHT—I think this is a very important issue. When Telstra and Optus turn up here, we can take it as evidence and put it before them, but I think it may even hurry things up, Mr Horsley, if ATUG could seek the view of the major interests on this amendment. I have to say I have only just seen it today, with the supplementary. It seems to me it has a lot to commend it. You are moving into territory here of substantial new regulation on performance criteria. I suspect a carrier might say, ‘This is too tough for us; how the hell are we going to do all of this?’ But when you see the carrier performance criteria, would that actually have to be written into regulation to back up the legislation?

Mr Horsley—I am happy to be advised, Senator, but I would have thought that it was something where the ACA would establish—as I made the point in (1A)—the criteria through an industry consultation process, set the targets and then measure against the table.

Senator SCHACHT—But, if the target is set by the ACA, is that going to have to be put, at the very least, in a disallowable instrument? I think that is what you have to get clear. Otherwise, if it is just an administrative piece of paper, you will have all the carriers, the ACA and the Federal Court up hill and down dale arguing over all those things that lawyers argue over just to stop it being effective. I may be too cynical about that, but I suspect that probably history proves me right. I would like to get more information in this area. I have to say I think this is an issue, irrespective of privatisation.

Mr Horsley—I think that is right, Senator.

Proceedings suspended from 11.12 a.m. to 11.30 a.m.

Senator LUNDY—With respect to the competitive environment in regional Australia, to what degree does your organisation have contact with and represent regional users of telecommunication services?

Mr Horsley—We represent some, not a lot, but we certainly have contact with business users in regional centres of Australia.

Senator LUNDY—In relation to the competitive environment in regional Australia, we have already heard this morning evidence of arguably a failure in overlaying an alternative infrastructure in a regional environment. To what degree do you believe the USO provides for the introduction of competitive services in regions, or do you believe that those services can only be retained through regulation?

Mr Horsley—I think we would judge that for some time those services need to be retained through regulation because there is no demonstrated rush to regional Australia with competitive infrastructure. Technology over the next five or eight years might change that with the concept

of wireless technology—which we expect in the next year or so as a consequence of the spectrum auctions currently taking place—the intended spectrum auctions at 28 gigahertz for broadband, and the provision of services via geostationary or moving satellites are equally likely to provide service. So in that sense there are likely to be alternative access arrangements.

The area we do not have confidence in at the moment is the price. We acknowledge that satellite services are likely in the early stages to be expensive, yet the transformation of the Optus services from analog to digital for voice and data in that recent conversion has dramatically reduced the prices of services provided by the so-called VSAT technology. So it seems to us that with the new non-cable technology becoming available—and, as that picks up, prices may well come down—in the not too distant future we will have some competition, but for the immediate future we have a single access network in the country.

Senator LUNDY—Given the current pricing structures in regional Australia, and evidence to show that in fact there are disparities and a disadvantage to regional customers—and again I refer particularly to the business Internet product offered by Telstra—what degree of scope is there for Telstra to drop those prices if in fact there is a competitive threat to that market, in your view?

Mr Horsley—I would imagine there is a substantial capacity to drop the prices. The only model one can choose is the experience with long distance. Where we had competition in long distance, we now have half the costs for calls that we used to have; we have some providers who have eliminated distance bands; we have some providers who have eliminated time of day constraints. So competition has lowered the price and introduced innovation.

The converse is true in that ISDN prices across Australia, but particularly in urban Australia, are much higher than they should be—much higher than the cost structure dictates. If I could just dwell on ISDN, the cost structure of ISDN is little different from the cost structure of PSDN, so it is not unreasonable to ask, therefore, why the price differentials are where they are. One assumption has to be that there is competition in one and there is not competition in the other. So I think we can only draw upon experience and say then how do we move forward?

Senator LUNDY—Given that there is plenty of scope for flexibility or reduction in the current Telstra pricing regime, any competitor would have to make their investment decisions based on largely decreased revenues that are currently being earned by Telstra in those areas. Do you think that in fact could be a disincentive for investment, thereby undermining the potential for competition, despite new technologies?

Mr Horsley—I think it depends upon the occupancy in the business, the level of business. I think your suggestion was if a unit price came down. If a unit price comes down it does not necessarily mean that the revenue earning capability of the business comes down; there may be substantial elasticity in the marketplace, and in fact you will grow the business. I think experience in other parts of the world says that you can bring down the prices and grow the business.

So we would argue that, yes, there is an opportunity for Telstra to bring prices down; yes, that means a competitor must look at that to say that is what they have to compete with, but that is exactly what is happening with the company Macrocom which is building long distance assistance transmission systems between Melbourne, Canberra, Sydney and Brisbane. And they are doing it on the basis of having an understanding of where Telstra might cut the prices to, and they still think it is a reasonable investment. So those estimates can be made.

On the other hand, if local access was made available at a cost related price in a wholesale model, many people might not wish to build. We have, as you know, universities building transmission systems between campuses. We had the Australian Vice-Chancellors Committee persuade the minister to give them dispensation from carrier rules to build transmission systems between universities. Why are they doing it? Because they can get a payback period in 20 months on the system that they built. Fundamentally, they do not want to build them. We as taxpayers do not want our money spent on it, but it is done because they cannot get a cost related price from the carriers.

So, if we get cost related pricing in local services, then you are likely to see them taken up from a wholesaler with value added by a retailer, whether it be Internet or voice or whatever, and the marketplace grow. It seems to me that is what is important in this debate—to recognise the enormous capacity to grow the market and, as a consequence, reduce per unit costs.

CHAIR—Senator Lundy, we are running short of time with this witness.

Senator LUNDY—I have two more questions, Madam Chair. There is just one short follow-on question from that. Your logic provides evidence that the change that you have just described in those pressures on that fundamental infrastructure and cost regime relates specifically to the introduction of new technologies in those areas that are currently uncompetitive. In the intervening period—that is, the current circumstance we are contemplating—that is not in the immediate future in terms of the effect on the full privatisation of Telstra.

So to what degree will a regulatory environment, and how will a regulatory environment actually, firstly, move that particular sector or regions, if you like, closer to that outcome? Secondly, what regulations actually need to be put in place now to protect the interests of those consumers, be they business or residential?

Mr Horsley—I think our idea, to address your question, is that there are requirements on carriers to provide roll-out plans so that, if they are going to introduce a service and it reaches a threshold in urban Australia, then it is rolled out to the rest of Australia and that is done with cost related pricing and, if necessary, as the committee judges, incorporated in the USO. We, for our part, do not have any problem in enhancing the USO as a means to deliver the end service. We need to do it in a considered way. We need to do it when the services are proven to be necessary, not just because they might seem to be a good idea. In short order, that is the approach that we would suggest.

Senator LUNDY—Finally, we heard from the Australian Consumers Association that there was indeed an argument for price regulation in the regions in this period prior to some sort of genuinely competitive infrastructure out there. Are you aware of any other comparable jurisdictions that have regulated prices in what is arguably a competitive environment? Secondly, what is your organisation's view of government regulation of prices?

Mr Horsley—Unfortunately, I do not have experience of regulated prices in the circumstance that you describe. We do have a form of regulated pricing in Australia with price caps which are an incentive to drive some of the basic prices down. For our part, we would not have, in the short term, as part of developing a balanced market a difficulty with a price regulated regime. As you know, there is a review of that at the present time. We have raised the question of whether we should in fact consider rate of return pricing instead of price caps. That is like pointing two economists at one another, unfortunately.

Senator, what we are on about seems to me to be building confidence in the community that there is a balance across Australia, whether it be from CBD to metro to country. If there is

a small amount of intervention, some considered intervention at this stage which might be sunsetted, then we see that as a sensible way forward to allow a balanced marketplace to develop as quickly as practical.

Senator LUNDY—Are the prerequisites contained in your summary necessary for your organisation to continue to take its ambivalent stance on the full privatisation of Telstra?

Mr Horsley—I would think, generally, yes.

CHAIR—Thank you, Mr Horsley. I appreciate your attendance here today. Thank you for your submission.

[11.42 a.m.]

FIST, Mr Stewart Anthony McKenzie, 70 Middle Harbour Road, Lindfield, New South Wales 2070

CHAIR—Welcome, Mr Fist. In what capacity are you appearing before the committee?

Mr Fist—As a private citizen.

CHAIR—The committee has before it submission No. 56 which is authorised to be published. Are there any alterations or additions that you would care to make at this stage?

Mr Fist—I sent in a redrafted submission on the weekend. I presume that is the one.

CHAIR—That has been circulated, thank you very much. I remember because I remember reading the e-mail you sent attached to it. Do you wish to make a brief opening statement?

Mr Fist—Firstly, I might state that I am an independent technical writer. I point out that, as everyone says all the time, the problem is in Telstra's dominance, and you see the same sort of dominance everywhere in the world. What we see in Australia is not an unusual circumstance.

Dominance, as everyone in the technical area will agree, comes about through ownership of the local loop and the ability to control what that local loop connects to. Telstra controls 99 per cent of the local loop. To paraphrase Mark Twain, everyone complains about the local loop but no-one does anything about it. They are constantly pushing the idea that it can be simply solved as an accounting problem.

This is where I would differ with ATUG and most other people. The days when we can fix these things by putting up a China wall in accounting, in telecommunications, are long gone. It is a ridiculous concept. You have to structurally separate, and that is basically what I am on about.

CHAIR—Thank you very much.

Senator TIERNEY—Mr Fist, on pages 2 and 3 you suggest that Telstra's network should stay in public hands. Is it not a bit late to split Telstra up now?

Mr Fist—I am suggesting that the core network stay in public hands, and the core network at the present moment represents about 11 per cent of the value of Telstra as a whole.

Senator TIERNEY—So how can that amount be given if it has already been partially privatised?

Mr Fist—You could very easily slough off things like the digital mobile phone system, the analog phone system, and shift the shareholding into those things because that is where the profit is.

Senator TIERNEY—Sorry; could you just explain that a little further?

Mr Fist—You have many high level services now. I think high level services are better operated in a competitive environment. You can break up the profit centres, if you like, of Telstra, create smaller companies, and put the shareholding into those smaller companies, leaving the core network in government hands, which is the basis of the whole infrastructure of the country.

Senator TIERNEY—But if your core network and your non-core network are of different value, that would be a bit difficult to do now that we are midstream and we have partly privatised one-third. It would affect the price, and what we should have charged as an original price, perhaps.

Mr Fist—It would not be easy to do, but it can be done, like any other accounting job. AT&T in the United States was broken up into three divisions recently. It can be done quite easily.

Senator TIERNEY—So you suggest the government should hang onto the least profitable part?

Mr Fist—Yes, because that is what I think governments should be about. I do not think governments should be about running infrastructure for profit. I do not think the main roads department should be looked at as a tax gatherer for the government, and I do not think the core network of the telephone system should be looked at as a tax gathering exercise.

Senator TIERNEY—You say that some parts of Telstra are a natural monopoly and should stay publicly owned, but I just wonder why you think that, given an international example such as the US where utilities have been privately owned for years.

Mr Fist—I make a distinction in the paper between the concept of natural monopoly and what I think is logical monopoly. Logical monopoly refers to things where it is rather ridiculous to have more than one. Natural monopoly to me is a water dam because you can only dam a river once or you can only put a road down a suburban street once. That is a natural monopoly. The twisted pair down the local loop is, to me, a logical monopoly because, once you have one in there, you probably have capacity in each wire to carry a thousand phone calls if you really want to put the electronics on the end. So it makes no sense whatsoever for another company to come along and duplicate that cost. That is 40 per cent, roughly, of the whole network cost.

With things like directories, people do not want two sets of directories to go to try to find a name. They do not want an Optus set of directories and a Telecom set of directories. If you have six different carriers, they do not want six sets of directories. Those things are logical monopolies, even though they are not natural monopolies.

Senator TIERNEY—Doesn't your analogy with dams and roads fall down, though, when we come to telecommunications? You used the example of a twisted copper pair but, surely, in a dynamically changing technological environment, competitors can come up with better ways of doing better technologies.

Mr Fist—I have been in this business for 20 years, and I have been listening for 20 years to claims about the new gee-whiz technology that is going to break the local loop monopoly. As to wireless in the local loop, which Allan was just talking about, I guess I would have looked at about 300 different systems over the years. In fact, UNESCO at one stage got me to have a look at those things around the world. The trouble with all of those sorts of systems is they rely on a high quality and a high standard of electronics. The twisted pair is just a

simple pair of soldered copper wires. It is buried under the ground. It does not have any reason to fail. There is nothing as reliable as a copper pair in the streets.

This is why Northgate dumped what it tried to do, which was to put in a very complex electronic system attached to what is really, basically, a one-way cable network. It failed, and so has Optus failed. Even though you can get these things to operate, if you get an analog cellular phone system and connect it to a cable network and go along the line and tap off and feed to old amps handsets, you can get a system operating. You can get it working, but you cannot get a reliable system working which can do what the twisted pair can do.

Senator TIERNEY—You are right in saying that twisted pairs are reliable but you would have to concede, though, that they ultimately have limited capacity, particularly in the time when bandwidth is expanding enormously.

Mr Fist—No.

Senator TIERNEY—I know you can get more out of twisted copper pairs than you used to be able to get out of them, but they do have an ultimate limit which other technologies do not have. Although you say some of them might have failed in this initial stage, it does not necessarily say that all new technologies will fail. Surely a competitive system where other technologies with other companies are able to operate would give you a much better end result in terms of driving prices down and the other things that competition does.

Mr Fist—In the long run, anything is possible. At present there is no technology on the horizon that gives you one-tenth the reliability or the bandwidth of a twisted pair in terms of straight switched capacity. You are confusing two things. A coaxial cable can carry 400 channels of TV but a switched cable can carry one channel of TV but switch to anywhere in the world. So one seems to be a wide bandwidth but its actual limit is 400 channels. The other one is admittedly a narrower channel but it has an infinite switched capacity. These things are quite different.

Senator TIERNEY—But we are in a time of rapidly changing technology. If you go back to your initial argument, which seemed to be that we should have these twisted copper pairs because they are in the ground anyway—and you drew the comparison with rivers and roads—I do not think it holds up in terms of a rapidly changed technology in a competitive environment. Anyway, we can move on.

Mr Fist—It has never been suggested to me that I am a technophobe, quite frankly. I am well known as one of the fanatics in looking at telephone and telecommunications techniques around the world all the time. You asked me for my opinion. My opinion is that the copper wire is by far the most reliable, the highest bandwidth and the cheapest means of delivery to the local loop by a long way.

Senator TIERNEY—Perhaps at some other time we should debate the bandwidth aspect of that. You say that networks should be optimised for peak loads. Would that not result in a massive and wasteful overinvestment?

Mr Fist—All networks are provisioned for peak loads. It is not that I am saying they should be; I am saying that is what they are.

Senator TIERNEY—On page 5 you say that Telstra in public ownership should operate and provide services much more cheaply. If that is the case, why has that not been done in the past? They have had their monopoly position in the past.

Mr Fist—For very simple reasons. From about 1983 onwards, they were being pushed into corporatisation, which meant that they started to move engineers out of the system and put

marketing and administration people in, to the point where something like 60 per cent of Telstra is now a marketing operation rather than anything to do with telephones. We really should be talking about Telstra as a marketing organisation, not a telecommunications organisation.

The second thing is that governments have progressively ripped off enormous amounts of money from Telstra. Your own government last year took out \$4.16 billion from the profits of Telstra, from the incomes of Telstra. That is not chicken feed. That is something in the region of about \$800 for every major household in Australia. That was a direct taxation on the telephone using public.

Senator TIERNEY—If you object to that, surely that is an argument for privatisation, is it not, which is what we are currently doing?

Mr Fist—It is a very good argument for privatisation if you think governments should act in that way. I think that governments should be providing infrastructure for the benefit of the people and not as a hidden form of taxation. I am not attacking the Liberals necessarily here because Labor did it as well.

Senator SCHACHT—It was not \$3 billion though.

Mr Fist—You did not take quite as much as they took.

Senator TIERNEY—You were saying in answer to my initial question that things started changing when we got into a more competitive environment and they put on more marketing people. My question goes beyond that. Telstra have been a monopoly for a very long time and they have not, in that monopoly position over that very long time, managed to bring prices down as much as they could have.

Mr Fist—No. I quite agree. I think it was grossly overloaded and it has always been a union play field—I do not support that whatsoever. Most of government services, if you look back about 20 or 30 years, were of a similar nature. They have generally changed. It is not true necessarily of all government organisations either. TAA seemed to me to operate just as well as Ansett ANA did. These things are intrinsic in the size of organisations more than whether they are government or private owned.

Senator TIERNEY—You say on page 6 that deregulation has been a failure around the world, but is it not true that, if you look at, say, the United States market, long distance calls are much cheaper in a competitive market like this than in a less competitive market?

Mr Fist—That was due not to deregulation but to a split up of AT&T, which is precisely what I am advocating here that we do with Telstra. They split the local area operations of AT&T off and formed seven Rbox and they allowed AT&T to continue operating only in the long distance market. In other words, they tightly regulated that market—not deregulated it—by splitting it asunder into local calls and long distance calls. Then they allowed competition into the long distance market, which was initially MCI and then later Sprint.

Senator TIERNEY—That is right, and that is my point. Surely it was the entry of MCI and Sprint that was a major force in driving down prices.

Mr Fist—If your logic is true, then why did the local calls also go down, because the local calls were regional monopolies?

Senator TIERNEY—I do not know if you have seen the billboard outside San Francisco, but there is a big one saying how much Americans have saved since they have done this and allowed competition into the system. It keeps racking up the billions of dollars like one of those population clocks.

Mr Fist—You are not expecting me to believe a marketing push like that, are you? Come on!

Senator TIERNEY—I think the explanation is a lot broader than you are indicating. Certainly, even if they had kept all of AT&T together, the fact that MCI and Sprint came into the market would have caused a change of behaviour and driven down prices, as it has done in Australia.

Mr Fist—I think you have your logic completely backwards. The reason MCI and Sprint came into the market was because such enormous profits were being made there. They could not come into the local markets, which were regional monopolies. The call prices in America have always been low, primarily because they have been the leader in technological change. They also have a market size which is 13 times as big as Australia and are therefore able to amortise things like optical fibre. When they first went in they started to develop profits from optical fibre like you would not believe. The changes in price are basically driven around the world by technological change, not by things like deregulation as you suggest.

Senator TIERNEY—Would you not agree that they are actually driven by both?

Mr Fist—No. If you want to put a figure on it, 95 per cent is driven by technological change and five per cent may be driven by political considerations.

Senator TIERNEY—What scientific evidence do you have to make that split up?

Mr Fist—About as much as anyone else has. It is a pure judgment.

Senator TIERNEY—So you just pulled that out of the air?

Mr Fist—Yes, I did.

Senator TIERNEY—You gave an example of the local monopolies and you said they got in the market because of the big profits they were making, yet you want us to move back to a more monopolistic position. Surely if we did that the effect of it would be for that company to make a larger profit and keep prices up, wouldn't it?

Mr Fist—I think you are completely misreading and misrepresenting me. My position is not to move back towards a more monopolistic position but to establish a competitive marketplace in the local loop to allow competition to occur. That is the total opposite of what you are saying.

Senator TIERNEY—On page 23 you say that the Telstra network should stay in public hands.

Mr Fist—I have said that the core network should stay in public hands. As I said before, the core network represents a very small percentage of Telstra's operations. The operations and maintenance of the core network are about 11 per cent of revenues. Of every dollar paid, only 11c goes to maintaining what we call a telephone network. These are ridiculous figures.

Senator TIERNEY—Finally, you say in paragraph 2.2 that competition is less effective in small population markets like Australia. If there are no economies of scale in telecommunications as you claim in 2.10, why does population make a difference?

Mr Fist—It appears to make a difference in terms of the way we structurally split up. You were very quick to quote that America, with its 235 million people, has three long distance networks. If America with that number of people can only support three major long distance networks, how many can Australia support? Our countries are about the same size. Our population is a hell of a fraction less than what is available in America. All I am saying there is basic economics, I would have thought. America might be able to support 20 car

companies and Australia might only be able to support two. America might be able to support 20 of anything to one or two in Australia. That is basic economics.

Senator SCHACHT—Mr Fist, it is good to see you again. You have been a regular before this committee in various guises over the last two years. I have to say that you are consistent in what you are putting about the structural separation of Telstra and you have argued that now for some time. Before I get to ask you about how you got the figure of 11 per cent, I want to point out to Senator Tierney that, in 4.4 in your summary on page 12, you actually go a step further, in that the copper pair in effect in the local loop is actually owned by the customer and that you are going for a structural separation that is much more radical than anyone else has proposed. In fact, you say here—and you have put this before us in much greater detail in other hearings—that no-one could accuse you of being an old-style monopolist in trying to go back to the proposal of Telstra running everything. How did you arrive at the figure that the value of the basic network of Telstra is 11 per cent?

Mr Fist—That is a figure that has been used quite widely around. I have no further basis for it than it has been widely used for many years.

Senator SCHACHT—Is that 11 per cent of the replacement value or of turnover?

Mr Fist—Eleven per cent of revenues is used to support the operations and maintenance of the basic network.

Senator SCHACHT—And it is what in the operation? Does that mean repaying the investment, the money borrowed, to build the network?

Mr Fist—It is an accounting figure which, in reality, is probably fairly close to zero. Telstra has paid for itself every year in the last 50 years unless governments borrow and take money out of it.

Senator SCHACHT—Eleven per cent of their revenues is the figure that you are saying is generally accepted. So 11 per cent of the revenues come from the basic network.

Mr Fist—Yes. I have never seen it spelt out in detail as to whether it includes interest rates or what.

Senator SCHACHT—I would appreciate it if you find in any of your voluminous files and records and information background any material as to how that 11 per cent was arrived at.

Mr Fist—There is another figure used which is 18 per cent. I will try to pull that out. There are two figures that are fairly widely used. One is the 11 per cent figure and one is the 18 per cent figure. I think the 18 per cent includes technical operations other than the basic network. It includes things like the operations of the research centre and things like that.

Senator SCHACHT—So the 18 per cent would have some amortised figures in for the chief executive salary and all those add-ons.

Mr Fist—I do not think I have ever seen them spelt out in detail. The 11 per cent, from memory, was a figure given at one of the Senate inquiries by Telstra itself.

Senator SCHACHT—If you could bring that information to the committee, that would be useful. In the structural separation, you say that it is only an accountancy arrangement that you could separate the network.

Mr Fist—The unbundling.

Senator SCHACHT—That is an accountancy unbundling. If you went your other way in that the customer owns the copper pair back to the first exchange, does that require a physical adjustment to the network itself?

Mr Fist—No. We misuse words all the time in this industry. The network as such begins at the exchange. The local loop is really not part of the network. They call it the customer access network but that is like saying a piece of string is a network. A piece of string is the basis for a network but it is not the network. The access system is quite separate in terms of the medium it uses, which is copper rather than optical fibre. It has no electronics in it, whereas the network has electronics. The network is a shared system. The copper local loop is exclusive to one customer. All of these things make it different. Access to the airlines network is by taxi; the airlines exist from the node which is called the airport. We do not seem to need to see those two things as the same. It is the same in telephone systems.

Senator SCHACHT—Some people like Professor Fels, who may not be one of your favourite people, say that you need competition and infrastructure to get the efficiencies of the system. He believes that you should lay three cables down every street, et cetera, and he has put this on the record. Why do you think he is wrong about the competition of competing infrastructure in driving prices down?

Mr Fist—I do not. If someone wants to go laying three sets of cables down the street to get competition, well and good. But, logically, it makes no sense whatsoever because the copper wire is roughly 40 per cent of the total component cost of the network. The cumulative costs of laying copper wire in suburban streets is nearly half the total cost of the network.

Senator SCHACHT—If you separate that the customer owns their own copper pair back to the first exchange—

Mr Fist—They control it.

Senator SCHACHT—Yes. Who owns it in the value of the structural separation that you are proposing?

Mr Fist—I do not care who owns it as long as one of the competitors does not own it and uses it to their own advantage. That is the problem.

Senator SCHACHT—So when you say ‘local government’ in 4.4—

Mr Fist—It just seems to me to be logical because they do all other street things like laying pipes and fixing gutters.

Senator SCHACHT—So they would own the cable back to the telephone exchange?

Mr Fist—It is a cable—as a cable company, not as a telephone company.

Senator SCHACHT—As a cable company only. Therefore, on behalf of their local residents they would then do deals to provide the most efficient connection system and cost structure from a telephone company to them as a cable company?

Mr Fist—I do not think that they need to because it can be individually sold. The customer can then decide whether to have one or two channels running across—

Senator SCHACHT—But who do they pay for their cable connection? They pay some fee to the local council for the maintenance of the copper pair in the ground, don’t they?

Mr Fist—Yes, but those sorts of things are always done on an annual basis, not on a per call basis.

Senator SCHACHT—So it is a flat fee?

Mr Fist—Sure.

Senator SCHACHT—But it would be paid that way.

Mr Fist—The advantage of that of course is that if a local council decides it wants to boost its standing in the high-tech electronics businesses, it can start to run coaxial down those ductings instead of twisted pairs. Orange might decide that it wants to be a decentralised electronic system. It can then emphasise that by providing high quality access links.

Senator SCHACHT—Therefore they would charge their customers an infrastructure cost to go up to the next level and the local citizenry would have that argument whether they pay more to have that infrastructure improvement.

Mr Fist—Sure, and Optus or whoever else was there would have a place for their electronic racks in the local exchange in which competition can occur.

Senator SCHACHT—Would the competition allow, under competition rules, Optus or Telstra to say to the local council, ‘You’ve got to give us access to the duct now. We’ll lay our own cable in the duct’?

Mr Fist—I have not gone that far. I do not see any reason why they should. I am generally not in favour of monopolies in any area, but I think there are logics which say that this sort of system is not going to be duplicated.

Senator SCHACHT—That is all I have at the moment. You will provide us with that information about the 11 per cent or 18 per cent?

Mr Fist—I will see what I can do, but I have looked for it before.

CHAIR—Senator Lundy, we are now running 10 minutes behind time, so the more time we have here the less time we will have on the others.

Senator LUNDY—Thank you, Madam Chair. The issue of the application of the competitive theory to rural and regional Australia is something that has certainly come under challenge. What is your view of the theories you have espoused in your submission in relation to regional Australia and the infrastructure?

Mr Fist—Part of it comes about because again we misuse terms. USOs apply to the obligations that the city people have to cross-subsidise country and also to the payment of money. The claim by Telstra is that it is running unprofitable services. I do not think I specified enough there that what I am attacking is the claim that these services are unprofitable because the sums are done in such a way that they do not include very many things. For instance, *Yellow Pages* as a whole business makes roughly \$650 million profit a year. Of that, about \$100 million comes from the country areas, but this is not included in the USO calculations. The USOs were calculated down from \$850 million of Telstra to \$200 million—odd a few years ago, but there is \$100 million just there in *Yellow Pages* which is not accounted for.

There is also a whole lot of other things. Telephone calls in the country cost a high amount because of the losses being made on cables in the cities, coaxial and pay TV. That is a reverse USO taking place where country people are subsidising city people. As I said before, about 60 per cent of Telstra is now marketing. Marketing is there because of the competitive regimes of Optus and what not. Country people get very little value out of the competitive regimes; that is a value which comes into the city network. So there is another cross-subsidisation of country. All I am saying is that people look at these things—economists especially look at them in very simplistic terms—without understanding what is behind it all.

Senator LUNDY—Further to what you have just described, we have heard from a number of witnesses this morning that parliamentary scrutiny of Telstra’s practices, pricing regimes and an open accountability framework is one of the desirable prerequisites for privatisation.

But from what you are saying the established criterion for any comparisons between Telstra and their competitors is currently flawed. Can you provide some comment to the committee about the relevance of parliamentary scrutiny as an effective mechanism to compare Telstra's services to the widest possible range to its competitors?

Mr Fist—Scrutiny of telephone companies in these new developing competitive environments is the major growth industry of the world. It is growing at a higher rate than telecommunications is growing by a long way. If you do what I do, which is sit on some of the overseas discussion groups on these things, you would find it is full of intricate little things about what Bell South did this week to one sort of service or how they changed the charging. You will find, I think, in one of my appendices there that Telstra has just decided to change a plug from world standard to non-world standard. That might not figure with members of the committee as being vitally important, except that it will make it very difficult for anyone to sell competitive things against them.

In a complex technical system like this, it is very hard for anyone to scrutinise without total information. I do not mean the sort of information that the Telstra accountants present at committee meetings; I mean information that comes down to the base level from engineers and from the technicians who work in this thing as well. I think that you can solve a lot of the problems by structural divisions, and that is really what I am proposing there. Once you get that structural thing right, you have got a chance in hell of being able to regulate. Deregulation is a myth. Around the world deregulation is a total myth, unless you mean by it the removal of the special privileges that Telstra had. FCC is one of the world's biggest publishing companies now because of the size of the regulations that they are published—

Senator LUNDY—You mentioned the effective structural separation that occurred in the US market with respect to the local loop and the competitive nature of their long distance services. Given our geography and the nature of our telecommunications infrastructure, to what degree is it a fair or reasonable comparison to look at Australia's experience in moving into a competitive regime given what has occurred in the US?

Mr Fist—You have to pick one of the US carriers like US West, which is why I have included a bit in there. US West is a fairly good comparison with Telstra because of the size of the population in the area and the sorts of environmental conditions. Better still, though, is to look at a country like Finland, which has shown what is possible by having fragmented phone systems working in a cooperative way where they share ownership of long distance networks and mobile networks.

I think Finland is a very good example of a country that has many similar problems to Australia. It is a sort of microcosm of Australia because it has only one large city but it also has outbacks and remote areas. It has many small companies. Some of them only have six employees who work very effectively at the local level, not at the long distance level. Again, they have a structural separation between the local and the long distance.

CHAIR—Thank you, Mr Fist. I appreciate your submission and your attendance here. Senator Margetts, we have extended our time. Have you got a question for Mr Fist?

Senator MARGETTS—I have. I suggest that the problem is that we have given ourselves a ridiculously short amount of time for each witness. Half an hour for their presentation and our questions with this many witnesses is not realistic.

CHAIR—Thank you for your comments, Senator Margetts.

Senator SCHACHT—That was the government vote, unfortunately, Senator Margetts.

CHAIR—That is actually not true.

Senator SCHACHT—Yes—

Senator MARGETTS—I have a very short question. Mr Fist, if you are suggesting that the more profitable sections of Telstra be hived off for sale leaving the less profitable areas, what do you think that means for any universal service obligations?

Mr Fist—It means that with the universal service obligations, if they exist—and, in the terms that they are always being discussed, I do not think they do exist—there are obviously greater costs associated with supplying certain regional and remote services than there are with city services. The trouble is that there is cost recovery there already. I think universal service obligations are obligations to support what amounts to our remote export generating industries. As such, if they do exist and need to be supplemented it should be done out of the budget.

Senator MARGETTS—This fits in with what the Chamber of Commerce and Industry has been saying.

Mr Fist—I do not see why you tax telephone users in a city rather than the public in general to support an export industry in the country.

Senator MARGETTS—It is obviously going to be more of an issue as we go on. Thank you.

CHAIR—Thank you, Mr Fist. We appreciate your contribution and your submission.

[12.19 p.m.]

ROBINS, Mr Guy Alexander, Assistant Secretary, New South Wales Telecommunications and Services Branch, Communications, Electrical and Plumbing Union, 2/741 George Street, Sydney, New South Wales 2000

TULLOCH, Mr Malcolm, Branch Organiser, New South Wales Telecommunications and Services Branch, Communications, Electrical and Plumbing Union, 2/741 George Street, Sydney, New South Wales 2000

CHAIR—Welcome. The committee has before it submission No. 57, which it has authorised for publication. Are there any alterations or additions that you would care to make at this stage?

Mr Robins—No.

CHAIR—I draw the committee's attention to an additional submission by the CEPU—the green covered paper with attachments—and note that this has been tabled. Would you like to make a very brief introductory statement?

Mr Robins—Our submission today was to try to draw the committee's attention to some of the changes that we believe have taken place in Telstra since part-privatisation and some of the things that we would be concerned about if full privatisation were to take place. Our organisation has seen a demonstrable change in the way in which Telstra treats its customers and has treated its employees since the part-privatisation.

In our submission today we have attempted to give a couple of examples of the impact on customers and on the employees of Telstra whom we represent. In particular, we think that, since part-privatisation, Telstra's whole emphasis has been on cost-cutting. That has obviously been there to look after shareholders. The cost-cutting generally takes the shape of loss of jobs.

In New South Wales, we are presently opposing a proposition from Telstra to send over 300 jobs to what will be one centre to control the entire Australian network in telecommunications.

It is a loss of some 300 jobs in New South Wales. Those jobs are at the high end of the technical spectrum. They are high-tech, interesting and generally fairly well-paid jobs.

The other thing that I would like to bring to the committee's attention in my brief opening comments is that, since part-privatisation, Telstra has embarked on contracting out all types of work wherever possible. That has had two major impacts. People find that—

CHAIR—Mr Robins, all this is in the extra submission that you gave us—I have just read it. Do you have anything additional to say, because we are running short of time?

Mr Robins—I would bring to the committee's attention that, when people in that contracting out are losing their jobs, Telstra has even gone to the lengths of denying those people employment in the industry, denying those people employment by contractual arrangements so they cannot even work for a contractor who works back to Telstra. Just briefly, they were the two issues. As I have outlined in the report, people's conditions of employment—salaries and conditions—are reduced when they have to look for jobs outside, even though they might be the same jobs.

CHAIR—Thank you very much.

Senator LUNDY—Going straight to the question of outsourcing services within Telstra, are you aware if, at any point, Telstra was under an obligation to adhere to the Department of Finance's competitive tendering and contracting-out principles? In the past, by virtue of the fact that they were a government owned corporation, did those guidelines apply to their processes?

Mr Robins—I am not aware of that. When we had discussions with Telstra about a recent outsourcing of the property operations section in New South Wales, Telstra's statement to us was that they did not have to abide by any guidelines.

Senator LUNDY—The competitive tendering and contracting-out guidelines specify quite specifically the option for an in-house benchmarking assessment to have taken place. From your submission, it is quite clear that Telstra did not embark on any such comparative exercise with their in-house services. Can you tell me whether or not, for the purposes of Telstra's employees, there was any querying or perhaps internal informal assessment by Telstra of the comparative efficiencies between outsourcing and remaining in-house?

Mr Tulloch—Not until the union actually got in and said, 'What you are attempting to do is to not give these people the opportunity to present themselves as a viable concern.' It was not until the union got involved with members and put a proposal together that any assessment was done of the in-house services and how they could be competitive against an external bid. As I have written in the submission, the external providers were provided with whatever internal costings Telstra felt were necessary to give them an idea. Basically, they told them how much it cost them to run it and then asked them if they could do it more cheaply.

Senator LUNDY—I am sorry. Are you saying that Telstra actually provided their commercial-in-confidence information to a potential competitor prior to the tender process?

Mr Tulloch—To 22 of them, I understand.

Senator LUNDY—Is the way that information was presented to those potential tenderers available to the committee? Was it contained in some sort of pack or something that Telstra distributed?

Mr Tulloch—We obviously do not have access to that information. Obviously, Telstra did not feel it appropriate to give that to the union. They see us as the enemy. But we are trying to represent our members and trying to save their jobs. It was very difficult to obtain any

information. They were providing information to contractors surreptitiously, and providing us with very little. We were obviously at a disadvantage all the way through the process. That has been laid out in a lot of the attachments here—and I appreciate you do not have time to read all of them today. Certainly, an approach was taken by Telstra throughout their contracting-out process to pay lip-service to whatever the union was representing and the concerns of members with regard to trying to keep their jobs.

Senator LUNDY—What is your understanding of the motivation of Telstra to actually outsource this area of work?

Mr Robins—We would see that since part-privatisation they are fully intent on reducing the work force. We understand that that is done for reasons to do with the stock market, in that shares are worth more and Telstra is seen as a more highly profitable organisation if they have a smaller work force. That is one of the reasons we have had put to us for attempting to reduce the numbers of staff, whether it be by contracting out or whatever.

Senator LUNDY—I also note that you say in your submission that the successful tenderer—ultimately Transfield, I believe as has been cited in your submission—is offering lower wages and conditions to employees. I might be stating the obvious, but I am quite astounded as to the process that Telstra has embarked upon. If they are seeking to gain greater efficiencies and, thereby, cost savings, perhaps reducing overheads or whatever through an outsourcing exercise—which is a prerequisite as a general corporate justification for outsourcing—how does that logically flow through if, firstly, the information about Telstra's current costings on providing that service were provided to those competitors and, secondly, the actual labour costs, the working condition costs, are known by the potential competitor to be cheaper?

Mr Robins—We would argue that it could have been done just as cheaply inside and, in fact, our members had put together a bid to retain that work. Telstra claimed that there were costs there, with which we disagreed. We did not agree with any of their processes at all. It is interesting; but I will just come back to the subject of Transfield. Transfield were not allowed to employ any of the people that Telstra subsequently made redundant. We are trying to take that to other places. We felt that it was absolutely outrageous that those people could not then be hired.

Senator LUNDY—What legal mechanism did Telstra use to preclude Transfield's employment options?

Mr Robins—They made it a part of the contract with Transfield that they could not hire Telstra staff that were made redundant, for a period of two years; that is in the report.

Senator SCHACHT—In the briefing notes which we were just going through—the ones that were provided to you by Telstra—at the back it says, 'The preferred supplier has indicated an intention to offer positions to up to 170 suitably qualified and experienced employees.' If you were not one of the 170 offered a job with Transfield and you got a redundancy payout, then—no matter what—you could not go to work for Transfield thereafter for two years; is that correct?

Mr Robins—That is correct.

Mr Tulloch—Or one of their subcontractors.

Senator SCHACHT—The other thing is: how many of the 170 that were offered positions to go to work for Transfield from within Telstra accepted the offer?

Mr Tulloch—Zero.

Senator SCHACHT—None? Why did they reject it? Was it less wages? Worse conditions?

Mr Tulloch—Absolutely.

Mr Robins—Initially, you are absolutely right. People were unsure about where they were going and what might happen over there. At that stage there had been no award negotiations—it was all new. Subsequently, the union has negotiated an award, but at that time people did not know where they were going and they were reluctant to enter into that exercise.

Senator SCHACHT—What happened to the 170 jobs that were offered and were not accepted? Did they also get compulsorily made redundant or—

Mr Robins—They were subsequently made compulsorily redundant.

Senator SCHACHT—They were compulsorily made redundant?

Mr Robins—Yes.

Senator SCHACHT—Has this been a growing trend in Telstra—that is, compulsory redundancies rather than voluntary?

Mr Robins—I have to say that we have very few compulsory redundancies, as Telstra has not really recruited many staff for a period of 10 to 15 years. Generally speaking, it is one of the areas in which the union and management have been able to work fairly well together until recent times—there have usually been enough volunteers to do that.

Senator SCHACHT—In this case, 170—

Mr Robins—In this case an entire section went.

Senator SCHACHT—They were made compulsorily redundant?

Mr Robins—It is closer to 240 nationally, I think.

Senator SCHACHT—They were made compulsorily redundant?

Mr Robins—In the end they were, yes.

Senator SCHACHT—Was that contrary to any part of the agreement you had with Telstra industrially, about compulsory redundancies?

Mr Robins—No. Our redundancy agreement does allow for that—in the end, yes.

Senator SCHACHT—Was that 240 one of the biggest compulsory redundancies you have come across in the New South Wales branch?

Mr Robins—When I say 240, it was 240 nationally; in New South Wales it was about 100. It would be the biggest group of workers in one go—where they have just said ‘Bang’ to that entire properties section, which looked after things like airconditioning. We have not had anything like that since, but there is now a proposal to get rid of network design and construction, which is some 5,000 nationally—2,000 in this state. That is now under review and, of course, we are very concerned about where that might lead.

Senator LUNDY—Just going to the network design and construction section, at what stage is that process at this point in time?

Mr Robins—Telstra has set up a committee which has been working on it for about four to six weeks, I guess.

Senator SCHACHT—Is the union on that committee?

Mr Robins—The union has no representation on that committee, no.

Senator SCHACHT—Have you had any advice about the work of the committee yet?

Mr Robins—Not that I am aware of. I am aware that our federal officials—peak officials—have been having discussions; but I am not aware of where it is going on, no.

Senator LUNDY—With respect to that particular committee, is there any indication at this point in time that there will be an opportunity for existing Telstra staff to benchmark their own operations and prepare an in-house bid?

Mr Robins—I do not know. We had a very bad experience with the property operations ones, so I do not know. I guess we would have to look at that when it happens. It is just that, since part-privatisation, our experience has been that once they start setting up committees it usually means that the board, or somebody higher, has already made the decision and all the committee is doing is trying to arrive at a justification for it. That has been our recent experience.

Senator TIERNEY—Mr Robins, what percentage of your members took up shares in Telstra one?

Mr Robins—I could not answer that.

Senator TIERNEY—How about a ballpark?

Mr Robins—I do not have a ballpark. It is not something we have researched or asked them and I have got no idea. Telstra management should have the figures on that, because there was an offer of 400 free shares too, and I would assume 100 per cent would have taken the 400 free shares.

Senator TIERNEY—That is right.

Mr Robins—Even I would have taken them; but I was not offered them.

Senator TIERNEY—Even that number of shares right across all members—so, are they pleased with the performance of their shares?

Mr Robins—It is a question you should address to those people. As my colleague here says, we are in the process of trying to negotiate a new enterprise agreement—for over 12 months now—and the indications are that they would like to have that; but, no, you would have to ask them.

Senator TIERNEY—You are one of the heads of the union. Surely this is discussed as an issue that has been floated around. Are you saying there has not even been any informal discussions on this?

Mr Robins—I am sure they are all happy with the 400 free shares.

Senator TIERNEY—And the prices they are currently getting.

Senator SCHACHT—They cost them nothing, so they cannot lose, can they?

Mr Robins—I would think so.

Senator TIERNEY—Well, they are getting more back, aren't they—than they would have on the original price.

Senator SCHACHT—They got them for nothing.

Senator TIERNEY—But they are getting double what they would have got anyway, aren't they, if they sold them? That is the point. Were they pleased with the terms on which they were able to buy these extra shares?

Mr Robins—I do not know. It is not something that they pay their dues to trade unions for us to do, to survey those sorts of things.

Senator SCHACHT—Mr Robins, wasn't it a fact that employees were offered interest free loans from Telstra to buy extra shares; also, wasn't there some guarantee that, at the very least,

if those share prices went bad, they could resell them to Telstra at the price they bought them for?

Mr Robins—I saw documentation about the free loan, but I am not 100 per cent sure about selling them back. That may be right, I do not know.

Senator SCHACHT—Whatever your view is about privatisation, you would have to be an absolute mug not to accept conditions like that to buy shares.

Mr Robins—I would have thought so.

Senator TIERNEY—So are you expecting when we get to round two that buyers will be enthusiastic?

Mr Robins—The main concern of our members is their jobs and job security. We have a situation where they want to move 700 jobs—100 in Perth, 100 in Adelaide, 180 in Brisbane and over 300 in New South Wales—all based on a philosophy of centralising the entire network. I understand even senators have been asking questions about the security implications of that. Our members are concerned about why those high-tech jobs are not necessary. There is no economic reason for it in our view. The gains they would make, we believe, are absolutely marginal.

You should have a look at that. We have made a fairly detailed submission with regard to the cost of setting up five centres as compared to one in Melbourne. The big lie there is the five centres are also set up. There is no cost to set up the five centres. I think they quoted \$13 million for setting up the five centres. They are there now. They exist in all those places. Places where we did have centres—in Canberra, for example—have already been closed. We had one in Newcastle and it has already been closed. I think the committee would be well aware that Townsville and places like that are all but closed. There is an odd staff member still there.

Senator SCHACHT—Senator Tierney would be very interested in Newcastle being closed because he claims to represent the Hunter Valley.

Mr Robins—Yes, I know. We took it to local members up there. I know they made some nice statements but they certainly did not help us in our argument with Telstra over the matter.

Senator TIERNEY—During the previous Labor government there were closures and the downsizing of staff in Telstra as well, was not there?

Mr Robins—There has been downsizing in Telstra due to technologies for the last 20 years.

Senator TIERNEY—That is the whole point, is it not? As technology changes rapidly that sort of thing is going to increasingly happen.

Mr Robins—We are all talking about technology where people can actually work from home. There is no good reason for people who are controlling the network, working basically to a screen and controlling the software and the network not doing that from home. That was the thing that new technology was supposed to deliver. The jobs did not have to be moved from Newcastle to Sydney. There were little savings in it. Some 300 jobs have been moved to Sydney. They will have to move to Melbourne. Our surveys show that they are not going to move. For family reasons, including extended family reasons, and other reasons they will not be moving. In my view, in the end they will end up like our properties people. They will be forcefully made redundant. There will be no job for them if those jobs go interstate.

Senator TIERNEY—You just indicated then about outsourcing. Under the previous government outsourcing occurred as well, is that right?

Mr Robins—I am not sure.

Senator SCHACHT—Not 26,000 in two years like your government has been doing.

Senator TIERNEY—I wonder what you would have done if you were in government. It would not have been much different, I would suggest.

Mr Robins—There have been changes around the edges in some things that have been acceptable. I could give examples of that. We have not had whole sections of change. Telstra has looked after its own properties. Properties deals with the airconditioning people and internal power. That is unique for us. To do away with network design and construction who build the network will be very unique. Nothing like that has happened before. In our view, that is what privatisation has driven into the employees of Telstra and it is having an impact.

I will not bore you with what is happening in the bush. I have listened to the earlier submissions. A lot of that is happening because of downsizing. The staff are not out there any more in those country towns. I think you know all about that. You would have had plenty of submissions from your own constituents. That is the sort of approach that has been going on.

Senator TIERNEY—So, if the previous Prime Minister's proposals to totally sell Telstra had actually got up, you would have gone further down the track by this stage, would you not?

Senator SCHACHT—That is just a lie.

Senator TIERNEY—No, it is not: you know it is not.

CHAIR—Senator Tierney and Senator Schacht, that is enough. You will withdraw that, Senator Schacht.

Senator SCHACHT—But he is lying.

CHAIR—Just withdraw it.

Senator SCHACHT—He made an accusation about the previous Prime Minister. There is no evidence of that anywhere.

Senator TIERNEY—It is widely available on the public record.

Senator SCHACHT—Where? It is not available on the public record.

CHAIR—Senator Schacht, will you withdraw that he is a liar.

Senator SCHACHT—He is misleading.

CHAIR—Will you withdraw?

Senator TIERNEY—It is well known, Senator Schacht.

Senator SCHACHT—You cannot assert something which is not true.

CHAIR—Senator Schacht, will you withdraw it?

Senator SCHACHT—I will withdraw that he is lying and say that he is not telling the truth.

CHAIR—Thank you.

Senator TIERNEY—It is well known.

CHAIR—Will you two just behave yourselves.

Senator MARGETTS—What would be the legal basis upon which Transfield can discriminate against ex-Telstra employees? Is there not some collusion involved in this process of contracting that a certain class of people cannot be contracted to be employed?

Mr Robins—I must say in our dealings with Transfield that they believed it was illegal too, but indicated that they were not prepared to take Telstra on, given that it was written into their contract that that was the way they had to behave. The inference they were giving us is that if they did not abide by that then Telstra would not have given them that contract. They would have taken that contract somewhere else. We think it is wrong. I have to say that Transfield were grossly unhappy about it because they wanted to pick up those skilled and trained people.

Senator MARGETTS—So basically Telstra were the ones involved with that. Was there any discrimination in your opinion on the basis of unionism?

Mr Robins—It may very well have been discrimination against the CEPU but, no, I certainly would not like to indicate that there have been any problems or I have seen any discrimination from Transfield. It may have been that that was the case.

Senator MARGETTS—Can you see any concern about labour hire companies in relation to Telstra? Is it possible that any version of the Patrick's labour hire companies may emerge in relation to Telstra and Telstra employees?

Mr Robins—Our union, as with most unions around the country, would be very concerned about that. We would be worried if those sorts of arrangements started to develop. Telstra now uses Manpower Australia and people like that. Our arrangements so far have been honourable and equitable, and we have been reasonably happy with the way people's conditions have been fairly treated. There has been no discrimination between those employees who are employed through the labour hire firms of Manpower and other companies; they have been the same as those employed internally with Telstra. But, like most unions, we would be concerned about where it might lead.

Senator MARGETTS—My final question, and perhaps this could be on notice, is: has your union formed any opinion about the impacts of the Multilateral Agreement on Investment and how this relates to the level of private ownership in Telstra and the ability of governments to effectively look after public interest?

Mr Robins—I am sorry, Senator, I really am not able to comment on that. Our national organisation has put in a submission and I understand that they will be talking to the committee—I think it will be in Melbourne. They may wish to comment on that, but I am not sufficiently well briefed on it.

Senator LUNDY—My question relates to attitudes of management towards staff and the issue of outsourcing. As a general trend within Telstra, is the union of the opinion that outsourcing is seen by Telstra as a mechanism by which they reduce labour overheads and costs and increase efficiencies? Is there anywhere that you could point the committee to that would document Telstra's agenda and what they hope to achieve out of an outsourcing program?

Mr Robins—They would argue, and they generally have, that they get greater efficiency out of outsourcing; they traditionally have with all the issues there. We have spent a fair bit of time today giving you that one example where we think it does not deliver that—that they could have got exactly the same economic outcome for the business by doing it internally. We were prepared to make the changes. We are in an industry that is changing all the time; it is technological change; our union has been used to that; we have been doing that for some 20 years. There is no question that we have been ready to change. It seemed, though, that that was not the reason when we got down to it. Our people were prepared to say, 'Look, if that's what your bottom line is, fine. We'll do it with those staff. If it can't be done with those staffing levels, then you, the management, obviously have got it wrong.' So we were prepared

to do that but, in spite of that, they still moved. I think it has more to do with ideology or making the Telstra staffing numbers look better for the stock market or the shareholders than with genuine efficiencies.

Senator TIERNEY—Mr Robins, you say that technical staff numbers have fallen. To what extent does that reflect the replacement of analog exchanges by digital exchanges which do not require any staff to be present on the site?

Mr Robins—It has a major impact. That is what I am indicating. The union has lived with that; we have grown with that. We have come to arrangements in the past with Telstra about that downsizing. But the future mode of operation, the digitisation of the network, is now completed. Until there is some big quantum leap in technology, we are right at the bottom. Even in the last, I suppose, two years they have still cut, cut, cut and cut.

There are plenty of horror stories around about service in some parts. We have just had that big shemozzle up Armidale-New England way. There are plenty of stories around. Telstra is a very secretive organisation; mostly the public do not hear the worst of them. They do not know that. But, yes, there is no question that technology has done a lot of it. The union can live with that. But I think you are seeing now a situation where service is being affected because they are cutting staff not for the right reasons—for the reasons they can do it because of technologies—but making those cost cuttings for shareholders. I would say that the customers are not their highest priority these days as they used to be.

CHAIR—Thank you very much, Mr Tulloch and Mr Robins. Thank you for your submission and your time here today.

[12.49 p.m.]

GOSMAN, Mr Alex, Executive Director, Australian Telecommunications Industry Association, GPO Box 1966, Canberra, Australian Capital Territory 2601

CHAIR—Welcome, Mr Gosman. The committee has before it submission No. 19 which has been authorised for publication. Are there any alterations or additions that you would care to add at this stage?

Mr Gosman—No.

CHAIR—Do you wish to make a brief opening statement?

Mr Gosman—I have some points that I will probably elaborate upon in response to questioning.

CHAIR—We have read the submissions and you do not need to reiterate those.

Senator SCHACHT—You say in your submission that the arrangements for industry development have worked. You quote at the bottom of the third paragraph:

At least one of the carriers has commented that these arrangements were instrumental in allowing a rapid roll-out of its network.

That is, because of the participation of Australian industry, et cetera—that it did not hinder. Often the argument is that if you can buy off the shelf from overseas quickly you can get things done more quickly in Australia. In this case, they are willing to say that the Australian industry involvement under these rules did not hinder them; in fact, it improved the roll-out.

Mr Gosman—Yes, the ability to have in-country support and adaptations to their requirements was a plus.

Senator SCHACHT—That is because over a period of time the industry built up its capacity to meet those demands?

Mr Gosman—That is right.

Senator SCHACHT—So, if you pull the rug out from underneath those arrangements, it dwindles down. Then it will always be cheaper to buy overseas because you do not have the infrastructure in the country.

Mr Gosman—To respond to that, there are a number of other factors that need to be taken into account. I do not think you can give a simple response in terms of changing these arrangements.

Senator SCHACHT—When the telecommunications bill went through the parliament in March last year—this was the new deregulatory regime—new provisions were accepted by agreement between us and the government. We put them forward—and the government by and large accepted them—to strengthen some of the industry arrangements and participation. I know it is only 10 months on, but do you have any comment yet on how they are working?

Mr Gosman—In terms of actually having the measures in place, we have done very well. I thank the committee from last year, as I think I have mentioned to you before, for the changes that came out of that. There also will be some changes going through in legislation shortly that will also tighten up the arrangements in terms of reporting requirements and so on. So we have certainly seen with both the existing carriers and the new carriers quite a deal of contact in terms of industry development. The new carriers have been outlining quite extensive programs.

Senator SCHACHT—Has the Department of Industry, Science and Tourism shown proactivity and interest, rather than being reactive, in consulting with industry in ensuring that these things are put properly to work—that they are out there promoting the arrangements?

Mr Gosman—I think it has been a disappointment over the last 12 months that, with the Telecommunications Industry Development Authority, TIDA, ceasing to operate as of June last year—and that was in essence during the monitoring role—no-one has really stepped into the breach. We have gone through a period of transition. There probably has been a lapse in attention towards some of these issues from within the department. We understand now that they are putting more effort into this area. But certainly TIDA by its nature provided a focus that is not there now.

Senator SCHACHT—Irrespective of the privatisation issue because I see this as an issue for general industry, perhaps you might want to suggest to us on notice further amendments because, if this bill gets to the second reading stage, the opposition would be more than happy to look at amendments on monitoring, keeping records and so on to strengthen the hand of the government and the department in ensuring that we maximise as much as we can source within Australia.

Mr Gosman—Yes.

Senator SCHACHT—Over the last number of years—not just the two years since privatisation—has Telstra's purchasing from Australian sources gone down, stayed about the same or gone up?

Mr Gosman—As I understand it—and this is based on the Telstra records—there has been a fall from about 70 per cent to 64 per cent local content. So there has been a relatively minor fall.

Senator SCHACHT—So a six per cent fall. If you are purchasing within Australia stationery or something like that, are they included in those figures?

Mr Gosman—Not as I understand it. It is related more to the capital investment on the network.

Senator SCHACHT—Has Telstra increased or maintained its investment in R&D in Australia, which develops the intellectual property and the value adding which have flow-on effects not just for Telstra? Has that gone down, stayed the same or gone up?

Mr Gosman—I cannot really answer that one. In terms of their gross expenditure, I am not quite sure.

Senator SCHACHT—I again ask you take on notice whether your industry members who do have a role in that area see that there has been diminution, increase or stability in the R&D area.

Mr Gosman—By extrapolation, if you look at the performance of companies like Alcatel and Ericsson, which are major suppliers to Telstra, certainly their R&D levels have held up. To what extent that is actually an adaptation to Telstra and also development that is going into their global networks I cannot really answer. I suppose that is a demonstration that the R&D has held up.

Senator SCHACHT—Have you heard any comment that the decline in the expenditure on Telstra laboratories, which are the major research activity—they have been well known for many decades, not just years—has had a detrimental effect or an effect some way across the broader telecommunications industry?

Mr Gosman—No, because I think the expenditure within the laboratories has always been fairly self-contained. There might have been a criticism in the past that there was not a lot of letting of contracts with private industry; Telstra preferred to do all the development themselves. On that basis, the reduction in R&D being undertaken through the laboratories is not really having that much of an impact on the industry.

Senator SCHACHT—There is no doubt that Telstra have reduced their allocation to the Telstra laboratories. There have been significant staff reductions, and the comment has been made that they are now doing more applied research for their own needs rather than more generic broader research. Is it a loss to the Australian industry to lose that generic research capacity?

Mr Gosman—I think any reduction in research and development activity within Australia is a loss of some kind.

Senator SCHACHT—Telstra will argue, ‘We are no longer a monopoly. If we do generic research, everybody else gets access to it and they use it against us. Therefore, we will only do research in the applied area for our own commercial advantage.’ I note their argument about that. Have you noticed that, as a consequence, universities have picked up the slack in doing more pure research in the telecommunications area?

Mr Gosman—I could not talk in the quantum, but I would certainly say that, from our members’ perspective, they are doing a lot more research and development with the universities.

Senator SCHACHT—As sort of joint ventures and arrangements?

Mr Gosman—Yes. Reg Cootes at Flinders is a good example, with some of the R&D he is doing into the mobile area. The point you make about R&D is valid, but I would make the comment that in the electricity industry—where they have gone into privatisation, deregulation and corporatisation—they have experienced something similar, where the electricity industry

used to collaboratively undertake R&D but now it is not possible because of the competitive element.

Senator SCHACHT—These arrangements in the Telecommunications Act are not related just to Telstra—they are for all carriers—but Telstra is the one with 80-plus per cent plus of the market, or 90-plus per cent in some areas. Do you think that, if they move towards a more privatised operation, some of these under cost pressures and arrangements will be unnecessarily onerous on their bottom line?

Mr Gosman—No. In addressing this issue, we probably need to go back a step and look at the context in which industry is operating now. I do not think it is unknown that the electronics industry is doing it very tough at the moment in Australia—extremely tough. That must have some worrying signals for Australia's future, given the growth in information technology.

There are a number of factors impacting on that and, to pick up the comments the previous speaker made, one is that some major capital investment programs are finishing. The FMOs are just about finished. The cable roll-out, which was quite significant, virtually stopped overnight from both Telstra and Optus. Possibly what is also having a major impact is the impact of the currency crisis. That has spread right through the industry and it has been so dramatic. I am actually going out to visit a member after this appearance and, for the first time in 10 years, they are laying people off because it has hit the OEMs, who have then had to cut back on orders from their sub suppliers.

Senator SCHACHT—You had better put on the record what OEM stands for.

Mr Gosman—It stands for the original equipment manufacturers—the Alcatels, the Ericssons, the Siemens, the JNAs. Our industry has quite a high export propensity and most of it was into the Asian region. From the moment some of those countries started running into trouble, orders dried up considerably. So that has fed its way right through the industry.

There is also the issue of globalisation, competition and the changing nature of production as we have moved into micro electronics, so the industry is having to re-invest. When you put all those factors together, it becomes a very tough environment, of which one factor is the privatisation of Telstra and the policies that apply there. But I think it should not be looked at in isolation; it comes back to the issues to deal with taxation policy. As Senator Lundy would know, there are the outsourcing issues and the implementation of a number of measures that were announced in last year's 'Investing for growth' statement that we are waiting on.

Senator SCHACHT—They still have not been implemented yet?

Mr Gosman—That is right. In a number of areas.

Senator SCHACHT—So you have two levels. The privatisation process has some impact, but if you have legislative—

Mr Gosman—I suppose I would say that that issue has really been addressed by government policy. There is a legislative approach, but I would argue that, in a number of other areas in terms of addressing those factors I have just talked through, they have not been addressed by government policy. I think the government has handled the currency crisis as well as could be expected, given that it came totally out of the blue, but I think in some of the other issues—certainly, in terms of the taxation policy—Australia is way behind the eight ball.

Senator TIERNEY—Is there any reason to expect that a fully privatised Telstra will take a different approach to purchasing than the one it is currently taking?

Mr Gosman—No, because I think it is now operating in an extremely commercial manner. I do not think it would be any more commercial as a privatised Telstra than it is currently.

Senator TIERNEY—Do you know if Telstra are contemplating any change to the industry development plan arrangement that they have?

Mr Gosman—No. In terms of their annual reporting, they provide a forecast of where they see developments into the future. They have made the comment that, in terms of these major investment programs coming to a conclusion, they see investment into the future being more in the software content, creation area. I think that has been fairly well flagged.

Senator TIERNEY—Would you like to comment on the change in Telstra in terms of becoming more innovative and customer focused as it has moved through this transition from a monopoly towards privatisation?

Mr Gosman—In terms of a more general comment?

Senator TIERNEY—Yes.

Mr Gosman—Are you asking for a personal comment or does it relate to industry development?

Senator TIERNEY—The industry development part would relate to innovation, but certainly you might have picked up an observation of things relating to customer focus as well.

Mr Gosman—I certainly think Telstra are a much more customer focused organisation. Certainly, from our experience, in having moved into a deregulatory environment where a lot more has been put back onto industry in such areas as developing standards and the creation of the Australian communications industry forum, Telstra along with the other carriers have played a very major role in putting effort into that. Otherwise, I cannot really see anything from the industry development aspect, other than they are obviously looking for different technologies. For example, you will see them looking at a wireless local loop application.

Senator LUNDY—I have a question with respect to Telstra's development into new areas of business, their continual vertical integration, value added services as well as a base carrier service. A number of those developments have involved establishing partnerships with major players in other services—for example, information technologies. To what degree have you seen evidence that the nature of those partnerships does involve locking in preferred suppliers and therefore disadvantaging Australian suppliers?

Mr Gosman—I think the nature of those relationships has been that they have tended to work with the major companies. That has relegated many Australian companies to sub-suppliers and, in some instances, it has made it much more difficult for the sub-suppliers to deal with the end customer. That then touches on issues such as the partnership program and the industry development arrangements in terms of looking at that. I think there has been an awareness within government that a lot of these measures have actually failed in terms of addressing the SMEs. Certainly, the document that DIST has put out on refining the partnership program says that there should be a lot more focus on encouraging linkages with the SMEs, which is all very well to say on a piece of paper, but that is quite a complex issue in terms of intellectual property and the like.

Senator LUNDY—What safeguards or mandatory regulatory requirements do you currently see providing for that SME involvement?

Mr Gosman—I do not really see any requirements. I think it is more best endeavours being looked at in terms of the broad partnership arrangements. As I commented, that really has not focused on that SME development to any great extent. But I think you are beginning to see

a change in orientation such as, for example, Computer Associates going around and doing its workshops looking at local suppliers. As you have heard us say before, it becomes a question of giving the small companies leverage in terms of dealing with the big companies, and that is where the government has a significant role to play.

Senator LUNDY—You cited a six per cent drop in terms of Australian supply to Telstra in whatever capacity. Has your association done any analysis to see if that is a reflection upon emerging partnerships with Telstra and other larger players at the expense of SMEs, or whether you can actually attribute that shift to any trend that may grow larger and therefore needs intervention at this point so Australian companies are not put at a disadvantage?

Mr Gosman—I would not see that forum relating to SMEs specifically. I think it probably reflects a change in technology being introduced into the network. You are seeing greater use of IT coming off the shelf as the proportion of hardware within the network decreases.

Senator LUNDY—Previously, certainly with Telstra's research laboratories and other areas like that, there appeared to be a much closer relationship with technological progression for the carrier and, indeed, Australia's capability in certain areas of technology. To what degree do you think that the shift in Telstra to focus away from investing to a high degree in their own infrastructure technologies has had a subsequent effect on Australian suppliers?

Mr Gosman—I really do not see the impact. Coming back to the point I made before, I do not think there has been that close a link really between Australian suppliers and the Telstra labs. There might have been direct relationships between Australian suppliers and Telstra in terms of doing research and development into new projects, and there have been the cases of JNA, JTEC and the like. I am aware that the labs are still doing work with NEC on ADSL, but that is much more of an application roll-out type R&D than pure research.

Senator SCHACHT—With Telstra's development of ISDN, the biggest issue at the moment is their charging for it now that it is available, which I think is inhibiting its more widespread take-up. Going back to the 1980s, the ISDN development came out of Telstra as part of a general research program. I do not think it was particularly generic. Telstra was a monopoly, but it was done very much as basic research to start off with. Is it possible that in the future, with the movement away from generic research, we will not get the development of such new technologies with an Australian application or Australian technology?

Mr Gosman—I am not sure. I think that touches on many other factors than just Telstra. We are in a world where we are really moving towards global standards, so on the degree to which any small country like Australia or New Zealand—you pick one—will actually do its own research rather than doing development via the global companies, I think the globalisation of technology is moving away from that anyway.

Senator SCHACHT—Does the industry have any view about funding separately now that Telstra is no longer a monopoly and having a separate industry fund for the development of more generic research in telecommunications?

Mr Gosman—That picks up some of the issues I was talking about before in terms of tax and research and development. The strong view of our members is that, in the last two years under this government, the incentives for research and development in Australia have gone backwards, and quite dramatically so. That touches on questions of the R&D concession, and also the CRCs, which have been a success. I know that those kinds of arrangements are under review at the moment. It is a question of CRCs having a focus on particular technologies, because the recent allocations of CRCs have tended to move back to primary industry, coal and so on.

Senator SCHACHT—I have noticed that. I have one last question that I want to raise. If, for example, Telstra were privatised, or whatever way it goes, there may well be significant foreign interest represented on the board in the future if it is up to 35 per cent. If management took a decision and said, ‘This is cheaper off-the-shelf basic equipment from America, Finland or wherever,’ is the present legislation about industry development strong enough to say, ‘Stop, you cannot do that’? If they really have a mind to do it, can they just roll through the legislation and say, ‘We are going to buy off-the-shelf from wherever’?

Mr Gosman—I do not think the existing legislation would be strong enough because it comes back to the point at the last inquiry, the issue of local content, which was considered a no-no in terms of international agreements.

Senator SCHACHT—I know that international agreement arrangements are always mentioned, and I have always thought international agreements were fine. Everyone else says they are fine except when they have their self-interest at stake, and we always seem to be the loser in so many of these areas. I suspect you have already done much of the work, Mr Gosman, but I think the committee would be interested—and I certainly would be interested—to know of any further amendments that would actually stop any of the carriers, not just Telstra, taking a decision to say, ‘We are going to go down to 50 per cent or whatever figure suits us, and the industry can look after itself, hit the fence or whatever.’ Can you put some leg ropes in the system so that, before they take us off the cliff, we can tell them to stop and, if they do that, there will be some penalties?

Mr Gosman—You are right, Senator Schacht, we have done work on that and we would be happy to submit it.

Senator MARGETTS—You say in your submission that you support Telstra remaining majority Australian owned and controlled. Why do you believe that is important? Is it reasonable to suggest that if a 35 per cent foreign owned stake was held by a few institutions, while the 65 per cent Australian stake was largely held by the mums and dads—non-voting in practice—would effective control end up in foreign hands?

Mr Gosman—I cannot really comment on that latter point. But in terms of believing that Telstra should remain Australian owned, we believe that in such a strategic industry it is very important that there be an Australian owned entity.

Senator MARGETTS—Given the potential changes if Australia ever signs up to the Multilateral Agreement on Investment and the roll-back provisions within that agreement, would it actually be possible in the long run to maintain majority Australian ownership?

Mr Gosman—That is a good question. I think at this stage it is difficult to say what the final provisions of the multilateral agreement will be, if in fact it actually proceeds. As you are no doubt aware, there is a lot of debate that it should actually be moved from the OECD to come under the auspices of the World Trade Organisation, and that might change its nature considerably. But I also understand that Australia has sought something like 29 exemptions if it were to become a signatory to the MAI, which would include the issue of ownership.

Senator MARGETTS—And the OECD considers those an ambit claim, but that is another issue altogether.

CHAIR—Thank you very much, Mr Gosman, for your submission and for your appearance today.

Proceedings suspended from 1.14 p.m. to 2.05 p.m.

BRILL, Mrs Jan Letchford, National Secretary, Country Women's Association of Australia, 'Glenroy', Wallendbeen, New South Wales 2588

SMITH, Mrs Margaret Critchley, National President, Country Women's Association of Australia, C/- Glenroy, Wallendbeen, New South Wales 2588

SOUTHWELL, Mrs June Polly, State Vice-President of New South Wales, Country Women's Association of Australia, PO Box 15, Potts Point, New South Wales 2011

CHAIR—I welcome representatives from the Country Women's Association of Australia. We have before us submission No. 40 which the committee has authorised for publication. Are there any alterations or additions you would like to make?

Mrs Smith—No.

CHAIR—I have a couple of questions to begin with. You made a comment in your submission that, since deregulation of banking and the shift of priority from the customer to the shareholder, rural and regional Australia have become sceptical about the lack, or seeming lack, of customer service obligations. We are not actually talking about deregulation; we are talking about the privatisation of Telstra. When the Commonwealth Bank was privatised, do you know if there were any community service obligations on the part of the Commonwealth Bank to maintain branches in country areas?

Mrs Smith—I am not sure about that, Senator Patterson. I must say at this juncture that I have not read the legislation. This association felt that it needed to have a say and had some concerns to put before this inquiry in relation to the full privatisation of Telstra, but it has been remiss in that we have not read the full legislation as it will be presented.

CHAIR—The legislation was available on the public record. Some of the concerns that you list in your submission in fact have been addressed. Some people who have made submissions feel that some of the community obligations should have been addressed more strongly. For your interest and for the public record, after I read your submission I asked for some information on the Commonwealth Bank privatisation, because it concerned me that that was an issue, that banks are withdrawing from rural areas. It is quite difficult for rural people, especially older people who are less mobile and women with small children.

The only requirement in the act was in section 9(2) which directs the board to ensure that policies are:

. . . directed to the greatest advantage of the people of Australia and have due regard to the stability and balanced development of the Australian economy.

There is some further comment that the Commonwealth Development Bank should assist small business. It does not actually go into any obligations about whether, if there is a community of a set size, they should have a bank open from nine until five or, if there is a community of a smaller size, that they have a two-day-a-week obligation. There were no penalties. So the environment for community obligations that we saw in the privatisation of the Commonwealth Bank, which was done under the Labor Party, is very different from that which we are seeing in the suggested privatisation of Telstra.

The committee will send you a copy of the legislation. Would you have a look at those obligations and then, when you have read them, maybe make some suggestions—as other people have about their concerns—about whether they are extensive or not. You are an organisation of 40,000 people, and your suggestion carries weight. To have made a submission without reading the legislation I find a little disturbing, because it was reported in the

Financial Review that your organisation did not support it. I wondered whether you had surveyed your members. Did you survey the members?

Mrs Smith—I surveyed each of the state associations.

CHAIR—The presidents?

Mrs Smith—Yes.

CHAIR—But you did not have time, obviously.

Senator LUNDY—Madam chair, are you challenging the evidence?

CHAIR—No. I am not challenging the evidence; I am asking a question about how the evidence was gathered. What I wanted to know was how far you went. I know that you had limited time. I suggest that it would be helpful to the committee if you have a look at the legislation, look at the community service obligations and penalties that obtain—I think we will have to get those from the ACA for you to see them—and then put in another submission about whether you think that is sufficient to allay your concerns, or whether you believe they should be more stringent or more tough. You will have a copy of the other submissions, where people have made suggestions about community obligations.

Mrs Smith—Senator, what would be the time frame on putting that in, because it is difficult sometimes to get right around the nation to get these comments?

CHAIR—You are going to have to make an executive decision, I think, if you want to make a submission, because we have to have a report back to the chamber by the 20th.

Senator LUNDY—I have to come in at this point.

CHAIR—No, you do not have to come in; you are not going to interrupt me, Senator Lundy.

Senator LUNDY—It is the committee's decision whether or not we invite further submissions.

CHAIR—Senator Lundy, you will not interrupt me while I am speaking. We have a reporting date back to the Senate of 13 May which means we would need—

Senator SCHACHT—That is two weeks. This government has tried to squeeze everything down so there is the least opportunity for people to put stuff in. There is no problem from the Labor Party with what the Country Women's Association has done. I do not blame you. You, like everybody else, have had very little time.

CHAIR—I acknowledged that there is a short time frame.

Senator SCHACHT—That was the government's deliberate plan.

CHAIR—I am trying to assist Mrs Smith in being able to look at it in terms of what the legislation says. I think you would agree that your concern was there because you were not aware that there were community obligations built in and penalties for failure to meet those obligations, but you need to know what those obligations are.

Mrs Smith—We need to have assurances from the current government that whatever is spelt out in those community service obligations will be passed by the upper and lower houses when the legislation is passed. We are having enough trouble with getting the native title legislation through.

CHAIR—We will assist you as much as possible by sending you the bill. If you would like to take the submissions and have a look through them—I think the secretariat could pick out

the ones that talk about the community service obligation—and put in a short statement in light of the fact that there are community obligations built in.

Mrs Smith—Right.

CHAIR—Whether that will allay your concerns, that is for you to make a decision about. But it is a different light from the one you made your submission on.

Mrs Smith—Certainly. However, I do make the point that you are instancing the sale of the Commonwealth Bank. I know this is a different issue from deregulation. To highlight the attitude of banks to shareholders as against customers I point out that it was stated last week by the CEO of the NAB that banks are not in the business of providing for people who want to have a social experience at the local bank. Now it might be perceived that the use of Telstra is a social experience too for rural people but it is not. It is a lifeline. We need to make sure that it is there and that it will be there as technologies improve. It is used, as I have said today, in some information I have brought with me for distance education. It is vitally important. Those things affect all of our members and their families.

Senator SCHACHT—Mrs Smith, I congratulate the Country Women's Association. Maybe I am biased because 35 or 40 years ago my mother was president of the Country Women's Association branch in Gippsland Victoria and being on a farm I grew up with the activities of the CWA as an integral part of the local community life and the interests that you take.

Senator LIGHTFOOT—How did you go so wrong?

Senator SCHACHT—Unlike you, Senator Lightfoot, I actually developed as part of that work a social conscience. I want to say to the Country Women's Association that we find nothing wrong with your submission. I think the Chair has every right, if she wants to, to demand of you to provide further information and you can choose how to do that, et cetera. From our point of view, the issue about the impact on country services you have raised has to be debated and will be debated.

It is true that in the legislation, whether you are aware of it or not—some of it has been well hidden—there are universal service obligations. But are you aware that that is only for the provision of a standard telephone? This is the guarantee that everybody in Australia gets access to a standard telephone. That is the present universal service obligation. But all the new technologies, which I know many people in the farming communities want, such as access to a decent Internet and on-line broadband services, are not covered by the universal service obligation and it is completely left to the discretion of Telstra and other carriers whether or not you will get it. Do you think that the universal service obligation for country people should be extended to include the new technologies such as decent and equal access to Internet as the people in the cities get?

Mrs Smith—Very definitely.

Senator SCHACHT—You might have a look at the legislation. You will find that is not guaranteed in the legislation. It is a grave concern to the opposition that we will end up with a two-tiered telecommunication system in the future. The cities will get all the new technologies and the bush will either get it at a reduced rate or get it at an increased cost? When you look at this material, Mrs Smith, we would ask you to have a particular look at that. Is your association aware that, for example, Telstra's ISDN service, which is a broadband service, is only available to people who live within seven kilometres of a telephone exchange?

Mrs Smith—No.

Senator SCHACHT—Were you aware of that?

Mrs Smith—I am quite sure our members would be because many of them live seven kilometres—

Senator SCHACHT—Again, that means there is no guarantee that a large majority of farmers in, say, western New South Wales would ever get access to ISDN, which is a broadband service, which again is a restriction on the ability of farmers to get access to modern communications to run their farms even more efficiently and more economically. If you have any information that you can get hold of about how many farmers or farm families are outside the seven kilometre range that would be very useful for the committee.

I also want to point out that another area you might want to have a look at, now that you have been requested by the chair to look at a number of areas of telecommunications, is whether there is any evidence on the diminution of the service and the reduction in staff in rural Australia affecting the provision of servicing when there are faults in the system, people getting their phones fixed and so on. I have personally received anecdotal information on this. I was in Queensland earlier this week. In western Queensland now what might have taken a few days to get fixed is now running into weeks because there are no staff available. If you have any evidence of that in New South Wales, we would certainly like to see it.

Mrs Smith—Could I ask, Senator, why do you want information only on New South Wales?

CHAIR—I was about to interrupt and say that you may have had individual members who have had complaints—

Mrs Smith—Always.

CHAIR—Maybe you can just say, ‘We have had 20 complaints from Queensland and 10 from Western Australia and it has increased.’ That is important information.

Mrs Smith—You do not want names just numbers of complaints?

CHAIR—If that is an easy thing to get. But you do not have to limit it just to New South Wales?

Mrs Smith—No.

Senator SCHACHT—In Telstra’s submission, it states—I just have to find it—

CHAIR—While Senator Schacht is looking at that, did you get a set of submissions?

Mrs Smith—No, all of this has been done in a very short time frame.

CHAIR—We only got it today.

Senator SCHACHT—If you have a copy of the Telstra submission, it would be in volume 1. Before you come back to us with further information, you should read the Telstra submission very carefully. I draw attention to page 280 and section 2.2 entitled ‘Company Benefits’, where it states:

Where the Government has a majority control over the company, the Board and management are inevitably linked into these considerations, in responding to the expectations of the majority owner—

that is the government and the people of Australia—

This can lead to sub-optimal commercial decisions.

For example, hesitation in closure of an alliance or new commercial arrangement in order to address political timings of the majority shareholders, may impact on commercial outcomes for the other minority shareholders. It may also lead to informal and indirect subsidisation of service for particular sectional interests at the expense of other end users. Telstra suggests that these informal processes are not always clearly accountable or transparent to the public.

We in the Labor Party are very concerned about that statement because we believe that, if you run Telstra to optimal commercial decisions, only one area is going to lose—the area that does not make a big enough profit, which is the bush. That is why I draw this to your attention, which you may care to respond to. As only the present standard telephone is guaranteed under the universal service obligations, all the other services will be driven purely by what is an optimal commercial decision of Telstra. As Telstra provides it all to the bush, these are matters that I think your association has quite rightly—you may not have expressed it in great detail in your submission in the time you had—hit the nail on the head. Now that you have more time to respond, you may have a look at that particular paragraph.

Mrs Smith—Going back to your opening remarks, the Country Womens Association has always been non-party political. However, we consider ourselves to be very interested in what is happening politically. I would like to ask, Madam Chairman, if we are the only rural voice at this inquiry today.

CHAIR—The National Farmers Federation are meeting with us next week. The Flinders Council and Western Murray Development, which are both Tasmanian, are both meeting with us also. The Flinders Council is because it is a little island and it has a particular problem. We have had some other submissions from other areas. We have not been able to see all of them, but we have tried to choose groups that represent people across the board.

Senator SCHACHT—We have submissions from individuals in the rural area, many of them expressing similar views to your association's.

Mrs Smith—The National Farmers Federation will come with far more expertise in the business world than we have. However, our main bent is the social issues that could arise from this problem. Our brief is for women and their families in rural areas. That is why we felt it was important that we had—

CHAIR—It is important to put in a submission, but it is also equally important to have it based on fact.

Mrs Smith—I take your point.

CHAIR—The thing is for you to be able to look at those service obligations and see whether they meet your concerns. That is the important thing because, if they do not, then you ought to have a voice and input into how they can be extended.

Mrs Smith—And then it would be looked at by the government in a favourable light, we would hope.

CHAIR—Yes. I do not know whether the government will, but the committee will look at it.

Senator SCHACHT—The committee will look at it.

CHAIR—For you to just say, 'We're concerned about it'—

Mrs Smith—You want it to be far more specific?

CHAIR—It would help to be more specific.

Mrs Smith—Right.

Senator SCHACHT—Can I suggest, Mrs Smith, that getting into the detail of this legislation and arrangements is like getting into quicksand in one sense; you will never get out of it because it is so complicated and detailed. Many of us have been dealing with it for a long time. But there are a number of areas that you should look at if you have the time. The government has in the legislation a customer service guarantee which, as a principle, we

support. But in rural areas in Australia the customer service guarantee can be suspended by Telstra. For example, in the wet season in northern Australia they can suspend the customer service guarantee because there is too much lightning and too much rain.

Mrs Smith—For the interim, you mean?

Senator SCHACHT—For a period so that, when the phone falls over, they say, ‘We can’t be penalised because there was too much rain this month,’ or whatever. When a place like Katherine goes under 15 feet of water as a one-off in 100 years, that is fine. But the design of the telecommunications system in the Northern Territory ought to take account of the fact that every year there is a wet season with heavy rain and lots of lightning. We believe those are areas where the customer service guarantee has to be made operative as well, not just on the ability to connect a phone in the city.

Those are the areas that, if you have the time and the resources, the Country Womens Association and other rural organisations have to get involved in because otherwise you will not get the protection that the legislation ostensibly says consumers will get. There are particular needs in the bush that ought to be written in.

Mrs Smith—That is one of our problems of course. We do not have professionally paid staff that can look into these issues for us. It will be grassroots information that you will get.

CHAIR—That is good. You may see something in the obligations that somebody else does not see because you have your constituency on the farm. It may be something that the National Farmers Federation does not come up with. That is why it is important for you to have a look at them. They are written in a way that clearly sets out what the obligations are. You do not need to put it in legal terms, but you could say, ‘This doesn’t seem to include this,’ or ask, ‘Does this cover this?’ Then it will just raise those issues for us. But it is important that you do put that, if you can and if you have got the time. It does not necessarily have to be the whole of your representation. The committee could actually send out to the head offices a copy of the legislation and a couple of the relevant submissions where they talk about obligations. Then you can look at their suggestions and say, ‘We’re in agreement with these ones and these ones, but we would add this as well.’

Mrs Smith—I may get you to do that, if you would not mind.

CHAIR—I have already asked for it to be done.

Mrs Smith—Thank you.

Senator SCHACHT—There is another issue I want to mention here that the chairman of the committee raised in her opening remarks about banks. It is true that when the Commonwealth Bank was privatised there were no community service obligations because it never acted with any. But the difference between the Commonwealth Bank and Telstra is that the Commonwealth Bank had less than 20 per cent of the financial market in providing services—there were other banks as well; it was only one of many banks—whereas Telstra provides over 95 per cent of all the telecommunications to rural Australia. You have no choice; you either take Telstra or you do not have anyone.

If you did not like the Commonwealth Bank, you could find another bank; it may have been in the next town, unfortunately, but there was competition between banks and other financial sectors. As you know, in the bush it is either Telstra or nobody. That is why we think the difference is fundamental about the role of Telstra. In particular, the universal service obligation has to be expanded. If the government stands where it is at the moment, you will

be guaranteed of getting only a standard telephone connection. You will never get a guarantee of any further new technologies, which I know farmers want.

Mrs Smith—We are a little concerned, having had the experience with the analog phone system during this last little while. I think it was the previous government that signed the agreements that analog phones would be phased out by the year 2000. We do not want that same sort of situation to arise with this legislation for Telstra.

Senator SCHACHT—My only comment about the analog decision is that, in terms of spectrum management as well as competition, if you wanted competition, you needed to have a new frequency available and that in spectrum management was probably the only way to go.

The other thing is that the government with our support—we support the government on this decision—has an inquiry under way at the moment which will report by 30 June on what would be needed to expand the digital transmitting system to give an equivalent analog system. At the moment, our view is that, if that requires up to \$250 million extra, as some people have said, we believe the carrier should invest that so no analog present user is disadvantaged by switching to digital. There are other advantages in digital which some technical experts may one day explain.

Mrs Smith—And there are even more upgraded technologies than digital, I understand too.

Senator SCHACHT—Yes. Anyway, from our point of view, you have a legitimate query, and the issue that you are facing, that all rural Australia is facing, is that the present legislation only guarantees the standard telephone and nothing else. That is a real problem because that means you could get charged two times, three times or five times as much for an ISDN connection in the bush as in the city because that is what Telstra will say is the economic price. Therefore, it makes it uneconomic for anyone to use it. Whereas if it is in the universal service obligation, you can get it at a reasonable price and at the same price as the city and therefore you are treated equally.

Mrs Smith—Yes. That is a grave concern. I have one other question. It has been reported that Mr Howard has said there will be no timed voice or data local calls for private telephone services. Most farmers are small businesses. How will that be addressed, do you think?

CHAIR—I do not know the answer to that. That is something that we should have addressed. But I have to say that, under the previous regime as it exists, there are no customer service guarantees.

Mrs Smith—That is just one question you might take on board, if you would not mind. We could be disadvantaged because we run our small businesses from our home phones.

Senator SCHACHT—So you do not want to get a timed call for your data, which is now left open in the legislation. Last year, when we tried to close it off, Telstra insisted to the government that it be left open for a later change to become a timed call.

CHAIR—I do not know what the rule is on how it would be determined to be a business telephone call but I guess, if you are claiming taxation for part of it, there will be issues in that regard.

Mrs Smith—Yes, it is going to be difficult.

Senator LUNDY—In fact, that issue goes to the very heart of the series of questions I wanted to ask. It relates to the way in which Telstra currently prices data calls for small business in the bush. Just looking quite specifically at their web site and their pricing regime for Internet and data services, there is a massive differential between what they offer for

metropolitan users and rural and regional users. I was hoping you would be able to tell the committee about the experience of some of your members in relation to Internet activity and any constraints or difficulties they have experienced and how that relates to your concerns about the full privatisation of Telstra.

Mrs Smith—Just the day before yesterday, I spoke with Miss Dorothy Ross, who is the past national president and has also been a member of the Press Council. She has become very involved in the use of the computer and is putting herself on the Internet. She had great difficulty from Holbrook in New South Wales in trying to find a carrier at a local rate. There is one carrier in Albury who does that, but she had to shop around to find that carrier.

Senator LUNDY—An Internet service provider?

Mrs Smith—An Internet service provider. That then made me think about all the young people who are involved in distance education and whether there will be a subsidy for those people. It is not only the young people but also rural women and rural men who wish to access tertiary courses which are all available now on the Internet. There could be exorbitant costs for those people unless there is something written into this that will guarantee they can get something that will make them as equal as, if not a little less equal than, their city counterparts. If the service is privatised fully, they could be looking at enormous amounts of money.

Senator SCHACHT—Hundreds of dollars?

Mrs Smith—They could be disadvantaged.

Senator LUNDY—They currently are looking at hundreds of dollars. Just on that very point, in investigating this issue, there seems to be a fundamental distinction between the pricing of business data calls and residential data calls, in that some of the guarantees that were advocated by the government in the previous partial sale of Telstra included protection of an untimed data call to residences but that did not extend to businesses. The fact that you have mentioned the status of many farmers as businesses puts them immediately outside that current protection that has been put in place for residential data calls. If that is the case, and given that Telstra's Internet product is based on a timed call, are you actively seeking exemption for farmers as small businesses or a special case for them to come under the protection of an untimed business data call given their rural status?

Mrs Smith—As an organisation, no, we have not done that. I do not know whether the farmer agri-political groups, such as New South Wales farmers and so forth, have come on board with that. However, I tend to think, all things being fair and equal, if you are running a small business and it just happens to be a farm, you have to wear that extra cost. One of the worries that our members have is where they live on a border of one code area and another. I have to ring my neighbour who is a few miles down the road on an STD call.

Senator SCHACHT—Do you get a community call charge rate for that?

Mrs Smith—No, I do not, but I can call her up on the two-way so that does not happen to worry me in our area. We are fairly closely settled, but when you get out into bigger areas, maybe there is that concern there. No, we have not taken that on board at this stage.

Senator LUNDY—Are you aware of Telstra's plans to increase the number of points of presence in regional areas?

Mrs Smith—This is for service presence?

Senator LUNDY—Yes, it relates to the ability of rural people to access exchanges at a local call rate and therefore Internet services at a local call rate as opposed to an STD rate.

Mrs Smith—I do not know a lot about that. However, there are members who, as I said, in very remote areas are very aware of this. I know that through their own and through local government, they have taken submissions to Telstra.

Senator LUNDY—I can pursue that with other witnesses. Any information relating to Internet usage of your members would be most useful to this committee.

Mrs Smith—Do you want information about it, or is what I have told you sufficient?

Senator LUNDY—If you have any further information that you are able to supply without it being too much of a burden, given the workload you have been given already by the committee, it would be greatly appreciated.

Mrs Smith—All I can say is that perhaps distance education centres would be able to tell the committee the number of young people who are accessing school education through that area, and whether the governments in the states are going to subsidise that or not. I would not know; maybe that has not been looked at either. Of course, all universities now have courses that are available through technology.

Senator SCHACHT—Mrs Smith, I would like to make one suggestion to you. I do not think you should allow yourself to be diverted to asking state governments or any other organisations to put in subsidies in the provision of telecommunications services.

Mrs Smith—No. I just said I did not know.

Senator SCHACHT—I know. I think the most effective argument is that this ought to be covered under the universal service obligation by the existing cross-subsidy arrangements within telecommunications. At the moment that is worth \$260 million and is cross-subsidised from the profit-making areas of Telstra and the other carriers to cover the cost of providing the service in the rural areas of Australia.

There are people within the carriers who would very much like that subsidy to be paid by somebody else so that they can keep the money for increased profit. All I know is that as soon as it goes outside the communications system, it is less likely to be paid whereas if it is kept within telecommunications, particularly if we want to expand it to provide the new services as a right to country people, it will be better if it is paid for out of the cross-subsidy within the telecommunications carriers—overwhelmingly, Telstra.

Mrs Smith—Did you hear anything from the ICPA—the Isolated Childrens Parents Association?

CHAIR—No.

Mrs Smith—I am surprised.

Senator SCHACHT—To give them their due, I must say that they have seen me privately, and I think they have seen other members of parliament privately, when they have made visits in the last 12 months to Parliament House. They have raised a number of similar issues with me privately.

CHAIR—Not about the privatisation of Telstra, but about distance education.

Senator SCHACHT—About services—distance education and the related areas.

CHAIR—If you would like, we can incorporate your opening statement in the beginning of *Hansard*.

Mrs Smith—Thank you.

CHAIR—Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The statement read as follows—

Chairman,

Thank you for asking us to attend this inquiry in order that we may share with this Committee some of the concerns we have for rural and remote subscribers should the full privatisation of Telstra be pursued by the Federal Government.

This Association has approximately 44,000 members throughout Australia many of whom are not living in rural or remote areas—this is, of course, reflective of the population spread. Because rural and remote subscribers are very much in the minority, this Association is fearful that their needs and services will be of far less importance to the corporate management of a large company beholden to its shareholders rather than its customers.

We note here that small rural communities are reeling from the withdrawal of banks from the communities since deregulation of banking in Australia. It was said at the banking inquiry in Melbourne last Wednesday that the National Australia Bank was not in the business of providing social venues for country people to carry out their banking needs!

How much more important to rural and remote people is a telephone system? For many it is their only contact with distant neighbours, local businesses and family members and is particularly necessary in time of crisis—bushfires, floods et cetera.

Even as we speak here today, there are people waiting extraordinarily long periods of time for service to their lines. Can the Federal Government ensure that there will not be further delays with full privatisation?

The Telecommunications Act 1997 should ensure the viability of current services to rural and remote Australians, but does it allow for upgrading equipment and services as advances in technology occur?

Young Australians involved in distance education deserve to have the most up-to-date equipment to further their education as do those who undertake any of the tertiary courses currently available via electronic technology. Can the Government assure the Country Women's Association of Australia that the costs of 'hooking up' to these services will not increase dramatically under the proposed full privatisation of our major carrier?

Customer service obligations are very much a part of service delivery and our members have come to expect that governments, of whatever political persuasion, will do their best to monitor the carrying-out of these obligations. Will a fully privatised Telstra consider it has those same obligations?

This Association seeks a guarantee from the present Government that interests of country people in the area of telecommunications, for private, business and educational purposes, will not be disadvantaged by this proposed Bill and if legislation is enacted on the proposed sale of the remaining two-thirds of Telstra, it enshrines a clause which will ensure that any subsequent government will maintain the intent of the 1998 legislation.

Presented by Mrs. Margaret Smith, National President Country Women's Association of Australia. In the presence of Mrs. Jan Brill, National Secretary, Country Women's Association of Australia, and Mrs. June Southwell, State Vice-President, Country Women's Association of New South Wales.

CHAIR—I think the secretariat has your names and addresses and has chosen three or four of the submissions which relate to the service obligations, rather than sending all of the submissions. The secretariat in Canberra will post those out. You will have an opportunity to look at those, but we would appreciate it—if you have the time—to make a comment on at least those submissions that have talked about community obligations. Do you have any other issue you wish to raise?

Mrs Smith—No, I do not think so.

Senator MARGETTS—I have a question.

CHAIR—I do not know whether you were here when the committee first started, but that disembodied voice is Senator Margetts from Western Australia. I do not think we reminded the witnesses after lunch that you were there, Senator Margetts.

Senator MARGETTS—I am pretty scary. During the hearings on the partial sale of Telstra, I recall hearing some fairly strident statements from Senator O’Chee on behalf people in the country that the standard telephone service band would be broad enough to cope with the provision of other telecommunications services like the Internet. Is it the experience of the Country Womens Association that the definition of a standard telephone service is in fact sufficient to enable the establishment of Internet connections?

Mrs Smith—I have no knowledge of that. Nobody has said anything to me about that.

Senator MARGETTS—A few people have suggested that we need to wait longer to find out how well the current level of competition is working before we take any next steps. Is that your opinion as well?

Mrs Smith—Madam Chair, you want these comments back by 13 May—

CHAIR—No. We have to table our report by 13 May. So we are looking at within the week.

Senator MARGETTS—It is a real rush effort for a very big issue like this.

Mrs Smith—I have that same feeling.

Senator SCHACHT—They are needed probably by the end of next week. That is not the view of the opposition; we wanted an extra six weeks on this inquiry so that people such as yourselves had plenty of opportunity to consider it.

Mrs Smith—We will endeavour to meet the request of the chair.

CHAIR—Thank you.

Senator SCHACHT—I have a supplementary to Senator Margetts’s comment. If you have any evidence from your members—one of the issues is not just the connection to Internet; it is the quality of the Internet and the time lag. A lot of country people I have spoken to have said, ‘We can get the Internet, but we are not getting it at the same quality or the same speed as people in the cities get it.’

CHAIR—Senator Schacht, I do not know how they assess that, because my access to the Internet is ultra slow in the city. How do you in fact compare it if you do not know?

Senator SCHACHT—I was asking the witnesses if they had any information about that. This is an issue where people feel that if they get a lesser Internet service, whether in cost or quality, they are disadvantaged vis-a-vis the city. They are disadvantaged in their small business compared with their competitors. So if you have any information about that, I as a part of this committee would be more than happy to receive it.

Mrs Smith—I will certainly ask about that, but I think the service is what is important. It is a little like television: our coverage of television is not as good as the quality in some areas, but at least we get it. This is what we want to ensure here, too.

Senator EGGLESTON—On that very issue, when I flew over here last night from Perth, I was sitting next to a Dr Jane Talbot, who is a senior lecturer in general practice medicine in the rural division of the Department of General Practice in the Faculty of Medicine and Dentistry at the University of Western Australia. She said that all their rural medical students are issued with laptops now. In fact she said that the Internet and fax data lines from their students back to their department in Perth is very slow. So that is some evidence that there is slow transmission of data from rural areas, at least in Western Australia.

Mrs Smith—I guess another of the reasons why the quality of the service is very important is that telemedicine is becoming so much more prominent in remote areas now, too. If you were having your ECG sent down the telephone, you would want the quality to be pretty good, wouldn't you?

Senator SCHACHT—Yes.

CHAIR—Thank you, Mrs Smith, Mrs Southwell and Mrs Brill, for your submission and attendance today. That material should be at your state offices tomorrow.

Mrs Smith—Thank you. We appreciate the time of all of you.

[2.45 p.m.]

GRANT, Mr Alasdair, Manager, Regulatory, AAPT, 9 Lang Street, Sydney, New South Wales 2000

PERKINS, Mr Brian Randall, Director, Regulatory and Legal, AAPT, 9 Lang Street, Sydney, New South Wales 2000

FOX, Ms Jennifer Carmel, General Counsel, Macquarie Corporate Telecommunications Pty Ltd, 33 Bligh Street, Sydney, New South Wales 2000

KRISHNAPILLAI, Mr Maha, Senior Manager, Strategy, Macquarie Corporate Telecommunications Pty Ltd, 33 Bligh Street, Sydney, New South Wales 2000

BRENDISH, Mr Craig, Manager, Commercial and Regulatory Affairs, Global One Communications Australia-New Zealand, 255 George Street, Sydney, New South Wales 2000

CHAIR—Welcome. The committee has before it submissions Nos 51, 59 and 53 which have been authorised for publication. Are there any alterations or additions that you would care to make at this stage?

Mr Perkins—We found the inevitable typographical error in our submission. It is in paragraph 3 in the second line. The third to last word reads 'inefficient' supplier. It should read 'efficient' supplier. If the committee would simply obliterate the 'in'—

CHAIR—It is not any old typo, is it?

Mr Perkins—We are talking about Telstra, so they feel it is important too. 'Which cannot therefore be regarded as an efficient supplier of services', is how it should read.

CHAIR—Does any of you wish to make an opening statement?

Mr Perkins—No, thanks, Madam Chair. AAPT is happy to answer questions.

Senator SCHACHT—If I get the thrust of the submissions made by you as a group, the real issue for you is not privatisation; it is competition. You call it lack of competition vis-a-vis Telstra's dominant strength and position in the marketplace. Why would a fully privatised Telstra in the existing regime provide a more open competitive market if the existing regulations stay the same irrespective of who owns it?

Mr Perkins—As you observe, our submission really does direct itself to what we see as a very likely outcome of the effect of privatisation. Our concerns were certainly triggered by the proposition to fully privatise Telstra. Whilst many of the things that we have advocated we would have wanted to advocate anyway in any review of the current legislation, we see this current proposition as causing us to be even more concerned about the current regulatory environment because, in our view, a fully privatised Telstra will become a more fearsome and awesome monolith than it is today. We are very concerned. But at least today the government

does hold the majority shareholding in Telstra and that gives us some comfort that, in the event there are things that need to be done, the government would be at least prepared to listen to our concerns.

In a fully privatised Telstra we are less confident that that would be the case, so we feel this is an important time to look at the legislation, to look at the state of competition in the industry and to decide whether, before going this next step, that next step is likely to cause damage to competition in the industry. We submit that it is very likely to do so. The proposals that we have put forward are our answer to that question as to what we think needs to be done to ensure that competition—which is still very much in embryonic form at the present time—is not further damaged and set back for some considerable time by the effects of privatisation.

A privatised Telstra will have to respond wholly to its shareholders—and rightfully so; that is what corporate governance is all about—and its shareholders are the owners of Telstra. What the shareholders require Telstra to do and how they require it to act in the marketplace is what Telstra management must respond to. I guess Telstra does so today, but we feel that, in a privatised mode, it will become far more aggressive than it is. Frankly, we do not believe that the condition of competition today can stand much more aggression.

Senator SCHACHT—You are probably a devotee of Senator Harradine. I think it was Senator Harradine who once said in the Senate that there is only thing worse than a public monopoly and that is a private monopoly. I think, Mr Perkins, you agree that, under the present rules, a privately owned Telstra will do competition a lot more damage or will reduce competition.

Mr Perkins—I think it would have a very strong incentive to do so. Frankly, we are scared out of our wits at the thought. We will be there and we will compete, but we really do believe that it would be very difficult to continue to compete at the level we have with a fully privatised Telstra which is driven by a bottom line demand on it. The things that we are proposing are not major changes to the legislation—we feel that the legislation has much to commend it—but, not surprisingly, after a period of time of operating under it, we see a need to finetune it. That is really what we are proposing—finetuning.

Senator SCHACHT—Through your submissions you suggest a number of legislative changes to strengthen competition so that, whether Telstra is privately or publicly owned, competition is strengthened in the telecommunications market. Earlier today, Ms Bun from the Australian Consumers Association made a similar appeal. She said that for consumers the real issue is competition rules not whether it is privatised or not. She said that at the moment their association is not in favour of full privatisation until some of these matters are dealt with properly and appropriately otherwise the consumer will take a hit, let alone other competitors in the market. So in this case it may well be that you have a similar view to that of the Australian Consumers Association.

Mr Perkins—Yes, quite so. We are not necessarily against the idea of privatisation in the fullness of time, but we do want to see competition well entrenched and effective competition operating to bring the benefits that Ms Bun is looking for for her constituency. We think there is a tremendous threat involved in this, and we do not want to see that destroy what has already been achieved.

Senator SCHACHT—Before I ask you to summarise some of the ideas for legislative change you have in your submissions, do you accept or acknowledge that, for the foreseeable future, whether Telstra is fully privatised or stays where it is, it will be the dominant carrier in providing telecommunications to most Australians every day?

Mr Perkins—Absolutely. I think in the foreseeable future—a decade or more hence—there will be no possibility of anybody catching up with Telstra.

Senator SCHACHT—So they will have 70 to 80 per cent of the market?

Mr Perkins—Absolutely.

Senator SCHACHT—When you put the market totally together?

Mr Perkins—Yes.

Senator SCHACHT—Right. Today another witness who is well-known for this view—Mr Stewart Fist, an independent commentator—recommended structural separation. Maybe it is a bit late in some ways to revisit that issue, but I suspect your members would probably not be unsympathetic to that view that structural separation may well be a better way to provide effective competition?

Mr Perkins—We had given up on that. Back in 1990, if you revisit the submissions which were made by ATUG of which I was one of the authors, we advocated that in very much the form—

CHAIR—Who was in power then, Mr Perkins?

Mr Perkins—Yes, well, that is okay. There are different circumstances.

CHAIR—I was just tongue in cheek.

Mr Perkins—I take your point, Madam Chair.

Senator SCHACHT—You can take the point as much as you like. We are willing to acknowledge that back in 1991 there were a range of arguments. The structural separation issue was seen by some as still enabling Telecom to have a dominating monopoly. If it were left with a basic network, that was still seen as not competitive enough because they would run the basic network—that was the argument against structural separation that was used in 1990. I accept that ATUG and others raised it in various forms. In the end, I think even the unions supported a structural separation arrangement. Then people said, ‘It must be crook because, if the union is supporting it, it must be meaning the old monopoly is going to continue.’

Mr Perkins, even your amendments to the Telecommunications Act and the Trade Practices Act are not insignificant in terms of debate and just rolling them up as part of a debate on privatisation of Telstra. You can certainly amend both of those acts at the same time, but they are still significant amendments in the competition rules. Have you discussed any of your proposals in your submissions which are now public with any of the major players, particularly with Telstra?

Mr Perkins—No, not with Telstra. We have discussed it with the Department of Communications and the Arts, and at various times we have talked about these both with yourself and with the minister’s office and the minister. So they have been discussed around the industry but not directly with Telstra.

I really would take issue with you a little on the size of these amendments. I still think they are finetuning. We do not see them as massive changes. We are looking at giving some additional discretionary powers to the ACCC. That does not mean to say they will use them and it does not put an immediate constraint on Telstra. It merely means that the power is there to use it, if the ACCC feels that it is necessary to do so.

Senator SCHACHT—While Telstra has for the foreseeable future 70 to 80 per cent of the market—even fully privatised—in view of that dominance, would you still like the legislation

to have the general power of direction of the minister to direct the board of Telstra, to offer you a final leg of protection?

Mr Perkins—Yes, Senator, we would. We feel that that power was very wisely put in in the initial legislation and we see no reason whatsoever to remove it in these circumstances.

Senator SCHACHT—Even if Telstra is fully privatised?

Mr Perkins—We cannot see any reason why it should be removed. It is not a power that is likely to be abused by any minister. However, I believe it is a safeguard to the Australian people.

Senator SCHACHT—I now want to turn to the individual amendments to the legislation that you are proposing. I may have overstated that these are dramatic but I think they are more than finetuning. I do not know what the middle level is in between but they are significant in a number of ways and you will not get unanimous agreement from Telstra obviously.

Mr Perkins—No.

Senator SCHACHT—What was the response of the Department of Communications and the Arts about these proposals which would enhance competition?

Mr Perkins—Senator, I am sure you have spoken to the people of the department, as I have. They looked very interested; they took notes. I do not mean to be flippant. It is not their job to make judgments. They certainly listened with interest to our arguments. We discussed it at some length and they went away. I can say no more.

Senator SCHACHT—I want to come back to some specifics, but I think Senator Lundy has some other general questions.

Senator LUNDY—I wanted to follow on from one of Senator Schacht's questions relating to the specific points you made about the ring fencing of the different corporate entities that are contained within Telstra as it is currently structured. The way you have presented the issue and what you perceive as your solution certainly gives a strong indication to the fact that, no matter how stridently competition is regulated by the ACCC, while there is this vertically integrated corporate entity and no scrutiny of the non-cost related advantages that may emerge from that vertical integration, you are still not going to be ever able to achieve genuine competition in the various lateral areas of service across the industry. Can you comment on that and tell me if that interpretation is heading in the right direction?

Mr Perkins—Yes, that is certainly the way we see it. The situation is that, under the 1991 legislation, we had a thing called the COA-CAM, the cost of accounts-cost allocation manual, which was administered by Austel and the Chairman of Austel—who is, of course, no longer chair—has said on a number of occasions that that was quite unsuitable and that it was not a useful mechanism for understanding Telstra's cost structures, which is really what it was designed to do. The ring fencing that we propose is a mechanism for trying to get to the bottom of Telstra's cost structure. It has been a mystery for governments and for regulators since 1901.

Professor Allan Fels, the current Chairman of the ACCC, at the time when he was chair of the Prices Surveillance Authority made the comment that he had spent some time trying to understand Telstra's cost structure and came to the conclusion that it would never be possible to do so. Therefore, he made his determination without understanding it. I suspect that that situation probably has not changed dramatically.

Therefore, what we are talking about is trying to provide a mechanism whereby the costs of Telstra can be understood in those areas where it is important to do so, and that is in

relation to the basic network. Nobody who really believes in competition sees the need to have details on the costs of Telstra's higher level services, the downstream services. But it is the upstream services, the costs of the basic network, which are equally a mystery but which ought to be brought out and be understood particularly by the regulator but also by competitors. When we are trying to negotiate with Telstra, we do so completely in the blind. We have absolutely no knowledge of Telstra's cost structure, nor do they give us any indication of what those costs are. My colleagues along the table have made an assessment, which has been given some publicity, about what they believe to be Telstra's costs—

Senator SCHACHT—Is that more than a stab in the dark?

Mr Perkins—Senator, I suggest you ask the people from Macquarie Corporate that question. But I believe it is most important that the regulator be able to get to the bottom of this and I think ring fencing is the only way that will ever happen. The cost structure and the way Telstra passes costs within its own vertically integrated business is very important to competition. Unless Telstra is forced to provide us with the same pricing as it uses within its own organisation in passing from one level of its vertically integrated business to another, then I do not see how we are ever going to be able to get fair competition in this country.

Senator LUNDY—We have heard from consumer associations and other witnesses that their perceived first point of call is that level of public accountability and scrutiny of the actual declared services. But what you are saying is that, even prior to getting to that point of scrutiny, there needs to be some form of ring fencing of the distinct areas of service so you can distinguish between the vertically integrated aspects.

Mr Perkins—Sure. The ACCC now has a working group running and they are trying to get to the bottom of this. They will not succeed properly—not to the level that they ought to succeed. I am not being pessimistic. They will get to a certain level of certainty but they will never really know because there are too many unknowns in the cross-subsidies and in the way that Telstra manages its business. Until we get some form of ring fencing or structural separation, it is never going to be known to any degree of accuracy and in the end we will be guessing. I think we can do better than guessing.

Senator LUNDY—So I guess that, in your opinion, Telstra's recently stated desires to move into more of the services area of telecommunications will only cloud that further?

Mr Perkins—It will exacerbate it. It is hard to understand why Telstra would be quite so concerned about it if, as the managing director Frank Blount says, they are a highly efficient organisation and local calls produce only very small margins. You would think that they would want to be able to prove that. We have a certain healthy scepticism about that statement, I might say. When you look at the RBOCs in America who are going around the world spending money like there was no tomorrow, you would say that there seems to be something at odds with Frank Blount's statement—

Senator SCHACHT—Just on Frank Blount's statement: in the half yearly report of Telstra tabled publicly and in the parliament, local call revenue was around \$1,200 million to \$1,300 million. So in a full year roughly \$2,500 million was the local call revenue. I asked Telstra at estimates whether they could provide us with what their profit was on that. They have taken that on notice and claimed confidentiality and several other things. What do you think is the profit on \$2.5 billion revenue per annum? Does the industry have a view on what that profit would be?

Mr Perkins—I have a view which is educated guessing based on what we know of overseas costs, and that is the real cost of Telstra's telephone calls is probably in the 10c to 12c

vicinity; so I think there is a 100 per cent mark-up. If they were an efficient organisation—that is really the rub—it may well be that Telstra does only have a small margin on its local calls but, if that is the case, then they are condemning themselves as totally inefficient suppliers. They cannot have it both ways.

Senator SCHACHT—So you would think that, as an efficient organisation, around \$1 billion to \$1.2 billion would be the profit Telstra makes from local loop revenue?

Mr Perkins—Yes, I would say it ought to be that.

Senator SCHACHT—In fact, if you look at the total profit before reinvestment of nearly \$4 billion, it does not add up unless you get those figures anyway.

Mr Perkins—Yes, that is true.

Senator SCHACHT—If you put the reinvestment of over \$3 billion into capital works, the retained earnings for that plus the tax plus the dividend, it is about a \$4 billion profit. You cannot get those margins, that profit before tax—EBIT or whatever they call those things—unless some of those areas are making that sort of revenue profit.

Mr Perkins—That is certainly our view.

Senator SCHACHT—Does anyone at the table disagree with that?

Mr Brendish—Just on that issue, there is a number of other aspects to the local call revenue and hence margin. We are talking about local calls, but Telstra also has line rental revenue from that business and it is an entry point—or a bottleneck, if you like—for the shopfront for every other Telstra service—

Senator SCHACHT—I understand that. But Telstra gave the figure in their half-yearly report—this is a new transparency except they do not want to tell you how much profit they have made. You have to guess which sections of their revenue made which profit. That is why I am interested in getting some information on the public record. I understand the advantage that they have with the bottleneck, because everything else flows from the local phone connection. But what would happen to your companies if Telstra said, ‘You are right, we are overcharging. Instead of having 25c untimed calls, we are going to make all local call rates in Australia 15c’? Would that put you all out of business anyway?

Mr Perkins—No, not at all. We really want to be able to get into the local call business. AAPT does not see this as a high profit or even a serious profit making opportunity in resale. We want to get into the local call business but we want to do it through having access to the local loop, connecting people to our own switches and giving them an AAPT dial tone. That is where we really want to go. But we cannot do that everywhere in Australia—nobody could, in our view—so we need to fill it out with local call resale in those areas where it does not make sense to duplicate that infrastructure. We need to do both and that is the importance of the current ACCC inquiry.

Senator SCHACHT—If Telstra dropped their local call rate—if you are right about the level of profit they are making; you might call it gouging at the moment because of what it does to the general consumer—to a figure of 15c a local call untimed, which on your figures is still making them a profit of 3c per call which is 15 to 18 per cent profit margin, how do you then make your profit? If they then resell it to you at a margin of 10c or 12c, can you live on that?

Mr Perkins—Ten or 12 per cent or 10c or 12c?

Senator SCHACHT—No, some people are suggesting that the local call resale rate should be equivalent of around 10c to 12c. If Telstra was selling it at 15c themselves, with the margin in between what they would then sell it at 10c to 12c to you and sell it at and what you have to add on for your service, does that put you out of business anyway?

Mr Perkins—No, we could manage on about a 20 per cent discount. If we could get a 20 per cent discount, we would do two things: we would first of all at least be able to cover our costs of billing and collections which we cannot do at the present time—we are losing money on every call we handle—and the second thing is that we could afford to give our customers a small discount. But the important issue about local calls is the bundling issue. The market is getting to a point now where, if you cannot bundle local calls in with your long distance calls, people do not want to know you because the differences in long distance rates between us now are not that great—between ourselves anyway.

Senator SCHACHT—While we are on the same theme, Telstra also said in their half-yearly report that they were earning about the same amount from STD calls in Australia. When you put it out for a full year I think it was around \$2 billion—

Mr Perkins—I thought it was more than that; I thought it was about \$4 billion.

Senator SCHACHT—What was the figure for long distance in Australia?

Mr Perkins—I thought it was about \$4 billion.

Senator SCHACHT—What do you estimate Telstra's profit margin would be where you have a lot more competition in long distance than there is in the local loop? I think it has already been declared that Telstra are no longer a dominant player in some areas of long distance compared with five years ago, because Optus and others have a sizeable section of that market. Is Telstra's profit rate 100 per cent like they are making in local loop?

Mr Perkins—No, I do not believe it is 100 per cent.

Mr Brendish—If I can just butt in: the half-yearly accounts also did some margin analysis on Telstra's lines of business. One of the surprising results was that the STD margin was maintained in a competitive environment at around 40 per cent. The impression would be that with competition the margin should go down but I would suspect that, because of their market power and perhaps also due to their cost cutting, they have maintained their margins. Competition should drive those margins down towards cost.

Senator SCHACHT—So they have not passed any of it on to the consumer?

Mr Brendish—That is exactly right.

Mr Grant—This underlines the need for appropriate ring fencing, because it would make quite transparent the underlying costs at which Telstra's network is supplying its services to its retail arms. The allegation could be made, if evidence was there, that Telstra could be supplying the wholesale access services—for instance, switching and transmission capacity—at a lower cost to its own retail divisions than it was passing on to the competitors.

Senator LUNDY—So the point about ring fencing is separating their wholesale sale to other competitors and their retail product and making that distinction—

Mr Perkins—No, it is more getting to the pricing of their core business, which is the costs of the local network and the long distance network—getting to grip with those costs and leaving the rest of their costs alone. I do not want to know necessarily what they are charging downstream, except in some of the more sophisticated services. That is what competition is all about. I am prepared to compete providing I can get access to the core network at the same

price as they do, or essentially the same price as they do. We will then give them very tough competition because we will run leaner and meaner than they will.

Senator TIERNEY—If I could ask the representatives of each of the three companies this question: do you have any objection in principle to Telstra being transferred into full private ownership? Perhaps if we could start with you, Mr Perkins.

Mr Perkins—No, we do not. AAPT has no particular difficulty, providing we are able to get these additional safeguards which we think will safeguard competition—not just for us but for the industry. We do not have any particular view one way or the other. We are agnostic, as they say, on that subject.

Ms Fox—Macquarie has said in its submission that we do not oppose the sale. We support it, recognising that there may be possible benefits, but subject to all of the cautions that Mr Perkins has expressed. There has to be a very strong competitive safeguard regime put in place, and it is not there at the moment. Without those amendments being made that we have put forward and others have put forward, we could not support the transfer of shares. But in principle we have no objection whatsoever.

Senator TIERNEY—You just want some finetuning.

Mr Brendish—Our opposition is similar to my colleagues here. Privatisation is a worldwide trend. For Telstra to survive in a global market—telecommunications of all markets is global instantly—Telstra has to have the ability to compete with global players that are entering this market and will deliver Telstra the benefits or the ability to enter other markets to survive and diversify its revenue base.

Senator TIERNEY—I am glad you raised that point, Mr Brendish, because I did want to ask Mr Perkins a question based on something he said earlier which was related to that. As you have pointed out, Mr Brendish, with the size of Telstra in the marketplace and with the need to be globally competitive, we need a big player. I just ask Mr Perkins: why is it necessary to have other companies pass Telstra in size? Surely, if they can get a reasonable share of the market place, that would change a former monopolist's behaviour to reduce costs and to reduce prices. Why do we have to have one that is as big or bigger than Telstra?

Mr Perkins—Sorry, I probably must have miscommunicated or misled you. I was not suggesting that we need one bigger than Telstra. I cannot even imagine what life would be like with one larger than Telstra.

Senator TIERNEY—To quote your words from the *Hansard*, you said, 'needs to pass Telstra'. It intrigued me and I wrote it down. The *Hansard* will prove that is what was said.

Mr Perkins—I am sorry, I must have been doing something else at the time. I certainly did not intend to say that. No, I have no thought that there is a need to have any company larger than Telstra. I support globalisation but I do not know that globalisation and privatisation are directed related, in my mind. Telstra is doing very nicely in the global marketplace today as a partially privatised entity. So I do not feel one way or the other. I think it is important that Telstra and Optus—and AAPT one day—be global players because that is the way that the industry is moving, but please do not create something bigger than Telstra.

Senator TIERNEY—I am sure Optus would like to do that.

Mr Grant—It might be useful to note that Telstra's market power cannot be assessed solely with reference to its market share because of the very nature of the telecommunications industry that requires all networks to interwork with one another. Telstra's market power should be assessed with reference to its market share together with the extent to which it

controls the underlying network. For example, in some markets it may have a 60 per cent share but, if it controls all access to its network and there is no duplicated network, then it still has a power to control the market much more than that 60 per cent figure would suggest.

Senator TIERNEY—Mr Krishnapillai, you seem to indicate in paragraph 2.35 that you would want to be released from customer service guarantees with a full privatisation of Telstra. I just wonder what that issue has to do with the full privatisation of Telstra.

Mr Krishnapillai—I guess our whole submission is based on our experience over the last 10 months or so since deregulation on 1 July and on a recognition that a number of things have happened. If we were to look at the full privatisation of Telstra, in our view, some changes would need to occur and these were some of the legislative changes that we were suggesting. In terms of that particular reference to the customer service guarantee, it seemed to us an anomaly that the legislation talks about—I do not want to go into specific technicalities—access to non-switched handsets. Most businesses go through PABXs and are therefore switched. We were just trying to clarify that particular anomaly.

Senator SCHACHT—That is the administration of the services, you are not trying to escape—

Mr Krishnapillai—We are certainly not trying to escape from it.

Senator SCHACHT—If you have a delayed connection or a fault not being fixed, you will pay the same penalty. It is just that the administration of it through Telstra is creating a problem for you sometimes.

Mr Krishnapillai—That is correct. The issue more is that, because we are providing services to end customers and we are reliant, as Alasdair has pointed out, on the underlying network, then the reliability of that underlying network and the guarantee behind that network is the more important issue.

Senator TIERNEY—Mr Brendish, on page 2 of your submission, you say that ‘any further regulation should only apply until sustainable competition is in place’. What do you define as ‘sustainable competition’?

Mr Brendish—It is a many splendid thing but it is where the situation does not arise, for instance, where Telstra’s market power is constrained by the marketplace and not unconstrained because of its size.

Senator SCHACHT—Mr Brendish, do you agree with Mr Perkins that the power of the minister to direct generally should be maintained in the legislation even if Telstra was fully privatised?

Mr Brendish—For the areas where competition or contestability is not possible yet, I think that should stay in place.

Senator SCHACHT—But it is not there in competition terms, it is there as a general power.

Senator TIERNEY—Senator Schacht, I listened very carefully—

Senator SCHACHT—Good, you must be learning something.

Senator TIERNEY—It is the same old stuff we heard last year or the year before.

Senator SCHACHT—We will do it again.

Senator TIERNEY—Was it 1996 we heard you run all these arguments? Mr Brendish, you say on page 2 of your letter to the minister that a ‘fully privatised Telstra will liberate it from government control’. I was curious about that statement, given that the safeguards in the telecommunication legislation does not exactly liberate Telstra in these conditions.

Mr Brendish—I suppose the point was couched in the terms that, where markets are contestable and can support sustainable competition, if Telstra is competing fairly then it should not be subject to any more regulation or legislation.

Senator TIERNEY—Thank you.

Senator MARGETTS—I would put this to any of the witnesses: what would you think would happen to the universal service obligation in the event of full privatisation of Telstra?

Mr Brendish—If the sorts of changes that we were seeking took place and perhaps other ones in the same vein, we believe that many—maybe not all—of the so-called USO areas that Telstra claims are USO areas are actually contestable by competitors. So you might get better service, better quality, more choice and lower prices in some of those areas if Telstra's market power was constrained. At the same time though there is a recognition that there are some other areas in Australia that probably still are loss making USO areas and that obligation should be preserved and maintained. But perhaps other people should be given the right to service it, apart from Telstra.

Senator MARGETTS—So you might be happier with paying towards a USO if you could compete to provide the USO service; am I reading you correctly?

Mr Brendish—Not entirely. We would be happy to contribute to the USO if that contribution related to delivering our network services and enabling people to use our network services in remote areas. The bottom line is we still see a role for the universal service obligation in areas where competition is weak or where there is no prospect of competition. These areas are definitely high cost to the universal service carrier or carriers.

Mr Grant—Senator—

Senator MARGETTS—My other question relates to when we have had the round of hearings the last time in relation to the partial privatisation of Telstra, a lot of weight was given to Austel.

CHAIR—Senator Margetts—

Senator MARGETTS—I remember several times reminding the committee that Austel was not going to be around after a while. Is the ACCC able to provide the same safeguards as Austel; is it better, the same or worse?

CHAIR—Senator Margetts, Mr Grant was trying to answer a question. You could not see him. I know that you are almost omnipresent but you cannot actually see here.

Senator MARGETTS—Sorry, I missed the body language. I do apologise.

CHAIR—If you can just let Mr Grant answer that bit of the question, then you can repeat your other one.

Mr Grant—No offence taken. It is only a very quick point. It is worth noting that the universal service obligation is a legislative obligation. The definition of the standard telephone service, which is an integral component of the universal service obligation, was reviewed last year by the STS review group and will be reviewed again in the year 2000. All carriers currently contribute to the USO. There are means by which the parliament can impose a higher level of service by redefining what the standard telephone service means. For instance, by redefining it as some form of standard telecommunications service.

But it is worth noting that all carriers, including AAPT which makes a significant contribution, as of 1 July 1997 now contribute to the universal service obligation. It is not

attached to Telstra's licence condition, it is in the Telecommunications Act, so it will apply to each carrier—

Senator SCHACHT—Proportionally.

Mr Grant—Correct. So while in practice Telstra may well be the provider of the universal service, all carriers actually contribute roughly in proportion to their revenues.

CHAIR—Senator Margetts, you had another question?

Senator MARGETTS—Some mention has been made of the ACCC today. I recall that the last time we went through these series of hearings on the partial sale of Telstra a lot of weight was placed on the role of Austel and, of course, Austel is now absorbed into the ACCC. What is the impact of that from your point of view—is it better, the same or worse in relation to the safeguards that can be promised to consumers?

Mr Perkins—From our point of view, I would say that it is hard to make a judgment of that nature. Austel had rather different powers. In fact, it is interesting that a couple of the things that we have recommended as the finetuning, as it were, of the legislation really relate back to powers that Austel had. On balance I would say that firstly Austel was probably more proactive than the ACCC—and I do not think that is probably even arguable—and secondly it had more powers greater powers of direction.

In fact, the very stop order that we are proposing was a sort of direction power that Austel had under the 1991 legislation. We are really not inventing anything very radical. It is just that, without that power, we feel that the ACCC is limited in how it can respond to what it sees as *prima facie* anti-competitive behaviour. Austel certainly did use that power on a number of occasions and, mostly, it was the threat of using the power which was sufficient to cause a change in the behaviour. That is a very good thing to have. But if you do not have the power, then you cannot threaten to use it. On balance I would have to say that probably Austel was the stronger regulator at the present time. But that may even be because Austel had more experienced people at this point in time too. By the time Austel finished its reign, it has some pretty experienced staff there who unfortunately did not transfer to the ACCC.

Senator SCHACHT—Not as experienced as Alan Fels.

Mr Perkins—That is true, but I am talking about the people beneath Alan, the people who are at the—

Senator SCHACHT—Alan knows more than they do.

Mr Perkins—I am sure that is a debate that might be had in other circumstances.

Senator MARGETTS—I think with all due respect to Senator Schacht—

CHAIR—Order! Senator Margetts.

Senator MARGETTS—It is a big ask for the ACCC to take on all those different roles adequately.

CHAIR—Order, Senator Margetts, I am speaking.

Senator MARGETTS—Sorry, I did not hear you.

CHAIR—Mr Krishnapillai was about to add to that answer before and I would like him to have a go. I do not know whether you can hear me when I try to interrupt you.

Senator MARGETTS—No, one cuts out the other.

CHAIR—I am sorry about that because we have people sitting here trying to answer questions and then you launch into your next question. Mr Krishnapillai?

Mr Krishnapillai—I think the important answer to that question is the experience we have had of the ACCC in the last 10 months. A lot of the recommendations we have made in our submission relate to the fact that the ACCC has been unable in certain circumstances to respond, possibly in the way that they wanted to respond. A number of these amendments would give them more ability to intervene where there was a recognised substantial market power or recognised difficulty.

Senator SCHACHT—You can bring a horse to water but you cannot make him drink.

Ms Fox—Some of our recommendations would ensure that the ACCC does drink because we have, for example, set out time periods for declaration with consequences for the industry if those time periods are not complied with. So we have done our best to ensure that the horse is both led to water and drinks.

CHAIR—I am just concerned that we have one more witness who was due to come now. Do you have any more questions?

Senator SCHACHT—Yes, I have relating some to the technical amendments. I noticed that, in the submissions from the four of you, only Macquarie's submission contains an attachment with a detailed written-out form of what the amendments to the legislation should be. Do I take it that all four organisations support those amendments from Macquarie as a way to achieve to improving the competition structure?

Mr Brendish—From Global One's perspective, we have not seen them so I cannot really comment on that.

Mr Perkins—From AAPT, in so far as they refer to the same thing, we were quite happy with them.

Senator SCHACHT—Whether they are significant, minor or finetuning does not matter, now that there are timetables written, as Ms Fox has suggested, are you going to make the regulator drink as well as show him? That is not an insignificant change. It might be very necessary. I suggest that your four companies go through the Macquarie amendments and let us know whether you agree to them. Between you, you may be able to work out any further finetuning of these draft amendments because it gives us much better weight to tell Telstra that the four of you have turned up with these amendments that you all think will work.

The question I wanted to ask Ms Fox: you recommend at the end of your submission that the NCC conduct an inquiry about competition principles on the particular issue of ring fencing. You say in 1.11 on page 7 of your submission:

Having regard to the strong arguments for some form of ring-fencing, the National Competition Council should undertake a comprehensive review of Telstra in accordance with clause 3 of the Competition Principles Agreement. Macquarie's recommended amendment to the Bill is in attachment A.

Then you go over to attachment A which reads:

Recommendation 1: Omit clause 3 of Schedule 2 and substitute:

3 Division 2 of Part 2 . . .

What it basically says is that the transfer of the shares cannot take place until the NCC undertakes that review, but it does not actually mean that the legislation is amended to ring fence the issue. It just means that the NCC goes off and does a review. Then the legislation might become redundant because the government might say, 'We will ignore the recommendation. There is no need for further amendment. The legislation has already gone through.' If ring fencing is so important, why should you not put here in the draft what the actual amendment should be to the Telecommunications Act to achieve ring fencing?

Ms Fox—Senator Schacht, that is something we would certainly give consideration to. At the time we drafted this amendment, we had not had the opportunity of seeing the AAPT submission and we still have not seen Optus's draft amendments on ring fencing. So we put forward this as some way of dealing with the issue of ring fencing. Having regard to the fact that the government has said that the transfer of shares will not proceed until after the next election, there is time for this sort of review. But there certainly is a strong argument for ring fencing and we probably would support the AAPT amendments and the Optus amendments, subject to seeing the detail of them. At the moment we do not know exactly what is proposed, but we certainly support them in principle.

Senator SCHACHT—But, irrespective of whether Telstra is privatised or not, you want the issue of ring fencing dealt with in the legislation?

Ms Fox—Yes.

Senator SCHACHT—So let us ignore the privatisation argument and the election, can you come back—after discussion with Optus and the others—with an actual draft of the amendment that you think achieves what you want under ring fencing? Is Optus automatically on the same side as you on all of these issues because, as one of the old duopolists, I would have thought they have some other issues to duck and weave around?

Mr Perkins—I do not think they are automatically on side, but on this particular issue that you just raised, yes, there is commonality of view. I think we can do exactly what you suggest and try to find some common ground to make it simpler.

Senator SCHACHT—This is a legislative committee and I think it would be very useful if you get it all drawn up and come back having all signed off on it. By the time we have Telstra before us next week—even if you have not got it in final detail—we would like to ask them for their response to your amendments. I suspect I know what it will be, but I would like to put it before them.

Mr Perkins—I suspect we can have those with you by the end of the week.

Senator SCHACHT—Thank you.

Mr Brendish—Madam Chair, do you mind if I make one further comment?

CHAIR—Go ahead, Mr Brendish.

Mr Brendish—This discussion has talked about privatisation and competition. Our submission addressed that as well, but we also addressed the fact that this debate is very critical for regional areas where issues such as high-speed Internet access, and access to cheap and affordable service and long distance phone calls are particularly sensitive now. Given the seasonal drought and perhaps also the rationalisation of the physical services in regional areas, it is even more imperative for regionally based consumers to have access to virtual or on-line services. Our submission touched on that issue.

Senator SCHACHT—That is on page 3 of your submission?

Mr Brendish—That is right, to some extent.

Senator SCHACHT—The way I read that is the only way you are going to get out of this mess that you do not like is to have some regulatory change. You say in your submission that, other things being equal, this situation will only worsen under a fully privatised Telstra. So you are saying it will be worse under a fully privatised Telstra unless you get some regulatory change.

Mr Brendish—That is exactly right. The problem is we cannot get access to the Telstra network, which is the predominant network and which is the only network out in the bush. To some extent that is a non-contestable network and to some extent it is also being duplicated. But, at the moment, it still is the premier network in the bush. If you cannot get access to it, there is no way of developing or deploying new services which can lead to competition. Things like packet data services, Internet services and even voice services and other technologies can empower the old Telstra network to deliver services that regional Australia want.

Senator SCHACHT—Have you proposed amendments in the regulatory structure that deals with this?

Mr Brendish—Not to this hearing, but we can contribute to the wider process.

Senator SCHACHT—Can I suggest that by next week you should.

Mr Brendish—Sure, but the point I want to make—

Senator SCHACHT—There is no use making a statement like this unless you propose to us a legislative amendment that deals with your concern in the bush about the delivery of broadband services.

Mr Brendish—I think it is important to make the point that we are not just focusing on privatisation and competition.

Senator SCHACHT—I accept that. Your comment seems relevant, but what is your suggestion to overcome the difficulty in the regulatory structure?

Mr Brendish—It resembles the thrust of the comments today but I will elaborate further, together with my colleagues here.

CHAIR—Thank you very much Mr Brendish, Mr Krishnapillai, Ms Fox, Mr Perkins and Mr Grant for appearing today. I presume you are going to get together and try to come to some agreement about what you see as possible solutions to some of the issues you have raised. We would appreciate that. I would advise you that our last hearing is Wednesday of next week, so we will be looking to have that by lunchtime on Friday rather than close of business because it means the committee can get the stuff back out to us to have a look at over the weekend. So close of business on next Friday will be the last time to the committee.

Mr Perkins—Can we have the Senate's coverage so that we do not get charged with collusion by Telstra? Can we have it privileged? I just hope that we will not be seen as colluding, Senator; that is all.

Senator SCHACHT—Alan Fels will look at you very carefully and take notes at the meeting.

CHAIR—I am not a corporate lawyer but it seems to me that, if you can put together some suggestions, it would not be seen as collusion.

Senator SCHACHT—Alan Fels actually would put a competition notice on you if you have a meeting and discuss legislation.

Mr Perkins—I think we will take the chance, Senator.

CHAIR—Thank you for the effort and time you put into the submissions and for your presentation here today.

[3.38 p.m.]

CAMPBELL, Ms Helen Rachel, Coordinator, Consumers Telecommunications Network, 524-538 Parramatta Road, Petersham, New South Wales 2049

CHAIR—I welcome the representative of the Consumers Telecommunications Network, Ms Helen Campbell. The committee has before it submission No. 64 which it has authorised to be published. Are there any alterations or additions that you would care to make at this stage to your submission?

Ms Campbell—You will note that at the foot of the submission I have referred to previous submissions that CTN has made to both Senate inquiries and other inquiries. Without wishing to burden the committee with too much reading material, I would like to table those documents for your information, if required, as they are referred to.

I table the following documents: the CTN submission to this committee on the Telstra (Dilution of Public Ownership) Bill 1996; the CTN submission to the standard telephone service review; the CTN submission to the telecommunications bills inquiry of January 1997; and the CTN submission on Telstra's draft universal service plan when that inquiry was conducted by the Australian Communications Authority last year. Also, in anticipation of one of the questions I was asked last time I was before this committee, I have brought an updated list of CTN's members.

Senator SCHACHT—Well done. I think the person who was going to ask you that has now disappeared so it does not matter. They are no longer on the committee. Ms Campbell, I was interested to read in your response to term of reference (c) your comment about the ACA performance monitoring report about the decline in service. You go on to say:

We believe this shows that the safeguards proposed to ensure that all consumers should share in the benefit of the new regime are failing.

Are you only relying on the ACA report for that or do you have through your own network other evidence available about the decline in service?

Ms Campbell—Yes, we rely on the information provided to us by our members, but I certainly concede that is not objective statistical research in a way that could be tabled. Our members, particularly those in regional areas, are reporting to us a perceived decline in the speed at which faults are repaired and in the responsiveness, particularly of Telstra, where there are concerns about line quality. There appears to be a move towards making more of the network the individual customer's problem rather than being something that the provider will take on. But, of course, we are paying an annual line rental fee to cover those costs of maintenance, repair and connection.

What we are finding is that, increasingly, people are having to bear more of the responsibility for cabling on their premises and on their properties and also for handsets. Where you are not clear where the fault lies, it might be in the line or it might be in your handset, there is no readily accessible method of testing your handset, particularly if you are in a regional area. When we request a repair, we are told that, if the technician comes all the way out and then finds that it is our handset, not the line, we will be up for a fee and we still will not have an operating service. Many people find this an impediment to ready access to repairs.

I believe that the statistics reported by the Australian Communications Authority bear out the information that we are receiving from our members in that regard, because they show two consecutive quarters of declining quality of service in relation to fault repair times and

connection times. This is in stark contrast to the promises that were made at the launch of the deregulated competitive environment in July 1997. That is what we wanted to bring to your attention at this stage, because it is a cause for concern.

Senator LUNDY—In relation to that experience, have you noticed that that is distinct to your rural and regional members as opposed to metropolitan members; what sort of shift, if any, in the nature of complaint or the weight of complaints from metropolitan areas has occurred, and is it in a similar proportion?

Ms Campbell—No, it is not only regional areas, it is also residential customers in metropolitan areas who are experiencing in some ways problems with their service. I alluded to the issue of it being unclear where more of the work of diagnosing where your fault might be, working out which part is not working and determining whose responsibility it is to fix it is being shifted to the consumer. That impacts as much on consumers in urban areas as it does to consumers in regional areas.

The statistics from the ACA certainly show that residential consumers in urban areas are also experiencing a declining quality of service. So it is not just a matter of saying that this is where the difference lies between competitive and uncompetitive markets—if you take an urban area as being a competitive market. It comes back to another issue with the local loop: there is no effective competition in that part of the network. That is where you need your line faults repaired; that is where you need your connections made.

Senator LUNDY—Further on that point, the nature of the complaint that you are describing lends itself to being a technical point utilised by the carrier to distinguish where they should provide a service or where they have an obligation. Do you think that is a reflection on the carrier strategically manoeuvring round perhaps increased regulations or what they perceive as a regulatory burden? What in your association's view is the actual motivation for the rise—motivation is probably not the right word—in this experience?

Ms Campbell—What we are concerned about is that we are increasingly seeing a notion of efficiency applied to such things as infrastructure which we see as having some public good. While that notion of efficiency may well be appropriate when applied to some kinds of commercial markets, it does not always fit what we need out of our infrastructure for something as significant as telecommunications. Where it might be regarded as more efficient to have fewer members of technical staff per customer access line, that measure of efficiency will only come out looking good if you do not add into that equation things like the cost of the extra time that the customer spends waiting because there are fewer staff.

We are particularly noticing a steep increase in the number of people complaining to us about the amount of time they spend waiting on telephone lines—of course, this is not just a problem for the telecommunications industry. This is an indication of the way businesses are shifting towards using this technology in a way which maximises the efficiencies for business. But it is not efficient from the customer's point of view if they find that they are in an interactive voice regime that they cannot understand how to use or if they are being put on hold and made to wait for a long time. This is a particular issue for our members in regional areas where they are paying for those calls at timed rates.

Senator LUNDY—So you are saying that the carriers' measure for these increases in efficiencies is only part of the equation?

Ms Campbell—Yes, and one of the things we have asked for—and we have been discussing this directly with the Australian Communications Authority—is to look at broadening the scope of the monitoring that is undertaken. We believe that, in both disaggregating the categories

that are currently used and in mining a bit deeper as to the range of things which are being investigated and the methodologies that are used, we will get a much clearer picture and we will be able to more readily identify and access the regulatory powers which are available in the Telecommunications Act in order to ensure that we are getting the right mixture of consumer protection and encouragement of a vibrant and competitive industry.

Senator SCHACHT—You make this comment on page 6:

We regard it as urgent that the Universal Service Plan—

which I do not think has been declared yet; we are still waiting for it to appear—

. . . with shorter connection and repair times be declared.

But, at the very least, surely it is impossible that the prospectus could be issued without a universal service plan being declared, because that would be useful information to all potential shareholders.

Ms Campbell—We regard it as being the single most urgent precondition of any further privatisation of Telstra that the universal service plan be locked into place. We believe that, once the prospectus is issued, it will not be possible in terms of the commercial constraints on the process to impose any additional requirements on Telstra. Therefore, that has to be done before that prospectus is issued.

It is particularly a matter of concern to us that, in the absence of a plan being declared as outlined in the Telecommunications Act, we are actually relying on a very out of date and rather non-compulsory version of universal service obligations entitled ‘The Austel View’, which states a sort of opinion of what that might be and does not actually make any specific requirements of Telstra.

In Telstra’s proposed universal service plan, we were most concerned to see that, once again, we had some very imprecise terms being offered. We have said that we want some precise commitments. We still do not know what Telstra means when it says, ‘If it is not readily accessible to infrastructure.’ What does ‘readily accessible to infrastructure’ mean? These are problems. We want a document that says, ‘You will get your phone connected in no more than X time.’ We have suggested 12 weeks. We think that is reasonable. Anywhere in Australia, nobody waits more than 12 weeks.

Senator SCHACHT—Have they suggested 23 months or something like that?

Ms Campbell—I have not seen the most recent version. I believe that is in the minister’s office. The previous exposure draft of Telstra’s plan was 23 months. It was subsequently reduced to 21 months, but we were hoping for something better.

Senator SCHACHT—What was their justification for such a long time for a connection, 21 months, which is one year and nine months? Did they give any reason why they needed such an extraordinarily long time to get someone’s phone connected?

Ms Campbell—No, we were not able to get any details from Telstra on what basis such a decision might be made and what would be the criteria on which a particular application for a loan would be placed in a category such as size of population, density and those sorts of things—we could not work out what the relevance was of those things. Indeed, I think five different kinds of measurements were used in Telstra’s draft plan, and none of which were justified as reasons why that was relevant to their ability to provide a telephone.

Senator SCHACHT—Ms Campbell, do you have any view about why the universal service plan has taken so long to emerge from the process and be adopted?

Ms Campbell—Perhaps because CTN is on the phone to the minister's office so frequently inquiring as to its progress, we are distracting them.

Senator SCHACHT—I see. Perhaps Mr Fletcher could fill us in on that. Can we call Mr Fletcher, Madam Chair?

CHAIR—No, we cannot.

Senator SCHACHT—Luckily for him. Mr Fletcher is from the minister's office and is here listening to this, so perhaps we could ask him to take it on board. The point has been raised by several people that the universal service plan has not emerged. If we do go to a prospectus without it being available, the points you make seem to me to be very relevant that it would be out of the loop for a long time.

Ms Campbell—If I might add a further comment: it is also not clear to CTN why it is necessary for the minister to undertake negotiations with Telstra. It appears from our reading of the Telecommunications Act that the minister does have the power to direct Telstra; that is, the minister can say, 'You will do this in this time frame and in these circumstances,' regardless of what Telstra's opinion of that direction might be.

Senator LUNDY—Do you know if other carriers are having the same types of negotiations as Telstra as part of that process; are you aware of discussions along those lines?

Ms Campbell—Telstra is the declared universal service carrier. The minister does have the power to make other directions as to who might be the universal service carrier. It is our understanding of the current state of market in Australia that there are not any other carriers presently who would be able to undertake that role, particularly in remote areas. We have heard various—'promises' might be too strong a word—speculations about what might happen when we get some satellites, but this is not currently available as an alternative delivery technology.

Senator LUNDY—Are you concerned that, given the current standard telephone service definition is a fixed line point to point, if the satellite style services were introduced they would not be covered by that particular protection in terms of the USO definition?

Ms Campbell—One of the things we have called for in our submission on the universal service plan is a provision which would enable an alternative technology such as a satellite based service to be used where those customers would otherwise be facing a long delay. That is where we said, 'If you really mean you cannot get a cable out to the back of beyond inside three months, give the customer a satellite mobile and only charge them the same as you would have charged them on a fixed line.' If that means you have to subsidise them, that is a good motivation to get your cable out there.

Senator LUNDY—Is a specific amendment required to effect what you have just described?

Ms Campbell—We do not believe that specific amendments are required because we believe that the powers are there in the Telecommunications Act 1997. It is a query that I have which is whether it would be appropriate or even possible to suggest amendments to the current legislation such that they provided direction to the minister to exercise a discretion which is available to the minister under another piece of legislation. Now you have access to parliamentary counsel for those questions.

The other suggestion is that it might be possible for the Senate in some way to signal an intention to defer passage of the enabling legislation or to defer the start-up—that is, the issue of the prospectus—and set a date for that such that there were prior conditions which had to be met before that took effect. Once again, I am not sure whether that is a possibility. We do

propose some specific recommendations about things that we would like to see achieved prior to that issue of a prospectus. I could go through those, if you want me to.

Senator LUNDY—You are certainly not the first witness to have a set of preconditions or prerequisites prior to privatisation.

Ms Campbell—Perhaps I could just hand that up.

Senator SCHACHT—That would be most useful, yes.

Senator TIERNEY—I just have one question, Ms Campbell: do you have any objection in principle to privately owned telecommunications carriers?

Ms Campbell—No, the Consumers Telecommunications Network remains agnostic about the question of whether a utility such as telecommunications ought to be in private or public ownership. Our principles are those of access and equity. So we are concerned to see that all Australians are able to get access to the communications services that we need at an affordable price.

Senator TIERNEY—So, in principle, you have no objection to the full privatisation of Telstra?

Ms Campbell—That is correct. We are just concerned that those preconditions are set in place so that we can be sure consumers are protected.

Senator TIERNEY—Thank you.

Senator MARGETTS—Ms Campbell, given that your organisation and the previous witnesses have, one would argue, different primary goals, can you give me your organisation's view—considering we were told Austel would be the body that would look after the public interest of consumers and so on and be a safeguard—on the relative effectiveness of the ACCC as a regulatory body in consumer issues?

Ms Campbell—When the legislation was passed Austel was divided into two, with some of its functions going to the newly created Australian Communications Authority and other functions going to the ACCC. As consumers, we find that most of our interactions are with the Australian Communications Authority. We participate in their consumer consultative forum and we also have a number of other opportunities to have input.

We have been disappointed so far with the approach of the Australian Communications Authority in using the powers that it does have to regulate the industry. In our submission we have referred to our disappointment that the agreed terms for the introduction of calling number display were not followed by the industry and there is not action contemplated, so far as we understand, by the Australian Communications Authority in response to that. So when we are told to look at the legislation for a commitment to consumer protection, we would say that at the moment it is looking good on paper but it is not happening in practice. That is a cause of concern.

Senator MARGETTS—What would be necessary to make that more effective, in your opinion?

Ms Campbell—As I understand it, it is within the minister's discretion to direct the Australian Communications Authority to take a firmer, more active and more interventionist stance in this stage of the development of the self-regulation environment. Although we are happy to participate in self-regulatory processes, we believe it is necessary for the industry to receive some very strong signals early on that these agreements about the ways in which

new products and services will be introduced or, indeed, the way existing services are delivered must actually be honoured and not just agreed to on paper.

CHAIR—I would like to thank you, Ms Campbell, for your submission and for taking the time to come before the committee. Thank you for your contribution. I would like to thank Hansard for the effort of putting all this together, Senator Margetts for participating via the telephone and the staff of the committee. I would also thank my colleagues for their cooperation. I declare today's hearing closed. We will resume next week when we have another two hearings.

Committee adjourned at 4.00 p.m.