



COMMONWEALTH OF AUSTRALIA

Proof Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATIONS, INFORMA-
TION TECHNOLOGY AND THE ARTS LEGISLATION
COMMITTEE

**Reference: Telstra (Transition to Full Private Ownership) Bill 1998
and related bills**

MONDAY, 15 FEBRUARY 1999

CANBERRA

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Monday, 1 March 1999

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SENATE

**ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS
LEGISLATION COMMITTEE**

Monday, 15 February 1999

Members: Senator Eggleston (*Chair*), Senators Allison, Bishop, Bolkus, Payne and Tierney

Participating members: Senators Abetz, Bartlett, Boswell, Bourne, Brown, Brownhill, George Campbell, Carr, Colston, Coonan, Faulkner, Harradine, Lees, Lundy, Margetts and Schacht

Senators in attendance: Senators Allison, Carr, Eggleston and Tierney

Terms of reference for the inquiry:

Telstra (Transition to Full Private Ownership) Bill 1998
Telecommunications (Consumer Protection and Service Standards) Bill 1998
Telecommunications Legislation Amendment Bill 1998
Telecommunications (Universal Service Levy) Amendment Bill 1998
NRS Levy Imposition Amendment Bill 1998

WITNESSES

DAY, Mr Andrew, Managing Director, Commercial and Consumer Sales, Telstra Corporation Limited 1

PARATZ, Mr Lawrence, Executive General Manager, Network and IT Infrastructure, Telstra Corporation Limited 1

SCHIFF, Ms Deena, Director, Regulatory, Telstra Corporation Limited 1

STANHOPE, Mr John, Director, Finance, Telstra Corporation Limited 1

WARD, Mr Graeme, Group Director, Regulatory and External Affairs, Telstra Corporation Limited 1

Committee met at 8.50 a.m.**DAY, Mr Andrew, Managing Director, Commercial and Consumer Sales, Telstra Corporation Limited****PARATZ, Mr Lawrence, Executive General Manager, Network and IT Infrastructure, Telstra Corporation Limited****SCHIFF, Ms Deena, Director, Regulatory, Telstra Corporation Limited****STANHOPE, Mr John, Director, Finance, Telstra Corporation Limited****WARD, Mr Graeme, Group Director, Regulatory and External Affairs, Telstra Corporation Limited**

CHAIR—I declare open this second public hearing of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee on the Telstra (Transition to Full Private Ownership) Bill 1998 and the telecommunications bills. The committee prefers that evidence be given in public, but should you at any time 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 evidence taken in camera may subsequently be made public by order of the Senate.

I welcome the representatives of Telstra, who join us by teleconference. The committee has before it submission No. 21, which it has authorised to be published. Do you have any alterations or additions that you would care to make to your submission before we proceed to questions?

Mr Ward—There are none, Senator. I do have an opening statement, should that be allowable.

CHAIR—Yes, please proceed. But I point out to you that some of the senators here have to leave early so there may not be a lot of time for this hearing now. So shorten your statement, if possible, is essentially what I am saying.

Mr Ward—We will table this, and I will move as quickly as I can. Good morning, everyone. We do welcome the opportunity to appear before the committee this morning to contribute to the Senate's considerations about the ownership of Telstra. Our experience as a partially privatised company has served to reinforce our view that full—that is, 100 per cent—privatisation of Telstra is in the best interests of the company, its staff and its shareholders as well as for the overall benefit of consumers.

For us, the partial privatisation has been, in concert with the open, competitive environment created in 1997, a critical factor in accelerating our drive to provide our customers with a suite of products and services which are world's best practice. In the last 12 months since we have been partially privatised, we have made significant new network investments in mobiles, customer access network, satellite and data services. A continued focus on service has also seen service provision improve, in general to levels better than prior to partial privatisation.

As we said at the Senate hearing last year, Telstra believes that full privatisation would bring additional benefits by exposing Telstra to increased continuous performance assessment from the market, allowing Telstra to more strongly focus on meeting strong competition from a well resourced global communications company, reducing the potential for conflicts of interest between the government as majority shareholder and the government's obligation to pursue competition and other regulatory objectives, improving transparency in the delivery of government objectives under legislation, and allowing Telstra greater flexibility in accessing and utilising our resources.

Despite the benefits of partial privatisation, it has, however, brought with it some forces which are impacting negatively on the company. In particular, partial private ownership leaves Telstra in a halfway house, having to balance the interests of 1.3 million shareholders with those of a majority government owner who represents a wide range of interests crossing economic, social and political boundaries. What may be in the best interests of the 1.3 million does not always line up with what is in the best interests of the government as it appropriately and legitimately pursues its broad range of objectives.

Conflicts of interest, therefore, potentially exist. This risk will always exist whilst ever part government ownership prevails. It follows then that a move to full privatisation of Telstra would, once and for all, eliminate any prospect of conflict of interest situations occurring or at least being perceived to occur. Being freed of any government ownership would also have major commercial benefits for Telstra, benefits which would ultimately flow through to our customers.

Further privatisation would allow Telstra to compete more effectively against the well resourced global communications companies now operating in Australia. These companies are experienced operators in a variety of markets and regulatory regimes all around the world. Further privatisation would also give us better access to capital markets and technologies and provide us with increased opportunity to become a more significant competitor in the global communications market, in particular being able to strategically partner with other companies in pursuit of our commercial objectives. A government majority owner is potentially less willing to share the risk of such alliances because they must be balanced against its other budgetary and social objectives. In other words, the acceptable risk-reward ratio for government is likely to be quite different from what is considered as acceptable by us and companies we might be considering partnering with in the market.

I would now like to turn briefly to the issue of consumer safeguards and service levels. This is a key focus of the legislative package currently before the parliament and is an issue which Telstra takes extremely seriously. Customer service goes to the very heart of competitiveness. Excess in any industry relies on being able to deliver products and services at a price and a level of quality which meets customer expectations. In the case of the Australian telecommunications industry, it should be acknowledged that the pro-competition environment which now exists is, in itself, generating enormous benefits for Australian consumers. Prices are moving downwards, innovative new products and services are entering the market almost every week and there is a more efficient use of resources in every market sector, and I think we spoke about that at some length at Senate estimates last week as well.

At the same time, underpinning the competitive industry environment is an extensive and comprehensive set of consumer protection safeguards which are embodied in the legislation, licence conditions and other regulatory instruments. These safeguards are probably the most extensive and rigorous in the world and place continuing obligations on Telstra and the rest of the industry to ensure that Australians have equitable and affordable access to key telecommunications products and services.

The benefits this legislative framework is delivering to Australian consumers are significant. As we said last week, we have the largest untimed local call areas in the world, a low cost Internet access at the 25c untimed call rate and high telephone ownership levels. Significantly, in terms of the current discussions and debate, these consumer protection arrangements are legislatively independent of issues surrounding Telstra's ownership arrangements.

Arguments about who should own Telstra should not be allowed to confuse the issue of what are the appropriate legislative safety nets for ensuring the delivery of equitable and affordable telecommunications products and services to the Australian community. The wide range of consumer safeguards which currently exist do come at a cost. In many cases, they are being applied in an area of the market and at a price to the user which make the services they cover unprofitable. The key issue then is: who should bear this cost: Telstra, the consumer, the industry or the government? Currently, most of these costs are being borne by Telstra.

In our view, the funding issue has reached a critical stage and goes to the heart of achieving competitive neutrality in the industry. The issue is a symptom of the duality of competition and social policy objectives which prevail in the current regulatory framework. This framework originated in a monopoly and supplier era and was appropriate to that time. However, in the open competitive environment which exists today, it no longer provides the appropriate solutions for achieving equitable and affordable access to the telecommunication services. Put simply, as competition increases, Telstra's ability to fund unprofitable services decreases and the delivery of important products and services is undermined.

Two key areas which were central to the arguments presented to this inquiry by some of our competitors are the universal service obligations and the speed of regulatory reform since 1 July 1997. On the first issue, the USOs, Cable and Wireless Optus and Vodafone have claimed that the cost of providing an economic telephone service in country Australia using new wireless and satellite technology is \$300 million compared to Telstra's costs estimated at \$1.8 million for 1997-98.

With almost 100 years of experience, Telstra makes quality standard telephone services available ubiquitously throughout Australia efficiently and according to the required consumer service standards. We are constantly looking for ways to cut our costs. We want to continue to serve all Australians but, if Cable and Wireless Optus or Vodafone can use their technologies to meet the same service standards and have a lower cost for a substantial group of customers, they should be required to compete with Telstra for these services. If their claims about USO costs are genuine, the people in regional Australia should be given the opportunity to enjoy the full benefits of that competition they are proposing and lower charges.

On the other hand, if Cable and Wireless Optus or Vodafone are not able to commit to providing the services at the costs they claim, they should reimburse Telstra for a fair share of our costs. We believe that our competitors' claims are unrealistic and that they should be willing to pay their fair share of the costs of delivering quality services to rural and regional Australia.

For the last two years, Telstra has worked closely with the Australian Communications Authority, its technical consultants and other major industry carriers such as Cable and Wireless Optus and Vodafone on an agreed economic model to determine these USO costs. The ACA has full transparency of our data in relation to assessing our costs claim in much the same way as the Australian Taxation Office investigates tax liability. As well, Telstra has made a large amount of information available to the ACA and has provided data to other carriers to assist them in assessing the validity of Telstra's claim. For example, Telstra has populated a number of exchange service areas with actual cost data so that other carriers such as Vodafone and Optus can assess this data for accuracy.

In relation to the second point, the speed of regulatory reform since 1 July 1997, I have a few comments to make. Firstly, moving from a duopoly to an open and competitive multi-carrier environment is, by nature, a difficult, complex and time consuming process. For both the industry and the regulator this is a new

experience, giving the complexities an added dimension. In spite of this—and I did speak to this at estimates committee last week—there has been a substantial change to the structure of competition in the Australian telecommunications industry over the last year and a half, evidenced by significant entry in investments being made by both new and existing companies across a range of communication services—for example, the licensing of 25 carriers, the negotiation of 30 commercial agreements, the presence of over 600 Internet service providers and the entry of new providers into the dynamic mobile telephony market.

Telstra also has agreements in place with four carriers in the Australian industry and provides them with access to Telstra ducts in buildings and has granted access to two major competitors to a total of 155 of our mobile sites. By any objective measure, this is impressive progress and we do not believe it necessary or desirable to grant more extensive powers to the regulator.

Mr Shogren, the Commissioner of the ACCC with responsibility for telecommunications, I believe, noted in his evidence to the inquiry that, by and large, the legislation is working satisfactorily and the legislative framework is adequate for the job. The regulator's judgment, which we share, is that the current regulatory framework will lead to the achievement of the competitive outcomes the governments and the parliament are seeking.

Secondly, any additional regulation at the request of Telstra's competitors runs the risk that consumers who benefit from competition will lose rather than receive the benefits of competition. The granting of additional powers to the ACCC may blunt the ability of Telstra to engage in genuine and beneficial competitive conduct. In Telstra's view, the primary beneficiaries of such increased regulatory powers would not be consumers but instead Telstra's large well-resourced competitors.

In concluding, a final point which is often overlooked in debates about Telstra's ownership and the legislative arrangements which underpin the Australian telecommunications industry is the impact the industry's regulatory arrangements may be having on Australia's strategic positioning in the world's fastest growing industry. It has become unfashionable to talk about national champions because it can too easily be used as an argument for resisting structural change. Nevertheless, the point should not be lost that there are considerable national benefits to be gained by having Australian companies large enough and with the product mix and technologies to give them a presence on the world stage.

Australian companies which have the clout in negotiations over global strategic alliances and leverage access to capital markets and leading edge technologies are able to provide a step up to smaller Australian companies to do business beyond the domestic market. Therefore, as we collectively work towards establishing a regulatory regime which encourages strong domestic competition and delivers increased benefits to Australian consumers—objectives which Telstra strongly supports—we need to be mindful of not inadvertently undermining the national benefits achievable through encouraging the growth of Australian companies with the characteristics and opportunities to be a meaningful player on the world stage.

It is our view that the full privatisation of Telstra and satisfying community concerns over service levels and equitable access to telecommunications products are not mutually exclusive. Privatisation enhances the prospects for achieving community goals because it strengthens competition and provides greater transparency and clarity in the way government pursues its economic and social objectives. Thank you.

Senator CARR—I will leave the questions with regard to the competition issues to Senator Allison. Mr Ward, you have just made some claims regarding the benefits of privatisation. I know the corporate management of Telstra has been very keen to pursue this line. On page 5 of your submission you say that the benefits of privatisation will be the continuous performance assessment and greater flexibility in assessing resources. Can you elaborate on that?

Mr Ward—Perhaps I could make an opening response and then Mr Stanhope might complement my response. The wider the private ownership of Telstra, the more the market scrutiny and the broader the range of local and international investors looking at our performance and providing feedback on our financial performance, on our investment choices and on our service to customers—a much richer source of feedback to the company and a much more dynamic daily feedback to the company in terms of how we are performing for a range of stakeholders. That has been our experience to some extent with the part privatisation, but we expect full privatisation to add to that daily focus feedback on the company's performance.

Senator CARR—But, Mr Ward, you say on page 7 that this continuous performance assessment is already in place, given the partial privatisation. Assuming that those claims you make are correct, how would full privatisation change the existing regime and the existing disclosure provisions or the requirements you have to the Australian Stock Exchange?

Mr Ward—It would not change the latter, but it would enrich the wide ranging number of players, institutions and individual shareholders who make their views known to us at AGMs and other forums to comment on our performance, to indicate where there may be concerns and to indicate where we should be doing better. Mr Stanhope might want to add to that comment.

Mr Stanhope—Thank you, Graeme. Basically, it comes down to: with more than partial privatisation—say, full privatisation—you have a wider spread of ownership and, therefore, the added scrutiny of more owners. That is how we will be placed in a position of being asked to perform better. My experience since partial privatisation is that, after the half-year close of accounts and the full-year close of accounts when we visit all our institutional owners at least, they do put you under quite a lot of scrutiny as to what you are doing with their investments. It is a matter of there being more of them, Senator.

Senator CARR—So it is a question of hope, is it? There is nothing you have said that suggests to me that there would be greater scrutiny than the present requirements that you currently are obliged to meet.

Mr Stanhope—It is not a matter of the Stock Exchange requirements; it is a matter of you having more owners and with more owners there is an expectation of reporting to them what you are doing, so you just have more of them.

Senator CARR—Mr Ward, in your opening statement you said that there was a potential conflict between the interests of the private shareholders and the interests of the 18 million Australians who currently own the majority stake in Telstra. Could you elaborate?

Mr Ward—Yes. What I said there is that, whilst the government has the mix of responsibilities that it currently has with majority ownership of Telstra plus being responsible for the industry policy and regulatory framework, there is scope for at least the perception that the government has a conflict. I know from my experience that many in the industry say that, because we are majority government owned, we have an inappropriate ability to influence the government in terms of its regulatory objectives. I can tell you from running the regulatory agenda that that is certainly not my experience.

On the other hand, others in Telstra would say to you that, because the government has to in a sense ensure that that conflict does not translate into any material policy conflict, it is very keen to ensure that the regulatory framework is not influenced by Telstra. So I think you have perceptions on both sides as to that conflict. Whilst there is a duality of the government having ownership in Telstra and having the responsibilities for industry regulation and associated public policy, you are going to have those perceptions running amok, as they do.

Senator CARR—You cannot produce any practical example of how this perception has produced any unsatisfactory outcome?

Mr Ward—I can certainly point to a current example where the perceptions are probably running very strongly. The government is responsible for the USO regulatory framework and we are responsible for delivering USO services. There is a lot of debate around the costs of those USO services. The government has indicated that it will cap the costs to historical levels. That is an issue that I think is quite rich in the examples of how various perceptions are at work in terms of the conflict of the government's role here.

Depending on where that particular issue goes, any higher USO costs that are recognised will flow to Telstra and Telstra's dividends back to the government will be reflected in those higher USO costs. I cannot think in a sense of a better example or a richer example of the perceptions—and I did stress in my opening statement and I think in the submission that there are various perceptions about how the government reacts to having these dual roles.

Senator CARR—So that is the only one where you think there might be an argument? That is pretty thin, Mr Ward.

Mr Ward—You asked me for an example.

Senator CARR—Yes, I did ask you for an example.

Mr Ward—I have given one example. I think there are many potential—

Senator CARR—Will you take on notice please to provide me with a detailed list of practical outcomes of the results that have led to a conflict of interest being produced in terms of adverse effects. I want a detailed list, not just a few perceptions, as you said. On the question of the USO, all the various competitors and groups that are associated with those competitors have argued that Telstra should disclose costs associated with its USO claim. Why shouldn't Telstra provide those costs and the basis for your claims of those costs? Do you oppose the notion of competitive tendering for the USOs on a regional basis?

Mr Ward—I will answer the first one, and maybe Mr Stanhope can add to it. We have provided all of the information to the ACA, whose responsibility it is to make this claim—it is similar to the taxation department making assessments of tax liability. We have provided all of the information to the ACA. In addition, we have said to the ACA and to the industry that we are happy to provide consultants or independent experts that are used in the process with the same data to assist the ACA, subject to the appropriate safeguards for confidentiality.

However, in this issue and in other issues, Telstra is not in the business of giving its competitively sensitive data to its competitors. We believe it is the role of the ACA, assisted by any consultants and independent experts they want to use, to make that assessment. That is their job. It is our job to do the costing from Telstra's point of view. We do that. We take that responsibility. It is the ACA's job to assess the claim. It

is not for the ACA to say, 'I want the views of all our competitors to make sure that we give an answer that is satisfactory.' We have given all the data to the ACA. We are happy to give all the data to their consultants with appropriate confidentiality. I might just allow Mr Stanhope to say something on that before I return to your second question.

Mr Stanhope—We understand that, in making that assessment of our claim and then translating or making that assessment transparent to those in the industry, the ACA will need to release some of that information. We have agreed to that as well. Whilst it might sound like a lot of information has not gone to the industry, quite a bit has. I have read through the transcript of the appearance before this hearing of Vodafone and Cable and Wireless Optus, and they were quoting a number of various aspects of our USO claim which would surely indicate to the inquiry that they do have quite a lot of information about Telstra's USO costs claim.

Mr Ward—Senator Carr, can I return to your second question. We fully support competition in services right throughout Australia. We fully support competition in rural and remote areas and areas that are currently unprofitable by USO cost estimates by anyone's measure. We would very much like to see Optus and Vodafone out there offering services in those areas and putting up their hands to be a USO provider. We do not see a lot of evidence of that to date, but there is nothing stopping them from doing that now, to be honest. There is nothing in the legislation to stop them from going out there and providing services in rural and remote Australia. They are very welcome to do that and put up their hands to be a USO provider. We would welcome their competition out there.

Senator ALLISON—Mr Ward, I think you just said that you would welcome a tendering process. Would this mean that other service providers would have access to your infrastructure in these remote locations?

Mr Ward—Access to our infrastructure and services is part of the current legislative environment. We currently provide access to our network and services in many parts of urban Australia at the moment, in the CBDs and metropolitan areas. The same regime would work throughout Australia. Certainly, if they wish to provide services and want access at commercial rates so that Telstra is not subsidising their entry into rural and remote Australia, not only would we welcome that but the laws of the land would ensure that we gave access to infrastructure and services.

Senator ALLISON—I thought you said earlier that your competition would likely provide this through satellite services. Isn't that what you indicated earlier?

Mr Ward—What our competitors might do is up to them. I think they indicated in their submissions that they would use a different mix of technologies than we are currently using. They claim that a lot more services could be provided by other technologies. By all means, let them go out there and do that. If they use satellite, that is fine. They can use satellite services offered by people currently. It is up to them which technologies they use but, if they want to use part of our technologies and our network at rates that are not being subsidised to their bottom line as opposed to commercial rates, obviously we would allow that.

Senator ALLISON—Mr Ward, how do you explain the big jump in the USO claim last time round from the previous year?

Mr Ward—Let me have a first cut at that and then, again, pass to Mr Stanhope. There has been no systemic costing of the USO since very early days in the early 1990s or late 1980s. The task of costing is a complex one. Telstra would be the first to acknowledge that. Through the ACA—previously Austel—the industry set up a group made up of the ACA, their consultant, which I believe was Belcore, and the three major carriers at the time this study was set up, which was pre-1997—that is, Telstra, Optus and Vodafone.

They set out as a group to develop a model to estimate the cost, which has not been systemically done, as I say, for 10 years. That model, and the application of that model, has led to a first costing of the USOs. The previous levels which existed were an agreed compromised set of figures that very much relate to historical modelling done many years ago. It is not snatching a figure out of the air to compare with a historical figure. It was the result of three years of intensive study by the ACA and the industry.

Senator ALLISON—You said earlier to Senator Carr that there would be a reduced conflict of interest on the part of the government in the event that Telstra was sold completely. What did you say in your last submission in that respect when the one-third sale of Telstra was being proposed?

Mr Ward—I cannot exactly recall what was in our submission at the time, but we can certainly go back and assess the relevant parts of that submission, and we are happy to do so.

Senator ALLISON—Could I suggest to you that you said at that time that a one-third sale would not produce any conflict of interest?

Mr Ward—I would be surprised if they were words to that effect, but I am happy to be corrected when I look at our earlier submission.

Senator ALLISON—The National Farmers Federation have said in their submission that there ought to be an inquiry into call zones. Would you support an inquiry along those lines? What steps has Telstra taken in the past to examine their call zone system?

Mr Ward—I assume you are referring to call zones as they affect local call rates?

Senator ALLISON—Yes, as well as STDs in local and remote areas. I am not sure what local is really.

Mr Ward—The principles behind Telstra's local and long distance calling structures have been the subject of many inquiries over the years—as I recall, they have been subject to at least two or three parliamentary inquiries. Certainly Telstra continues to review the appropriateness of its call zones and its long distance charging arrangements. I said in my opening statement—and I believe we have made the point in the submission—as part of these inquiries and as part of Telstra's ongoing review of the calling zone principles, we do have in Australia probably the largest local call zones in the world combined with an untimed local call rate. That is fairly unique in the world and brings a lot of benefits to consumers. It has been subject to many reviews and inquiries. I am happy to document those reviews and inquiries should you so wish.

Senator ALLISON—I would be interested to know the date of the last one, Mr Ward. I would have thought that we needed to examine this question in light of the new technology which makes calls over long distances virtually the same as the cost of delivering them as a short distance calls. Is that a fair comment?

Mr Ward—Certainly in terms of the price/cost alignment, I absolutely agree with you, Senator. It is important to understand, and I think I gave evidence to this effect last week at estimates, that we have a system in Australia—and, in fact, it does occur to lesser extents in other regimes—where the revenues and earnings from long distance services, both domestic long distance and international long distance, have traditionally funded, if you like, the revenues and earnings from local services—that is, local calls and access services. This was done for a very good reason in Australia—to ensure that as many people as possible were connected to the national telephone and telecommunications network. So their up-front access charges, connection fees, rentals and local calls were set at rates not aligned to costs, certainly in a lot of areas, and that explains in part the USO costing. But certainly we do not cover our costs with costs for capital for those services. They are funded, if you like, by cross-subsidies from long distance services.

Long distance services are very competitive and increasingly those prices are being driven down quite sharply not just due to the technology and costs gains that you allude to but also just through very intense competition. Therefore, as a funding source to cover the provision of access services and local services to the total of Australia, that funding source is being diminished over time.

I am happy to provide you with details of the review. I think what is important too, Senator, apart from the parliamentary inquiries on call zoning, is that we regularly review with local communities the various zones and community service towns associated with long distance calling, et cetera. I will provide you also with details of how we go about that.

Senator ALLISON—You said that you have made new network investments I think you suggested to the degree that without the one-third sale of Telstra would not be possible. Can you give the committee evidence about the level of that investment and compare it with previous years? What do you see as being an optimum level of investment in new networks? In other words, what are you spending now and what do you need to spend? If that is a justification for the full privatisation of Telstra, can you give details of what you think is appropriate?

Mr Ward—I will perhaps have a first pass at that and then hand to my colleague Lawrence Paratz. We will table my opening statement. We have said that, in the last 12 months since we have been partially privatised, we have made significant new investments in mobiles, the customer access network—

Senator ALLISON—I am asking what the value of those new investments was.

Mr Ward—I will get to that, Senator. I am just trying to position your comments. We have also made significant new investments in satellite and data services. There was some suggestion that, if we were partially privatised or if we were fully privatised, we would only invest in, if you like, highly profitable, narrow based services. What I am saying here is that privatisation has not funded our investment. Our investment is not funded through the sale of Telstra. Our investment is funded by the earnings that we produce every year. What I am saying in that comment to those who thought that we might narrow our investment base and not invest in network right across Australia is that that has not happened. We have continued to invest in new technologies for the benefit of all Australians. I might hand you to Lawrence Paratz to talk about our investment levels and trends.

Mr Paratz—Telstra has continued to invest and in fact to increase its investments right across the broad range of business and customer needs. Whilst we have certainly continued to invest in the competitive parts of the business, we have continued to invest very strongly in—and we have announced a number of initiatives in—the non-competitive parts of the business. I might take the opportunity to refer to some of those that may be of interest. Telstra has announced it is well advanced in undertaking a major investment into the access network which goes by the title of CAN 2001. This is an investment which is very much directed at customer service and customer service standards. It is a many hundreds of millions of dollars program. That is being backed up at the moment by further investments being planned within the company, some of which are yet to be announced to further consolidate the access network.

In addition, we have, in the very recent past, announced three separate satellite delivery platforms providing a very high capability with very attractive pricing structures for customers, no matter where they are geographically in Australia, including the rural and remote areas of Australia. One of those satellite platforms is focused on the provision of USO telephony. USO telephony includes many more aspects than simple voice communications with pre-selection, access to the full range of carriers and a wide range of other features which are bundled and which drive across strongly in that area. There is a second satellite platform which is focused very much on the provision of networking data in support of education, agribusiness, remote and rural mining business, and high capacity data. The third platform is an Internet consumer oriented platform to provide access to the Internet throughout Australia at speeds comparable to the best metropolitan speeds.

In addition, we continue to invest extremely strongly in the RATE program which is the program which is modernising, upgrading, increasing the capacity and increasing the capability of the digital radio systems and radio concentrated systems which serve rural and country customers. That is an increasing and accelerating program. The network continues to be heavily invested to accommodate the increased traffic and the increased holding times. 'Holding times' is a technical term meaning the average duration of a call, whether it is a telephone or data call. That is occurring broadly in our network stimulated by lower tariffs and the increasing use of the Internet. Telstra is certainly investing strongly to continue to maintain and to improve the grades of service experienced by customers.

In addition Telstra is continuing to make investments into its future and Australia's information future with programs like the DMO program, the data motive operation program, which we mentioned and discussed somewhat at Senate estimates last week. There are a broad range of investments there. Telstra's investment levels in financial terms continue at, and have increased above, historical levels. Certainly, there is ample evidence that in the part-privatised world this has created in Telstra the drivers not only to invest but to invest effectively and with focus and also to invest very broadly across all aspects of the customer base, not those which are seen as attractive on a margin basis by our competitors.

Senator CARR—They are all investments which you would have had to have made. They are not conditional upon the share registry, are they?

Mr Paratz—They are a range of investments driven by the needs of our customers, broadly. The investments we have made have been driven by those needs and the business environment in which we find ourselves, which includes the part privatisation, and the competition has really focused our minds to make those investments at the right time, with the right technologies and early. The proposition may have been on the table that in some sense private ownership had delayed or defocused investment, but it is quite the opposite.

Senator CARR—I have a series of questions, but I understand that we are concluding at this time. Is that the case, Mr Chairman?

CHAIR—It appears that we will have to adjourn because Senator Allison has gone and we no longer have a quorum.

Senator CARR—I understood Senator Allison was going to be seeking some further questions in the matter of competition, so I will place these on notice. Perhaps you could just give me an initial answer and then give me a detailed answer in writing. What is the view of Telstra with regard to the government's proposed amendments to the competition provisions of the Trade Practices Act? Are there any particular aspects of the new legislation that you have strong opposition to?

Mr Ward—I will briefly answer that and perhaps ask Ms Schiff if she could add to it. I will make three comments. We are generally supportive of the government's consumer and competition legislation that appears before you in the current bill. However, as we articulated at some length in our submission—and I did allude to it in the opening statement—we are concerned about some of the provisions in the competition legislation that empowers the ACCC to forward confidential data about our cost structures without, we think, adequate public interest. We have gone into our concerns about that in some detail. We have mentioned in our submission this whole issue of USO and CSO funding and its relationship to competition legislation—neither of which has anything to do with privatisation or ownership, I might add. They are issues that would be dealt with anyway in a privatised telecommunications sector.

We believe there should be legislation so that the ACCC should overtly recognise these costs when they make their decisions particularly about access to our network and the associated prices. They would be my three major comments to your question, but I would just briefly ask Ms Schiff if she wants to add to any of that.

Ms Schiff—Telstra's concern in relation to disclosure of information contained in record keeping laws is that the implementation of that proposal in the sale bill amendment is too wide as it does not just relate to bottleneck services. Particularly with it being so wide, it will be all the more subject to a public interest test. AAPT, in its evidence to the inquiry, said that it needed cost information to help it with build/buy decisions. Telstra submits that a distinction needs to be drawn between infrastructure that is more contestable and infrastructure that is less contestable.

In circumstances where infrastructure is less contestable and declared, the ACCC sets regulated access charges to inform those build/buy decisions. But, in circumstances where infrastructure is more contestable, the treatment of cost information should be the same as any other sector of the economy where competitors ordinarily do not have access to each other's books. The reason for that is that it does not assist competition; it tends to create incentives for competitors to not do more efficient build-out and to shave their competitors' costs, rather than figure out other potentially more efficient costs, which is not in the interests of competition. Hence, our submission here is for a public interest test—the ACCC is required to balance consumer interests against the disclosure requirements.

CHAIR—Senator Carr, do you have any questions you would like to put on notice?

Senator CARR—A great deal. I put them on notice.

CHAIR—Regrettably, we have lost our quorum, so we will have to adjourn this meeting. The problem was that Senator Bishop was not able to get here as scheduled this morning due to an aircraft breakdown in Perth. We will seek to reconvene this meeting as soon as possible, perhaps on Tuesday or Wednesday night. Thank you for appearing, and I regret that we cannot conclude this hearing of Telstra this morning.

Committee adjourned at 9.41 a.m.

