



COMMONWEALTH OF AUSTRALIA

# SENATE

## Official Committee Hansard

ENVIRONMENT, RECREATION, COMMUNICATIONS  
AND THE ARTS LEGISLATION COMMITTEE

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

TUESDAY, 5 MAY 1998

CANBERRA

by authority of the Senate

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**SENATE**

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

**TUESDAY, 5 MAY 1998**

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

**Substitute member:** Senator Tierney to substitute for Senator Lightfoot on matters covered by the communications and arts portfolio

**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 Carr, Colston, Lightfoot, Margetts (by teleconference), Patterson, Schacht and Tierney

**Terms of reference for the inquiry:**

Telstra (Transition to Full Private Ownership) Bill 1998

**WITNESSES**

**MORIARTY, Mr Gerald, Group Managing Director, Network, Technology and  
Multimedia, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000 . . . . . 101**

**RIZZO, Mr Paul, Group Managing Director, Finance and Administration, Telstra, 242  
Exhibition Street, Melbourne, Victoria 3000 . . . . . 101**

**SHORE, Mr Leonard Peter, Group Managing Director, Commercial and Consumer,  
Telstra, 242 Exhibition Street, Melbourne, Victoria 3000 . . . . . 101**

**STANHOPE, Mr John Victor, Director Finance, Telstra, 242 Exhibition Street,  
Melbourne, Victoria 3000 . . . . . 101**

**WARD, Mr Graeme, Group Director, Regulatory and External Affairs, Telstra, 242  
Exhibition Street, Melbourne, Victoria 3000 . . . . . 101**

**ALTER, Mrs Esther, Member, Australian Communications Authority, Level 13, 200  
Queen Street, Melbourne, Victoria 3000 . . . . . 144**

**KELLEHER, Dr Roslyn Ann, Executive Manager, Consumer Affairs, Australian  
Communications Authority, 200 Queen Street, Melbourne, Victoria 3000 . . . . . 144**

<b>THURSTON, Mr Steve, Manager, Consumer Safeguards, Australian Communications Authority, 200 Queen Street, Melbourne, Victoria 3000</b>	<b>144</b>
<b>WHITEHEAD, Mr Neill Thomas, Manager, Universal Service Obligation Consumer Affairs Branch, Australian Communications Authority, 200 Queen Street, Melbourne, Victoria 3000</b>	<b>144</b>
<b>GREEN, Dr Walter Battman, Director, Communications Expert Group, 18 Yorna Road, Kalamunda, Western Australia 6076</b>	<b>156</b>
<b>SANDERSON, Mr Lance John, Director, Communications Expert Group, 18 Yorna Road, Kalamunda, Western Australia 6076</b>	<b>156</b>
<b>SKELTON, Mr Phillip, Team Leader, Telecommunications, Department of Commerce and Trade, Government of Western Australia, PO Box 7234, Cloisters Square, Perth, Western Australia 6850</b>	<b>156</b>
<b>COOPER, Mr Colin Phillip, Divisional President, Communications, Electrical and Plumbing Union, 1/139 Queensberry Street, Carlton South, Victoria 3053</b>	<b>171</b>
<b>EASON, Ms Rosalind, Senior Industrial Research Officer, Communications, Electrical and Plumbing Union, 1/139 Queensberry Street, Carlton South, Victoria 3053</b>	<b>171</b>
<b>GIVEN, Mr Donald Jock, Director, Communications Law Centre, Fig Tree Lane, University of New South Wales, Sydney, New South Wales 2052</b>	<b>182</b>
<b>PINNOCK, Mr John Edward, Ombudsman, Telecommunications Industry Ombudsman Ltd., 315 Exhibition Street, Melbourne, Victoria 3000</b>	<b>189</b>
<b>BRIERLEY, Mr Edward John, Executive Member, Australian Secondary Principals Association, President, Victorian Association of State Secondary Principals, Unit 2, 13-21 Vale Street, North Melbourne, Victoria 3051</b>	<b>196</b>
<b>MARTIN, Mr Peter John, Executive Officer, Australian Secondary Principals Association, Unit 2, 13-21 Vale Street, North Melbourne, Victoria 3051</b>	<b>197</b>
<b>EAKIN, Mr Laurie, Executive Director, Western Murray Development, 306 Campbell Street, Swan Hill, Victoria 3585</b>	<b>197</b>

**Committee met at 9.06 a.m.**

**MORIARTY, Mr Gerald, Group Managing Director, Network, Technology and Multimedia, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000**

**RIZZO, Mr Paul, Group Managing Director, Finance and Administration, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000**

**SHORE, Mr Leonard Peter, Group Managing Director, Commercial and Consumer, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000**

**STANHOPE, Mr John Victor, Director Finance, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000**

**WARD, Mr Graeme, Group Director, Regulatory and External Affairs, Telstra, 242 Exhibition Street, Melbourne, Victoria 3000**

**CHAIR**—I welcome you to today's hearing of the Senate Environment, Recreation, Communications and the Arts Legislation Committee. This is the second hearing of our inquiry into the Telstra (Transition to Full Private Ownership) Bill 1998. 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 evidence taken in camera may subsequently be made public by order of the Senate. The committee has before it submission No. 39 which it has authorised to be published. Are there any changes you wish to make to your submission?

**Mr Rizzo**—No.

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

**Mr Rizzo**—We have an opening statement. Telstra is pleased to be participating in this consideration about the future directions of the company. I would like to use this opportunity to briefly highlight the future challenges facing Telstra and to touch on the lessons learnt since the company was partly privatised in November last year. The Telstra board and management have considered issues surrounding the full privatisation of the company. We have come to the view that 100 per cent privatisation of Telstra is the best way forward for the company. We believe it is also in the interests of customers, shareholders and staff as well as in the national interest.

Full privatisation would bring additional benefits including the following: allowing Telstra to move forward more strongly focused on meeting competition from global communications companies; reducing the potential for conflicts of interest between the government's shareholder and other regulatory interests; improving transparency in the delivery of government objectives under legislation; and having continuous performance assessment and greater flexibility in accessing resources.

There is potential for a conflict of interest between the government's shareholder and regulatory roles whilst the government holds majority ownership in Telstra. The Telstra board and management is required to act in the interests of all shareholders. It is a balancing act to address the interests of 1.6 million shareholders and a majority government owner that represents a range of economic, social and political interests.

Full privatisation is also expected to improve transparency and public accountability by bringing greater certainty and consistency to the regulatory framework. Telstra understands competitor concerns about potential for a conflict of interest for the government in owning part of Telstra, because we all want a more even playing field where we can compete with

certainty. By removing any notion of a potential conflict between the government's role as shareholder and regulator, a more even competitive framework for all industry players is established. Telstra also benefits by being able to focus more clearly on market issues.

It is appropriate that parliament set the regulatory framework in which the company must operate, taking into account the public interest. It is the responsibility then of the board and management to act responsibly for all shareholders within these legislative parameters. Where public interest obligations are clearly defined, there is less scope for informal influence by any one shareholder.

Telstra sees considerable benefit where accountability and reporting obligations are articulated in legislation so that there is a clear understanding by the company, the public and shareholders of expected performance and behaviour, and greater transparency and accountability to all shareholders and the public.

Already, under partial privatisation, continuous performance assessment has been one of the key benefits to Telstra. This is real-time feedback from shareholders, analysts and institutional advisers on Telstra's performance. It has led to a different level of scrutiny over Telstra's performance by the markets and has focused management's attention on a range of growth, resource and risk management strategies. Full privatisation is expected to increase this level of ongoing scrutiny and pressure to maximise performance.

Global competition is shaping the direction of the Australian communications market. Of the 15 licensed carriers operating in the Australian market, the top five have significant foreign based shareholders that provide access to global resources. Telstra needs to be able to compete on similar terms and to be able to partner with other private sector companies—companies that expect clear commercial objectives and apolitical actions. A government majority owner may be less willing to share the risk of such alliances. Nevertheless, a fully privatised structure offers more flexible mechanisms to raise the necessary capital and to compete with these global companies on similar terms in the Australian and international markets.

The privatisation does not affect competitive and consumer safeguards. Open market competition is continuing to drive innovation in products and services. With now 15 other competing carriers operating in the Australian market, the competition is forcing prices downward across every market. Australia's competitive framework has arguably the most comprehensive consumer protection safeguards in the world. These safeguards include specific controls on Telstra, such as retail price controls, provision of directory assistance, delivery of universal service obligations, ISDN coverage and customer service guarantees. These arrangements are not diluted in any way by the proposed changes to Telstra's ownership set out in the Telstra (Transition to Full Private Ownership) Bill 1998.

Arguments against privatisation tend to stress that full privatisation will be detrimental to regional Australian interests. Safeguards can and have been put in legislation to protect particular consumer interests. As a result of open competition, the communications sector as a whole is growing, bringing with it new opportunities for urban and regional Australia.

Experience to date in Australia is that competition is driving investment in regional areas and encouraging technological innovation, wider employment opportunities across the industry and choice for consumers amongst a range of service providers and product offerings. Because a range of public interest objectives are being met through the competitive industry framework rather than via specific ownership controls, Telstra believes that there are no compelling competition, consumer protection or industry policy grounds for retaining Telstra in majority public ownership. A competitively neutral framework provides the best means of ensuring that

public benefits from communications policy are delivered by all industry participants. It allows Telstra to compete on an even footing with its global competitors. Thank you, Madam Chair.

**CHAIR**—I just wish to make people aware that Senator Dee Margetts will be taking part in the hearing via a teleconference facility. We will now turn to questions.

**Senator SCHACHT**—Mr Rizzo, I wonder if you could circulate to the committee a copy of your opening remarks. I think from what you said that it is a precis of the guts of your submission itself.

**Mr Rizzo**—Pretty much, yes.

**Senator SCHACHT**—But I would still like to have that circulated, if you could provide that to us during the day.

**Mr Rizzo**—Certainly.

**Senator SCHACHT**—Did the government in any way ask the board or the senior management of Telstra to prepare a submission in favour of full privatisation to come to this committee?

**Mr Rizzo**—Not that I am aware of, no.

**Senator SCHACHT**—Did the board of Telstra take a decision to prepare a submission to come to this committee in favour of the full privatisation of Telstra?

**Mr Rizzo**—Not a formal decision, no.

**Senator SCHACHT**—So, in effect, this submission you have put in is the view of the senior managers of Telstra?

**Mr Rizzo**—It is certainly the view of management. But there have been informal discussions with board members, and we would feel confident that they would back us in this.

**Senator SCHACHT**—You are confident, but there is no decision in the minutes of the board authorising you to put this submission forward?

**Mr Rizzo**—Not formally recorded, I believe.

**Senator SCHACHT**—In relation to governance issues, I find that a strange position that the management is able to put forward a position that goes to the structure of the company without it being recorded by the board in the minutes.

**Mr Rizzo**—I think it depends on the environment. We have had an environment where, even leading up to the partial privatisation, the direction has had consistency of views amongst the management and directors.

**Senator SCHACHT**—Put it this way, Mr Rizzo: as the Prime Minister has announced, this legislation—even if carried before the election—will not be proclaimed until after the election, if the Liberal Party wins the election. If the Liberal Party loses the election, the Labor Party has made it clear that we will not proclaim the legislation. If it is already there and unproclaimed, we will even repeal it.

Where does that put the position of senior managers such as yourself in Telstra who have committed yourselves to the full privatisation if, at the next election, a government is elected that is opposed to the privatisation? Will you be able to continue to carry out your duties as senior managers when you have been rejected by the people?

**Mr Rizzo**—There are two issues. One is that, as a board and as a management team, our primary legal obligation is to the best interests of the company. We have tried to put forward a view that, in our judgment, is in the best interests of the company—

**Senator SCHACHT**—But you have just told me that the board has not taken a formal decision to say that this is in the best interests of the company. I find that extraordinary.

**Mr Rizzo**—Well, unfortunately, we do not find it extraordinary—

**Senator SCHACHT**—It is unfortunate for Telstra.

**Mr Rizzo**—We do not find it extraordinary because, as I said, there is a widespread understanding within the directors and within management that this is in the best interests of the company. We have been living with the privatisation issue for perhaps 18 months.

**Senator SCHACHT**—In the ethics—that might be putting too strong a word on it—of the corporate world, if a senior manager declares a position in favour of which way the company should go and the shareholders decide to go in a different direction, usually that CEO resigns saying, ‘I cannot carry out that policy. It is not what I recommended.’ If the Australian people choose to elect a government that does not want to fully privatise Telstra, does that not put you, as senior managers, in the very awkward position that you will be carrying out the policies of a government that you do not believe in?

**Mr Rizzo**—It is a speculative question but can I simply say that we would—

**Senator SCHACHT**—Speculative? This is an issue for the election.

**Senator LIGHTFOOT**—Point of order, Madam Chair: Mr Rizzo should be able to complete his answer to the question. Where the question is hypothetical, I would leave it to you as to whether it was a proper question from Senator Schacht with respect to Mr Rizzo or not.

**Senator SCHACHT**—On the point of order, Madam Chair: the Prime Minister has announced that this legislation, even if it is passed before the election, will not be proclaimed unless he wins the election. He has made it an issue for the people to decide. I am raising the issue on the good governance of the directors and the senior management, their due diligence—

**CHAIR**—Are you speaking on the point of order?

**Senator SCHACHT**—I am speaking on the point of order. This is relevant to why I can ask these questions about the due diligence of the directors and the commitment of the management to a particular course of action which, if the Australian people reject it, puts the senior management in a very awkward position.

**CHAIR**—I will just rule on the point of order first. Senator Lightfoot, I think Senator Schacht is straying a little into the hypothetical. It is difficult but, given that he has made the point that the legislation is dependent on whether the current government wins the next election or not, it does open it up to allow that sort of questioning even though it is straying a little.

**Mr Rizzo**—My colleague here wants to add a comment, but can I just try to elaborate a little on what I am trying to convey. As a management team, we feel that it is in the best interests of the company to be fully privatised. The shareholders can convey to the board of directors their way forward, but it is in the total company interests that we have to make our judgments. Therefore, whatever happens in the fullness of time we will have to address when the facts are actually known. But at this point in time our judgment is that the company is best served by moving to full privatisation.

**Senator SCHACHT**—Mr Rizzo, before Mr Ward answers, I have no objection to the elected government giving you a direction that this is the policy they want carried out. That is what simple democracy is about. I have no objection to that. I would have no objection to

their sending you an instruction to prepare a submission that that was the policy they wanted carried out, and you, being loyal public servants in a corporatised body, would carry out the wishes of the elected government. What you have now explained is that, irrespective of what an elected government's view is and if the government changes, you are committing yourself to only one course of structure for the operation of Telstra. In my view, I think that may put you in rather an invidious position if the election result is different from what you may anticipate it to be.

**Mr Rizzo**—It may and it may not. I think the point is that shareholders have their say. You mentioned a direction, which is an entirely different matter. What I am talking about is short of a direction—how the company judges the best interests of the company, which is our primary legal obligation.

**CHAIR**—Mr Rizzo, would it not be that your responsibility would be to the government of the day? That would be your answer that the legislation—

**Mr Rizzo**—No, I think quite the contrary. Our legal people tell us our primary obligation is to the company.

**CHAIR**—If there is a direction from the government—

**Mr Rizzo**—If it is a direction, that is then a legal thing and that is a different matter.

**CHAIR**—That is what I am saying though. If the government of the day after the election—if the government were to change—were to say that Telstra was not to be sold, that would be a direction. You as a corporatised government entity would have to abide by that direction.

**Mr Rizzo**—If there was a direction from the government of the day under its proper powers to desist from this direction, absolutely. That is part of the framework in which we would operate.

**CHAIR**—What would be your responsibility as an officer in a corporatised organisation in that situation?

**Mr Rizzo**—It is no different from what we are arguing that parliament has a right to put a legislative framework in place and we will manage the company within that framework. If there is a direction from the government of the day, clearly we would have to abide by it.

**Mr Ward**—I would like to make two points. Firstly, at the last board meeting the CEO reported that management, and on behalf of the board, would be putting in a submission that says that full privatisation is in the interests of the company and in the interests of our shareholders, customers and staff. That was noted by the board.

Secondly, in our staff advice about this issue—as senators would be aware, we have a widely read internal staff magazine called *Our Future*—we have said that the company believes it is in the best interests of the company and its shareholders, customers and staff, but the matter is one for the government and ultimately the parliament. In the meantime, it is competition that is driving the performance of the company, and we should continue to strive for betterment in that context. I think we have made it quite clear that this issue is one for the government and the parliament. But it is the view—and I guess that is why we are here today—of the management and the board that full privatisation is in the best interests.

**Senator SCHACHT**—I am pleased you have clarified that at least the board noted in the minutes Mr Blount's advice.

**Senator CARR**—Is that what happened?

**Senator SCHACHT**—That is what Mr Ward said—

**Senator CARR**—No, he reported. Was it actually noted in the minutes?

**Senator SCHACHT**—Was it noted in the minutes?

**Mr Ward**—The board notes the CEO's report in its totality each board meeting.

**Senator SCHACHT**—This was part of the CEO's report?

**Mr Ward**—Correct.

**Senator SCHACHT**—Mr Ward, perhaps you could provide to the committee—and I accept this may want to be commercial-in-confidence and in camera—that extract of the minutes that clearly shows that the issue of this submission to this committee in favour of full privatisation was clearly acknowledged by the board. If it is just in the CEO's report in which he reported on 15 different matters and that was one of them, and the CEO's report was noted, that is not exactly the same as the board carrying the recommendation.

**Mr Ward**—Can I just make the point that if there are any issues in the CEO's report that the board takes umbrage at or wants further action on, then they are noted in the minutes. The CEO's report covers many items, as you suggest.

**Senator SCHACHT**—You do not know whether the board took any umbrage at the CEO's report?

**Mr Ward**—I do not recall any specific issue coming out of the CEO's report. All I know is that we made it quite clear that, on behalf of management and the board, we would be appearing today and we would be putting in a submission that says full privatisation is in the best interests of the company.

**Senator SCHACHT**—I address this to Mr Rizzo and the other members of Telstra who are here. Now that the Telstra management has so unequivocally committed itself to full privatisation, do you think there is an ethical decision for senior management that, if the people of Australia choose not to support full privatisation, the management is compromised in the future to continue with a majority publicly owned Telstra?

**Mr Rizzo**—I do not know that there is an ethical issue because that depends on the circumstances at that point in time. And, as I said, it is our judgment at this point that it is in the best interests of the company. If the legal framework changes, then we have to reassess that position at that time.

**Senator SCHACHT**—So if we win the election, you will then be putting in a submission and automatically saying, 'We are opposed to privatisation.'

**Mr Rizzo**—I am not saying that at all. I am trying to decouple the political dimension from what we see as our legal obligations to the company.

**Senator SCHACHT**—You cannot decouple it; there is a political process, as the Prime Minister has outlined. I do not want to waste any more of the very limited time we have on this issue. I think I have made the point. I am disturbed that, at best, the board has only noted the CEO's report. I would have thought that this submission would have been one which the board carried a resolution in favour of. Can you check whether the board got a copy of the submission before it was lodged with the committee?

**Mr Ward**—I do not know whether they are in receipt of a copy as yet.

**Senator SCHACHT**—What is going on with the good governance of Telstra when, on a fundamental issue, the board members are not provided with a submission that you are making public here—and quite rightly so. I would have thought that any self-respecting director would have asked to see the submission that the directors have their names to.

**Mr Ward**—Many of the issues in our submission were canvassed in our submission to the initial Telstra sale bill in 1996. As Mr Rizzo said, many of these issues have been informally discussed with the board—and across the board table over several years, to be honest.

**Senator SCHACHT**—Mr Ward, you cannot compare selling one-third of Telstra, leaving Telstra in two-thirds public ownership, to moving now to sell the lot. That is a quantum difference in the structure of the company. I find it very strange that the board members did not see your submission before you lodged it.

**Mr Rizzo**—I think philosophically we are saying that management does not judge any significant differences of view between directors and management. The document is a technical compendium of everything that has been discussed in the company for many years.

**Senator SCHACHT**—A technical compendium? You have made in this submission political comments about the operation of Telstra in the environment of Australia as it affects the community. This is not a technical compendium. This is a statement of how Telstra will operate for 18 million Australians. It is not technical; it is political.

**Mr Rizzo**—With due respect, we did not see it as political.

**Senator CARR**—Mr Rizzo, you have supported the privatisation of Telstra for some time. Isn't that the point you are making?

**Mr Rizzo**—Yes, that is right.

**Senator CARR**—The management has supported the privatisation of Telstra for some time?

**Mr Rizzo**—That is correct.

**Senator CARR**—How long has that been the position of management?

**Mr Rizzo**—I cannot relate it to a time line as such, I am sorry.

**Senator CARR**—Is it two years, three years, four years? What is the period in which you have been working towards this result?

**Mr Rizzo**—Working towards it?

**Senator CARR**—Yes.

**Mr Rizzo**—Probably, actively, only since the partial privatisation was a formal decision.

**Mr Ward**—Correct.

**Senator CARR**—So for the last two years you have been actively working towards it. Not before that time?

**Mr Rizzo**—I am not sure what you mean by 'actively'. Some of us come from the private sector and have a philosophy but that is a different matter, I would think.

**CHAIR**—Maybe since Mr Blount discussed it with Mr Beazley as well?

**Mr Rizzo**—I am not sure what Mr Blount discussed with any members of parliament.

**Senator SCHACHT**—Why doesn't Mr Blount come along and tell us what he discussed with Mr Beazley?

**Mr Rizzo**—That is a judgment for him, if it is relevant.

**Senator SCHACHT**—The problem is that we can never get Mr Blount here. Mr Blount is quite willing to go anywhere else to talk about privatisation and management of Telstra, but he will never appear before a parliamentary committee that represents two-thirds of majority ownership.

**Mr Rizzo**—Our judgment was that you have the senior management before you and, apart from any personal matters that Mr Blount may have, we can convey to you the company's position.

**Senator SCHACHT**—Are any of you full board members?

**Mr Rizzo**—No, we are not.

**Senator SCHACHT**—Mr Blount is a full board member, is he not?

**Mr Rizzo**—Yes, he is.

**Senator SCHACHT**—He could have answered the questions I asked straight off about what the board decision was because he is a board member. We take it, Mr Rizzo, that you were unaware until Mr Ward clarified it, that there was a note apparently in the CEO's report. I think we all would have been better off having Mr Blount here explaining what he had reported to the board and what the board's view was. This seems to be a very lax due diligence arrangement for the directors to go through—the management seem to be taking a whole range of decisions of their own about the policy of the company without reference to the board.

**Mr Rizzo**—I do not believe that it is lax. As I have explained, we are in constant discussion with directors about the direction of the company.

**Senator SCHACHT**—Why didn't they put it in a minute—so that this is a clearly minuted decision—that the submission was circulated, agreed to and approved by the board? This is not a 2s 6d purchase from Coles or Woolworths. This is, on your own estimation, a \$40 billion or \$50 billion commercial transaction to privatise Telstra. And they have not approved your own submission?

**Mr Rizzo**—While I am suggesting that there was no significant difference between the philosophical positions, if you actually want us to table a minute, I am sure the board would be more than happy to pass such a minute.

**Senator SCHACHT**—Now that I have belled the cat on this, I am sure there will be a hurried meeting or that at the next meeting they will make it clear.

**Mr Rizzo**—With due respect, Senator, you are making a simple procedural issue into a philosophical one. I am suggesting that the philosophy is no different and that the procedure was a secondary issue.

**Senator SCHACHT**—You may choose to bring to the attention of the board the transcript of this part of the hearing so that they may choose to put something more formally on the record. I think it is in their own best interests as directors that they do so—even if I disagree with it and other people disagree with it.

Mr Rizzo, in your submission and in your opening remarks you said that because of competition you have to be privatised. What are you doing now that you are one-third privatised that you would not do in the future if you were fully privatised? What is the magic elixir of life to the senior management so that, when you are fully privatised, you will do certain things that you will not do now to your best ability?

**Mr Rizzo**—As we said at the time of the partial privatisation discussions, we are really talking about removing either real or perceived conflicts, having clarity of focus and having a judgment that is basically the market's commercial judgment on the company. That is the thrust of our position.

**Senator SCHACHT**—So you are saying that, while you are only one-third privatised, you will be making decisions that are not as efficient as they would be if you were fully privatised?

Even though, Mr Rizzo, you are the chief financial officer, are you saying that you would suddenly be more efficient personally if Telstra were fully privatised—as would Mr Shore, Mr Moriarty, Mr Ward, Mr Stanhope and Mr Blount and all the others? I find it extraordinary that you tell us that you would then be more efficient personally in running the company.

**Mr Rizzo**—This is not about a binary situation where the light is either off or on. We are talking about an operating environment. If you take the simple case where our competitors would be nervous about conflicts within the government, let us say, about a regulatory regime coming out that would unfavourably favour us, we are also nervous the other way, in that there are perceptions of conflicts between having the shareholder and the regulator in one—

**Senator SCHACHT**—Before we get to that issue of conflict with the shareholders and the other companies and the regulatory regime, as the chief financial operating officer, in your submission you claim that you will be a more efficient company. That means that you, as a senior officer, will be making more efficient decisions. Why can't you make them now?

**Mr Rizzo**—We often engage different arms of the government and the bureaucracy about issues whereas, had we been free of the conflicts, we would have focused very clearly on the decision that is the commercial decision.

**Senator SCHACHT**—For example, would you think it would be more commercially in your favour if, with a cross-subsidy that is now operating, it were paid as a Treasury subsidy rather than from the cross-subsidies of Telstra's profits?

**Mr Rizzo**—Which cross-subsidy are you referring to?

**Senator SCHACHT**—The USO is \$260 million a year, of which, at the moment, Telstra pays about 90 per cent, I think. Because the other competitors do not provide most of the services to the bush, you are paying an overwhelming proportion of the \$260 million, and that is going to happen for the foreseeable future. Would you rather that be paid by Treasury subsidy once it was determined rather than by cross-subsidising from your profits?

**Mr Rizzo**—Our position on that is fairly clear. There are two dimensions to it. One is that if the law of the land is that there are universal service obligations and that we have to pay for them, so be it; we will do it. A constant theme of ours has been that it is up to the parliament to put in the legislative framework and we will adhere to it. The second element is that, providing the formula does not unnecessarily penalise Telstra—that the industry shares in the universal service obligation equitably—we are also comfortable.

**Senator SCHACHT**—If the privatisation is successful and if Telstra is fully privatised and up to 35 per cent is owned by foreign shareholders and a number of foreign telcos take up to five per cent each, and they say to you as shareholders, 'We would rather keep this profit for ourselves. Get the government to pay the cross-subsidy. We're going to put political pressure on to have the legislation changed,' will you support that change, if that is what your shareholders say?

**Mr Rizzo**—If the law of the land—

**Senator SCHACHT**—No, don't slip out of it. I am saying that if, before the law is changed, your foreign shareholders, in particular, argue, 'We want more profit. Tell the government they should pay the cross-subsidy out of Treasury. We want you to lobby for the legislation to be changed,' will you, as a loyal servant of a privatised company, then argue that way?

**Mr Rizzo**—Again, I think it depends on the issue of what is in the best interests of the company. You are honing in—

**Senator SCHACHT**—Yes, but if the board members in a fully privatised company say that that is in the best interests of the company, Mr Rizzo, you will carry it out, will you not?

**Mr Rizzo**—We may well discuss it, but there are thousands of things—

**Senator SCHACHT**—No, Mr Rizzo. If the board of a fully privatised Telstra takes a decision that they are going to lobby to have the universal service obligation paid as a Treasury subsidy, rather than as a cross-subsidy from the profits of Telstra—thereby increasing the profit and the dividend to the private shareholders—you will carry out that decision, will you not?

**Mr Rizzo**—It would depend on the circumstances.

**Senator SCHACHT**—So you would tell the directors, if they took that decision, that you would disagree with it and not carry it out?

**Mr Rizzo**—Look, if the board of directors made a decision for us to put in a submission to government about a commercial situation, of course we would do it. That is what the world is about.

**Senator SCHACHT**—No, I am just talking about the universal service obligation.

**Mr Rizzo**—But you seem to infer, Senator, that having a company somehow pay it, for it not to come out of Treasury, is inherently a better option.

**Senator SCHACHT**—No, I am saying foreign owners might think that is an inherently better option, in the interests of the company, to maximise profits. I bring your attention to paragraph 2.2, Company Benefits, where you make the statement:

Where the Government has a majority control over the company, the Board and the management are inevitably linked into these considerations, in responding to the expectations of the majority owner. This can lead to sub-optimal commercial decisions.

If the board said, ‘It is not in our best commercial interests to have a cross-subsidy paid out of our profit. We are going to lobby the government to change that legislation so that it is paid out of Treasury by the taxpayer,’ won’t you carry out that decision?

**Mr Rizzo**—But if we make a submission and the government of the day turns it aside—

**Senator SCHACHT**—Please, Mr Rizzo: you are not answering my simple question. If the board takes that decision, as the senior financial officer, as a senior executive, would you support that decision?

**Mr Rizzo**—I would be directed to do it and I would execute it to the best of my ability.

**Senator SCHACHT**—Yes, you would be directed to do it. That gets to my point. It is that once private shareholders come in, including up to 35 per cent foreign, they may well start saying to you, irrespective of your personal view, ‘We are going to pressure for these changes to be made because we want to enhance profit, not cross-subsidies.’

**CHAIR**—May I ask a question at the same time. Given that the other 65 per cent would be Australian shareholders, would you not expect that they would also want to see community service obligations and customer service guarantees built in—

**Senator SCHACHT**—Why? They want to make a quid.

**CHAIR**—And that those guarantees are there and imposed on all suppliers—on all players?

**Senator CARR**—There is a fundamental conflict of interest there.

**CHAIR**—Senator Carr, I am asking a question. I did not interrupt you.

**Mr Rizzo**—Senator Schacht, would you not concede that the company paying the subsidy is, in effect, a taxpayer expense because, at the end of the day, to the extent we pay that, we pay less dividend to the two-thirds owner and therefore the taxpayer is disaffected by that?

**Senator SCHACHT**—That is true.

**Mr Rizzo**—How many angels can dance on a pinhead?

**Senator SCHACHT**—It is not a matter of angels dancing on a pinhead.

**Mr Rizzo**—No. How far do you want to take it?

**Senator SCHACHT**—You have enough trouble on good governance of the directors; don't get into theology, Mr Rizzo. You are going to be in big strife if you get into theology.

**Mr Rizzo**—No, how far should we take the discussion about cross-subsidies, because every impost on the company is shared by the taxpayer?

**Senator SCHACHT**—Thank you for the invitation when you made that point. What I would get to is that, yes, it is true that the \$260 million cross-subsidy which Telstra overwhelmingly pays most of at the moment means, in effect, that it reduces the dividend paid to the government. One way or the other, we still keep the money in the public purse.

More importantly, what would happen is that, if you did succeed in getting it paid to the Treasury and the Treasury started having to pay the cross-subsidy, you know as well as I do that, as soon as there was a tough budget coming around, Treasury and the finance department would jump up and down and say, 'Let's get rid of this subsidy. Let's make it full cost recovery.' They would put the pressure on to knock it off. That is why most people in the bush do not trust the idea of a fully privatised Telstra because, in the end, they know you will pass it off and get the change made to the government, then the government at a subsequent budget will start reducing it.

**Mr Rizzo**—But you are saying that hiding it in the company is a better option. That is what you are really saying.

**Senator SCHACHT**—No, it is not hiding it. It is publicly available; it is publicly disclosable. It is a transparent operation. I know it is \$260 million. Next year, it might be \$270 million. It is a figure that is identifiable and everybody knows that it is the cost of providing a decent standard telephone service to the bush in Australia, and so it should be. It is not hidden. You might want to hide it so that you can lose it somewhere and start hiding other things.

**Mr Rizzo**—Far from it. We want the world to see, so that we have a level playing field in terms of who contributes to it. Can I let my colleague add some comments?

**Senator SCHACHT**—I hope you do not get into theology, Mr Ward. It will be a very interesting morning.

**CHAIR**—Can I ask one question at the same time? Could you ever see the government supporting a universal service obligation being paid out of Treasury?

**Mr Ward**—Can I pick that up as I make these comments?

**Senator SCHACHT**—You are not going to anticipate what a Liberal government will do, are you?

**CHAIR**—Either. When Labor privatises it—as they will—would they?

**Senator SCHACHT**—We will never privatise Telstra.

**CHAIR**—Oh, good. Put that on the record.

**Senator SCHACHT**—It is on the record. Absolutely. We are not going to hand over a profitable company to foreign owners to rip and gouge the profits out of and go overseas. We want it for Australians.

**CHAIR**—Like you weren't going to hand over the Commonwealth Bank either. But, anyway, let us continue.

**Senator SCHACHT**—It was not making a profit of \$2 billion or \$3 billion a year like this company is.

**Mr Ward**—I have two comments I would like to make. First of all, as a company both in full government ownership and lately in part-private ownership, we make submissions to the government on a range of public policy issues, including USOs, industry specific issues and, indeed, in a broader industry policy sense. We are but one stakeholder. Ultimately, the government makes the decisions on those issues. So the USO funding is a government decision.

The threshold issue, as you point out, is whether it comes from taxpayers' money or from the industry. To pick up Senator Patterson's point, we have noted as a company over many years that both forms of government prefer to pay the USOs out of industry funds, as opposed to taxpayer funds. We have supported, in our latest submissions around USOs, that they be funded by the industry. To absolutely support Mr Rizzo's comments, what we have also argued is that we want the methodology that applies the calculation of the USO cost and the apportionment of the USO cost to be fair and equitable, and we are working with the industry and the government on that. The threshold issue, despite all sorts of stakeholders putting in positions, will be made by the government, and governments of both persuasions have in telecommunications—and this is not restricted to Australia—tended to fund USOs out of the industry.

**Senator SCHACHT**—I was not arguing that is the case at the moment. I am just raising the issue that a fully privatised Telstra with 35 per cent foreign owners and other major institutional Australian holders will want to increase profit. One way you can increase profit is to get the government to pay the cross-subsidy.

Mr Rizzo, this phrase, which I think is almost Nixonian, and Ronald Zeigler would use it to talk about the bombing of Vietnam, is that it used to be called interdicting and so on. You say it leads to suboptimal commercial decisions. Do you believe a decision by the parliament or a direction from the government to Telstra saying, 'The universal service obligation will now be expanded to take in more than just the provision of a standard telephone. It will now take in the provision of certain levels of broadband capacity to regional and rural areas,' would be a suboptimal decision?

**Mr Rizzo**—If that was taken after proper public debate, certainly not; and that is the outcome of proper processes—the law of the land.

**Senator SCHACHT**—I see. But you don't say that in here. You say, 'Where you have got government majority control'. Even though there is a public, parliamentary debate in that government control and those decisions of government, you don't say that in here. You just say:

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. This can lead to sub-optimal commercial decisions.

So you are saying that if we extend the USO to pipe broadband services to regional and rural Australia to guarantee some minimal level, that would not be a suboptimal commercial decision then?

**Mr Rizzo**—We are saying, first and foremost, that we will totally adhere to any legal framework. What we are talking about are necessary issues of government concern that are not primarily commercial issues for the company.

**Senator SCHACHT**—Can you tell me what is an example then? You have now taken out the example I have given, saying, ‘As long as there is a public debate about it’; and even if you do copy a ministerial direction to say that Telstra will provide this service to regional Australia, you will say, ‘Oh, that is fine now, there has been a public debate, the government has gone through a process and has given a direction to Telstra to do that.’ Therefore, you are implying there may be some other decisions less transparent, apparently, that lead to suboptimal commercial decisions. Can you give me an example, Mr Shore.

**Mr Shore**—One example would be rolling out a higher bandwidth telecommunications service to rural Australia. In the current situation, the government is both 66 per cent shareholder in Telstra and is also considering the public interest of rolling out the broadband cable from a user point of view. On the one hand, the non-economic decision to roll it out will influence the shareholders’ view; on the other hand, there is a conflict, because you might want to roll out more quickly that broadband decision. What Paul was saying—going back to the original argument—is that if you are not both a shareholder and a regulator of the industry, then you have a cleaner opportunity to set those policy decisions, because you would not be swayed by the impact on the company—so much—of rolling out that broadband cable, should it be non-economic. So you can make the decisions more easily, with less conflict of interest.

**Mr Rizzo**—I think Mr Ward has another example which brings in other aspects.

**Senator SCHACHT**—On the broadband issue, if you have accepted that it is not a suboptimal commercial decision if the government gave a public direction that they want it done—and I do not think, Mr Shaw, that you gave me another example—can you now give me an example of where a government would interfere to make what you are afraid would be a suboptimal commercial decision.

**Mr Ward**—I think you are citing examples that tend to be very much in what I would call the pure regulatory basket, as opposed to the shareholder basket, if you like. USOs, network roll-out conditions, standard telephone service, USO funding—all of those issues are fairly and squarely regulatory issues, and they are dealt with by the government as regulator. In terms of company effectiveness and progress, we believe that we must lead the industry into an information world as opposed to a basic telephony world. As that industry changes, the players in it change; we are in a world of convergence with different industries moulding and redefining what products and services are part of it. For us to play in that industry we must partner with other players in those other converging industries to succeed.

As you would be aware, we have partnered with News in Foxtel, and we have partnered with IBM in both IT work and in facilities management work. We believe that we will be in a better position to attract the right partners and for them to reciprocate if we are fully privatised, as are the bulk, if not all, of the players in this industry, particularly as it is changing. We are also in a global era of competition in this redefining industry.

Our best example is that, in moving forward, and indeed with some of the partnerships we have had today, it is difficult for government as owner—leave aside government as regulator—

to be part of these decisions to partner and to go into new businesses that have a far different risk and reward profile than basic telephony, where the government has owned Telstra through the years to reach the level of basic telephony penetration. We think it is a different industry which requires different commercial practices, different risks and rewards, that really should not be part of government decision making.

**Senator SCHACHT**—With information services in the next century, no-one disputes the fact that if you do not have access to a decent information service and communication system as a citizen you will be greatly diminished. It is like having access to clean water and unpolluted air. You will not be able to survive as a citizen unless you have access to the new communications systems and the new technologies. Are you saying that just because this is new technology, the government does not have a right, because it is elected by the people, to have a say in what sort of structure it has?

**Mr Ward**—I think those issues, in terms of universal service, are rightly in the government's regulatory basket. In terms of entering new parts of the business, different ventures that have a far higher degree of risk, we need to partner with companies that have skills in attracting those partners. If we are not fully privatised, we believe that will be more difficult.

**Senator SCHACHT**—Did you have any trouble attracting News Corp to join you in Foxtel?

**Mr Ward**—I believe that both the partners—

**Senator SCHACHT**—I think they queued up and stampeded to get the decision, didn't they? They loved it.

**CHAIR**—Senator Schacht, Mr Ward was speaking.

**Mr Ward**—In my view, it would clearly be a factor leading into both those partnerships that Telstra was in part public ownership or, indeed, at Foxtel probably full public ownership.

**Senator SCHACHT**—Did the government interfere in that decision and say, 'You have to join Foxtel or have some other commercial arrangement,' or was that decision made by the board?

**Mr Ward**—I think you will recall that the IBM arrangement certainly was; but with the Foxtel one I am not aware of government interference. I am certainly aware that the timing of the IBM arrangement was impacted on by government political considerations.

**Senator SCHACHT**—That was about employment and job security, was it not? It was about what was going to happen to the number of people who may be transferred. One of the big public issues was that jobs were going to be transferred out of Telstra and off to an IBM subsidiary. Was that not one of the issues to be debated?

**Mr Rizzo**—I think another area of debate was whether that was privatisation by stealth.

**Senator SCHACHT**—Some people claimed it may have been. No-one argued that you cannot have joint ventures. One of the arguments about the public process was, with these transferring jobs, what was happening to the people's job security. That was quite a legitimate public argument I would have thought.

**Mr Ward**—Sure, but that argument was dealt with with the relevant stakeholders at the time and the conditions that we put on that. I am saying that that particular venture was impacted in terms of its timing by government and political considerations. As we go forward, these partnerships are going to have to be executed in a far more timely way.

**Senator SCHACHT**—But when your network—the ubiquitous Telstra network—for the foreseeable future, in one form or another, still provides 80-plus per cent of telecommunications in Australia, I think it is reasonable for the public to have some say in what you are actually doing in your commercial arrangements, because you provide the basic system and you will be doing so for the foreseeable future.

**Mr Rizzo**—But our whole thrust is that it is proper for those processes to lead to a regulatory framework or legal frameworks within which we will operate. What we are arguing is that when it gets to commercial decisions, that is a different—

**Senator SCHACHT**—But if you take a commercial decision to close down a service or reduce a service to a regional area of Australia, that ought to be up for public debate. You are giving no guarantee that you will not make a profit driven decision to close down a service to a particular area of Australia because it enhances your profit.

**Mr Rizzo**—Can we just pursue the IT outsourcing as a good example? We saw that as a commercial decision which was in the best interest of the company. You rightly argue that there was a legitimate role for the parliament in a sense in a commercial decision because it affected jobs, but we also told the staff that, if we were not able to outsource, their jobs were at risk within Telstra. So it was not an either/or situation. We had to do something about the IT, and the outsourcing was the best commercial outcome we could handle at that time.

**Senator SCHACHT**—Are you telling me that the government interfered in that decision and made it a bad decision?

**Mr Rizzo**—No, I am picking up your point that there was a legitimate involvement because of staff. I am also saying we took into account whether the staff remained in Telstra or were outsourced; it was going to be a job related issue. Our judgment was that it was better for the company, and indeed for most of the staff, for the outsourcing to go ahead.

**Senator SCHACHT**—Mr Rizzo, I have asked now for 15 minutes for an example of where government interference in your decision making would lead to suboptimal commercial decision making. I have yet to get one from you.

**Mr Ward**—We believe the example I gave is one. The timing of the IBM joint venture was impacted on by political processes. I am saying that, as we go forward and there are more of these ventures that probably involve higher risk, that should be left to commercial forces, not to other factors. If I could just finish—

**Senator SCHACHT**—It impacted, Mr Ward. What was the financial cost to Telstra by that impact?

**CHAIR**—Order, Senator Schacht. Mr Ward, would you finish the answer to the question?

**Mr Ward**—I wanted to complete the answer by saying that, whether we are 80 per cent of the telecommunications market, 60 per cent or 40 per cent, the very considerations that you raise about access of the community to communications and telecommunications facilities will remain as important, regardless of our position in the marketplace. Your argument is absolutely dead right—whether we are 80 per cent, 60 per cent, 40 per cent or 20 per cent. That is why the government as regulator will continue to regulate USO and standard telephone service provisions, regardless of our position in the marketplace and regardless of the ownership structure.

**Senator SCHACHT**—You said the IBM decision impacted on Telstra. You did not say whether it was a negative or a positive impact. You did not say about that so-called

interference, the government involvement in the decision or the query about the decision. Are you telling me it was a negative impact on Telstra?

**Mr Ward**—I am saying that that agreement would have been executed earlier if the political interference—

**Senator SCHACHT**—So that was a—

**CHAIR**—Let him finish.

**Senator SCHACHT**—I just want to ask him quickly. Was it a negative impact, Mr Ward?

**CHAIR**—No, you have to let him finish. You cannot ask him a question and then interrupt, which you do all the time.

**Senator SCHACHT**—We are just waffling on. I am just trying to sharpen things up a bit.

**CHAIR**—That is the pot calling the kettle black.

**Mr Ward**—Where were we?

**CHAIR**—I do not know. You were answering the question about the IBM.

**Senator SCHACHT**—You said there was an impact, it was delayed. I want you to say whether this had an adverse financial impact.

**Mr Ward**—I could not argue that it had a material financial benefit. What I wanted to do, though, is cite you an example of an increasing need for us to partner with players in other industries. As we go forward, those decisions are going to have to be made by commercial timetables. That was my point.

**Senator SCHACHT**—I do not want to go around this because we are not going to agree. We are going to have to agree to disagree. Those major partnerships you are talking about from time to time will have an impact on the delivery of communication systems to Australians. Therefore, I believe that is why Telstra should be kept in public ownership, so they can say, 'Hang on a moment. This is going to have an adverse effect not on Telstra but on sections of the Australian community. We do not believe it should proceed. If people disagree with us, they will decide at an election whether the government has got it right or wrong.'

**Mr Ward**—The key issues that you cite will always be issues and they can be dealt with by regulatory means and are being dealt with by regulatory means.

**Senator SCHACHT**—Mr Ward, I want to come back to the regulatory regime. Last week in Sydney a whole number of your competitors said that although they supported privatisation in theory, it was a bit like St Francis of Assisi—not quite now, thank you very much. They said that the one thing worse than a publicly owned near-monopoly like Telstra is a privately owned Telstra. They claim the regulatory structure is far too weak and that you are gazumping them all over the place. They even strongly suggested that the power of the minister to direct should be maintained in a fully privatised Telstra as an operation of last resort to protect them from the power of Telstra in the marketplace. So we will come back to competition and regulation. They make it clear that they do not think the regulatory structure is going to protect them from Senator Alston's 600-pound gorilla.

**Mr Ward**—I am happy to talk about that, Senator.

**Senator CARR**—On page 281 you say that a number of issues have been raised through the public process, such as the siting of facilities, technology deployment choices and coverage, product availability, dividends and revenue streams, joint ventures and alliances, service quality and customer service, employment and outsourcing, and the Telstra presence in electorates.

You say that privatisation would not prevent discussion of these issues in public but that these issues go beyond strictly shareholder matters. Mr Rizzo, do you see there being a fundamental conflict between the interests of shareholders and the interests of Australian citizens? In the range of issues that we have just canvassed here, are there ever circumstances where that conflict might arise?

**Mr Rizzo**—That is a matter for the parliament. If you see that conflict and it is in the national interest to remove it, you legislate for it and, like a good corporate citizen, we would abide by that.

**Senator CARR**—In terms of the effectiveness of the regulatory framework, is it not the case that there have been arguments that that framework is not adequate and that a more adequate method is to ensure, as you say, that the board can act on a range of social and economic policy objectives at the time decisions are actually made.

**Mr Rizzo**—I will invite Mr Ward to talk about whether or not the regulatory framework is as weak as some of the industry participants are talking about. We think that some loose comments of late about us being lightly regulated are grossly in error.

**Senator CARR**—I will come back to that issue. But I asked: is it not better, at the point where decisions are made, that consideration is actually given to these broader interests of Australian citizens, and therefore your duty as you see it, in terms of responding to your shareholders, in this present environment surely means that you have an obligation to be concerned about those broader social issues.

**Mr Rizzo**—There are two issues here, Senator Carr. Firstly, my experience in commercial life is that any board will take into account the broader community issues and weigh them up as part of its commercial considerations. Secondly, and overriding for any company, its obligation is first and foremost to the company. The directors and management are not elected to represent the broader community. They can take the broader community into account. That is why we are arguing that it is the parliament that has to put into place the framework of whatever checks and balances you deem appropriate, and we will operate within those checks and balances.

**Senator SCHACHT**—Including the power of the minister to direct Telstra in the public interest?

**Mr Rizzo**—That is there now.

**Senator SCHACHT**—But do you want it to continue if fully privatised?

**Mr Rizzo**—It has never been used.

**Senator SCHACHT**—I will give you a tip. If at the next election a Labor government is elected, have a good look at that clause, because we would be using it in the national interest, as we put in the prospectus on the third privatisation. Kim Beazley put in there and very clearly said that we would use the power to direct in the national interest. With some of the things that may go on in the future we may have to use it, if you are going to put profit ahead of the people.

**Mr Rizzo**—If that is in the framework, we are more than happy to have that—

**Senator SCHACHT**—So you are happy to have that direction left in, even with a fully privatised Telstra?

**Mr Rizzo**—That is not my decision; that is a parliamentary decision. That is what we have been arguing all along. You make those judgments; we will adhere to them.

**Senator CARR**—Mr Rizzo, the point I am coming to is that if it is in the shareholder interest to maintain the share price, you will reduce community service standards, and you have done that.

**Mr Rizzo**—It is in the company's interest to have a balanced scorecard, one side of which is obviously the share price, but there are other things that are even more important in some respects, for instance, the whole area of dealing with customers—having the proper product set, being able to meet their needs—because, without customers you do not have the profits and you do not have the share value. We are not disembodied any particular aspect. We are saying that it is a balanced scorecard. We have to look after our customers, our shareholders and the community. There are balances which we have to take into consideration and judgments in all of those contexts.

**Senator CARR**—Mr Rizzo, recent reports suggest that your level of service has declined. You say that is down to bad weather. I say it is down to the pressure on you to maintain the share price. Would you like to respond to that proposition?

**Mr Rizzo**—I do not know how you can possibly say that it is due to the pressure of maintaining the share price. Peter Shore, who has line responsibility, can perhaps elaborate on the service quality issue.

**Mr Shore**—It is simply not in our interests to reduce service quality, particularly to the rural constituency of Australia, because that customer segment provides a very large proportion of our long distance, international and mobile services. If you provide bad service in the rural area they will simply vote their more profitable services to many of our competitors who are now in the market. They have the opportunity to do that and they will do it. We would be left with the less profitable local access lines. It is simply not in our interest, nor are we committed in any way, to do other than provide the best levels of service we can. It is not in our interest to reduce service.

**Senator CARR**—It is put to this committee that the service problems that have been documented by regulatory authorities are down to the fact that the company has engaged in a policy of cost-cutting and labour shedding, and that a direct consequence of your policies of removing well over a third of the company's work force has led to the decline in service standards. How do you respond to that proposition?

**Mr Shore**—Frankly, I think it is wrong. At the same time as we have reduced costs—

**Senator SCHACHT**—So the regulator was wrong on that—

**CHAIR**—Senator Schacht, you will not interrupt.

**Senator SCHACHT**—I was just trying to clarify these matters.

**Mr Shore**—What I am saying is that, at the same time as we have reduced staff and reduced costs in the business, we have spent billions of dollars to automate processes to put in better plant, and to continue to provide better billing and support and other service systems. The simple fact is that we have undergone a considered, constructed, cost reduction and staff reduction program so that over time we will be able to continue to compete against the plethora of new carriers that are entering the market.

**Senator CARR**—I put it to you, Mr Shore, that the CEPU has put in a submission to us that details internal documentation from Telstra highlighting the delays in regional Australia which says, for instance, that waiting times have regularly exceeded those stipulated under the customer service guarantee. It lists those in terms of towns, months, et cetera. Are you saying that these figures presented to the committee are inaccurate?

**CHAIR**—In months or days?

**Senator CARR**—In both days and months.

**Mr Shore**—What I am saying is that we measure service over a range of criteria, whether it is access to the company for sales calls or fault calls, operator assistance, or faults fixed within a certain time—and you are probably aware that the customer service guarantee is faults fixed in the capital cities by close of business plus one day, in rural areas by close of business plus two days, and in remote areas by close of business plus three days. We measure service activation, new services, mobile phone quality, international phone quality and so on. Those service levels vary over time, dependent upon things such as load, particular conditions that apply in a region at any point of time, introduction of new technology, and whether we have any industrial disputation at the time.

If you are talking about the period of October, November and December last year, a combination of things caused service levels in some areas—but particularly in fixing faults and new phone connections—to drop underneath levels that we would be happy or satisfied with or, frankly, levels that would allow us to retain the sort of customer share that we would like. As of today, in many of the areas around Australia—there are 90,000 small distribution areas; there are 37 aggregated areas—and over many of the functions, our customer service levels are significantly better than they were several months ago. It is our absolute intention to keep those levels up past the customer service level guarantee type obligations.

**Senator CARR**—Mr Shore, the problem you have is that in terms of the computer system you have put in, in terms of the impact of the use of contract labour, in terms of the access to operator assistance services, in terms of directory assistance and in terms of faults fixing—the submissions that we have before us indicate that there is a consistent, systematic level of running down of the maintenance capacity of the company in the interests of reducing costs to a point where you cannot provide the services required under the consumer guarantee and where you are now in the situation where you are effectively maintaining the share level at a high level at the expense of customers. That comes directly because of your monopoly power in the market. You have the capacity to do that. How do you respond to that proposition?

**Mr Shore**—Frankly, I think it is wrong. I have said it before and I will say it again: it is wrong. The figures chosen by the CEPU—selectively, I am sure—which, by the way, over the last two or three years—as we have tried to transform the company to meet those very same customer service guarantees—have embarked on a go-slow, a form of passive resistance to the sorts of changes that need to be taken to meet the levels.

**Senator SCHACHT**—When everything fails, blame the union. You have taken the Peter Reith line.

**Mr Shore**—No, I am simply not surprised that you have a set of figures provided by the CEPU which do not show the company in a very favourable light. That is pretty consistent—

**Senator CARR**—Tell me, Mr Shore: what is the present status of your legal action against the union?

**Mr Shore**—What legal action?

**Senator CARR**—The action that I understand you wrote to the union about, outlining how the company intended to take defamation action against the union officials. This letter, under the signature of Mr Geoffrey Barkla dated 24 March, claimed that public comment about the performance of the company was in fact defamation.

**Mr Shore**—More specifically, I said that, if the union specifically continued to release wrong and misleading information for the purposes of running a campaign which they tried to engage our employees in, we would reserve our rights to take action to stop them, if they continued to do that. That has not happened.

**Senator SCHACHT**—It has not happened?

**Mr Shore**—No.

**Senator CARR**—Have you withdrawn that threat or is that still alive?

**Mr Shore**—What I think I said was that we would reserve our rights if the union persisted in releasing information—what I perceived at the time was information designed to damage the company.

**Senator CARR**—So this information that is provided in a submission to this committee, which details extensively claims regarding the failure of Telstra to meet the universal service obligation requirements and indicates a continuing decline in the level of service, would that be subject to legal action?

**Mr Shore**—I do not have any idea what the figures are, to be honest.

**Senator CARR**—It states:

. . . in regional Victoria, for instance, the number of ACDs met in January this year still remained 12% below the levels of 12 months ago. At the same time, management are projecting further reductions of the Vic/Tas Commercial and Consumer workforce by the end of the current financial year.

Is that a true statement?

**Mr Shore**—In many areas of Australia in terms of staff, we have people in the wrong place with the wrong skills and sometimes the wrong attitude, and we do not have in all cases enough people in the right places with the right skills. For example, we advertised in Victoria recently for 100 people to move to Sydney to handle some growth issues that we had within the company. You are a Victorian so you may not be surprised that we did not get very many takers to go up there. We have differential growth rates around the company and around the country for various activities, and we do have some trouble moving the people around.

Let me add that, in the October to December period last year, we did not have the flexibility in hiring contractors to deal with peak workloads that we wanted, again because of difficulties in getting agreement with the union about the way in which they would be taken on for short-term work. We now have contractors employed in 10 regions around the country that are available to do short-term peak load work. That gives us a lot more flexibility.

So when we put our submission in, in terms of our compliance with the customer service guarantee for faults, nationally, the figure was about 93 per cent. We would like to get 100 per cent. There are circumstances where we cannot such as with floods, with people who are not home and so on. But our ambition is to hit our customer service guarantees in every one of those regions—whether it is in country Victoria, metropolitan Sydney or anywhere.

**Senator CARR**—We are talking about here agreed commitment dates. That is the date on which the hook-up—

**Mr Shore**—I am sorry, I was talking about fixing faults in the network.

**Senator CARR**—The question I asked you related to this claim that the agreed commitment date—that is the date on which you hook up a telephone—was 12 per cent below that of the levels of 12 months ago and that further reductions in staff are being projected by management. I asked you whether that is true and I am still waiting for an answer.

**Mr Shore**—I am not sure of the region you are talking about.

**Senator CARR**—That is in Victoria and Tasmania; is that the case or not?

**CHAIR**—What are you reading from?

**Senator CARR**—I am reading from page 13 of the union's submission to this committee. Is that a true statement or not?

**Mr Moriarty**—If the union are referring to the remote areas, yes, we have had some problems there.

**Senator CARR**—I am sorry, but I thought Melbourne was still the headquarters of Telstra. I do not believe that Victoria and Tasmania are remote areas of Australia. Is that true or not?

**Mr Shore**—I cannot answer the question off the top of my head.

**CHAIR**—Could somebody actually look at page 13 of the CEPU's submission and answer the question?

**Senator CARR**—While you are there, it also states:

Data obtained by the Union for Vic/Tas Country Region shows one day fault clearance rates of 56% for small business and residential customers in January this year, and rates of 62% for large corporate customers in the same period. The percentage of payphone faults cleared within a day fell to 44% in the same month, a decline of 30 percentage points since February 1997.

Is that true?

**Mr Ward**—Senator, if I could intervene while Mr Shore is looking at the CEPU's submission. I think you used the words that we are systematically driving down service. Firstly, that is absolutely untrue. Secondly, why on earth would we be driven to systematically drive down service? The current pro-competitive regime that the government has put in place means that customers can preselect their long distance business and they can choose their mobiles business. You cite the monopoly, but they are increasingly able to take their local call business—through resale and other means—through competitors. We stand to lose the totality of the customer relationship through the pro-competitive regime. Given that regime, it does not make any sense for us to systematically drive service down. It is an absolute nonsense.

**Senator SCHACHT**—But, Mr Ward, all the evidence we have received from all your competitors is to the contrary. They say service can drop and it does not matter, because you are in a monopoly position in so many areas where the public, the consumer, has to take it or leave it. While you are in that dominant position, they will not be able to provide the competition. They have been in the paper every day for the last three or four weeks screaming their heads off about your interconnect fee and the local loop being unfair and too high and that they will never be able to compete. The advantage you have as a large monopoly in many areas is that, even though the service does drop off, no-one is going to turn up and compete with you because they do not have the infrastructure to do so; they do not have the interconnect fee to do so; and they do not have the other arrangements. That is their complaint.

**Mr Ward**—I have just been through the fact that, under the current pro-competitive regime, we could lose all of the customers' business—all of it—through local call resale or other local access means. Why would it be in our interest to systematically drive down service?

**Senator SCHACHT**—And a meteor once in every 60 million years is going to wipe out the dinosaurs. True, that could happen, but it is not going to happen.

**Mr Ward**—It is happening.

**Senator SCHACHT**—What?

**Mr Ward**—We have lost local call resale business and access business to competitors. It is true; it is happening.

**Senator SCHACHT**—Yes, but profit is still going up; business is still going up; you are still the dominant carrier; and you will still have 80 per cent plus, for the foreseeable future, of one part or another of Australia's telecommunications system. You cannot lose.

**Mr Ward**—We cannot win in the longer term unless we have a customer relationship. The point I am making to you, Senator, is that under the regime, we can totally lose visibility of that customer relationship.

**Senator CARR**—Could I ask you, Mr Rizzo, to provide me with the details of the breakdown by region of the line repair times?

**Mr Rizzo**—Mr Shaw will take that on notice.

**Senator CARR**—Can you give us a breakdown of the fault clearance by region?

**Mr Shaw**—Yes.

**Senator CARR**—Can you give us a breakdown into consumer commercial response time, including small and large businesses, by region?

**Mr Shaw**—Yes.

**Senator CARR**—Can you indicate to us how many jobs have been lost since April 1996—broken down by suburb, town, or postcode?

**Mr Shaw**—Yes.

**Senator CARR**—Can you indicate to us what has been the total losses of jobs from the commercial and consumer business units, by region?

**Mr Shaw**—Sure.

**Senator CARR**—I put it to you that there has been a loss of some 17,000 personnel from the company in the last two years. Would you like to respond to that proposition?

**Mr Shaw**—I think, from the whole company, that is probably about the right figure.

**Senator CARR**—And what impact has that loss of jobs had, in your judgment, on the level of service provided?

**Mr Shaw**—If I take you through the service standards being provided today right across the board in Australia—commercial, consumer, directory assistance, access, faults and so on—there is some variability, but the standard of service being applied across Australia overall is certainly no worse than a couple of years ago.

**Senator CARR**—That is not what the evidence would be before the committee—

**Mr Shaw**—I think what I was trying to say was that I could select a small number of areas—

**Senator SCHACHT**—We are talking regions, not small select areas.

**Mr Shaw**—I can select a small number of regions in a small number of functions and prove that performance has increased remarkably; I could select a couple of regions and functions and show that it has gone down. I am saying that, across the board, the reduction in those staff numbers have, in many cases, not been customer-serving people but administrative, back-office people and system related people. The reductions in the number of those people have not contributed to any long-term, systematic reduction in service levels for the community.

**Senator SCHACHT**—In the last six months as shadow minister I have been through Townsville, Rockhampton, Brisbane, Bendigo, Ballarat, Burnie, Port Lincoln—a whole range of rural and regional areas of Australia, including city areas. In their own time, staff members of Telstra have had private meetings with me. Firstly, they are extremely loyal to Telstra; they want to make the company a success and so on. They want to keep their jobs—so clearly, getting rid of 25,000 jobs creates considerable distress. But the one thing they keep pointing out is that they are all having to do much greater levels of overtime to meet the demand to fix the system. They keep saying it and, in the end, some of them just say, ‘We do not want 70 hours of work a week. We do not want 65 hours of work a week, driving from one part of the country to the other to keep fixing the system up because, socially, it is bad for us.’ Can you give us some information about that? For example, having got rid of all these people, have you had the work picked up by outsourcing, or has there been a significant increase in overtime on those who remain?

**Mr Shore**—Can I say though that, of all the people you talk about, I think we could close in on one or two areas of the company where—

**Senator SCHACHT**—Hang on. Geographically, I think that is a pretty broad spread I have been through over the last six to eight months.

**Mr Shore**—I am talking about functions more than geography. But in the geography, that downsizing has not disadvantaged country Australia any more than metropolitan. So the downsizing has been fairly consistent across the board.

**Senator SCHACHT**—All I am saying is that, anecdotally, they tell me it has. I am not going to argue about that because I go on statistics and you have the independent ombudsman, the TIO and those sorts of people.

**Mr Shore**—I am sorry. I am talking about downsizing in the staffing.

**Senator SCHACHT**—Yes, but they say the downsizing has. That is anecdotal from their own experience. We will have to wait until you get figures in and properly and transparently assess them. What I do want to find out, in particular, is whether you have relied on an increase in overtime on your existing staff to make up for those that you have downsized.

**Mr Shore**—Can I take a couple of stabs at this because there are many different work forces within the company. You lump them all in together as though everyone is working overtime.

**Senator SCHACHT**—No—

**Mr Shore**—I am sorry. Can I just finish?

**Senator SCHACHT**—I am talking about the people who do the systems and overwhelmingly do the infrastructure—that is, the technicians and the linesmen going out and responding to faults. They have to go out and fix a fault.

**Mr Shore**—In those specific areas—that is, technicians and linesmen—the overtime levels this year are running at about the same level as last year, but in fact we anticipated that we would do less overtime this year, not more.

**Senator SCHACHT**—Was that picked up by an increase in the outsourcing contract?

**Mr Shore**—Not until just recently, where we have finally had what I would describe as a bit of a breakthrough in hiring peak load contracting resources to get on top of regional issues that are either weather related or special demand growth, because of a particular issue in Western Australia, particularly in mining areas.

**Senator CARR**—Has there been any suggestion that the employment of contractors added to your problems, because they do not understand the system and much of the work has had to be done again?

**Mr Shore**—No, that is not true.

**Senator CARR**—No evidence at all of that?

**Mr Shore**—No. Absolutely not.

**Senator CARR**—None at all? It is just that submissions again put to us in terms of the installation of the public phone system say that that has in fact been the case. Are you saying that is not true?

**Mr Shore**—The increased fault rates in the pay phone area are because we have world best practice at vandalism and, since we have rolled out the new pay phones—

**Senator SCHACHT**—You don't have world best practice vandals in Australia; you have world best practice at fixing the work of the vandals. Is that what you mean?

**Mr Shore**—There has been a high level of vandalism. Maybe the new pay phones have tested the ingenuity of many people and the fault rate in the phones at the moment is higher than we would like. It is largely people trying to break into them and do various other things to them.

**Senator CARR**—So you say it is down to the customers, not the contractors?

**Mr Shore**—What I am saying is that all contracts we write have a productivity, cost and quality issue about them. If a quality job is not done, the contractor wears the cost of fixing it, so it is not in the contractor's interest to do a shoddy job.

**Senator CARR**—I just noticed in the information that you provided to this committee before that, in regional Victoria, for instance, there has been a 10 per cent reduction in the number of employees running through towns such as Colac, Geelong, Hamilton, Portland, Bairnsdale, Sale, Kerang, Alexandra, Mansfield, Benalla, Wangaratta, Shepparton, Ararat, Traralgon, Morwell, Moe, Wonthaggi, Warragul, Leongatha, Kyneton, Echuca, Mildura, Bendigo, Bacchus Marsh, Ballarat and Horsham. That is a 10 per cent reduction in the number of personnel. How many more staff would be reduced if the company were fully privatised?

**Mr Shore**—I think the company is going through a transformation in the way it runs its business. It is definitely attacking the cost base of the operation which has been too high. It is definitely attacking some work practices. It is definitely automating processes. There is not, and will not be, a long-term, systemic slip in the service levels. Where the company's staff numbers end up, I do not know. We announced three years ago that we would move from 75,000 people to 50,000 people. That is all that has been built into the plans and that was what we were intending to do.

**Senator CARR**—What guarantees do we have that, in a privatised Telstra, the numbers of employees would remain at 50,000? That was the target Project Mercury set, was it not?

**Mr Rizzo**—We review our plans every year. Therefore, we cannot give open-ended guarantees. I think the line of questioning is suggesting that privatisation is the prime driver of our cost reduction program. We have said in previous appearances before this committee that it is the competition and the evolution of the market that is actually driving it. If you take a scenario where we sit as a leading telco and our competitors do pick up their game—as they are picking it up—and they do constrain us—as they would like to constrain us—you get to a situation where we stay with a very high cost structure as a company. You can forget

privatisation. The company would be mortally wounded. The privatisation debate is just a side issue compared with the need to deal with the market competition and the market realities. That is what is driving it.

**Senator CARR**—Can you confirm that there will be a further 9,000 jobs lost from Telstra between now and July 2000?

**Mr Rizzo**—I do not know what that figure means. The commitment we have is to downsize about 25,500 people over a four-year period.

**Senator CARR**—That is, a further 9,000 to go?

**Mr Shore**—It is roughly that number.

**Mr Rizzo**—If you pick up extra years, or whatever.

**CHAIR**—Will that figure be the same when you are fully privatised?

**Mr Rizzo**—I am suggesting that it is the cost reductions that we have to achieve as a company that are driving it.

**CHAIR**—That does not answer my question. Irrespective of whether you are fully or partially privatised?

**Mr Rizzo**—We have said that all along.

**Mr Ward**—It has nothing to do with privatisation.

**Mr Stanhope**—It would be the same.

**Senator SCHACHT**—Mr Rizzo, you made the point that, irrespective of whether you are fully privatised or fully government owned, all these changes are going to occur anyway and that competition is the issue. I think that undermines your own argument in the opening remarks that privatisation and competition go together. They do not. Ownership is a completely separate issue from competition. I am glad you have actually made that point now because privatisation and competition should not be confused. They are separate issues.

Now that we have these big cost savings irrespective of privatisation, in an estimates hearing 18 months to two years ago—it may have been Mr Stanhope who said this, and it was put on the record—the evidence was that when the downsizing of 25,000 is completed that will save Telstra about \$600 million a year in costs. When Telstra is fully privatised, that \$600 million will go to increased profit, or is there any opportunity, with that \$600 million, to give something back to the community which has had to take the pain of having 25,000 people sacked? What benefits are consumers going to get? You have price capping on some prices and you have competition in some areas, but when are we going to get that passed on in serious reductions in prices of telecommunications services?

**Mr Rizzo**—The whole price equation is moving down, as we say in our submission. It is not all going to go to profit. It is actually distributed amongst all the stakeholders in the company according to a balanced score card about what it is that we have to do at a particular point in time.

**Mr Stanhope**—And reinvest it.

**Mr Rizzo**—I am picking that up as well—I am saying, to the extent that we have to invest and whether it is \$800 million or \$1 billion in the can—

**Senator SCHACHT**—In a February Senate estimates hearing, it was indicated that the present capital works reinvestment program of Telstra is approaching close to \$4 billion, and that with the completion of the digitisation program and a number of other things—and not

laying any more of that crazy cable around the streets of Australia, for which you had to write off hundreds of millions of dollars as a loss—the capital works program will significantly come down by many hundreds of millions of dollars. That means you have increased retained earnings which could be paid as a dividend or you could reduce prices. What is the corporate plan of Telstra? Is that reduction from one less capital works program needed? Will the people of Australia see the savings you make on cost in sacking 26,000 people passed on in a significant price reduction in telecommunication costs, other than under the regulatory regime where you are price capped?

**Mr Rizzo**—We do not look at these issues as either/or situations. We have to satisfy the whole range of these things. So we have to have regard to the capital expenditure. We have to have regard to the competitive pricing of our products.

**Senator SCHACHT**—Do you agree that capital expenditure will be coming down over the next few years?

**Mr Rizzo**—We are driving it down, yes.

**Senator SCHACHT**—So that means, on the present revenue rates and projections, you should have more money available for either dividend or reduction in prices.

**Mr Rizzo**—That depends on the base assumptions. If you turn around and say that there may be three or four major regulatory decisions that turn negative, the assumption that you just made gets totally wiped off the board. Those funds will not be there.

**Mr Ward**—If I could add to that answer, each year as we go forward our market share is eroding and our margins are eroding. Yet the price cap that we deliver—which is probably the highest price cap in the world—across the majority of our revenues is a commitment year on year. We have tried and, indeed, in the competitive marketplace we have outstripped that price cap. In other words, prices have reduced faster than the price cap. That is a significant carryover.

**Senator SCHACHT**—Not in the local loop.

**Mr Ward**—In terms of the CPI, minus 7.5, which is across more than 50 per cent of our revenues, we do that year on year and we have bettered that in terms of meeting competition. That is a significant start to our corporate plan each year in the context of eroding market share and eroding margins, and that is the very scenario why we have to get our cost structure in order—to compete.

**Senator CARR**—Mr Rizzo, the following proposition has been put to us:

Current line rental charges for a standard residential service are \$11.65 a month. If there were 100% compliance with the CSG scheme, Telstra would have to incur approximately 4,500 units of such penalties each year before they outweighed the savings achieved through the redundancy of one field technician (TTO2). In the more likely event of there being a 50% awareness/compliance, Telstra would have to incur 9,000 such penalties.

According to information presented to the Senate Estimates Committee, Telstra made 3,718 payments under the Customer Service Guarantee during the month of February, incurring penalties of \$166,022 across the commercial, consumer, business and corporate markets. If this level of damages were paid over the year, the annual cost would be some \$2 million. But Telstra will be saving over \$100 million a year from a loss of the 2,200 staff made redundant through the Tullamarine and related agreements in Commercial and Consumer alone.

So I put it to you that evidence presented to us suggests that you have a very big interest in actually not addressing the question of compliance and that the government has acknowledged this by proposing, under this legislation, that breaches of the CSO attract a potential penalty

of \$10 million. Surely, that is a recognition of the inadequacies of the consumer service guarantee.

**Mr Rizzo**—Senator, our very existence as a company depends on keeping our customers satisfied. So you cannot possibly say that it is in our vested interest to turn our customers off.

**Senator SCHACHT**—You are a new monopoly.

**Mr Rizzo**—It is a quick way to turn it into a minor company, to go down that path.

**Senator CARR**—Can you respond to that proposition?

**CHAIR**—Order! All of you are now interrupting each other. I ask that one person speak at a time. Senator Carr, you asked a question.

**Senator CARR**—You have to get a lot of penalties up, in breaches of the consumer service guarantee, before it is worth your while to meet those guarantees.

**Mr Shore**—I will try to answer different bits of the question. Firstly, you talked about the downsizing as a result of Tullamarine. The Tullamarine exercise took about three years to negotiate with the unions. The unions supported it. All of the staff voted on it, not just the members of the union. It got up and we are now implementing it. It was not done just with a wave of the hand, contrary to any consultation with the union. The union was well aware of the whole Tullamarine exercise.

The second issue is that the customer service guarantees have been in place since 1 January. It is a massive communication exercise that we are going through with our staff and with the public to make sure that people get their rightful amount of compensation if we do not hit our targets. Not hitting the target and paying \$11.65 as one month's rent per day for missing them is not something that we aspire to do, but it is more driven by the fact that poor service means we lose customers. There is a direct correlation: if you give poor service you annoy customers, and they leave you. We simply do not want to do that. The \$10 million on the end of it is a sting in the tail that actually focuses the mind of the company on where we are systematically not hitting our customer service guarantee type levels, but it is not our intention to miss them.

**Senator CARR**—It may well be a sting in the tail and it may well be a political gimmick to highlight the government's interest in this matter or otherwise, but it strikes me that it might also be a recognition of the inadequacy of the present consumer service guarantees. With the effective monopoly that you have in the marketplace, the push for profit maximisation is inevitably going to lead to the consequences as we have outlined in these failures to meet community service obligations.

**Mr Shore**—I do not think that is right.

**Senator CARR**—Don't you have 89 per cent of the market? What percentage of the market do you have?

**Mr Shore**—If I fail to provide reasonable service on the access line, which is \$11.65 a month or about \$130 a year, with the average telephone account being over \$500—so it is somewhere between \$500 and \$1,000—and that customer votes their long distance and international calls to my competitor, and there are hundreds of those customers, it is not in my interest to do that to the customer base. The customer service guarantees, the fines and the \$10 million are certainly an added disincentive, but the main thing is that I want to hold the customer and the customer's full line services to the company.

**CHAIR**—On page 78 of the committee submission volume, under section 2, ‘Company and shareholder benefits’, you say that there are benefits from full privatisation through increased transparency in reporting and accountability obligations. Why would it be more accountable and more transparent? Would consumers have access or would there be some way of their knowing how successful you were in meeting community service obligations? Would they be able to get information about the delays, how many there were and in what areas? How would that information be made available to consumers?

**Mr Ward**—The regulatory regime allows for extensive reporting, particularly by the ACA and the TIO collectively. There is extensive reporting of our adherence to the USO and CSG standards, complaints that come into the TIO, and the trends in various concerns that come through his office for all carriers and carriage service providers. There is extensive reporting in this country about performance against consumer matters.

**CHAIR**—How available is that to the public?

**Mr Ward**—The ACA reports and the TIO reports are widely available. They are distributed through the Internet and in hard copy form, et cetera. That is quite extensive. There would be no diminution in that with privatisation.

**CHAIR**—So people would still be able to know whether you were meeting obligations?

**Mr Ward**—Absolutely.

**Senator TIERNEY**—I was intrigued to hear the line of questioning from the Labor Party, given their track record over 13 years when this whole arrangement was in a monopoly position. There has been a big emphasis on job reductions this morning relating to Telstra. Could you fill the picture out a little more for us in terms of the total communications industry? When we had the first Telstra inquiry, the communications industry was expanding by about 18 per cent a year, so obviously we have had a readjustment in the marketplace as we have had more competition. One of the things driving your reduction possibly would be the fact that market share has shifted. Could you provide a fuller picture of what is happening with jobs in the total telecommunications market?

**Mr Ward**—Perhaps I could have first cut of this. I think it is very encouraging for the industry and for Australia that competition has brought a number of new players to the marketplace. We estimate that, if you add up all of the carriers, the carriage service providers and Internet service providers, there are now over 1,000 participants in the industry in Australia. That is leading to very strong revenue growth by those players. Our revenue growths are more stable because, whilst we are losing market share and margin, the whole telecommunications market is growing and is growing still in double-digit rates. I think the last study we saw had it had it at over 10 per cent.

Looking at consumers first, in addition to the total growth in the marketplace there are a hell of a lot of new products and innovative services going to consumers from those 1,000 participants. To directly answer your question, that is opening up job opportunities right across the industry in a very significant way. So I think it is a very good news story for Australia, and it is a good news story for this industry that the marketplace is so vibrant. Whilst that can be put down to some of the inherent characteristics of our industry, it can also be put down to the benefits of competition and the fact that there are now so many participants in the marketplace. In fact, I think it is quite extraordinary that open competition has been with us for something like nine months or so and we have 17 carriers and over 1,000 participants in the market. It is a very good news story for Australia.

**Senator CARR**—What share of the market do they have?

**Mr Ward**—Their revenue growth is 30, 60 and 100 per cent.

**Senator CARR**—Sure. Share of the market.

**Senator TIERNEY**—Senator Carr, I sat here listening in silence to your questions, and you did run that question before.

**Senator CARR**—I have not got an answer.

**Senator TIERNEY**—Perhaps you should put it on notice. I have got the floor at the moment.

**Senator CARR**—Will you taken it on notice, Mr Ward? That nod is a yes, for the *Hansard* record.

**Senator TIERNEY**—We should just look at the reasons for job reductions in Telstra. You were earlier discussing the effects of competition on reducing jobs. Surely one of the central reasons is technological change. Perhaps you might want to explain to us a little further the way in which technological change is driving this job reduction in Telstra.

**Mr Rizzo**—These are the real issues. You do start, as we did a few years ago, with close to 100 per cent. The markets continued to deregulate. We are losing market share, prices are coming down and new competitors are coming up. It is not a static situation, it is evolving. What is ahead of us is not just a static situation; we have got real challenges about the Internet and about data paradigms. A major global alliance has been set up to attack us. So we simply have to continue to address the cost and the efficiency base of the company as well as the new technology. With that preliminary, I think Mr Moriarty can give you a sense of where some of these trends and threats might lead.

**Mr Moriarty**—I think the starting point is to observe that the staff reductions that we have made in recent times have flowed very significantly from the massive investment we have made in systems and in the network program FMO, for example, where we have fast-tracked the modernisation of our systems and that has allowed us to operate much more efficiently. It has allowed us to meet world best practice in many areas where we do benchmark ourselves with our peers in the industry globally, which we must do for the reasons that have been raised earlier, that competition will drive us to achieve world best practice. If we do not, competitors will use the new technologies which are available and operate at a lower cost structure than ours.

The investment that we have made has allowed us not only to operate more efficiently but also to produce a whole range of new products and benefits for customers. That was the point I was going to make earlier when Senator Schacht asked what benefit was being returned to the customers. It is not only a reduction in cost—that is clear—that has come from competition but also the launching of a whole range of new products and services by this company in the last several years, and we will continue to do so. That is a result of new technologies.

In summary, I would make the point that this industry is being turned inside out. Mr Rizzo referred to the data paradigm. We now carry more international data and Internet traffic than we carry voice traffic. We did not expect that that was going to occur until the year 2000. It actually happened this year. This means that the nature of our services is changing very dramatically. The types of technologies, networks and systems that we will require in the future will be remarkably different, and the way in which customers interact with the company will be very different. That will lead to further reductions in the employment that is necessary to

provide those services. That is without doubt, in my view. However, as a result of that, the industry will continue to grow.

**Senator TIERNEY**—You referred in your answer to the dimension of international competition. Perhaps you could explain something to us briefly. In terms of telcos overseas that are also reducing jobs, is this due to the different ownership status of those companies? What are the forces driving job reduction there?

**Mr Moriarty**—I would say it is very similar to what is occurring in this country—all markets around the world are being opened to competition as a result of changes to regulatory structures. It is an international phenomena. At the same time, ownership structures are changing with operators but it is competition that is driving the reduction in cost. That is supported by the technology which is dramatically changing and allowing that to happen.

**Senator TIERNEY**—What are the risks to Telstra in Australia if Telstra were to remain in majority government ownership?

**Senator SCHACHT**—I suppose you are going to tell us about Christianity, motherhood and everything else that is good.

**Mr Rizzo**—It gets back to the commercial flexibility and transparency that we have been trying to indicate today. Just as we have global competitors increasingly encroaching on our markets that are driven by commercial realities within the legal construct of the country, we need to be able to respond to them in like manner. To the extent that we are denied that flexibility and that transparency we will be less able to deal with them. There is nothing sacred about our market share. It can be changed very quickly by these new paradigms that we see on the horizon. Then you will not have just a few thousand jobs at risk; there will perhaps be much larger stakes.

**Senator TIERNEY**—The opponents of this full privatisation of Telstra have claimed that perhaps the government might not be able to achieve its objectives in telecommunications if you are fully privatised. Could you perhaps go through some of the ways in which, by regulation, governments can achieve their objectives in telecommunications, regardless of the ownership status of Telstra?

**Mr Ward**—The range of both competitive and consumer safeguards in this country is quite immense. The Trade Practices Act, as amended last year, the Telecommunications Act and the Telstra Corporations Act all provide a litany of competitive safeguards in terms of self-regulatory objectives and mechanisms. They also provide very broad powers that are administered firstly by the ACCC, particularly in terms of competition safeguards; secondly, by the ACA in terms of consumer safeguards and technical and operational standards; and, thirdly, by the TIO who is the industry specific regulator for individual consumer cases.

Supporting that is a self-regulatory body, the Australian Communications Information Forum, or ACIF, through which the industry broadly defined—that includes carriers, carriage service providers, consumer groups and suppliers—is also working to further the interests of consumers in telecommunications. In this country, the Trade Practices Act in particular has been amended to give the ACCC very wide ranging powers to intervene should there be market failure. The ACCC have a raft of work which at the moment has significant momentum. Last week they put out their preliminary decision on data access which indicated that certain services will be declared, that access providers will have to—

**Senator SCHACHT**—Do you oppose that?

**Mr Ward**—We do not agree—

**Senator SCHACHT**—So much for competition. You are acting like a monopolist trying to preserve your position all the time to be the natural monopoly.

**CHAIR**—Senator Schacht, we sat in silence while you had an hour and three quarters—

**Senator SCHACHT**—I am just helping Mr Ward—

**CHAIR**—He does not need your help.

**Senator SCHACHT**—I am just helping him along a bit.

**Senator TIERNEY**—You can ask more questions later.

**Mr Ward**—The fact that we agree or disagree with the decisions and determinations of regulators has absolutely nothing to do with the fact that those powers exist, which is the answer to your question, Senator Tierney. These authorities—and the government has enabled this through the amendments to the acts that I outlined—have very broad and sweeping powers to ensure that the benefits of competition go to consumers and to ensure that there is a competitive marketplace.

I was just talking about the momentum of the ACCC where last week they made a number of preliminary decisions. They have on their portfolio of work to consider our interconnect prices, which were referred to earlier. They also have on their portfolio of work a range of issues about local market competition, in terms of local call resale and local interconnect issues, which have also been mentioned earlier. So the regime in Australia has a range of legal and regulatory provisions that collectively are probably foremost in the world in terms of ensuring that, where there may be market failure because competition is not broad or deep enough in some areas, those benefits are passed on.

**Senator TIERNEY**—You have indicated that, as we have moved from a monopoly position to a competitive position, consumer protection measures have actually increased in our system. So if we now move to full privatisation, what would you see happening in terms of this trend of increasing consumer protection?

**Mr Ward**—I believe that the range of measures now in place will ensure that consumers will benefit regardless of the ownership structure of Telstra. The issues around customer service guarantees, the strengthening of the very act which this committee is addressing through this proposed bill, the price controls which are in place, the provisions around untimed local calls which remain in place—the very fact that in Australia we probably have the largest local call areas in the world and are one of the few countries to have an untimed local call regime—and the fact that certain pricing such as directory assistance pricing remain regulated and a notifiable price to the minister all add up to a very large array of safeguards that will be in place should further privatisation ensue.

**Senator TIERNEY**—There has been some concern, fed by misinformation from the Labor Party, that privatisation might affect these universal service obligations. Could you just clarify the position of the USOs under privatisation?

**Mr Ward**—The ownership of Telstra and the views of Telstra board and management about these issues do not in any way take away from the fact that it is the government who retains the power through the Telecommunications Act to ensure that universal service obligations are available to everybody in Australia. That remains in place. It is funded by the industry. There will be views about how effectively the costing is done and how the allocation of costs between participating funders is done—all of that can go on. The fact remains that the government has retained control of ensuring that universal service obligations are delivered to everybody in Australia.

**Senator TIERNEY**—You mention in section 2.1 the licence conditions imposed by the government. Could you explain the powers of the government to impose these licence conditions on Telstra, and will they stay in place when Telstra becomes 100 per cent privately owned?

**Mr Ward**—All of the various mechanisms that are in place to protect consumers, to roll-out services that are seen to be in the national interest, to ensure that competition is working, to ensure that regulators have sufficient powers, to ensure that carriers and carriage service providers can have licence conditions associated with their licences—all of that infrastructure of regulation remains in place and is a separate matter to the privatisation of Telstra.

**Senator TIERNEY**—In section 2.2, you indicate that it will be easier for Telstra to take up commercial opportunities which are currently difficult for you to access because of the ownership arrangements. Could you just explain how customers of telecommunications are missing out on certain services and products because of the current ownership arrangement and why the ownership arrangements need to change to improve customer access to such services?

**Mr Ward**—I guess I made the argument before—I am not too sure whether you were here, Senator—that this very turbulent, dynamic industry that we are in is changing and moving into new paradigms in a global environment. Mr Rizzo talked about the data paradigm. There are international providers and domestic providers of services in this industry as it is redefining that we wish to partner with and that we will have to make quick commercial decisions on that will be risky. There is no question that we are going into an industry that has a far higher risk profile. We believe that it is in the interests of the company, our shareholders, our customers and our staff that we have the ability to flexibly and quickly be able to make these commercial decisions.

**Senator TIERNEY**—Finally, I was wondering if you could explain for us the relationship between full-time job numbers and service levels and how perhaps changing job arrangements might improve service levels.

**Mr Ward**—I might defer to my colleague.

**Mr Shore**—I guess we have tried to explain a bit earlier that we have an ongoing commitment to provide and retain service levels at standards sufficient to enhance our market share and our reputation in the marketplace. However, as Gerry and my other colleagues have said, we have a lot of competitors coming into the marketplace—15 new carriers since July—whose underlying cost structures bear no resemblance to ours.

So we have a two-pronged approach: we have to get our cost structure down; and we have to improve the service levels to hold our market share. We have been investing a lot of money on automation with better billing systems and better service ordering systems. We have also spent a lot of money on the GSM network and on the digitisation of the telephone exchanges, all of which is designed to provide better levels of service at lower cost. So the staff levels have been falling consistent with that.

We have had a couple of hiccoughs. One of the systems we have brought through called Director—a fairly sophisticated system almost akin to a taxi dispatching system—was not introduced as well as we would have liked, so our productivity fell off a little. But it is returning to its previous levels. I think what we are going to see over time is our staff levels falling to around the 50,000 mark, which is consistent with the plan, but service levels declining from where they were three or four months ago.

**Senator TIERNEY**—Thank you.

**CHAIR**—I have just one question to ask. The ACA's submission talks about consumers already having community service guarantees. Then it states:

The ACA will be working with the Australian Communications Industry Forum and others with a view to tightening the CSG standards by 31 December 1998 . . .

Do you know what they have in mind? We have already asked them some questions, but I wondered whether you as a part of that Communications Industry Forum were aware—

**Mr Shore**—Let me just say one thing. The CSG standards have only been in place for a very short period of time. Like most major education campaigns for virtually the whole of the Australian community, it takes time for the scheme itself, for the implications of the scheme and how to be reimbursed, and for training our own operators as to which particular service events are due a customer service guarantee. So there has been an education program going on. We did anticipate that, by 1 July, all of our customers would have received a clear, plain English explanation of how the guarantees work. In terms of further refining them, maybe Graeme can talk to that.

**Mr Ward**—My response was going to be quite similar. These guarantees have only been in place since 1 January this calendar year. I think it is entirely appropriate that the ACA work with ACIF. In fact, that duality in the Australian regime is very powerful. With the ACIF being populated by carriers, carriage service providers, consumer groups, a wide range of small business representation and suppliers, the regulatory authorities like the ACA in this instance can have ready access to a forum that gives industry perspective and industry knowledge as to how these things can be practically administered and as to how they can be improved. I am sure the ACA will be looking to make sure that the CSG system is improved and tightened over time. We look forward to that. We participate in those forums. We also have direct bilateral engagement with the ACA. As we have said repeatedly this morning and elsewhere, improved and enhanced service is in the interests of this company.

**CHAIR**—But that did not really answer my question. The question I asked you was: do you have any idea what sorts of things they are suggesting may be tightened?

**Mr Ward**—I personally do not have the precise agenda of the ACA in terms of tightening the regime. But I can certainly say that I would support it because it is a very new regime. It has only been in place for a few months.

**CHAIR**—There were complaints in some of the submissions last week that people did not know about their rights. You say it was brought in on 1 January, but you were well aware that the legislation was going to be implemented on 1 January.

**Mr Ward**—Yes.

**CHAIR**—What measures did you put in place to inform your customers that they did have rights under the consumer service guarantee standards?

**Mr Ward**—We thought it was a responsibility of the whole industry, including the TIO. In fact, there has been fairly widespread publicity, but I would be the first to say that probably the awareness of the CSG scheme needs to be improved. We have some programs in place but, as I say, I would be the first to say that there needs to be improved awareness of the scheme. We are participating with the industry in doing that.

**CHAIR**—Mr Shore, you said there was some brochure going out, do you mean to all of your clients?

**Mr Shore**—We have about 6½ million residential customer accounts. Our normal communication to them is spread over some months through billing processes and so on. We have been taking the opportunity to provide the information to them, and we are hoping to have some plain English versions done by 30 June. However, there are also a number of customers who do not speak English or do not read, so it is a bigger job when you are servicing virtually the entire Australian population. It is hard from time to time to do it quickly.

**Senator CARR**—Absolutely, it is more than just a commercial matter.

**Mr Shore**—But it is an industry problem as well. It is not just loaded on to us.

**Senator SCHACHT**—But you are 85 per cent of the industry.

**CHAIR**—Mr Blount is reported in today's papers as saying that if the community service obligations became too difficult, it may hinder the process of privatisation. I have only just read them fairly quickly.

**Mr Rizzo**—Did he actually refer to universal service obligations or the regulatory framework?

**CHAIR**—I have only quickly looked at it—I think it is regulatory. So if the community service obligations or the CSG standards were tightened up, you would not see that as being detrimental—

**Mr Rizzo**—I do not think he said that. Mr Ward was with him at the lunch.

**Mr Ward**—I was there. I think he was referring to some of the submissions that you have alluded to, Senator Schacht, that if the range of competitive safeguards was significantly increased, then that would have some potential impact on the floatability of the next tranche. He was just making the point that the government has a balance to achieve.

**Senator SCHACHT**—But increased competition puts the price of Telstra up when you privatise it, does it not? That is the point he was making.

**Mr Ward**—The point that he was also making is that we are starting from a very pro-competitive regime already in place.

**Senator SCHACHT**—That is not what all your competitors say, of course.

**Mr Ward**—But in terms of tightening the CSGs, Senator Patterson, we support the initiatives that are in the bill that is before this committee.

**CHAIR**—Could you live with further tightening of them?

**Mr Ward**—We would need to understand the detail of that. But we are more than happy to engage in that sort of dialogue with government or whoever is appropriate.

**Senator SCHACHT**—Mr Rizzo, under 2.2 of your submission, it states:

Full privatisation would streamline information flows and disclosure to all shareholders.

What increased disclosure would the average mum and dad shareholder get? What would that increase be compared with what the Senate and parliamentary committees get now?

**Mr Rizzo**—I think that alludes to the fact that we have a set of protocols in place with government whereby they can ask for and they do receive information. That puts us in a sensitive position in that we then have to make judgments about what we would disclose to the market.

**Senator SCHACHT**—No, you misunderstand my question. The sentence in your submission reads:

Full privatisation would streamline information flows and disclosure to all shareholders.

The government is not a shareholder in full privatisation. What disclosure would all of those shareholders get—the 1½ million mums and dads that the government presently says are there—in this streamlined information and disclosure system that the Senate estimates committee does not get now?

**Mr Rizzo**—Does not get now?

**Senator SCHACHT**—But that is what you are saying, that it is going to be improved—

**Mr Rizzo**—I did not write the words—

**Senator SCHACHT**—It is your submission. You are here representing it.

**Mr Rizzo**—I am giving you my interpretation of the intention. The intention was to say that we would have one audience which would share equally on the full range of data that is going between us and shareholders.

**Senator SCHACHT**—I see, but that is not what it says. Now you are reinterpreting it to say, 'Whatever we send them. No matter how little it is, at least they all get it equally.' Whereas at the moment you have to front up to an estimates committee four times a year—you recently tried to get that changed and this committee unanimously rejected Telstra trying to get out of having estimates hearings—

**Mr Rizzo**—I do not think that is the focus at all.

**Senator SCHACHT**—You tried to restrict the ability of this committee as a legislative and estimates committee to have Telstra come before it four times a year to answer questions from the parliament on behalf of the people of Australia. Now you are trying to tell us that the shareholders, the 1½ million mums and dads, will get streamlined information flow and disclosure with full privatisation. What will you be sending out to the shareholders, the mums and dads who each have between 1,000 and 5,000 shares? What will you send them out each year that is this streamlined information and disclosure about the operation of the company?

**Mr Rizzo**—What we are thinking to trying to get to is the issue of the perceived conflict—

**Senator SCHACHT**—No, that is not what this sentence says.

**ACTING CHAIR (Senator Tierney)**—Senator Schacht, do not interrupt the answer.

**Senator SCHACHT**—He is answering the question that I have asked.

**ACTING CHAIR**—The witness is answering. Let him give the answer and ask your next question.

**Mr Rizzo**—I may be missing your next point. Let one of my colleagues try; maybe they can see your point better than I can.

**Mr Shore**—Can I try—

**Senator SCHACHT**—Mr Shore, just before you answer, I will read you the sentence. Without equivocation, it says:

Full privatisation would streamline information flows and disclosure to all shareholders.

**Mr Shore**—Can I then try. The previous sentence says that at the moment we are asked to provide certain information to the minister or to government, and we have to make judgments at that time as to whether we should inform the market via the Australian Stock Exchange compliance listings and so on. So there is a slight conflict where one shareholder receives information—

**Senator SCHACHT**—The majority shareholder.

**Mr Shore**—The majority shareholder receives information that the other shareholders do not receive at the same time. The implication of the second sentence has nothing to do with the Senate estimates committee. It simply says that, without that 66 per cent shareholder who can ask specifically for information that the others do not have, we would inform the entire market at the same time.

**Senator SCHACHT**—So what you are saying is that the minister personally is getting information that this Senate committee is not getting.

**Mr Shore**—No.

**Senator SCHACHT**—If the minister is getting the same information that this committee gets publicly, all you have to do is send the full transcript and all the submissions down to the ASC and say, 'Here is all the public information. It is publicly available. All your wonderful analysts can go and read it and write articles about it.'

**Mr Shore**—But we are talking outside the context of a Senate committee here. We are talking about, for the next X number of years, the ongoing informing of the market about material issues—

**Senator SCHACHT**—Informing the market, not shareholders any more—the market, your analysts—

**Mr Rizzo**—Senator, I can only go back to what I said first. I have now found the place: Full privatisation would streamline information flows and disclosure . . . I think it is very much in the context—

**Senator SCHACHT**—But 'to all shareholders'. I want you to tell me what you will provide directly to what may be 1½ million to two million individual Australian shareholders.

**Mr Rizzo**—I think you have to read that sentence in the context that I was trying to put it in of the full paragraph.

**Senator SCHACHT**—So they are not going to—

**Mr Rizzo**—Senator, just be reasonable—

**Senator SCHACHT**—I am not being unreasonable. You put it in the submission.

**CHAIR**—Senator Schacht, would you let Mr Rizzo answer.

**Mr Rizzo**—I am trying to explain it to you. I am saying that at the moment there are multiple information flows and some of them legitimately to government. We are saying that would be streamlined to the extent that we only had one group of shareholders.

**Senator SCHACHT**—And that would mean there would be less information on the public record for shareholders—

**Mr Rizzo**—Why would that be so?

**Senator SCHACHT**—Because if you do not come before this committee as regularly as you now do, under oath and under privilege, and have to answer questions—

**Mr Rizzo**—Senator, it has nothing to do with coming before this committee. We are talking about reporting to the market and reporting to government.

**Senator SCHACHT**—What is the conflict between reporting to this committee—whether Telstra is partially or fully privatised—compared with going to the marketplace? This is all held in public.

**Mr Rizzo**—The committee was not thought about when that was put together. It is not about the committee.

**Senator SCHACHT**—I just think that you have written the paragraph incompetently. Okay, I will forgive you for that. Let us go on then to information about the control and the influence of shareholders. When a large company has 1½ million shareholders, how is a shareholder—an Australian mum or dad with a couple of thousand shares—going to have any influence over you, Mr Rizzo, or the senior management of Telstra? How are those shareholders with 1,000 and 2,000 shares going to elect directors? Where is their influence going to be actually exercised effectively?

**Mr Rizzo**—Senator, it is no different from the rest of society. It is part of the legal—

**Senator SCHACHT**—That is the point.

**CHAIR**—Senator Schacht, let the witness speak.

**Mr Rizzo**—What is wrong with the accountability of executives of BHP, Coles-Myer or Lend Lease?

**Senator SCHACHT**—One big difference—you have 85 to 90 per cent of the market; you are a natural monopoly in many areas of the provision of telecommunications in this country. That is the difference.

**Senator TIERNEY**—It is no different from BHP.

**Senator SCHACHT**—And mum and dad shareholders will have no influence over the election of directors, as they do not have in any other major shareholder company, even though you are a near monopoly.

**Mr Rizzo**—I do not think that is technically correct. You have a look at the pressure that institutions can bring. They represent the average man in the street. It is the pension funds that they hold.

**Senator SCHACHT**—Mr Rizzo, what is the largest individual shareholder of Telstra at the moment?

**Senator TIERNEY**—Chair, I raise a point of order: can we have normal procedure where a person asks a question and someone answers it?

**CHAIR**—Do not answer, Mr Rizzo, until I have order in the committee.

**Senator SCHACHT**—If Senator Tierney stopped interjecting, we could get on with it.

**Senator TIERNEY**—You keep interjecting on the witnesses, that is the problem.

**Senator SCHACHT**—I am trying to get answers without obfuscation.

**Senator TIERNEY**—Well, listen.

**CHAIR**—Both of you just stop. Mr Rizzo, just sit there for a moment. Senator Schacht, you have consistently interrupted the people giving answers. I am asking Mr Rizzo to answer the question. Then you will have a turn at asking another question. I will not tolerate what has been going on. **Mr Rizzo**—I think the top handful—I do not know which is No. 1—would include the major institutions, most of which we have investments in as part of pension and superannuation funds, and also the staff. I think our staff is a very high proportion and, in fact, may be the single largest shareholder.

**Senator SCHACHT**—Does the staff have five per cent of the shareholding?

**Mr Rizzo**—No, it is not that high.

**Senator SCHACHT**—Two per cent or one per cent?

**Mr Rizzo**—It is about three per cent, I am told.

**Senator SCHACHT**—Of all the Australian owned institutions and superannuation companies, et cetera, which is the largest shareholder and what percentage do they hold?

**Mr Rizzo**—We could give you that information. It is either AMP or one of the mainstream institutions that you would be familiar with.

**Senator SCHACHT**—Can you send us then—I will not ask you to give us the list of the 1½ million shareholders—a list of the top 20 percentage shareholders of Telstra at the moment?

**Mr Rizzo**—We can give you the top 20, yes.

**Senator SCHACHT**—When you hold an annual general meeting, you will have several institutions turn up with three or four per cent each. In those sorts of company structures, what happens is that the management and the directors at the table dominate the proceedings. How are the poor old 1½ million mums and dads going to turn up? Are we going to hold the meeting at the MCG or at Phillip Island so that they can all have the chance to ask a question? How are they going to have any transparency in the decisions being made about the running of their company with a company that has a near monopoly on telecommunications in Australia?

**Mr Rizzo**—They would have the same rights and obligations as any other listed company. That is our system.

**Senator SCHACHT**—But this is not any other listed company—this is a company that has 75 or 85 or 90 per cent of the telecommunications market. You are a near monopoly. That is the whole point we are raising.

**Mr Ward**—That is the reason, as I described to Senator Tierney, that we have probably one of the greatest array of competitive and consumer safeguards in place. The powers are with the minister to continue that regime and to amend as necessary. At this point in time, the industry structure has us at over 80 per cent market share. That is why all of those safeguards remain in place with the powers for the minister to further regulate. That is the answer to the question.

**Senator SCHACHT**—We are talking about ownership of a company. The ownership is so diffuse, ordinary shareholders will have no say over the running of the company.

**Mr Ward**—I believe it is the rights and obligations that shareholders can effect as per Mr Rizzo's answer plus, more importantly from where you are coming from, that range of safeguards that are in place through the legislation and the continuing power of the minister to augment those as required.

**Senator CARR**—What information would be available to the share market that is not currently available if there were a full privatisation of Telstra?

**Mr Rizzo**—I am not sure where that question actually gets us, to be quite honest.

**Senator CARR**—Could I have an answer?

**Mr Rizzo**—We disclose to the market all price sensitive information. We are a part and parcel of the financial system that the whole Western world operates. The ASX and all of those people have the transparency. We are saying that full privatisation would help the company by giving it greater commercial flexibility and the ability to give some transparency in

decisions that a government that has both hats to wear has to take. That is the nub of the whole issue.

**Senator CARR**—You are creating a case for greater transparency. I am trying to establish how that would occur. I am running off your submission. How does that occur? What is the logic of your argument? No trick question—straight up and down. What additional information would be available?

**Mr Rizzo**—It is not about additional information to the market because we give the market everything that is price sensitive now.

**Senator CARR**—Do you give the government everything that is price sensitive?

**Mr Rizzo**—Absolutely.

**Senator CARR**—So is there any difference between the information you provide to the market and the information you provide to the government?

**Mr Rizzo**—We were saying earlier that there is a range of information that we determine as either non-price sensitive or the government has a right to receive—which they do receive at the moment.

**Senator CARR**—Is it the case that the same information should be provided to both the market and government?

**Mr Rizzo**—If our judgment is that it should go to both, we make it available to both. That is part of what I am saying—that we need to make those judgments every day, and we make them.

**Senator CARR**—Is it the responsibility of Telstra directors to ensure that foreign ownership limits are not breached?

**Mr Rizzo**—Yes, it is.

**Senator CARR**—What mechanisms have been put in place to ensure that that is the case?

**Mr Rizzo**—We have quite a detailed mechanism, but we have never been close to those levels because we are several percentage points below the cap that is allowed under the legislation.

**Senator CARR**—What is the current level of foreign ownership?

**Mr Rizzo**—I think out of the 11 per cent or so of the one-third, it is about seven per cent. So we are well short; it has not been an issue to us.

**Senator CARR**—I asked Mr Ward a direct question before—and I want to make sure it is clearly understood by Hansard that it was a question put on notice—about the precise market share that Telstra has. Did you take that on notice, Mr Ward?

**Mr Ward**—We can give you the overall estimate of our share.

**Senator CARR**—Thank you very much. It has been put to the public in today's *Age*, and I understand it was put to the committee last week, that Telstra competitors are saying that they require additional information to be provided by changes to the Trade Practices Act to give the Australian Competition and Consumer Commission the power to force Telstra to publish cost data relating to bottleneck facilities based on the accounting separation model which would break out the costs of its local network. It goes on to say in today's *Age* that: They also want the ACCC to be given the discretion to require separation of Telstra's network business and retail operations for issues like customer information, access to electronic systems and interconnection arrangements.

What do you say to that?

**Mr Ward**—I am pleased you asked that question, Senator Carr. The current legislation which is governing the competitive aspects of this industry went through some three or four years of development. A set of principles was first espoused by the Labor government and widely socialised within the industry. Subsequent to the 1996 election, the current government took that further and developed draft legislation which was further socialised widely within the industry and ultimately settled through a process in the Senate in terms of the passing of the 1997 legislation. I cannot remember any legislation that was developed over such a period of time and socialised so widely and which has, I think, used the experience of international markets—

**Senator SCHACHT**—I think you mean circulated, not socialised.

**Mr Ward**—And commented on—I think it shows the best of regimes, of going around the world and picking the eyes out of what was around and in fact was quite proactive in setting up the mechanisms that I described before. Our competitors, the very ones that are making these claims, were very much a part of input into that process, and the ultimate outcome was widely acclaimed by the industry. The minister was also assisted by an expert panel.

The ACCC has very wide powers in which to govern this industry. The two key things that competitors must be assured of are, first, are they getting access to a network access providers' network, be it Telstra or any other, at a fair and reasonable price. If they are not satisfied they are in commercial negotiation, they can ask for arbitration of that price and the terms and conditions by the ACCC; the ACCC has very broad powers to arbitrate and to pass on information to the competitor at issue in respect of those prices. We have a world-class regime in that respect.

The second piece of information that competitors must have a comfort in is that we are not in any way pricing in an uncompetitive or predatory way.

**Senator SCHACHT**—They dispute that of course, but never mind.

**Mr Ward**—Again, the ACCC has very broad powers to intervene to ensure that in fact carriers that may have significant market power in any market can be reined in and, quite perversely, I think, there is a sense that this regime is not working unless the ACCC find Telstra guilty of anti-competitive conduct or are called on to arbitrate access disputes.

We as a company take very seriously the legislation that we are working to. We, too, were a party in contributing to it, and we say the very fact that the ACCC has not issued a competition notice comes back to the fact that we take seriously our obligations. Indeed, there has also been no arbitration that has gone to the ACCC.

I think the regime is a world-class one. I think it has a very strong balance between industry self-regulation for the industry to determine its own future and a very strong set of powers by the ACCC to intervene where there is market failure. I guess it is not surprising that our competitors want to use this process to seek more. It is probably going to be quite rare that they will sit back and say that everything is perfect.

At the moment, the momentum of the regulatory regime in Australia is very strong. The ACCC's agenda is producing decisions, and I think that momentum will be continued. The decisions last week are just another testimony to the fact that it is working. We recently signed up an agreement with Optus and other players on local call resale. There is a lot of good evidence that the pro-competitive aspects of this regime are working and working well.

**Senator CARR**—Mr Rizzo, the report in the papers highlights that these are not controversial measures. They currently apply in identical circumstances to natural monopolies such as the gas and electricity industries. Why should they not apply in the telecommunications industry where there is equally a natural monopoly?

**Mr Rizzo**—I have not read the article, but I think it is also doubtful what we are talking about when we talk about natural monopolies. In fact, the whole regulatory construct is to make sure there is no natural monopoly remaining and that there is increasing competition. My fear is that the sort of mind-set that says what you have just said does not recognise what will happen in the next year or two. You do have these massive shifts occurring in the industry, and this company, unless it does all the sorts of things we have been talking about, is going to be mightily disadvantaged in a global basis.

**Mr Ward**—Can I add to that by suggesting that these issues in the comparison with other utilities were widely canvassed in that three or four years of developing the new regime. In fact, that is why an additional part of the Trade Practices Act was put in place. In addition to the part that governs other industries in terms of access issues, part 11C of the Trade Practices Act relates to telecommunications because it recognises the very issues you are alluding to.

**CHAIR**—Can I interrupt for a moment. We are now running beyond time. We were due to finish at 11.30. We have had over 2½ hours and the ACA is due to come on. I would suggest, Senator Carr, that you have one more question, then we will go to Senator Margetts.

**Senator CARR**—You have made a great ploy in your argument that there should be greater transparency. What is being proposed by your competitors is that there should be a separation of your local network activities—in terms of public disclosure, in terms of the costs that go towards providing those—from the rest of your activities. That in itself will provide a powerful potential to promote competition. Today's *Age* states:

Knowledge of its cost would give its competitors a stronger position in negotiations over access to bottleneck facilities and would inevitably lead to lower interconnect charges and more favourable local-call resale deals.

Isn't that the sort of measure that would bring genuine benefits to consumers?

**Mr Ward**—Indeed, those powers are absolutely in place as we speak and the ACCC are working on that agenda. First of all, you mentioned interconnect fees. They are currently reviewing our interconnect fees to see whether they are reasonable. We have filed an undertaking of our prices. They are currently looking at those. They also have record keeping rules, with the power to keep records to ensure that accounting treatment of our costs does distinguish between various services, including so-called bottleneck services. All those powers are there and the ACCC are working on those sorts of issues as we speak. They were all foreshadowed in the three or four years leading up to the finalisation of the legislation.

**Senator SCHACHT**—Can I ask one question on this issue of transparency? At the estimates hearing back in February or March when Telstra's first half-yearly report after partial privatisation came out, you listed maybe eight or nine of your major product areas on their revenue basis—local loop, international, mobile, et cetera. I said, 'It is all very well having the revenue figures, but what is the actual figure in each of those?' I think it was Mr Ward who suggested that it was more commercial-in-confidence.

It has come to my attention that, apparently, New Zealand Telstra, which is fully privatised, in its information on the market not only provides the revenue figures for each of its major product areas but also provides the profit in each of those areas so the market can make those

issues. Why won't you provide that information now? You are already one-third privatised and you are in favour of full privatisation. Isn't it a reasonable thing that as an example you would provide that information so people can see how much you make out of the local loop, how much you make in mobiles, how much you make in international, how much you make in STD and how much you make in data?

**Mr Rizzo**—I think you had the exchange on that with my colleague John Stanhope. I would be happy to let him take it further and also prompt him to talk about changes in accounting standards.

**CHAIR**—I would suggest that whoever answers it answers it very briefly because I am going to ask Senator Margetts to ask her question and then we need to move on.

**Mr Stanhope**—I think I did say at that particular hearing that we do provide a set of what we call regulatory accounts, and Mr Ward alluded to that requirement—he said the record keeping requirement. Those sets of accounts do actually show the profitability of the products. We follow a cost allocation required by the regulator to produce that set of accounts. We follow a chart of accounts that requires us to produce that set of accounts.

**Senator SCHACHT**—When I asked the question about how much profit you made in the local loop—and you had the revenue for half a year at about \$1.2 billion—I said, 'That is your revenue. After your costs, how much profit did you make?' You would not give that to me. You said, 'That is commercial-in-confidence.' If other Telcos around the world can provide that information per product, why can't Telstra?

**Mr Stanhope**—There is a review of the record keeping rules going on right now.

**Senator SCHACHT**—A review internally to Telstra?

**Mr Stanhope**—No, required by the ACCC. It will answer the critics in the press, I guess, that there should be a greater disaggregation of the costs.

**Senator SCHACHT**—In those eight areas, as a senior manager in charge of running the local loop, you would know that you actually made a \$300 million or a \$150 million profit out of \$1.2 billion. Surely no manager inside Telstra would be running one of those product areas without some indication of what sort of quid they made out of it.

**CHAIR**—That is your last question, Senator Schacht.

**Mr Stanhope**—That is correct. We do know that and—

**Senator SCHACHT**—Why can't it be disclosed?

**Mr Stanhope**—We do it according to a regulatory set of accounting methodology, and we send that information to the regulators.

**Senator SCHACHT**—That is really unsatisfactory.

**Senator MARGETTS**—I have been listening carefully over more than 2½ hours but I do have some questions. Unfortunately, I cannot direct this question to the person who said it necessarily because I do not always know who that was. It has been mentioned that, in November last year, the primary legal obligation of Telstra became the company. To whom was the primary obligation of Telstra before November last year?

**Mr Rizzo**—I think our legal people would argue that management's primary legal obligation is always to the corporate entity. It gets tricky when you try to separate the corporate entity from a 100 per cent shareholder. In a partly privatised corporate entity, our primary obligation continues to be the corporate entity.

**Senator MARGETTS**—That is not what I asked. Before November last year, to whom was Telstra's primary obligation?

**Mr Rizzo**—I did try to answer that by saying that our legal people would tell us that it is primarily always to the corporate entity that we are in charge of, not to the shareholder *per se*.

**Senator MARGETTS**—But we were given assurances—I believe by Telstra, and I guess we could look back in the *Hansard*—that, being a government owned entity, the public interest was assured.

**Mr Rizzo**—I think the public interest issue was all about the regulatory and other pieces of the framework we have been referring to that we as a company have to work within. The public interest debate is the parliamentary debate.

**Senator MARGETTS**—I will go to some of the other language that was used in the evidence given today. You talked about the universal service obligation hiding it in the company. That was actually the same language that was used by the Australian Chamber of Commerce and Industry in the lead-up to the first tranche of privatisation of Telstra. So the term 'hiding' the universal service obligation seems to be a view shared by you and the Australian Chamber of Commerce and Industry.

**Mr Rizzo**—I am sorry. There is a bit of cross conversation and we cannot hear you.

**Senator MARGETTS**—I was referring to the use of the word 'hiding' in relation to the universal service obligation. It was also terminology, if I recall, that was used before the first tranche of the one-third sale of Telstra in the submission by the Australian Chamber of Commerce and Industry. It seems to be a view shared by yourselves and the Australian Chamber of Commerce and Industry. The word 'hiding' would seem to indicate that you would prefer it to be as an open appropriation, not paid by the telecommunications company.

**Mr Ward**—I am not exactly sure that I picked up the gist of your question.

**Senator MARGETTS**—I am just using the terminology. If you use the word 'hiding', it would seem to mean that you are putting on a value and that hiding means it is something you would prefer to be in the open—if you are hiding universal service obligations, you are inferring an opinion about where those universal service obligations should be.

**Mr Ward**—I think what we have argued is that, if you take the universal service obligation and the regime, that is a transparent regime. It happens to be funded by the industry as opposed to being funded by the government through taxpayer revenue, but it is an open scheme. The costs of that scheme are calculated and published, and then there is a regime and methodology that sorts out who funds that and in what proportion.

I think our point is that those sorts of protections for consumers should be of that ilk—that is, they need to be specified by legislation and regulated in an open and transparent way, rather than having ad hoc government direction to Telstra to provide something along those lines. If that is the distinction you are making, we would strongly support—and I think you are saying that one of the chambers supported it—that those sorts of regimes to protect consumers and to confer benefits to certain consumers should be transparent. We would support that.

**CHAIR**—Senator Margetts, we are running short of time and—

**Senator MARGETTS**—Senator Schacht spoke for probably about an hour and a half, and I do not think it is unreasonable for me to ask a short series of questions as I have not asked any questions until now.

**CHAIR**—I am sorry, but it would probably be better if you were actually here. It is very difficult to hear you on this hook-up. We are now running out of time and I have to close questions at this point on these issues.

**Senator MARGETTS**—I do not think that is fair.

**CHAIR**—If you have further questions—

**Senator MARGETTS**—That is not fair. I do not think I am asking a lot of questions and, compared with the other people on the committee, I do not think it is unreasonable to ask another couple of questions.

**CHAIR**—I am sorry, but Senator Schacht is a full member of the committee. It is also very difficult to hear you. I suggest that you put your questions to Telstra on notice and get them to them by tomorrow afternoon—you could fax them to Mr Ward. It is difficult to hear you and we also need to move on. I think it is being fair to ask you to put those questions on notice to Mr Ward by close of business tomorrow afternoon, our time—5 o'clock Eastern Standard Time—and they would have the answers back to the committee by Friday lunchtime.

**Senator MARGETTS**—Is that the way you are going to organise all the questions?

**CHAIR**—We are running out of time. I will try to keep you in mind earlier in the piece, but we need to move on now because otherwise we will not finish the other submissions.

**Senator MARGETTS**—Should I have yelled out in the middle of questions to remind you?

**CHAIR**—I thank the witnesses from Telstra for appearing today and for your submission. Please note that I have asked Senator Margetts to send you questions. Could you give her full and adequate answers. Senator Carr had a further question on notice as well.

**Mr Ward**—I have taken note of that.

**Senator SCHACHT**—I might have another couple as well if we run out of time, but it will not be many.

**CHAIR**—If you accept a limited number of questions from Senator Carr and Senator Schacht as well, that would be appreciated. They must also be in to the committee by 5 o'clock tomorrow afternoon, and you are to answer them by lunchtime, Friday. Thank you very much.

[11.51 a.m.]

**ALTER, Mrs Esther, Member, Australian Communications Authority, Level 13, 200 Queen Street, Melbourne, Victoria 3000**

**KELLEHER, Dr Roslyn Ann, Executive Manager, Consumer Affairs, Australian Communications Authority, 200 Queen Street, Melbourne, Victoria 3000**

**THURSTON, Mr Steve, Manager, Consumer Safeguards, Australian Communications Authority, 200 Queen Street, Melbourne, Victoria 3000**

**WHITEHEAD, Mr Neill Thomas, Manager, Universal Service Obligation Consumer Affairs Branch, Australian Communications Authority, 200 Queen Street, Melbourne, Victoria 3000**

**CHAIR**—I welcome representatives of the Australian Communications Authority to the table. I apologise that we are behind time. The committee has before it submission No. 26 which has been authorised for publication. Are there any alterations or additions you care to make to your submission at this stage?

**Mrs Alter**—We do not wish to change it in any way.

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

**Mrs Alter**—Yes, I do.

**CHAIR**—We have all read the submission. To save time, do not reiterate anything in the submission.

**Mrs Alter**—I want to make it clear that important consumer safeguards were built into the current Telecommunications Act. These safeguards have established an industry wide system of standards set out within the customer service guarantee, the universal service obligations and legislatively embedded within the sections of the act. It is the view of the Australian Communications Authority that the operation of these safeguards will not be adversely impacted on by the proposed Telstra bill. These safeguards are already enshrined in existing legislation and only acts of parliament can change those safeguards.

The proposed privatisation of Telstra will not dilute Telstra's responsibilities to the public and will not affect the manner in which the ACA monitors and reports on Telstra's performance in relation to these standards. The proposed privatisation of Telstra will not reduce the capacity of the ACA to enforce these standards or impose penalties on carriers that fail to do so.

With regard to the proposed accountability regime, the Telstra bill is adequate to protect the public interest. The customer service guarantee is a scheme that provides for financial compensation to customers where the performance requirements set out in the standard have not been met. Phone companies must take reasonable steps to inform customers about their rights under the standard and phone companies are now required to meet the standard on the time taken to connect the standard telephone service, repair a fault or service difficulty and attend appointments made with customers. Consumers already have safeguards built into the existing legislation and the new legislation does not take away from those safeguards.

The universal service obligation places on carriers defined telecommunications services to all Australians. Telstra is currently the sole universal service carrier but additional universal service carriers may be appointed in the future. The universal service obligation includes that all people in Australia should have reasonable access, whether for private or commercial reasons, to the standard telephone service and pay phones. The universal service obligation should be provided as efficiently and economically as practicable. Losses incurred in satisfying the universal service obligation must be shared on an equitable basis.

Another consumer safeguard is the monitoring of performance of carriers and carriage service providers under the telecommunications legislation. The ACA is in consultation with industry and is currently establishing a monitoring regime, including performance indicators and benchmarking, against world's best practice. Proposed section 236A in the Telstra bill further enhances these existing consumer safeguards. This section increases the ACA's powers to enforce the customer service guarantee. The explanatory memorandum to the bill makes it clear that section 236A will be used by the ACA to respond to any systemic issues that may be identified by referral from the telecommunications industry ombudsman or from the minister or by monitoring performance standards.

The proposed accountability regime in the bill can only enhance the existing protection mechanisms. The introduction of ACA powers to respond to systemic problems will ensure that there are additional incentives for carriers over and above the payment of individual compensation to meet the requirements of the customer service guarantee.

Regarding the effect on delivery and the quality of service for rural and regional remote communities, the customer service guarantee already defines performance standards for the delivery of certain services to customers in rural and regional areas. Telstra's universal service plan, currently under consideration by the minister, is also expected to further define performance standards in these areas.

Regarding whether the provision of the Telecommunications Act and the Telstra bill provide effective, adequate, consumer protection safeguards, firstly with access to untimed local calls: this is guaranteed in Part 8 of the Telecommunications Act which is a requirement that is imposed on all carriers supplying a standard telephone service. Changes in ownership in Telstra will not change that requirement. Secondly, free directory assistance is part of the existing regime. Under the existing regime and under the proposed bill, Telstra must notify the minister in advance of introducing charges for directory assistance. The minister may seek advice from the ACCC and may disallow such a proposal in the public interest. The provisions of the act therefore appear adequate to protect the public interest and changes in the ownership of Telstra will not change these provisions.

**CHAIR**—Is there anything new you have got in there which is not actually in your submission?

**Mrs Alter**—No.

**CHAIR**—That is what we are saying. In your statement, we only want to hear anything that is not in your submission. I tried to make that clear in the beginning as we are trying to save time, when I said to you, 'Presume we have read these and that we only expect the statement to add to it.' Thanks. I am sorry about that, I obviously did not make that clear enough.

**Senator SCHACHT**—You say that the universal service plan has yet to be approved by the minister. Until it is approved, the customer service guarantee and its new provisions cannot operate, isn't that correct?

**Mrs Alter**—No. The customer service guarantee came in on 1 January—

**Senator SCHACHT**—Yes, but the universal service plan is the basis on which the customer service guarantee—

**Mrs Alter**—It is currently based on the previous Austel—

**Senator SCHACHT**—The previous legislation, right?

**Mrs Alter**—Currently the customer service guarantee is relying on the previous Austel guidelines from 1996.

**Senator SCHACHT**—It is more than two years since then. We have had new legislation since July last year, when the new regime came into place.

**Mrs Alter**—That is right.

**Senator SCHACHT**—How long has the minister had the draft universal service plan?

**Mrs Alter**—I understand that the plan was given up to the minister, I think, early December 1997?

**Senator SCHACHT**—December 1997? We are now in May 1998—that is six months!

**Mr Whitehead**—The minister has actually had the plan since around late September, I think. There is a period of time in the act for the minister to receive a plan from Telstra.

**Senator SCHACHT**—That is nine months. Is that the time allowed under the legislation—you can refresh my memory—does he have all this time to consider the universal service plan?

**Mrs Alter**—The legislation does not specify a time period—

**Senator SCHACHT**—That is a slip-up.

**Mrs Alter**—We would all like to see that plan finalised and it is not up to us to comment on ministerial policy. We can only implement legislation and regulate.

**Senator SCHACHT**—I understand that. I am not, in any way, pointing the bone at the ACA. I am interested to hear that the minister has had the draft universal service plan since September last year, and, in view of the fact that the government has made great publicity and great statements about the wonders of their customer service guarantee, have you been given any reason why the minister hasn't approved the universal service plan that he has had now for over six months?

**Mrs Alter**—We are told it is currently under consideration and a decision is imminent—but we have been told that on other occasions.

**Mr Whitehead**—Telstra submitted its draft universal service plan to the minister. The minister then sent the draft plan to the ACA and asked it to prepare a report within 30 days.

**Senator SCHACHT**—When was this?

**Mr Whitehead**—The ACA submitted its report to the minister around 25-26 November; and I understand DOCA or the minister have been liaising with Telstra about potential changes to the plan, but that is not something I can comment on.

**Senator SCHACHT**—So the minister has been dealing direct with Telstra?

**Mr Whitehead**—I could not confirm that.

**Senator SCHACHT**—Have you had any suggestions that the draft plan lodged by you as a service plan is being amended because of direct discussions between the minister and Telstra?

**Mrs Alter**—We have submitted our answers to Telstra's plan, and we are really just sitting on the fence waiting for the minister to make a determination.

**Senator SCHACHT**—Have Telstra said that the new universal service draft plan is too tough on them?

**Mrs Alter**—You would have to ask that question of DOCA. They have certainly not made any comments to us.

**Senator SCHACHT**—Okay, DOCA comes tomorrow I think. There is no statutory limit on the time the minister has to adopt the universal service plan; so, until he does, the old one from 1996 continues?

**Mrs Alter**—That is correct. The only thing that I could add to that is that the customer service guarantee is subject to review by December 1998, and we will liaise with industry to try to improve some of those conditions in the service guarantee.

**Senator SCHACHT**—To just refresh my memory, if the minister approved tomorrow the present draft universal service plan, how long would that last before it would have to be reviewed or be up for amendment or discussion? Obviously, these universal service plans and customer guarantees are up for periods of review and adjustment according to new circumstances.

**Mr Whitehead**—There are no provisions in the act to say that the universal service plan has a life of, say, 12 months et cetera. That is something that can be decided by the minister. He may decide, 'Let's approve a plan now. Let's agree to review it by a particular date.'

**Senator SCHACHT**—Can the present universal service plan put into effect, even before the draft legislation for privatisation goes through, the up to \$10 million fines on systemic breaches of the services of a carrier? Can the universal service plan deal with that already, if it were approved by the minister, or would you have to wait for the legislation?

**Mrs Alter**—No, as soon as the universal service plan is approved by the minister, it will be acted upon; it does not have to wait for the Telstra bill.

**Senator SCHACHT**—I see. So the minister is actually dragging the feet on his own policy here? He has made public statements about this \$10 million new proposal which toughens things up on all the carriers—not just Telstra—and because of his own delay we are not able to have it implemented.

**Mrs Alter**—The ACA is the regulator and it is not up to us to comment on ministerial policy.

**Senator SCHACHT**—Just as well for you—not that I am, in any way, blaming you. Is there any indication from the minister or from any of the carriers as to why it has taken nearly nine months to have this universal service plan adopted? It seems an extraordinarily long time.

**Dr Kelleher**—We are just not in the loop on those negotiations at present, so we are really not in a position to comment.

**Senator SCHACHT**—Perhaps, Madam Chair, we could call Mr Fletcher, the minister's adviser—who is here today—to the table so that he could answer the questions on behalf of the minister?

**CHAIR**—You have made that suggestion before, Senator Schacht, and you know it is not appropriate.

**Senator SCHACHT**—Perhaps when DOCA turns up tomorrow Mr Fletcher could attend and we could get some questions answered about what the minister is doing on this.

**Senator TIERNEY**—Can I ask some questions, Senator Schacht—serious questions.

**Senator SCHACHT**—Serious questions! Your minister has not adopted his own policy for nine months. So can I just move on then—

**Senator TIERNEY**—Good idea.

**Senator SCHACHT**—to the \$10 million itself, which—as you understand it—could be put into action tomorrow, or even today, if the minister signed the universal service plan. What is the definition of the phrase 'systemic breaches of service'? Can you give us some idea what a carrier would have to do to get hit with a \$10 million fine?

**Dr Kelleher**—A systemic issue is one where we would see a pattern of failure to meet standards over a period of time, or a particular pattern of behaviour from a carrier or a carriage service provider over a period of time where we might judge that consumer protection is not being adequately met or standards are not being adequately met. So it is a fairly broad interpretation and certainly subject to our judgment.

**Senator SCHACHT**—Who is going to set the interpretation? ACA?

**Dr Kelleher**—There are already provisions within the act for ACA to investigate systemic issues. In many ways, those arrangements are already in place. The provisions under the new bill would extend our capacity to act upon systemic issues.

**Senator SCHACHT**—The way the government has publicised this \$10 million provision, it almost seems that, if some consumer consistently got their phone cut off or service was not

provided, kept falling out or whatever, they may be able to sue for \$10 million. I presume that is not the case, is it?

**Mrs Alter**—I understand that the \$10 million would go into consolidated revenue—certainly not to the consumer or consumers involved.

**Senator SCHACHT**—Can the consumer launch a breach of customer guarantee based on systemic breaches?

**Dr Kelleher**—The provision for us to investigate systemic issues is covered in our submission. Basically, it is by reference from the TIO or the minister or on the basis of our own monitoring. We would need to be able to establish in some way that there has been a systemic breach of standards.

**Mr Thurston**—The CSG has provision for compensation in the event that a carrier is guilty of an individual breach of those standards, namely the refund of a month's rent for each day of delay.

**Senator SCHACHT**—A month's rent is about \$100 or something?

**Mr Thurston**—It is around \$11 or \$12.

**Senator SCHACHT**—That is \$11 or \$12 a month?

**Mrs Alter**—It is \$11.65 a month for a residential customer and \$20 a month for a business customer.

**CHAIR**—Would you see that it would be suitable for that to be increased and for it also to be exponential so that if it was a second error or a customer had twice been disadvantaged or did not get the service, the penalty would be increased as the delay increased—so that it would not be one month's rent or two months rent, but would have a multiplying effect to make it—

**Mrs Alter**—That penalty is accumulated on a daily basis for each day that the fault is not repaired, but if the legislation were amended and an exponential component was added, then we would certainly implement that.

**CHAIR**—That is not the question I asked you.

**Mrs Alter**—You pay for each working day that the fault has not been repaired.

**CHAIR**—I am asking you: if the penalty were increased as it got further away from the time that the fault had not been corrected—not exponentially, but enough to put a bit of increased pressure on to get it fixed—do you think that would act as an incentive to get the error or the fault fixed? Is \$11 a month very much of an incentive?

**Senator SCHACHT**—It's a flea bite!

**Dr Kelleher**—I think it is too early in some ways to make those judgments. The CSG has been in operation only since 1 January this year. The first quarterly period of monitoring has been only just completed and we have not even received statistics for that quarter yet from the carriers. It is probably too early for us to make those judgments. We are unable at this stage to make a judgment about whether the current regime is effective and whether it is an effective incentive for carriers to improve service.

**CHAIR**—If you find it is not a sufficient incentive, what could you do about it? Do you then recommend some sort of change to the minister?

**Mrs Alter**—We can make recommendations to have those changes amended in the act, but currently the only penalties on a carrier are those monthly penalties.

**CHAIR**—So this committee could still call you before it to ask you questions on a regular basis about whether the companies had complied and whether you thought the penalties were stringent enough? If they were not, you could look to suggesting amendments to us as the legislation committee with responsibility for that act?

**Mrs Alter**—In investigating the matter to see how to improve the quality of service, we would look to suggesting amendments to the minister. We cannot change the acts ourselves.

**CHAIR**—I would have thought that you would also have the right to suggest amendments to the legislation to this committee as a legislation committee. I am saying that it is another avenue for you to protect the rights of the public to actually have the issue addressed. I would suggest that there is an avenue other than just going to the minister.

**Mrs Alter**—We realise that there is another avenue but, because it only came in on 1 January, we are still waiting on Telstra to give us the statistics for that first quarter, and we will be reporting on that quarter on 30 June.

**CHAIR**—I am saying that, in the future, if you did not think that penalty was sufficient to change behaviour, you could come to this committee as well as just going to the minister.

**Mrs Alter**—Yes.

**CHAIR**—You talked about tightening the CSG standards by 31 December, and you say they have not been in place very long. Have you some concerns already that would suggest a tightening of the CSG?

**Mrs Alter**—Because they are new, there is a sunset clause that they will be revisited, looked at and tightened where necessary. But we will have the input of industry.

**CHAIR**—But you have here, ‘With a view to tightening them,’ which sort of suggested to me that you were thinking of tightening them. Was that just a slip in the way you have written it, or did you mean to write that?

**Dr Kelleher**—I think there is an expectation which is generally shared by the parliament and consumers that, over time, performance will improve and that we should be seeing a continuing improvement in standards. We would certainly be operating on that expectation. We would not prejudge; it is with a view to. We would be doing the review probably on the basis of three-quarters of data at the time that we were nearing the completion of the review, and we would also be doing it on the basis of consultation with industry and representative consumer groups.

**CHAIR**—You say that will include the use of this information strategy you are talking about; when are we likely to see that? When are we likely to see the information about people knowing more about their rights under the CSGs?

**Mrs Alter**—The strategy has just recently been completed. I understand that the first post-out of pamphlets and questions and answers to all media outlets—regional newspapers, radio stations—will take place this Friday. That will be followed up with talkback radio interviews and media spots in various magazines and consumer bulletins.

**CHAIR**—Do you have any authority to ask the carriers to actually put something on their bill or to inform their customers that they have rights?

**Mrs Alter**—We have had talks with all the carriers to see how they are promoting the customer service guarantee, at which point of sale the consumers know about the existence of the customer service guarantee and what they are entitled to, and how they are promoting it in their sales force—people actually answering the phone when there is a fault or complaint

registered. We have gone through that with Telstra, Optus and AAPT. Certainly some of them were including some information on that when they sent out the bill, and some have had pamphlets on the counter. But, basically, it is the operator who answers the telephone who informs the consumers of the existence of the customer service guarantee.

**Senator TIERNEY**—In reference to some points made by Senator Schacht earlier on, when you looked at the draft universal service plan, did you identify any inadequacies that Telstra had come up with?

**Mr Whitehead**—Yes. Our report identified 44 recommended changes to the plan. But some of those recommendations indicated that the minister might want to further discuss a couple of issues with Telstra. But the answer to your question is, yes, we did identify what we felt were some deficiencies with the plan.

**Senator TIERNEY**—I take it that this could account for the delay rather than, as Senator Schacht has indicated, that it was at the bottom of the minister's in-tray.

**Senator SCHACHT**—Nine months! It is at the bottom of the in-tray. He does not want to deal with it before privatisation because it reduces the value of the company.

**Senator TIERNEY**—I am not asking you, Senator Schacht.

**Senator SCHACHT**—You did; you pointed at me.

**CHAIR**—Senator Schacht, please do not interject; Senator Tierney has the floor.

**Senator SCHACHT**—He interjected on me, so I am just responding.

**CHAIR**—Well, do not.

**Senator TIERNEY**—I am the one asking the question, Senator Schacht, you should not even be in this loop. We have had the point made that there were 44 recommendations by the ACA, and that is surely what is delaying this particular process. Do you think that pressing Telstra to do a better job of the USP would be a quick and easy exercise?

**Dr Kelleher**—I do not think we are able to comment on that. As I said before, we are not in the loop so I do not know what the difficulties are.

**Senator TIERNEY**—You have made quite a number of recommendations for change, and this is obviously slowing the whole process down.

**Dr Kelleher**—You can make that assumption, but we are not privy to the discussions, so we would be unable to say whether or not our recommendations have had that effect.

**Senator TIERNEY**—You are the ACA, so I would assume that Telstra would be taking some cognisance of the fact that you recommended 44 changes. That would be a fair sort of assumption, given your position in this whole regulatory system, wouldn't it?

**Mrs Alter**—I think that would be correct, Senator.

**Senator SCHACHT**—When did you put the 44 recommendations to the minister?

**Mr Whitehead**—It was either 25 or 26 November.

**Senator SCHACHT**—So it was seven months ago. I have to say that no matter how difficult the 44 recommendations were, the minister must be extraordinarily slow—

**Senator TIERNEY**—It depends on the nature of the recommendations and Telstra's response.

**Senator SCHACHT**—I think we have cleared that up. I want to go to a couple of other areas.

**CHAIR**—We are running behind time.

**Senator SCHACHT**—I know. On the matter of systemic issues for the \$10 million fine, you do not have any definition yet of what that might mean. If a telephone exchange that is supplying a telephone system to a suburb or regional area were consistently providing faults and not performing, would that be a systemic issue?

**Mrs Alter**—If they are showing a pattern of problems I would think that that would be a systemic issue, but this is the proposed legislation, so—

**Senator SCHACHT**—I know. We do not want to see the \$10 million as a paper tiger: a penalty that is impossible to prove so that, whenever you applied it, they would go to the Federal Court and say, ‘Uh, uh! Some telephones were still working on Heard Island, therefore the rest of the system was not systemically falling apart.’

**Dr Kelleher**—No, we would not have to go to those extremes to establish a pattern of problems.

**Senator SCHACHT**—I would presume that the carriers would be able to dispute the case at the Federal Court, et cetera. With fines at this level there is going to be a long period before they actually come into operation, isn’t there?

**Mrs Alter**—But under the current legislation we can already issue warnings, so perhaps that would help with systemic problems.

**Senator SCHACHT**—I understand, but if you have a \$10 million fine, how often is it going to be used? Hopefully, it will never have to be used because the system is good enough that there are never systemic faults.

**Mrs Alter**—I would hope that that is right.

**Senator SCHACHT**—But if there were a systemic fault—

**Mrs Alter**—Then hopefully it would be brought to our attention and we could do something about it.

**Senator SCHACHT**—If a consumer contacted you—and this may be evidence from a CoT case—and claimed that a telephone exchange was consistently at fault in providing a service to their business over a period of eight years—

**Mrs Alter**—Is that just the one consumer we are talking about?

**Senator SCHACHT**—Yes. Would that be a systemic fault?

**Mrs Alter**—I could not really see a pattern there if only one person was complaining out of a whole exchange.

**Senator SCHACHT**—So the systemic fault has to affect tens of thousands of consumers at once?

**Mrs Alter**—I would have to be able to detect a pattern, and if there is just the one consumer, then I am not going to be able to detect a pattern.

**Mr Thurston**—There is also another dimension to this. A fault per se comes, as I said before, with its own compensation for the customer. For a fault to become a systemic problem, there would need to be some evidence of that fault continually recurring at a certain level or on a certain scale, and there would need to be some lack of evidence of any action to address that problem by the carrier. So in the case of even an individual customer, unless there was some evidence that the carrier had taken no action to repair that fault, it would not become a systemic problem.

**Senator SCHACHT**—Thank you for that. I might want to put some more questions on notice to you about that as time is getting on. I want to move to another area. With the operation of the existing Austel rules for customer service guarantee for the last two years, and under the draft ones, does Telstra itself, as the major carrier, have an ability to say that in a particular area of Australia, because of particular climatic, geographic or other conditions, the customer service guarantee will not operate because there are environmental factors in place? Does it have the right to rule out or rule in an area and say, ‘You cannot operate the customer service guarantee because there are extraneous factors in operation’?

**Mr Thurston**—In the first instance that is correct. Telstra may make that judgment and make that claim to the customer. Subsequently that could be challenged.

**Senator SCHACHT**—Who by?

**Mr Thurston**—It can be challenged by a decision by the Telecommunications Industry Ombudsman and subsequently in court.

**Senator SCHACHT**—As the ACA regulator you have no say in that and neither does the TIO. It has to be a compliant first of all. Telstra can take its own actions initially to rule people out of being under the customer service guarantee and then you have to take a case against them to TIO at least, is that correct?

**Mr Thurston**—I believe that is correct.

**Senator SCHACHT**—I raise this because it has been put to me that in areas of northern Australia during the wet season Telstra is claiming because there is lots of lightning, thunder and rain and it makes it difficult to run the system. Lightning strikes will drop telephone calls out. I understand that. Therefore, the customer service guarantee should not operate during the wet season in northern parts of Australia. Do you have any knowledge or information about whether or not that is correct?

**Mr Thurston**—We understand that Telstra does make those judgments from time to time and we will be prepared to.

**Senator SCHACHT**—Can they unilaterally make a decision that because there is lightning around Darwin the customer service guarantee is out? Is that correct?

**Mr Thurston**—That is a hypothetical situation.

**Senator SCHACHT**—But they have done it?

**Mr Thurston**—I do not believe they have done that merely due to lightning.

**Senator SCHACHT**—Are you sure of that? I understand that when Tennant Creek or Katherine was under 15 feet of water that is a reasonable case to say that the customer service guarantee cannot work.

**Mrs Alter**—Where the weather conditions are beyond the control of the carrier it may be reasonable to say that there is an exemption. I would not go as far as to say that a whole rainy season is beyond the control of the carrier.

**Senator SCHACHT**—The monsoon season happens every year in northern Australia. It is not unusual to get lightning every year. Surely Telstra could be requested to have a design in their system, given the number of years of operation, to take account of the fact that there will be lightning from time to time?

**Mrs Alter**—Certainly one would think that is exactly what the customer service guarantee should cover.

**Senator SCHACHT**—But if they have the ability to opt out when there are lightning strikes, they are under no obligation to improve the engineering of their system and infrastructure, are they?

**Mrs Alter**—They are really only able to opt out if it is something beyond their control. I think we would have to do that on an individual basis as the cases arise.

**CHAIR**—We are now running incredibly over time. Could you make your questions succinct. We are going on in a lot of detail about the lightning strikes.

**Senator SCHACHT**—It may be that in the Snowy Mountains there is too much snow and in Tasmania it is too frosty. All of those environmental factors may be used as an excuse to opt out. I would like you to take on notice and come back to us with information about how Telstra can opt in or out of the customer service guarantee. What are the conditions? It makes a mockery of the process if they are able to do it themselves. At the very least they ought to have to put that to an independent arbitrator such as you. On the last page of your submission in the second paragraph, you mention the digital data review being conducted before 30 September 1998. Are you anticipating that that will be completed by 30 September 1998?

**Mrs Alter**—I am anticipating that it will be completed by 30 September 1998. We are currently awaiting ministerial direction as to when to commence it.

**Senator SCHACHT**—You have not commenced it?

**Mrs Alter**—It is enshrined in the act that that review is to be completed. We are waiting for the terms of reference and details.

**Senator SCHACHT**—The bill went through in March of last year so it is now 14 months since the bill was carried and it was proclaimed shortly thereafter and you have not been given—

**Mrs Alter**—Certainly the minister has a responsibility to ensure that a review is completed. Certainly if the review was announced today we would have it completed in time. If it is announced in a fortnight we would still have it completed in time.

**Senator SCHACHT**—I understand that, but I would have thought, after 14 months, you now have only four months left until the end of September.

**Mrs Alter**—That is more than adequate time to complete the review.

**Senator SCHACHT**—You think it is more than adequate time to conduct a review, including taking public submissions?

**Mrs Alter**—Yes.

**Senator SCHACHT**—When do you expect to get the terms of reference?

**Dr Kelleher**—We are awaiting advice from the minister's office. We believe it will happen shortly.

**Senator SCHACHT**—You only have four months and then 'shortly' becomes a brick wall.

**Dr Kelleher**—We have the capacity to do the review. We are ready to do the review.

**Senator SCHACHT**—You are waiting anxiously for the starter's gun, but the minister will not pull the trigger.

**Mrs Alter**—We have organised our work and our priorities and that has certainly been taken into account.

**Senator SCHACHT**—I am glad you have done that because it is clear the minister has not done it for himself.

**CHAIR**—Senator Margetts, do you have a question?

**Senator MARGETTS**—Yes. Before I ask a question, I would like to ask Madam Chair to clarify what I was trying to ask when I was cut off last time. As a point of order, did you use the expression ‘a load of crap’ and, if so, were you referring to the contributions of witnesses or other members of the committee?

**CHAIR**—Senator Margetts, I do not believe I used that phrase, but if I did there was no comment made publicly. I don’t remember saying that. I do not think it is in *Hansard*.

**Senator LIGHTFOOT**—The question is out of order.

**CHAIR**—It was not any part of the public meeting. I might have been talking to Senator Tierney, but I do not think I used that word. I am concerned about this process. It is quite difficult to hear what you are saying and it is worse than the other day. It is not an easy process. It would be better if you used the time usefully to proceed with questions.

**Senator MARGETTS**—Madam Chair, I think it is in order. The reason I am asking that question is that that will be on a tape recording and it can be clarified. In this case, I get what you say and other people might not pick it up, but I do want to say that, if you have said that, then members of the committee deserve an apology.

**CHAIR**—I do not remember saying anything, but if I said anything which was caught by the microphone and it offended you, I withdraw it. Now move on and ask your questions.

**Senator MARGETTS**—Thank you. I would like to ask members of the Australian Communications Authority whether they have received, qualitatively or quantitatively, the same level of complaints as Austel has received previously?

**Dr Kelleher**—The ACA does not handle individual complaints as such. It is the role of the Telecommunications Industry Ombudsman and that question would be best directed to him. I understand he is appearing this afternoon.

**Senator MARGETTS**—I am asking because several of the witnesses so far have indicated that they believe that the role played by the Australian Communications Authority and the ACCC is not the same role as Austel and they do not have the same powers to intervene. That is what I mean about complaints: not individual consumer complaints but concerns that the ACA and ACCC combined do not seem to have the same teeth as Austel has.

**Mrs Alter**—I think the current regulations and the current scheme is far better than whatever existed before. It leads to transparency, open competition and international competitiveness. The ACCC is dealing with competition. You have the TIO who is dealing with complaint matters. You have the ACA dealing with the regulatory matters. I think everything is covered adequately.

**Dr Kelleher**—There is an issue about the role of self-regulation. We are in an environment now where the communications industry is moving on a self-regulatory path. If self-regulation is to be effective, it is not unreasonable that the previous regulatory mechanisms through government agencies are not as strong as they were previously. Those two things go hand in hand.

**Mrs Alter**—With self-regulation, we have to work together with the industry—

**Senator MARGETTS**—I think part of the concern was that you had to have direction from the minister and could not take independent action.

**CHAIR**—Senator Margetts, if you interrupt the person who is speaking, we cannot hear either of you. I have tried to stop people here interrupting. If you ask a question, you need to wait for the answer to be completed.

**Senator MARGETTS**—Sorry, I did not know it had not been completed.

**Mrs Alter**—With the self-regulation regime we have, we are working together with industry, and industry has to have that will to work together with us to assume that coregulation atmosphere.

**CHAIR**—Are they all of your questions, Senator Margetts, because we are running behind time?

**Senator MARGETTS**—Yes, thank you very much.

**CHAIR**—I would like to thank officers from the ACA for their submission and attendance today.

[12.33 p.m.]

**GREEN, Dr Walter Battman, Director, Communications Expert Group, 18 Yorna Road, Kalamunda, Western Australia 6076**

**SANDERSON, Mr Lance John, Director, Communications Expert Group, 18 Yorna Road, Kalamunda, Western Australia 6076**

**SKELTON, Mr Phillip, Team Leader, Telecommunications, Department of Commerce and Trade, Government of Western Australia, PO Box 7234, Cloisters Square, Perth, Western Australia 6850**

**CHAIR**—I welcome to the table Mr Phillip Skelton, from the Department of Commerce and Trade in WA, and Dr Walter Green and Mr Lance Sanderson, from the Communications Expert Group. The committee has before it submissions Nos 32 and 15 which it has authorised to be published. Do you have any alterations or additions you would care to make at this stage to your submissions?

**Mr Skelton**—I would like to make one small change to be accurate. If I can refer to the second page of our submission under terms of reference (c), the second paragraph there commences, 'For example it took six months for Telstra.' In fact, that event has not yet been fixed and will not be until September. So for accuracy it should say, 'For example it will take over six months.'

**CHAIR**—Thank you very much. Do you wish to make a brief opening statement, remembering that we have read your submission and we do not want you to duplicate things because we are running behind time?

**Mr Skelton**—I would just point out that, although the members on my right are here sharing the table with me, we actually come from quite separate organisations and speak for our own organisations. The Western Australian government's submission is from the users' perspective—the individuals and small businesses throughout Western Australia—and is based on considerable research into their needs. The Western Australian government has no objection to the sale of the remainder of Telstra, provided that the interests of consumers are safeguarded. As we said in our submission to a previous inquiry, the government does not have to own all of the butcher shops in order to ensure there are adequate safety and health regulations working in practice, but there does have to be effective inspection and reporting arrangements, attention getting sanctions, responsive complaints handling mechanisms and arrangements for continuous improvement.

The experience to date shows that current safeguards are not adequate. The present arrangements have led to improvements. Telstra has, to a large extent, implemented them and targets are quite often met, but—and I have five buts—firstly, well-intentioned undertakings by top management are not always implemented uniformly at the coalface. Secondly, statistics tend to boast of the impressive, say, 93 per cent of the population which does have access to this or that service or the 93 per cent of cases where targets are met. The Western Australian government is focused on the seven per cent which miss out or for whom targets are not met.

Thirdly, naturally both the Commonwealth government and Telstra are anxious for Telstra to look good in the lead-up to the sale. The level of conscientious observants might drop afterwards if there is not a solid tightening up of the safeguards. Fourthly, in order to participate in the information economy, every business and every citizen should have convenient and affordable access to a wide range of telecommunications services regardless of their geographic location or wealth. Ideally, such universal service would be the natural result of a richly competitive telecommunications market in healthy working order. In reality, such a market cannot exist.

**CHAIR**—Mr Skelton, is that quite a long statement? Would you table it, unless there is anything in there that really adds to your submission?

**Mr Skelton**—I would like to offer three examples.

**CHAIR**—Okay, and then we can incorporate what you have there.

**Mr Skelton**—Yes, we can incorporate other things. The point of those comments is the need for a legal minimum to be explicitly covered by clear legislation with attention getting sanctions. That is the bottom line. I want to mention examples to show that the existing arrangements do not work in all cases. The first example is a case near Lake Grace in Western Australia. These are not anecdotes; these are actual cases. For the record, the Telstra job number was 55739840. A house on a property near Lake Grace did have a telephone. The tenants left and, naturally, they had the phone disconnected. New tenants moved in and asked for the phone to be connected and were told—this was earlier this year—that it could not be reconnected until September of this year.

**CHAIR**—The Lake Grace example is also in your submission.

**Mr Skelton**—Yes. I have now provided the specific case of that. The second example occurred in the town of Merredin.

**CHAIR**—You can table that example.

**Mr Skelton**—Certainly.

**CHAIR**—We will incorporate it into *Hansard* so it will appear in the record and we will photocopy it for each member of the committee. I really need to save time so we give the other people an equal chance.

**Mr Skelton**—Yes, I am happy to do that. I will conclude by saying that, in terms of the government's use of the proceeds of the sale, we would see appropriate use in the following order of priorities: one, retirement of debt; two, improvement of telecommunications services in remote areas through significant increase to the regional telecommunications infrastructure fund and to the universal service fund; three, if there is any money left over, to a social pay-off.

**CHAIR**—Mr Skelton, if you could just give us those examples. If they are not in a form that is appropriate to be incorporated today, if you could fax them to the committee by lunchtime tomorrow.

**Mr Skelton**—Yes, I can do that.

**CHAIR**—So that means you have time to have them typed up, because I think they are in handwriting.

**Mr Skelton**—There are a mixture, so I will get them typed in a single document.

**CHAIR**—Okay. Forget that and we will incorporate that into *Hansard*. I want to have the information there and we will then circulate it to all members of the committee. 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 document read as follows—*

OPENING STATEMENT: MR PHILLIP SKELTON, DEPARTMENT OF COMMERCE AND TRADE, GOVERNMENT OF WESTERN AUSTRALIA

The submission from the Western Australian Government is written from the consumers' perspective; individuals and businesses throughout the State whose needs and views are obtained through research projects and widely representative advisory groups.

The Western Australian Government has no objection to the sale of the remainder of Telstra provided that the interests of consumers are safeguarded.

As stated at the previous Telstra sale inquiry, it is not necessary for the Government to own butcher shops in order to ensure consumers are protected by health standards in such shops. Consumer protection is underpinned by legislation, not ownership.

The Bill relies on existing safeguards, including the customer service guarantee and universal service regime.

Experience has shown that current safeguards are not adequate.

Present arrangements have led to improvements. Telstra has to a large extent implemented them and targets are quite often met. But that is neither a satisfactory result nor a guarantee of future performance because:

1. The well intentioned undertakings by top management are not always implemented uniformly at the coal face.
2. Statistics tend to boast of the impressive, say, 93 per cent of the population which does have access to this or that service, or the 93 per cent of cases where targets are met. The Western Australian Government is focused on the seven per cent which miss out, or for whom targets are not met.
3. Both the Commonwealth Government and Telstra are naturally anxious for Telstra to look good in the lead up to the sale. The level of conscientious observance of consumer interests may drop significantly after the sale if there is not a tightening of the legislated safeguards.
4. In order to participate in the information economy every business and every citizen should have convenient and affordable access to a wide range of telecommunications services regardless of geographic location or wealth. Ideally, such universal service would be the natural result of a richly competitive telecommunications market in healthy working order. In reality such a market cannot exist. A major inhibitor is the uneven geographic dispersion of users. Competition is unlikely to occur in tiny markets such as the numerous towns with populations less than 1,000. As there is no effective competition in such places consumers will be reliant on legislated safeguards.
5. It is a business reality that under 100 per cent private ownership Telstra's service in unprofitable areas will reduce to the legal minimum.

Hence the need for that legal minimum to be explicitly covered by clear legislation with attention-getting sanctions.

That existing safeguards are not adequate is illustrated by the following examples.

Example 1

As mentioned in the submission, Telstra has advised that it will be September 1998 at the earliest before telephone service can be provided to a tenant in a house near Lake Grace, Western Australia, which still

has the cabling and telephone in place from a previous tenant. Telstra Job Number 55739840. The old telephone number was (08) 9864 9003.

Telstra's explanation for this delay of over six months is that both the Tarin Rock exchange and another related exchange are 'full'. This highlights that Telstra, in some locations, does not have in place the infrastructure to meet customer needs. Complaints to Telstra have failed to bring forward the connection date.

#### Example 2

The town of Merredin attracted new business in the form of the Southern China Flying School. This school built a new house in the centre of Merredin for its chief flying instructor and requested Telstra to provide telephone service there and elsewhere. Telstra Job Numbers 967343, 969849, 813139. Telstra advised that it would be November 1998 before the telephone could be connected.

This delay of over eight months is further evidence that Telstra, in some locations, does not have in place the infrastructure to meet customer needs.

It is understood that, following vigorous complaints, Telstra is endeavouring to bring forward the connection date.

#### Example 3

In the Hyden area Telstra provided very poor customer service and response times when extensive faults were reported on the October 1997 long weekend and again on 27 and 28 February 1998. The customers affected were mainly businesses in the East Hyden area who lost their telephone services for five or more working days on the first occasion and up to two weeks on the second. Additionally, in some cases, complainants also had to put up with rude and indifferent service from the Telstra complaints staff.

Subsequently the Hyden Progress Association, on behalf of the businesses concerned, made a written complaint to Telstra. Failure of Telstra to respond to that letter led the Western Australian Deputy Premier to write to Telstra CEO Mr Frank Blount requesting the matter be dealt with.

This example highlights that from a customer's perspective, Telstra does not always meet the customer service guarantee or provide an acceptable level of service restoration.

#### Legislative safeguards

In order to ensure that customers in rural and remote areas reliably obtain access to efficient (from their perspective) telecommunications it is recommended that the Telecommunications Act, and if necessary the Trade Practices Act, be amended to incorporate the following:

##### 1. Local call price parity Ministerial Determination

Strengthen this requirement by incorporating its principle into the Act. Flexibility can be maintained by allowing refinements of detail to be handled by ministerial determination.

##### 2. Customer Service Guarantee

As forecast in the second reading speech, provide in the Act a directions power for the ACA to require carriage service guarantee standards. This power should be so framed that it will actually be used when needed. Graduated steps of direction and penalty would allow response to match the severity of the failure to meet standards. A single level draconian response would be unlikely to be invoked and hence be ineffective.

By analogy with the broadcasting regulatory regime, the only sanction available to the Australian Broadcasting Authority, to revoke a broadcasting licence, is so severe a response to most broadcasting licence transgressions that it has never been invoked.

##### 3. Inter-carrier roaming on rural mobile

In a significant number of country towns the market is only likely to support a single digital mobile base station. In many cases it has proved difficult to attract even one base station, with success achieved only when the local government council raises some of the capital. Travellers (either on business or tourists) will arrive with mobile phones from any of the carriers, but only those matching the local base station will work.

Hence the Act should be amended to mandate inter-carrier roaming in towns where there is only one base station. Whether inter-carrier roaming should be extended to other situations can be left to the industry self-regulation processes already in place.

4. Number portability

Number portability is a pre-requisite to effective competition. Its achievement should be mandated by the Act. Implementation details can be handled by the industry self-regulation processes already in place.

5. Upgrading the standard telephone service

It is disturbing that at this late stage submissions have not yet been called for the review which the Act requires be completed by September 1998. The Act presently provides ample scope to avoid any upgrade. The Act should be amended to require upgrade, as outlined in the Western Australia Government submission. The review could then address how, and on what timescale, the upgrade is to be achieved.

6. Untimed local calls for remote customers

As outlined in the Western Australia Government submission, the rebate scheme can only be regarded as an interim response. The Act should be amended to give customers in all locations the option of untimed local calls. Reviews can be used to identify how best to achieve that result, not whether it can be achieved.

Proceeds from the sale

Revenue from the sale should be applied by the Commonwealth Government in the following priority order:

1. retire debt,
2. invest in remote area telecommunications infrastructure through significant additions to both the Regional Telecommunications Infrastructure Fund and the Universal Service Fund,
3. social dividend.

**CHAIR**—Dr Green, do you have a brief opening statement to make?

**Dr Green**—Yes, as brief as possible.

**CHAIR**—Remember that we have read the submission. Is there anything you need to add to it?

**Dr Green**—These are all either additions or clarifications I have relating to it. Again, we have not had the benefit of legal advice which is why we have not made specific suggestions for amendments to the legislation. However, we have read the ATUG submission and support their amendments, particularly that of s105 dealing with enhanced customer service guarantees.

I have two corrections I wish to make. Under clause D.5.1 of our submission, we stated that the limit of the penalty is \$3,000. In fact, the current legislation has a figure of \$25,000. So that figure should read \$25,000. Under clause D.2.1 of our submission where we deal with tests that we have made in trying to obtain the customer service guarantee, since 20 April, Telstra have now acknowledged that the customer service guarantee exists but have made the claim that it applies only to new services and not existing services. In short, within Western Australia—and we have had a number of people apply for this—that service does not appear to be available to people even when they ask for it.

**CHAIR**—D.2.1 is on your page 9.

**Dr Green**—It is reference to the last sentence ‘for reasons that were not specified’.

**CHAIR**—Can you go over that again?

**Dr Green**—At the time of preparing the submission, Telstra had not come back with the reasons why the customer service guarantee or penalty payments would not be made.

**CHAIR**—Do you have that in writing?

**Dr Green**—They refused to give anything in writing; this was all given verbally.

**CHAIR**—Do you have the date that you made the telephone call?

**Dr Green**—Yes. I can get the dates and the service. One service was three days late; the other was 10 days late.

**CHAIR**—If you can provide us with any information you have about the telephone call that you made—do you know to whom you were speaking?

**Dr Green**—I have not made a record of that, but I shall endeavour to—

**CHAIR**—If you can give us the time where you are alleging that you were told that the customer service guarantee did not apply to existing services. Is that what you are actually saying?

**Dr Green**—That is what I am saying, yes. The person on the end obviously did not know about or was not permitted to comment on the customer service guarantee. That was the impression I gained and that was the impression which a second person who made a similar call also obtained.

**CHAIR**—I am confused. I want to make it really clear in my mind. I thought you said that the customer was told or were you told—was it you?

**Dr Green**—That is correct, the two of us, yes.

**CHAIR**—That you were told that the customer service guarantee did not apply to an existing service. Then you said to me that they said they could not say. Is that two different answers to two different customers?

**Dr Green**—Before the 20th, they were not prepared to make any comment. After the 20th, they indicated that it would apply to new services only. So that, from before and after there has been a change.

**CHAIR**—I would appreciate it if you could get me the detail of the two services you were talking about.

**Dr Green**—It was an application for three services.

**CHAIR**—If you can give the committee as much information on that as possible. Are there any other changes?

**Dr Green**—Those are the only changes. There is one area that I was asked to clarify, that is, section H.1.4 where we are talking about the ability or the potential for Telstra to conduct anti-competitive conduct. The issue here is that in the original former Telecom network you had a copper wire from an exchange to the customer's premises. This copper wire is capable of handling data rates in excess of 64 kilobits. What is happening now is that part of the link between the exchange and the customer's premises is now being removed—the copper is—and being replaced with fibre. In short, the basic element for the communication transfer is 64 kilobits.

The new carriers are coming on and asking for a connection from the exchange to the customer's premises. Because the copper has been removed, Telstra now claim they cannot provide the link or the service. It is for this reason that we are strongly recommending that the basic telephone service be changed to 64 kilobits. This means that regardless of whether the connection is fibre or copper, that 64 kilobit service can be provided.

**CHAIR**—So what you are saying is that, by changing the means of transmission, they are reducing the amount of information to be transmitted across it and therefore they say they do not have any excess for another provider. Is that correct?

**Dr Green**—What they are claiming is that they cannot provide the link because now it is fibre.

**CHAIR**—Because the capacity is less?

**Dr Green**—In most instances, the capacity increases and is more reliable over fibre, but because they cannot provide a point-to-point direct link from the exchange to the customer's premises, they now say, 'Sorry, we can't offer you a pair of copper wires.'

**CHAIR**—I am not an engineer or an expert in this area, but are you telling me that it is physically possible to provide a connection, because you are using fibre—

**Dr Green**—If you use the standard of 64 kilobits, it is physically possible to provide the connection. To provide an analog connection over fibre is difficult and requires additional equipment. What they are saying is, 'Because we have removed the copper, we cannot connect the competitor to the network.'

**CHAIR**—So you are saying that it is restricting competition.

**Dr Green**—Yes, and for that reason one of my recommendations is that the basic telephone service be changed to 64 kilobits. We have also heard—and Telstra has made a number of commitments—that by 30 September they will have their preferred mode of operation, their digital rollout. In other words, the 64-kilobit service is what they will be able to provide throughout the bulk of Australia, so there is no reason for sticking with the current analog service, which is certainly not meeting the needs of Western Australia and rural Australia. With their coverage patterns, they will be able to provide that service. I believe that is important.

There is a second issue in terms of carriage of service, and it comes to the provision of mobile services in the rural areas. In a modern network, the second most important parameter is what is called the two-megabit link or the megalink. As compared with megalinks provided privately on line sites within WA and what Telstra charges, the ratio is quite ridiculous. The charges we believe Telstra are charging for the megalink are inhibiting the provision of services in the rural areas.

If we take the fact that the GSM service needs a megalink from Perth to Karratha and that that has to be paid for at current rates, it means that only large communities can afford it or can be commercially viable. If the realistic costs of megalinks are put in place, we believe that up to 50 per cent, and in certain instances 70 per cent, reduction in costs can be achieved. In other words, more—

**Senator SCHACHT**—Dr Green, do you have some idea of the quantum of what these fees are—the amount of money they are charging for this megalink?

**Dr Green**—Western Australia consists of two primary areas. The cost between two primary areas is \$300,000 per annum.

**Senator SCHACHT**—I presume that one primary area is the metropolitan area and all the rest is the other.

**Dr Green**—Normally between Perth and Adelaide would be two primary areas, but because of the size of Western Australia, going from Perth to Karratha, north to south, the state has been put into two primary areas.

**Senator SCHACHT**—So the charge for the megalink from Karratha to Perth is \$300,000, or thereabouts.

**Dr Green**—Yes.

**Senator SCHACHT**—Is the \$300,000 a flat fee?

**Dr Green**—Yes, it is a flat fee per annum. The ACC has determined the pricing principle where you pay for the cost of the service. Our proposal is that the legislation be amended so that, where a megalink is used to provide a commercial service—GSM, frame relay, Internet or data—it should be charged effectively at a wholesale price, which is the cost of service provision plus a reasonable profit for the carrier.

**Senator SCHACHT**—To clarify this for me, is the \$300,000 charged to a customer per annum irrespective of the volume of use?

**Dr Green**—Correct. That is charged internally to Telstra in the provision of their services—GSM as well. They have an internal charge that if you want to provide a communications service, either to Telstra, Optus or Vodafone, they pay the same fees. This is what makes your GSM coverage in the rural areas to small populations uneconomic. They are making the money out of excessive charges on—

**Senator SCHACHT**—So Telstra's MobileNet has to pay a flat \$300,000 per annum, irrespective of whether they have 30 phone calls connected in the mobilenet from Karratha back to Perth—

**Dr Green**—Our understanding is that that is correct. It is a flat fee for the provision of that circuit.

**Senator SCHACHT**—If Optus want to use it for their mobile system—

**Dr Green**—They will buy a megalink at their access charge of \$300,000, or whatever has been negotiated.

**Senator SCHACHT**—Because of your knowledge of this, have you taken this up with Telstra and asked how they arrived at the figure of \$300,000 flat?

**Dr Green**—Yes, we have raised this through ATUG. They have come back and said, 'We believe this is the price that is required.'

**Senator SCHACHT**—They have never justified—

**Dr Green**—They have never justified the figures.

**Senator SCHACHT**—the price on the basis of their investment in the equipment?

**Dr Green**—Correct. As a consultant I have installed a number of fibre-optic links within mine sites and tried to compare the costs, bearing in mind that the mines have much higher maintenance charges. Again, my conclusions were that the Telstra fees were excessive.

**Senator CARR**—By what factor? By how much do you think they are excessive?

**Dr Green**—Depending on the distance, anything from a factor of three to five.

**Senator SCHACHT**—Up to five times?

**Dr Green**—Up to five times.

**Senator SCHACHT**—So the figure should be more like \$30,000; do I have that right?

**Dr Green**—Correct.

**Senator SCHACHT**—It could be as low as \$30,000 per annum?

**Dr Green**—It could be, yes. There are a number of ways of arriving at the various prices, but that is my understanding.

**Senator SCHACHT**—The megalink is done by laying the fibre in the ground; is that right?

**Dr Green**—It is done by fibre or microwave, yes.

**Senator SCHACHT**—The fibre is laid in the ground. Does the megalink also include the switching equipment at either end?

**Dr Green**—These are point-to-point links. There is no switching.

**Senator SCHACHT**—So it is just purely the cost for the fibre. That is the only investment.

**Dr Green**—It is purely the cost for the transmission of the call from point A to point B. The cost of providing the switching services is added on top of that.

**Senator SCHACHT**—Have you taken this up with the ACCC?

**Dr Green**—I have had no cause to take it up at this point in time.

**Senator SCHACHT**—But you are obviously agitated about it.

**Dr Green**—Affirmative, and that is why I am here presenting this evidence.

**Senator SCHACHT**—Unfortunately, we are not the regulator otherwise we might be able to fix it within a matter of a few hours. These prices seem so outrageously high. I appreciate it very much that you have used this opportunity to publicise the issue. But, ultimately, it is an issue for the ACCC if Telstra will not make an adjustment. Will you consider going to the ACCC?

**Dr Green**—We can certainly take it up. I have other avenues for raising it directly with Telstra—

**Senator SCHACHT**—But, if they keep saying no, in the end it is only the ACCC that is going to have the power to intervene on the issue.

**Dr Green**—All right. I shall certainly raise your point and, if necessary, take it to the ACCC, yes. There is one other point that I wish to clarify. In terms of the customer service guarantee there are two areas which I have grave concerns about: firstly, the application and enforcement of the customer service guarantee; and, secondly, the way the legislation is currently worded, the content or the scope of services leaves it wide open for it to be very difficult to prove that a circuit is faulty. At the moment, if you read the legislation and interpret it carefully, it is possible for a call to be established but to be totally unusable because either the voice quality is so poor or the bit error rate is so high that it cannot be used for data transmission.

I have identified 12 standards dealing with customer service guarantees that are available in America. I believe that, with suitable adaptation, these should be implemented and included within the customer service guarantee. That is what I mean by ‘the customer service guarantee needs to be extended in its scope’—things like time to dial tone, bit error rate, voice quality and billing accuracy. Another issue which I am a little surprised has not been dealt with is that a national carrier has a national security role in the provision of communications services either in natural disasters or in wartime. It is well known that exchanges and telecommunications networks are subject to viruses and can be reduced or damaged. We have experience of this in America where a series of program faults caused a major crash of the USA network, particularly the ATT network. It is my recommendation, where I mentioned an extension of s105 of ATUG’s submission, that the ACA be directed or give directions to the carriers to implement adequate disaster recovery plans.

**CHAIR**—Thank you, Dr Green. I want to ask you one question before Senator Lightfoot asks you a series of questions. These are issues, I would think, that you think are relevant as to whether or not Telstra is privatised.

**Dr Green**—As I have indicated, these are relevant, particularly if Telstra is to be fully privatised. In the one-third sale, as it stands at the moment, they can be addressed adequately through ministerial direction. With the full sale of Telstra, the ministerial direction falls away. Therefore, these issues need to be addressed to cater for the fully privatised Telstra.

**CHAIR**—Why would they? Is it because they are not covered sufficiently within the legislation?

**Dr Green**—My understanding of the draft legislation, as it stands at the moment, is that the minister withdraws all right to direct Telstra when the government holds less than 50 per cent of the shares and that what is left is going to be difficult to implement, particularly when you have the shareholders and profit line as the primary criterion for the management.

**Senator LIGHTFOOT**—Mr Skelton, you said you do not have any objection in principle to the complete privatisation of Telstra. Is that taking into consideration the fact that Western Australia has, potentially at least, some special problems with respect to telecommunications?

**Mr Skelton**—The proviso that I stated was, provided adequate safeguards are put in place—and our conclusions are similar to those of Dr Green—the present arrangements are not adequate. The particular cases in Western Australia are quite possibly duplicated in other states, but I can only speak for my own state. I have given the example of Lake Grace. Another case that I will document relates to some new houses in the centre of Merredin for which application was made for a phone a month or so ago. They were told they could not have it until November of this year. Another case in Hyden relates to failure to restore services, when the outages extended well over five working days into 10 working days. In some of those cases, we have been able to bring a deal of pressure to bear to create an improvement, but the normal John Citizen is not in a position to bring such pressure to bear.

The system should work very well for everybody, no matter what their circumstances. Patently, despite the statistics that 80 or 90 per cent do work, the other 10 per cent do not, and they are the cause for concern. In a case of a totally privatised Telstra, the consumer must rely on the legislative protection, which at the moment is not adequate.

**Senator LIGHTFOOT**—Being a third of the land mass of the nation, is it practicable, as opposed to possible, to deliver a service that could give to the subscriber 64 kilobits of telecommunication potential all over Western Australia, to small telecentres like Halls Creek, Fitzroy Crossing, Leonora, Leinster, Laverton, Gascoyne Junction, et cetera? Is it possible to deliver that amount?

**Mr Skelton**—Yes, in our assessment it is, and at an affordable cost, reliant on a variety of technologies. For example, there are about 1,200 customers in Western Australia reliant on the digital radio concentrator system, for whom the maximum data speed sustainable is only 2,400 bits per second, compared with the 64,000 that you have mentioned. The cost to Telstra, according to Telstra, of installing that system years ago was about \$50,000 per customer.

**Senator LIGHTFOOT**—That was with the communications tower set-up?

**Mr Skelton**—Yes, with the microwave links joining them up to get to the ultimate customer. I am advised that today the price of providing a service with a 64 kilobit capability by satellite is about the same—\$60,000 per terminal. If it could be done once before, then it can be done again at that sort of price, just using technology that is more appropriate for the purpose.

With towns like Fitzroy Crossing and Halls Creek that are on main telecommunications routes, there are optic fibre cables and microwave links already linking through those places. So it should be possible for Telstra to provide adequate capacity to drop off enough service in those places.

**Senator LIGHTFOOT**—What about somewhere like Wiluna that is not on a main line?

**Mr Skelton**—Yes, I believe that it is possible because the cost of delivering large capacity through optic fibre cable in the ground these days is very small indeed.

**Senator LIGHTFOOT**—So it is possible in terms of the technology and infrastructure installation, and it is possible in economic terms as well?

**Mr Skelton**—I believe it is.

**Senator LIGHTFOOT**—Do you have that same view, Dr Green?

**Dr Green**—I have the same view. I had experience in Africa 15 years ago where we were able to do that—and do it far more economically than the provision of an analog service.

**Senator LIGHTFOOT**—What services will a 64 kilobit supply, as opposed to a lesser kilobit?

**Mr Skelton**—In the first instance, it will provide a more affordable service. For those people I mentioned earlier who are limited to a maximum of 2.4 kilobits per second, all of their calls are timed. So while a picture on their screen—their response to an Internet request, for example—is building up terribly, terribly slowly, the clock is ticking on their call charge. If that could be increased manyfold to 64 kilobits, then quite clearly the cost per transaction for them will be very much reduced.

**Senator LIGHTFOOT**—With respect to some of those frontier towns I mentioned, particularly Wiluna, Leonora, Leinster and Laverton, all are on the eastern edge of Western Australia. What infrastructure is in place that could be utilised for 64 kilobits or does it require significantly new installation?

**Dr Green**—I mentioned the megalink or two-megabit service. A large proportion of the microwave links that are in service throughout Western Australia support the megalink or the two-megabit service. That megalink is simply 30 of your 64-kilobit services. So the digital service to the bulk of the small areas within WA already exists; it is simply an issue of how you connect from the megalink in the town to the customer. That is where I believe the regulatory and legal environment needs to be changed to encourage Telstra to provide that service.

**Senator LIGHTFOOT**—So the recipients of that service would be able to run computers of a relatively contemporary standard, all of the facsimile machines that are currently available and other devices, communications and installations? Is that correct?

**Dr Green**—That is correct. In fact, it could run limited medical support services as well, which is one of the other issues for the rural community. Telehealth on 64 kilobits is on a very limited basis, but we need 384 kilobits to go to the regional hospitals or medical outposts to provide adequate telehealth services.

**Senator TIERNEY**—What sort of clarity would 384 deliver?

**Dr Green**—If one looks at the legal restrictions imposed on doctors, the quality of picture that can be achieved at 64K is too small to provide adequate definition, both in colour and detail, for a physician to make a diagnosis. At the 384, he or she can then achieve that.

**Senator LIGHTFOOT**—Mr Skelton, do you believe that unless these provisions are put in place Western Australia may suffer somehow in a developmental sense?

**Mr Skelton**—Yes, and I would not restrict the answer to Western Australia; I think this is common for non-metropolitan areas. The population distribution of Western Australia is a large number of low population towns and, setting aside Mandurah which is part of the extended Perth metropolitan area, our largest town of Bunbury has a population of 30,000. That is less than half the population of Ballarat in Victoria which was the first country town where Northgate Communications set up as a competitor to Telstra.

Generally speaking, towns in Western Australia, and similar low population towns in other parts of Australia, are unlikely to attract real competition in the telecommunications marketplace. Therefore, the consumer needs, as a backstop, to have legislation in place which ensures that services which would otherwise be uneconomic to deliver are delivered. The reasoning for that is not merely a matter of social equity.

Many of the places that you mentioned—Leonora, Wiluna and so on—in the mining tenement area, and other parts of Western Australia where the total population only represents about three per cent of Australia's population, are producing 25 per cent of Australia's export income. It is therefore for economic development, as you suggest, Senator, and not just social equity that we would argue for improvement in the basic service.

**Senator LIGHTFOOT**—From that point of view, with respect to the 25 per cent of national export income coming from those areas you mentioned, or areas similar to that, it is in Australia's interest for Western Australia and those particular towns to have adequate telecommunications facilities that are comparable to the rest of Australia, is it?

**Mr Skelton**—Yes, and I would not plead a special case for Western Australia but assert that the same basic principle applies to all of Australia.

**Senator LIGHTFOOT**—Getting back to the 64 kilobits, is it practicable for every home in Western Australia in those isolated areas to have access to 64 kilobits?

**Dr Green**—With the choice of technology via satellite, microwave or fibre, that is possible.

**Senator LIGHTFOOT**—What about low earth orbiting satellites? Are they going to create more competition?

**Dr Green**—They provide an alternative technology.

**Senator LIGHTFOOT**—Not more competition?

**Mr Sanderson**—They provide a service, but at a particular high cost at this stage, and nobody really knows what the final cost is going to be. If I could add to my colleagues' earlier comments, I have had experience working in South Australia, Western Australia and the Northern Territory. Mr Skelton's comments, as he indicated, are quite appropriate for each of those three states. Exactly the same situation occurs in terms of the availability of current telecommunications and the ability to provide 64 kilobits to all of the population in those states.

**Mr Skelton**—On the question of low earth orbit satellites, I believe they will make a significant improvement in meeting a currently unmet need, and that is that digital mobile services are limited at the moment to something like five to 10 per cent of the land area of Western Australia. Low earth orbit satellite telephony will service 100 per cent of the land area. As Mr Sanderson said, none of the consortia proposing such services have yet announced their recommended retail prices. They will significantly improve the coverage of telephony. However, the four consortia that will be up from the end of this year through to 2000 are still

limited to the same limitation as terrestrial digital mobile in terms of data speed, and that is the 2.4 kilobits in data speed.

In 2002, there is a proposal for a low earth orbit satellite system which will carry megabits of data to individual households. Although that is supported by some significant world players in the form of Mr McGraw and Mr Gates and a large contract to Boeing to implement that, that is sufficiently far into the future that it is difficult to identify whether that will have a real impact. It will certainly have no impact in the first couple of years of the fully privatised Telstra.

**Senator TIERNEY**—On your estimate, how far into the future is that?

**Mr Skelton**—For telephony, the first two are scheduled to be open for service in January next year. Both of those services, Iridium and GlobalStar, already have most of their satellites in orbit; that is a believable target. The second two have announced the year 2000 as when they will provide full service. The quite separate one, the megabits of data, is not really competing in telephony; that is competing against optic fibre cable. Their announced service date is 2002.

**Senator LIGHTFOOT**—I have one more question. This is directed to your department or to the government of Western Australia, but I am quite happy to have other gentlemen comment. Given that the regulations are yet to be formulated—I certainly have not seen the regulations under the proposed bill—do you think that you will want to view the regulations that attach to the bill before you give your imprimatur to that?

**Mr Skelton**—As it stands at the moment, the bill relies on the existing legislative safeguards in terms of the customer service guarantee, the universal service obligation, and so on. The burden of my evidence is that, whilst that is all very good, it is not adequate. Therefore, there need to be some improvements to those and I would prefer to see those in place prior to the sale proceeding. Once the horse has bolted, it cannot be caught.

**Senator LIGHTFOOT**—Are you talking about the regulations or are you talking about the clauses of the bill?

**Mr Skelton**—I am suggesting that there need to be some small but very important amendments to the Telecommunications Act rather than to the sale bill. Dr Green can speak for himself, but he was arguing that same line a moment ago.

**Dr Green**—I confirm the regulations for competition—both access for carriers and the customer service guarantees—need to be more clearly specified before the sale should proceed.

**Mr Sanderson**—While agreeing with my colleagues totally, if you look at the third last paragraph on the last page of Telstra's submission, they also agree. I quote:

Where the Government and Parliament determines a public interest in an issue, Telstra considers that the public interest should be given effect by legislation.

So they are saying the same—that we should clear these things up prior to the privatisation.

**Senator LIGHTFOOT**—Yes, I appreciate the fact that the three of you have reiterated that rather rhetorical question. Thank you.

**CHAIR**—Senator Carr has some questions and Senator Tierney has one question, but I just wanted to say something. You said some small changes needed to be made to the Telecommunications Act. Would you be in a position to actually make suggestions as to the essence of the change, but not necessarily suggest an amendment? This committee is actually looking at the legislation, although some people listening to the discussion might not think so. Sometimes people have the capacity to either make a suggested essence of an amendment

or write the amendment themselves. You may be in a position to get some assistance to write suggested amendments. If not, it would assist the committee if you could put in writing by Friday the form, as close as you can, to the way those amendments ought to be or the intent of the suggested amendments.

**Mr Skelton**—I would be able to indicate the intent.

**CHAIR**—If you could do that by Friday lunchtime, that would assist the committee, thank you. Senator Tierney has a question.

**Senator TIERNEY**—Dr Green, you mentioned Telstra's high price for megalinks earlier. There would not really be anything stopping another competitor actually providing that link themselves, would there?

**Dr Green**—At the moment, there are competitors active in WA trying to provide alternative services. Yes, that is happening right now.

**Senator TIERNEY**—One would assume at a lower price.

**Dr Green**—At a lower price, yes.

**Senator TIERNEY**—Which is a great confirmation of the competitive regime set up. Thank you very much.

**Dr Green**—However, I just wish to add one qualification, if I may. The major impediment that they are facing at the moment is that, in the access to the Telstra network for the termination of calls in the metro area, they are having great difficulty in their negotiations with Telstra.

**Senator CARR**—The two groups represented today have both indicated the nature of Australia's population and Western Australia's population in particular and the demography of the state—which you are arguing is not confined to Western Australia—and that the issues you raise have a broader social significance. To what extent do you feel that demography and the structure of the Western Australian economy are such that a monopoly control of services is in fact inevitable for telecommunications?

**Mr Skelton**—Yes, it clearly is. In towns where the populations are typically 200 people to 1,000 people, say, or in other cases 5,000 to 10,000 people, it is clearly not going to be economical to have two or three mobile base stations. In fact, a number of local government councils have written to Telstra, Optus and Vodafone seeking digital mobile base stations and they have been told by all three that they have no intention of providing that service. Even when the council has offered to put up 50 per cent of the capital itself, Telstra has agreed in some cases, but Optus and Vodafone have not agreed at all. Those are for fairly reasonably sized towns like Halls Creek and Fitzroy Crossing, for example, which have a population of about 1,000 people. There are over 100 towns in Western Australia, therefore, which would never get a mobile phone base station.

So two things are necessary. The first is an injection of capital from somewhere, through the universal service fund or through the regional telecommunications infrastructure fund as well as contributions from local people to provide that service, and then there will only be the one service. That leads to one of these legislative changes—that is, to insist on inter-carrier roaming, because obviously all of the people in that one town will all buy from the one company that has provided the service in the town, but visitors to the town—business visitors and tourists—will come with whatever mobile phone service they happen to have subscribed to at their point of origin and it will be useless to them in that town unless there is inter-carrier roaming.

**Senator CARR**—Dr Green, do you hold the view that, for great parts of Australia, monopoly control of telecommunications is inevitable?

**Dr Green**—Again, I agree with that statement. That is why I have recommended in my submission that inter-carrier roaming be allowed, particularly on mobile services.

**Senator CARR**—The follow-up question then is, in terms of what you call ‘minor’ amendments to the customer service guarantees—which seem quite dramatic to me in terms of changing the basic service provision and various other proposals you have got—you have suggested that, unless those changes are made, you do not believe the sale of Telstra should proceed at this point. Have I understood you correctly?

**Mr Skelton**—Yes, that is correct. We have no objection in principle to the sale, but there are some precautions that need to be put in place before—

**Senator CARR**—I just wanted to get that clear. So what you are saying is that you do not oppose the sale of Telstra but not yet?

**Mr Skelton**—That is correct.

**Senator CARR**—Dr Green, is that the case with your group?

**Dr Green**—In our case, we support the amendments proposed by ATUG in their submission. The addition I have to that is that the ACA should be directed to instruct carriers to provide disaster recovery plans.

**Senator CARR**—Yes. So the Western Australian government is not actually fully supportive of the sale of Telstra at this time?

**Mr Skelton**—It is purely a matter of timing. The Western Australian government supports in principle the sale of Telstra.

**Senator CARR**—But the time is not right.

**Mr Skelton**—I think it is entirely possible for the amendments concerned to be incorporated without really any serious delay in the timetable.

**Senator CARR**—But if they were not incorporated, you would not support the sale?

**CHAIR**—Thank you, Senator Carr.

**Senator CARR**—I just wanted to get that clear.

**CHAIR**—I think you have tried to put words in Mr Skelton’s mouth. That is totally unhygienic, Senator Carr. I think he is being very clear about what he means. You might want him to try to say something else, but we are not going to achieve that.

I just have one question I want to ask you, Dr Green, then we need to check with Senator Margetts and then break at least for five minutes for lunch. The ministers have not used their discretionary power to date with Telstra. Doesn’t the minister retain the power through licence conditions to address some of the concerns you were talking about, especially in regard to failure of the whole system or breakdowns in the whole system? Aren’t there some conditions that we have attached to licences to deal with that issue in a privatised Telstra?

**Dr Green**—I do not believe what is in the legislation would adequately cover that, but it is also my understanding that Senator Alston has issued a couple of directives. One of them, in particular, is for customers being able to move from Optus to Telstra. He directed that be implemented by 1 May this year.

**CHAIR**—But do you believe you could control some of those things through the licence condition process?

**Dr Green**—If a condition of the licence was that the minister shall be able to direct the carrier, yes. But that is not in the legislation at the moment.

**CHAIR**—Under no other circumstances could the conditions be written in such a way that would allay your concerns?

**Dr Green**—No, there are too many loopholes and alternatives for people to get around them.

**CHAIR**—Thank you. I am going to be asking DOCA to have a look at your submission closely. I do not understand all the technical stuff and I will seek their response tomorrow to your detailed technical questions.

**Senator SCHACHT**—Dr Green, I read your submission and I agree with the chairman that DOCA ought to have a good look at it. I also think we should ask Telstra to respond to some of it. I have to say that I think the technical issues you raise are very good and it is an excellent submission in those issues you raise. I will be very interested to see how Telstra responds to them. Thank you for the thing about the megabit link cost as an example, which is something we would like Telstra to respond to.

**Senator MARGETTS**—I have one correction. My maths says that one-fifth of 300,000 is 60,000, not 30,000. Also, if what you are saying is that the legislation might be improved to include your concerns, there was a concern that Telstra is not actually providing the customer service guarantee that presumably is in the legislation now. Or do you believe there is some part in the current legislation which actually allows them to limit universal service obligations to new customers only?

**Dr Green**—That is what we have been led to believe. My concern is that the message has not been put through to Telstra staff.

**Senator MARGETTS**—Is it your belief there is some legislative basis for Telstra taking the current action?

**Dr Green**—My understanding is that it should be provided and, when we attempted to avail ourselves of that service, we could not.

**Senator MARGETTS**—Thank you.

**CHAIR**—I apologise to you, Senator Margetts. I remembered you and then I forgot. It is very difficult to remember a little black box on the floor. Mr Sanderson, Dr Green and Mr Skelton, I thank you very much for your attendance and for your submissions. We will expect from Mr Skelton some suggestions of the intent by lunchtime on Friday. I now suspend the committee for lunch. I am conscious that Hansard has not been able to get away at all. We will then move to the next witnesses.

**Proceedings suspended from 1.25 p.m. to 1.43 p.m.**

[1.43 p.m.]

**COOPER, Mr Colin Phillip, Divisional President, Communications, Electrical and Plumbing Union, 1/139 Queensberry Street, Carlton South, Victoria 3053**

**EASON, Ms Rosalind, Senior Industrial Research Officer, Communications, Electrical and Plumbing Union, 1/139 Queensberry Street, Carlton South, Victoria 3053**

**CHAIR**—I call the committee to order. I welcome to the table Mr Cooper and Ms Eason of the Communications, Electrical and Plumbing Union. The committee has before it submission No. 47, which is authorised to be published. Are there any alterations or additions that you would care to make at this stage to the submission?

**Ms Eason**—There is a very minor point, Senator, although I am not quite sure because I have not seen the published form of the submission. In our original executive summary, we put our membership at about 40,000. In the later version of the submission that we have put forward, we have said it is 42,000 in Telstra, because that covers the members that we have in joint ventures as well.

**CHAIR**—Thank you. So you wish to change that to 42,000.

**Ms Eason**—Yes, 42,000 in the executive summary.

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

**Mr Cooper**—Yes. On behalf of the union, I believe we have put forward in the short time available to us a fairly substantial submission covering what we believe are the problems already identified with the part privatisation of Telstra. In essence, we believe those problems will be exacerbated with full privatisation. We do not believe it is in any way in the interests of the Australian community for Telstra to be fully privatised. In relation to the problems that are already identified with the part privatisation, there will be no ability for a government to influence or in fact direct the new company to take appropriate action to address the difficulties that are already emerging with the part privatisation.

At least two-thirds of Telstra should be owned by the Australian people through the government and with a government truly committed to ensuring that Telstra is there to provide universal services at as near as possible to universal prices. A Telstra which is two-thirds owned by the government with a committed government could in fact still be able to provide many of the high ideals that Telstra has provided as a government department, then a government commission and then a government corporation. It would still be able to maintain some of those levels with two-thirds control. Once it is fully privatised, I do not believe the Australian government or the Australian people will have any ability to ensure that Telstra provides a wide range of services.

To illustrate—and we cover many points—in a very simple formula, privatisation has equalled enormous staff cuts in Telstra. Those staff cuts have been both illogical and nonsensical but they have occurred to achieve share market criteria. They have resulted directly in poorer service to general customers, particularly those in regional and country areas. We believe that there is irrefutable evidence that that is the direct product of partial privatisation. Full privatisation will make that position even worse without a government being able to address it.

To re-emphasise, I think it is a very simple formula. Privatisation to date has meant serious staff reductions. They have been both illogical and nonsensical but they have occurred to suit some share market criteria. There is already, as I say, serious evidence of poorer service. I frankly predict that this network currently in Telstra is at risk because of steps that have been taken such as staff shedding, particularly with highly skilled staff who are being replaced by contractors who know little or nothing about the business they are in. The union is concerned about the service Telstra provides and has a history of such concern. We are greatly concerned at the current technical vulnerability of the organisation, which will only get worse if it is two-thirds privatised.

There is also clear evidence, again, as illustrated, on the public telephone service. These are probably not in order of priority but are ones that affect the community greatly. What has occurred in the community at the moment in relation to the level of service provided for public phones, which has always been considered a very essential service in the community, is

deplorable. Again, it is a direct product of partial privatisation. There are also issues such as how metropolitan or any residential customer gets service if they have a phone out of order.

They are almost berated until they in fact go and pick it up themselves from a post office, even though that might be many miles away, rather than have the service they are paying for so the technician can in fact come to fix their service. Everything is done to ensure that the customers are put to the greatest inconvenience. I will admit that, in some cases, it is convenient to pick it up at the post office, but it should be an option. Again, I use that as an illustration of how service standards affect ordinary people. People are being put to great inconvenience.

We do not believe—and we have stated this in our submission—that service guarantees in effect have much impact on an organisation like Telstra. We think it is a nonsense, in fact, to think that that would provide any restraint or restriction against a company like Telstra. They can make such savings in staff cuts that the service guarantee penalties would not in any way bring a company like Telstra to address the service standards. It is a bit of tokenism and the outlay is very small compared to the alleged savings in staff.

I finish on the point that our analysis of Telstra to date is that they have lost a lot of their costs in direct labour because of the enormous staff shedding—some 15,000 at least since the government started preparing Telstra for privatisation—but their overall operating costs have not reduced. We know from internal documentation that at the moment Telstra managers are told to get rid of staff irrespective of the fact that it will cost them more to do the work in other ways. The costing is irrelevant—and if I were a shareholder I would be very concerned—and it is all about getting rid of staff. That makes no sense, particularly when service standards are deteriorating. I will leave it at that as my opening remarks.

**Senator CARR**—I am disturbed by this correspondence dated 24 March that you attached to the submission which says that you, Mr Cooper, and your associate Mr McLean are subjecting yourselves to legal action by Telstra if you do not desist from making public comments about the performance of Telstra. How did you respond, Mr Cooper, when you received that letter? Is it usual practice, in your experience as a trade union official, to be threatened by defamation?

**Mr Cooper**—It is most unusual. I think it is the first time we have been threatened with legal action for telling the public exactly what is going on in Telstra. It was interesting, following that letter, that the ACA made similar comments about deteriorating service in Telstra. All we did—and I would say that we did this in a constructive way—was to get Telstra to address some of the problems. What was occurring, particularly in northern Queensland and other areas—and that is why Mr McLean was involved—was that people were being made redundant, and yet the service standards were deteriorating. Highly skilled technical staff were being made redundant in Telstra to meet staff numbers and yet the service standards were falling. We merely made that point.

It was interesting that that was confirmed a week later by the ACA report and Telstra's only response was to threaten us and to threaten staff with dismissal if they told the truth. Their response to public disclosure of what is going on in Telstra is quite amazing. Their response is to shut people up. Frankly, I do not think it is the Australian way to be quiet. Ever since those threats were made we have been getting more and more information from the staff on just how bad the service is.

**Senator CARR**—You make the following four points: as a result of privatisation rural customers are being disadvantaged; service standards have decreased and will continue to do

so; staff reductions have resulted in poor quality service; and Telstra's network is likely to collapse as a result of staff reductions and reductions in maintenance. What is your evidence for those statements? I noticed that in your submission you make reference to a number of statistics concerning a decline in service in Victoria. How can we be certain that the evidence that you presented in this submission is actually right?

**Mr Cooper**—I think the reports of the ACA support our position. We also know more about what happens in Telstra than senior management and we also know what the left and the right hands are doing. I will cite two public admissions by Telstra that there is a problem. Firstly, they criticised the new technology they brought in called Director. I think Mr Blount did so recently on *Lateline*, and also in their response to the ACA they stated that this equipment was part of the problem.

On the basis of that equipment being brought in, some 2,000 jobs were made redundant. If the equipment did not work, they should not have made the people redundant. We told them during trials that that equipment had serious problems. We wanted them to address them. They ignored it. They front-loaded the staff out—I think that is their term—before they knew whether the equipment worked.

The other thing is that they blame the elements—flood and lightning. It is interesting that they make that point. Flood and lightning have been around for a long time, but their equipment is, in fact, more vulnerable to lightning. I agree with that. It is highly electronic and it is more vulnerable. But their response is to get rid of technical staff in the areas. When an exchange is more vulnerable because of lightning strikes, their response is to put the nearest technician—particularly in areas in Queensland—hours away before they can get there to fix it. So, on their own admission, their staff cuts lead to a deterioration in service.

**Senator CARR**—In your submission you say:

In South Australia, for instance, technicians have been allocated 2 hours to rectify a fault some 4 hours drive away, because Director did not understand the terrain involved. In rural Queensland, where Telstra's labour resources are not abundant, two technicians found themselves assigned to visit the same remote property—one to install a fax machine and the other to rectify a telephone fault.

Are these sorts of instances now common?

**Mr Cooper**—Yes, and because of the way this system works a number of people can turn up to fix the same fault. They were told the problems in it when they first trialled it. For example, in Newcastle it was trialled for four years. We identified a lot of the problems. It was a system that was never designed to do what it is trying to do. It is an American system designed to allocate faults for lines. They then wanted to put the equipment on the end of it, and that gave them problems. They now propose to put the exchange faults on this equipment in the near future. We are predicting that that is going to be horrific. It is a product that was never designed to do what Telstra wants to do with it.

**Senator CARR**—The argument you are presenting here is that, essentially, because of the nature of monopoly control Telstra enjoys—that is, an industry characterised by highest fixed costs and large returns to scale—that monopoly will continue and that, in a bid to maintain the share price, that has led to labour shedding. Is that essentially the proposition you are submitting to this committee?

**Mr Cooper**—I might ask Ros to answer that and give a bit of variation.

**Ms Eason**—In relation to rural and regional areas, we are saying that there is not likely to be a great deal of replication of fixed infrastructure. We heard discussions from the earlier group about the likelihood of the LEOs delivering alternatives and in what time span. I remind

senators that one of the first points I learned from my predecessor when I came into this job was that competition is a function of price not of technologies. We do not know yet what the pricing structure of the LEOs will be.

We say that in rural and remote, and to a large degree regional, Australia Telstra is going to be the major if not the sole provider of services. That gives them tremendous leverage, and they can afford to let service quality deteriorate and hold their customers in those areas hostage, if you like, to the logic of the share market.

I know that Peter Shore argued—and I would like to touch on that point—that that is not true because, if they neglect their regional and rural customers, they lose revenue from STD and IDD. It is true that if you argued rational self-interest it would seem to be in Telstra's rational self-interest to service those customers properly, but the company does not always operate rationally.

Firstly, you have different business units with different accountabilities. The business unit that controls costings in the commercial and consumer business unit and managers in that unit do not have accountabilities that go to IDD or STD revenues—or particularly not IDD, international, because that is a different department. When they are looking at cost cutting, they are not looking across to see what impact that might have in terms of a customer switching to Optus or somebody else for international calls. They are just looking at getting their head count down within their business unit.

Secondly, Telstra is driven increasingly by benchmarks—and we had this discussion in the earlier Senate committee—determined by comparisons with companies that have quite different business structures. For instance, we know that US West is one of the companies against which Telstra is benchmarked to say how many employees they should have per access line. US West does not offer international services or long haul STD. If they cut their staff numbers down to a ratio that still allows them to hang on to their local customers or gives their local customers grief, they do not lose—they do not have an opportunity cost in terms of losing STD or IDD revenues.

The sharemarket looks at those international benchmarks and does not look at what sits behind them in terms of what the cost might be to Telstra if a customer in Bourke or Wilcannia gets distressed about their level of service for fault restoration and decides to use Optus for international calls. Although, on the surface of it, Peter Shore's argument looks rational and plausible, the company just does not operate like that.

**Senator CARR**—Essentially, the argument put to us is that the regulatory framework that currently exists will protect service quality and protect the consumer against monopoly powers—if it is acknowledged that there is a monopoly power in the corporation. What do you say to the proposition that the regulatory framework is there to protect the consumer?

**Ms Eason**—We have talked in our submission extensively about the question of the customer service guarantee and what we see to be the weaknesses in it. The customer service guarantee, at any rate, only goes to a couple of key areas of service which are, at this stage, service restoration and installation and the making of appointments that sits with that. There are lots of other areas of service, such as the provision of pay phones, which are not covered by the customer service guarantee. The question of directory assistance services is not covered by the customer guarantee. Even as we have seen in those areas that are covered by the customer guarantee, at present Telstra's service standards are going backwards. We think it is a rather weak regulatory mechanism to deal with what is a very strong force in the opposite direction for cost cutting and for profit maximisation.

In other regulatory areas, we have addressed the question of the USO and what we feel will be the pressures that will come on that mechanism. We acknowledge that at present there is a mechanism for delivering the standard service. We are yet to see what will happen when any prescribed services are added to that. If the costs are boosted up that will put more pressure on the mechanism.

We did not address it in the submission, but there is a weakness at the heart of the USO system and that is the fact that only carriers contribute to the fund and carriage service providers do not. You can have people with larger industry revenues, say, than Primus—just to talk about one of the smaller carriers—not contributing to the universal service levy because they are not technically carriers. I would suggest that over time, as those sorts of contradictions become more apparent and if the cost of the USO increases because of the standard being upgraded, we will see more strains on that mechanism. We have suggested in our submission that we think the logic of privatisation and deregulation will be to push more costs directly on to government. We are already seeing that in a very small way in the regional telecommunications infrastructure fund.

**Senator CARR**—You say that Australian control is the only way to be guaranteed of a majority of public ownership. Can you elaborate on that proposition because surely a regulatory framework can protect the public interest in that regard?

**Mr Cooper**—As we have said, because the regulatory framework to date shows that it cannot direct—this government has not actually directed Telstra, as it has the power to do at the moment—Telstra to address some of the problems, I think the threat that it is there, and they in fact have indicated some of their wishes to Telstra, has had some influence. Clearly, the regulatory framework, if it mainly depends on penalties and service guarantees, will not provide the protection customers need. I think you do require that ability to direct Telstra that is currently inherent in the act and hopefully will always be there while it is two-thirds owned by the government.

**Senator CARR**—Why do you say that the MAI if it is signed by this country will in fact strip away whatever protection there is on the question of foreign ownership?

**Ms Eason**—The multilateral agreement on investment has received a lot of attention internationally and is starting to receive some attention in Australia. It gives very sweeping powers to foreign investors to challenge any kind of foreign ownership rules that might be put in place by national governments.

As I understand it, the discussions on the MAI have been put back until October because there has been a lot of opposition from Canada and France, in particular. A small article I saw in the *Financial Review* suggested that the Australian government might be going a bit cold on it. That agreement seems to have very sweeping implications for the capacity of nation states to regulate foreign investment and to impose conditions also on foreign investors not only in terms of ownership levels but also in terms of social obligations.

It is early days. Until we see what is actually signed and the way the Australian government and other governments handle commitments under the MAI we cannot be certain of an outcome. But, certainly, the potential is there in that agreement, and in similar sorts of agreements to erode, we would suggest, any kind of restrictions that a national government might put on foreign ownership levels.

**Senator CARR**—The present regulatory regime talks about monitoring of executive salaries. What does the union understand to be the position in regard to the monitoring of executive

salaries, and the payment, I would have thought, of executive salaries in a fully privatised Telstra?

**Ms Eason**—We have not covered that in our submission and my understanding is that it was the current government's policy when they came in—I think it was in the document on privatisation, in the public interest, for the public benefit—to make sure that Telstra executive salaries did not go through the ceiling when Telstra was partially privatised in the way that they did in a number of the UK utilities, in British Telecom, for example. While there have been increases in salaries they have not risen in that kind of extraordinary way. I could not see what head of power the government would have now to exercise that kind of control.

**Senator CARR**—Would you anticipate a substantial increase in executive salaries?

**Ms Eason**—I think Telstra has always believed that their executives are underpaid by market rates.

**Senator CARR**—International market rates: how do they compare?

**Ms Eason**—I have not got it in my head, but I would suggest that compared to the head of BT, for instance, even the CEO of Telstra who earns well over \$1 million a year is probably not as well paid.

**CHAIR**—BT is a larger organisation than Telstra, isn't it?

**Ms Eason**—Telstra is currently capitalised at about the same market value, believe it or not.

**Senator CARR**—I notice a number of senior managers in public sector enterprises support privatisation. There seems to be a link between the demand for market payment of executive salaries and that support. Do you see any connection?

**Mr Cooper**—We describe the current senior executive salaries in Telstra compared with what the staff get and their pressure on staff reductions and salary as obscene, particularly when we are up against an organisation like Telstra that has got hold of the industrial relations agenda of this current government and is denying its staff increases. We have not been able to negotiate an enterprise agreement with the Telstra organisation over the last 12 months, which is leading to a very serious deterioration in staff relations, yet their executive salaries in comparison with staff salaries are absolutely obscene.

**Senator SCHACHT**—On the salaries, what are the ranges in the senior level salaries? Are you aware of them?

**Mr Cooper**—Ros might have some more detail; she has quoted the CEO's salary of over \$1 million. How do you justify that when one of our call centre operators would be lucky to be on a salary of \$30,000, maybe slightly more, for working incredible hours? Generally, all up, I do not think a total employment package of a quarter of a million would be unheard of. Ros might have some more specific details.

**Ms Eason**—They are published in broad terms in the annual report, as you are probably aware.

**Senator SCHACHT**—All of the directors and the senior executive, yes.

**Ms Eason**—I cannot summarise them. At a guess, I would suggest that there are something like 200 executives earning \$100,000 to maybe over \$150,000 a year, but that is just going on my memory.

**Senator SCHACHT**—Executives are earning these salaries, and they have been increasing in recent times. Telstra, of course, has got itself into a fair bit of strife in recent times over

such things as the Jindalee arrangement where they had to pay a large amount of money for someone else to take over and guarantee it.

**Senator CARR**—The consultants did pretty well out of it.

**Senator SCHACHT**—And consultants did very well. Are you aware of whether any of the senior executives of Telstra who were responsible for that project suffered any penalty—were dismissed or lost salary for a while, at the very least—or has nobody taken responsibility? Because if these are the claims of privatisation—and now it is the third privatisation—the responsibility of senior executives would have been identified and people would have been expected to take responsibility.

**Mr Cooper**—Ros may have more information, but I am not aware of anyone being held responsible for that or other decisions which I do not think have been in Telstra's long-term interests. I believe some are based on political considerations, not technical. I think we have one occurring now. I think our New South Wales people spoke to you about how they are going to try to centralise all the network operations control in Jeff Kennett's Victoria. We believe that was a political decision and will have disastrous results, but I do not know if anyone will be accountable.

**Senator SCHACHT**—The corporatisation—and now with the third privatisation—has been operating for 18 months; that is one area where a fault may be in a new culture of supposed privatisation. People would have been made responsible. Are you aware of anybody at the top level taking responsibility not only for the cheers and the good things but also for the jeers and the things that go bad?

**Mr Cooper**—We have seen the odd manager no longer work for the organisation or be moved sideways but, in my view, nobody has been held properly accountable for any of those decisions.

**Senator SCHACHT**—I was in Brisbane last week and I visited the network operating centre for Queensland and talked to the manager and to the staff. Queensland staff have been given an offer of either shifting to Melbourne or taking a redundancy, and many do not want to shift from Queensland because of their family and other social commitments, quite correctly. But if that program to centralise the network operations of all of those various state capital cities—including Sydney, Adelaide, Brisbane—in Melbourne does not work out, will it be possible under the new structure to identify who was responsible for that program?

**Mr Cooper**—From the way in which I see this organisation work, the person responsible will probably have moved jobs before the ramifications of their decisions come to pass. Historically, that has been what has happened. For example, at the moment, they acknowledge that in the Commercial and Consumer area there were disastrous errors made some years ago. They blamed the managers then and no one was accountable; they have moved on.

At the moment, I would suggest that the network, particularly in the major capitals, is vulnerable because of the way Telstra has outsourced the maintenance of the power. None of our people who had worked on this for years are working on it. They outsourced it to a contractor; none of our people wanted to work for the contractor. I think they anticipated that many of our people would, but they would not; they have stayed back in Telstra and will probably get redundancies. They have a contractor with little experience, and I think their whole network is vulnerable in a very critical area. If that happens, whether the people will be accountable remains to be seen. I seriously doubt it.

**Senator TIERNEY**—We heard evidence earlier today about the driving forces that are creating reduced jobs in Telstra, and it was put by several witnesses that it was not so much privatisation as competition and technical change which was creating a smaller work force in Telstra. Would you like to comment on those views?

**Mr Cooper**—Yes. The union has accepted over the years that there are reductions in staff because of technical change. We have entered into a number of agreements. For example, when the network is fully digitised and the analog network replaced, which should be completed at the end of this year, over half our staff involved in telephone exchange maintenance will probably have moved out of Telstra—very few to other jobs. That was orderly and a result of a negotiated industrial agreement.

In other areas where there have been reductions in staff anticipated because of technology, the union has worked on proper industrial agreements. But the reductions that are occurring now are not occurring in that environment. One is that the management of Telstra is not willing to negotiate—I believe because of direct interference by the government and the industrial relations attitude of today, which is not one of participating with unions and negotiating industrial agreements with unions—they just do it. They just cut the staff solely by management decision. So where we are seeing reductions in staff in Telstra now, they are reductions by a different method.

There is no consultation with the union generally. We advise against it very strongly and are largely ignored. Even in the agreements recently, like the Director agreement that did result in some reductions in staff, it was all conditional on that technology working, that technology being proven, before the staff went out. They have ignored that aspect of the agreement.

**Senator TIERNEY**—There are a lot of different sorts of changing technologies in this industry but, surely, given competition and changing technology, the reductions in staffing levels are pretty inevitable, aren't they?

**Mr Cooper**—As I say, we accept some of the reductions, and always have; we are a union that has constantly dealt with change. Some of the leading changes in technology occur in telecommunications. It has been part of our industry to adapt and adjust to that change. We have usually been able to do it, firstly to ensure that that change benefited and in fact served the community and, secondly, to ensure that our people were generally protected.

That is not what is happening now. For example, a lot of the new technology makes country towns extremely vulnerable. I do not think they care these days when a country town goes off the air because of some of the new technology. It is a small community, who cares! It was a crime once in Telstra to have a place off the air for seconds. Now it can be off for hours and nobody really cares, and that is the different attitude. We are concerned that those staff cuts are in fact not justified. Where they are justified, the union has a history of being willing to participate, but we also make sure our members are protected.

**Senator TIERNEY**—Obviously there are problems in the system but, surely, with the introduction of optic fibre and digital exchanges, there are likely to be fewer problems and therefore less need for technicians because of necessary technological change.

**Mr Cooper**—Not necessarily; the promoters of the technology might say that. We accept that there are fewer requirements, but there is also a need to have people close at hand to rectify the equipment. Frankly, you will not be able to rectify a lot of the country equipment from, for example, Clayton, Victoria. You need skilled, trained people who are readily available. Despite what the engineers and the promoters of the technology may say, our experience is that you need skilled and trained people close at hand to rectify faults in a hurry.

With digital exchanges and fibre optics, this technology is more critical than it was. It does not just carry an ordinary telephone call; it carries all the business communications of a country town—all these services that people now want. So the technology has made it more critical, and there is an even greater need to have people on hand to restore service urgently.

**CHAIR**—Senator Tierney, I know you have a number of questions, but we are now running behind time and we have an obligation to the other people. Please give your answers as succinctly and as briefly as you possibly can.

**Senator TIERNEY**—Surely with that optic fibre technology, the incidence of breakdown must be a lot less than on the copper networks?

**Mr Cooper**—In some cases it can be more. As I said earlier, a lightning strike can be more devastating than it ever was with analog technology.

**Senator TIERNEY**—The communications industry broadly has been in double-digit growth for a number of years. Surely the reduction in Telstra's work force is part of the adjustment in this new era, and surely it is expanding in other areas. You are responsible for work which is much broader than Telstra so, surely, across the industry there must be an increase in the work force, particularly with the thousand new players in the industry in recent years.

**Mr Cooper**—It depends on how you count the industry. I think part of the problem is that the statistics at the moment count the communications industry—not just telecommunications. It counts postal services and even couriers—if suddenly there was a rise in the number of bike riders delivering parcels, that becomes a statistic in the ABS communications statistics. The real problem is that Telstra is losing very skilled staff in country and regional areas and there are no other jobs available for them in that area. The areas where statistics show that jobs are being created are not necessarily where they are disappearing from and where they are really needed, even today.

**Senator TIERNEY**—That is the history of industrial change; jobs relocate as industries relocate. If we compare apples to apples and take the broader communications industry, say, three years ago to now, surely the job opportunities broadly are expanding in the industry, not contracting.

**Mr Cooper**—If you have a social commitment and social responsibility to regional areas, you can move the jobs. You can use the technology to put the work where the people and the skills are. Your scenario would mean that in country areas you would not have anybody with any skills or any knowledge. For example, Newcastle is an area that we have fought very hard for recently. It ran most of the northern New South Wales region. They wanted to close the centre there and denude it of all the skilled technicians at the Hamilton exchange and move them down to Pitt Street. Most of them either went out of the industry or will go out of the industry—they will not move to Sydney to live. They will probably be lucky to get jobs stacking tins on shelves in Woolworths after hours. That is a whole loss of very skilled technicians in the Newcastle area. But the work could have been kept in Newcastle; the technology allowed the work to stay there.

**CHAIR**—Senator Tierney, we have other people waiting and we have spent about half an hour here now.

**Senator TIERNEY**—I appreciate that. We have listened to Senator Schacht for a long time and I have a number of questions I would like to ask. I will not be long.

**CHAIR**—Two more questions and then you will have to put them on notice.

**Senator TIERNEY**—You have not cut other people off.

**CHAIR**—I have cut Senator Carr and Senator Schacht off.

**Senator TIERNEY**—After about an hour of questioning.

**CHAIR**—We are running to a timetable. You may ask two questions and then put the rest on notice please.

**Senator TIERNEY**—Well, that has not been asked of others. We had evidence from Ira Magaziner who is special adviser to President Clinton on these technology industries. He indicated that the wage levels in the broad communications industry in the United States are around \$44,000 as opposed to an average of \$28,000. So even though certain jobs disappear, other jobs in the broad communications industry are of a higher value—they will not necessarily all be stacking shelves. I appreciate the structural adjustment but, surely, there is growth in this industry and that is good news.

**Mr Cooper**—That is not our experience. In fact, what we are confronting in Telstra is an attempt to seriously downgrade the current salaries of staff. This proposition to move the whole location to Melbourne is on the premise that you only need the intelligence and the skill in Melbourne and that you can have deskilled people in the field. That is a fallacy, but that is the way they want to organise the work—so that you can have the minimum number of highly paid people and have a low-skill element out there in the field. They are trying very hard to reduce the salaries. Again, they do not understand the industry when they do this.

**Senator TIERNEY**—How much do you think the CEO of Telstra should be paid?

**Mr Cooper**—I would estimate what his needs should be, but I cannot compute that more than \$1 million, when a highly qualified technician is lucky to get \$50,000 at the top of the range—a person who is responsible for an area—is a fair salary in comparison. I think you will find that Telstra wants to benchmark the salaries of the workers to the lowest salary possible in the community but wants to benchmark their salaries to the highest salaries in the world. That creates incredible industrial stress within Telstra.

**Senator TIERNEY**—Your technicians are not running a \$50 billion company so, surely, the salary level for the CEO should be higher than that of smaller companies like BHP? It sounds like you are getting a bargain when you look at what the CEO of BHP gets.

**Mr Cooper**—Frank will probably be gone when we harvest the results. He probably will not be in the country when we find out the results of what really happened.

**Senator TIERNEY**—How many members of your union are shareholders in Telstra?

**Mr Cooper**—Telstra say that 85 per cent of the staff picked up shares, so I suppose 85 per cent of our members in Telstra probably own shares—it substitutes I suppose for not getting a pay rise; it was money for nothing. I do not think it bought their loyalty, if that was what it was meant to do. It was on offer; they did not even have to shell out any money to pick them up. Why wouldn't you?

**Senator TIERNEY**—What a bargain!

**Senator SCHACHT**—What were Telstra's conditions for staff to buy the shares?

**Mr Cooper**—I might not be correct on detail but, basically, if you bought one you got three free. They put up the money for you to buy the share anyhow, and you would pay that back as part of the dividend return.

**Senator CARR**—Is that part of your redundancy package?

**Senator SCHACHT**—So you could not lose?

**Mr Cooper**—You could not lose, no.

**Senator SCHACHT**—So you would be a mug not to buy shares.

**Mr Cooper**—Exactly right; it was money. It was probably a poor substitute for a wage rise, but I think some people said, ‘Well, if they’re that mean and they won’t give us a pay rise, well, here’s some money. We may as well take it.’

**CHAIR**—Senator Margetts, do you have any questions?

**Senator MARGETTS**—No.

**CHAIR**—I would like to thank Mr Cooper and Ms Eason for your submission and for coming today.

[2.29 p.m.]

**GIVEN, Mr Donald Jock, Director, Communications Law Centre, Fig Tree Lane, University of New South Wales, Sydney, New South Wales 2052**

**CHAIR**—Welcome. The committee has before it submission No. 55 and now submission No. 55A—which has just been tabled—which have been authorised for publication. Do you wish to make any corrections or alterations to either of your submissions?

**Mr Given**—I apologise for the lateness of the second submission. Having read through it on the plane down, I would love the chance to correct a few typos if I can, but other than that, no.

**CHAIR**—Do the typos change the intent of it in any way?

**Mr Given**—No.

**CHAIR**—Thank you very much. Do you wish to make a brief opening statement?

**Mr Given**—Yes, particularly given that you have just received it.

**CHAIR**—No, only if it is not in there because we will read this submission. We are running behind and I want to leave time for people to ask you questions. A couple of people have flicked through your submission while other questions were being asked. Do you wish to add anything to the submission?

**Mr Given**—There is nothing I wish to add.

**Senator SCHACHT**—Can you table the statement?

**Mr Given**—No, I was just going to give a very brief overview of some of the key points to it.

**Senator CARR**—You can incorporate those if you want.

**CHAIR**—It is in the submission.

**Mr Given**—It was more the perspective of the submission, to indicate that we do not come here to speak about every issue that is before this inquiry and covered in the legislation. The submission addresses specific areas where the centre is doing current work and has some expertise, particularly in relation to universal service and regulatory mechanisms affecting residential consumers like the customer service guarantee. Those are the real focuses of the submission.

**CHAIR**—And you say that on page 2 of the submission.

**Mr Given**—That is right.

**CHAIR**—Questions?

**Senator TIERNEY**—Madam Chair, we are at a bit of a disadvantage. This submission having landed here a few minutes ago, we have not had a chance to look at it. I have seen

some of the earlier work of the Communications Law Centre, which was excellent. Looking through this, it seems to be excellent too, but we have not had a chance to look at it. Perhaps it would be appropriate if we had an opening statement so that we can listen to what the centre has to say. Then we could ask questions based on that.

**CHAIR**—I have a real concern about time.

**Senator TIERNEY**—But we should not chop one witness off totally.

**CHAIR**—I have not chopped him off totally. Other witnesses have not given submissions. I think we need to move to questions, Senator Tierney.

**Senator SCHACHT**—I have had a chance to read your submission, Mr Given, although not in detail. I have to point out, in defence of the witness, that a lot of witnesses are having problems getting their submissions in on time, due to the truncated nature of this inquiry and the deadlines given to it by the Senate and the government. I do not know whether you were here earlier today when the ACA gave evidence.

**Mr Given**—No.

**Senator SCHACHT**—The issues you raise are some of the issues I raised with them. The first one on page 3 is about the universal service plan not being in place. The ACA agree with your timetable, that it was submitted in September and it is still to be approved by the minister. They said that the ACA had made 44 suggested amendments to the draft universal service plan, that it was up to Telstra to respond to the minister and that they are now out of the loop, so to speak. Do you have any knowledge of reasons why it has taken the minister so long to reach agreement to adopt the universal service plan?

**Mr Given**—No, I do not have any information about that, but it is clearly an issue of concern for us. We agree with the principles set out in this piece of legislation that the universal service arrangements are a critical part of the overall social and economic package of telecommunications regulation. There were a whole raft of specific regulatory steps that needed to be in place by 1 July 1997. We are certainly concerned that this was not one of them. Telstra got its draft plan to the minister by the end of September, but clearly we are concerned to see the exercise brought to a head.

**Senator SCHACHT**—In which areas do you think it will disadvantage consumers if the universal service plan is consistently delayed from implementation and we are relying on operating on the old guidelines laid down by Austel over two years ago?

**Mr Given**—The specific area that we raised in the submission, at pages 3 and 4, related to connection times. I was involved in the review of the standard telephone service that was conducted in late 1996, early 1997. A particular recommendation there related to maximum connection times. You are probably aware—it has probably come up in earlier evidence—that the maximum connection time for the most remote customers in Australia is currently, under Austel's old view of the universal service obligation, 27 months to get a standard telephone service. There are not many customers affected by that, but clearly you would not want to be; it is an awfully long time to wait for a telephone.

Our group, the Standard Telephone Service Review Group, looked at that. Nine of the 10 members—which included Telstra, Optus, the Farmers Federation, consumers, everyone essentially—agreed that that time frame was no longer acceptable and should be substantially reduced. The government accepted that recommendation in the response that we received at the end of July last year and indicated that there were two ways that those reduced time frames might be brought into place: one of them would be through the universal service plan and the

other might be through performance standards made by the ACA under the customer service guarantee. The customer service guarantee did not change that maximum 27 month period. We do not have a universal service plan, so nothing has changed. People in the most remote areas of Australia can still wait 27 months for a telephone.

The reason why we think that is an issue—we are well conscious of the logistical difficulties of getting services out to the most remote areas—is that, at a time when we are cranking up the level of basic service, we are saying that 96 per cent of Australians should be able to get an enhanced service within 90 days of application. The remaining four per cent of people who are not getting that—it might not be the whole four per cent, but the people in the most remote areas—might still wait 27 months, even to get a basic telephone service. That just seems to be a really fundamental inequity.

**Senator SCHACHT**—So are you suggesting, taking account of those very few people in very remote areas, that the connection time still might be 20 months, 18 months, but in the rest of Australia, with the other 96 per cent, you would have a different standard of connection time of, say, 90 days?

**Mr Given**—The standards for people in less remote areas are already much lower than that. The focus for us was particularly on those most remote customers. As I say, there are not many people affected by it, but you would not want a lot of people to be affected by it; it is a long time to wait to get the phone on.

**Senator SCHACHT**—That connection time, even at 27 months, did not mean in the city, in a suburb of Melbourne, that Telstra could say, ‘We’re going to wait 27 months to connect your phone’?

**Mr Given**—No, not at all.

**Senator SCHACHT**—So there was a scale?

**Mr Given**—That is right. Austel’s so-called view of the universal service obligation set a scale, from a small number of days through to 27 months. Our focus was on those most remote people, to say, ‘We’ve simply got to do better than that for that small group of people.’

**CHAIR**—Mr Given, you do not mention in your submission—and I am just going through it—whether you agree or disagree with the sale of Telstra. Are you not making a comment about that or are you just commenting on the legislation per se?

**Mr Given**—We are commenting on specific aspects of the legislation—

**CHAIR**—Does the Law Centre have a view about the privatisation of Telstra?

**Mr Given**—In the context of this inquiry we are not expressing a view on whether or not the further privatisation should go ahead. We are well conscious of the debate which is raging, particularly amongst Telstra, service providers and other carriers. I guess our view is that, whilst we looked at the broader issues about privatisation more carefully at the time of the initial legislation going through, we are conscious that, to assess progress of the regulatory regime, and particularly all of the debates that are going on about ring fencing and everything else, would have required a much greater level of analysis than we had the resources to devote to it. As we are conscious that a lot of other people are devoting a lot of resources to that, we have put our resources into the areas in which we think there has been less focus—around the specifics of things like the universal service arrangements and the customer service guarantee, where we think things are manifestly not working.

**CHAIR**—Could you try to keep your answers as short as possible. The question I asked was: are you making a statement about whether you agree or disagree with the sale of Telstra? And the answer was that you are not making a statement about that.

**Senator TIERNEY**—That last point you made was interesting. Comparing the last inquiry to this inquiry, part privatisation at that time was a very hot issue. During this inquiry we have to keep prompting witnesses by saying, ‘What is your attitude to what this inquiry is centrally about?’ So it is interesting that your organisation does not have a position on it. Could I ask you about the draft universal service plan. You say that it should be implemented—I assume as quickly as possible. Wouldn’t you agree that if significant improvements could be made to it—and the ACA said today they had made 44 recommended changes—it would be better to wait a little while and make sure that we get it right, rather than rush into it now?

**Mr Given**—Certainly, we are interested in getting it right, but it is now 10 months since the new regime came into place. This was a central element of it. We think it is a matter of some urgency that it be resolved. There has been plenty of time, we think, to work through the many arguments and the many specific points about it, particularly since some of the key things we are raising were actually debated in great detail in the Standard Telephone Service Review Group process which went on from mid-1996 until February 1997. These are old arguments.

**Senator TIERNEY**—You say that the preamble to the bill should include the full definition of the USO. I was wondering why, given that it is in the Telecommunications Act at the moment and has full force on that basis. It would not have any extra legal effect or impetus if it were included in the preamble, so I was wondering why you have recommended that.

**Mr Given**—I think it is a question of legislative force. The preamble proposed in the legislation before this committee does not have a lot of legislative force at all. It is a statement of principle. It is a reaffirmation of principles that are already there. I think that is all the more reason why it is surprising that, in its statement of what the universal service obligation is, it leaves out the crucial third limb, which is the very matter which is supposed to be the subject of a review at the moment—that is, whether we enhance the level of basic telecommunications service required to be provided under universal service arrangements. That seems to us a surprising omission from the definition of universal service.

**Senator TIERNEY**—You suggested in section 4.1 that billing and selling practices should be covered by the customer service guarantee scheme. Are there parallels in other industries that you know of where this occurs?

**Mr Given**—No, I am not aware of precedents in other industries. We were quite enthusiastic about the general idea of the customer service guarantee, but it does seem that its coverage is not as broad as it could be. In particular, with regard to the mechanism it chooses, which is that individuals have to make claims themselves and fill out a form, I guess one of the key things we are recommending in this is that the payment should be automatic. Telstra knows when it has not connected the line by the due date. If it is one day late, two days late, 12 days late, why should someone have to fill out a form to claim their rebate under the customer service guarantee? Why should that not be automatically payable, reducing the administrative cost and providing a much stronger incentive on the carrier to get the job right?

**Senator TIERNEY**—So if we took on board your recommendation, as far as you are aware, it would be a first for industry to include those things, would it?

**Mr Given**—I am not aware of precedents in other industries.

**Senator SCHACHT**—Earlier today, the ACA, when they spoke to their submission, pointed out that under the act the minister must ensure that a digital data review is conducted by 30 September 1998. They pointed out that, as yet, they have not been given the reference by the minister, or even the terms of reference. They did point out that they were prepared and ready to go when the starter's gun sent them on their way. With only four months to go to the end of September, would you be confident that that review could be done in the time left and in the proper way—these digital data issues?

**Mr Given**—We are concerned that that review, which was recommended by our own standard telephone service review, took a lot longer than four months. I think we all acknowledged that one of the reasons for that careful recommendation—not to put something straight into the universal service obligation then—was precisely because we felt we did not know enough about the likely directions of technology or how the new regulatory arrangements would work or how much competition would achieve. We said, 'You are going to have to have another look at this in a year or so.' We felt, in doing our review, that we had problems with data. We just did not know enough. To do that review properly is going to require a lot of effort and, yes, we are concerned that it is not under way yet.

**Senator SCHACHT**—You were a member of the Standard Telephone Service Review Group. There was some controversy about the recommendations, I think, between nine versus one or 10 versus one, but that is not my main point. The recommendations you made, which were cautious even for the majority, were leading towards having an expanded universal service obligation. That is correct, isn't it—cautiously expressed?

**Mr Given**—We said we were being cautiously expansive. We all agreed that there should be a goal of universal availability of so-called digital data capability by the year 2000. We also agreed that we should not take the step of putting that into the universal service obligation at that stage. We all agreed that we did not quite know enough, that we needed to wait and see how the competitive market worked with new technologies coming on stream. Since then, Optus has announced satellite services. Telstra, I see in the paper this morning, is claiming satellite services coming on stream, as well. That might be able to address this issue; I do not know. I am looking forward to this review so that we can find out a bit more about it.

**Senator SCHACHT**—So this review is ongoing? The digital data review by September 1998 is a continuation, in effect, of some of the work you began as an STS?

**Mr Given**—Yes. We said, 'Set a goal of digital data capability by 2000, but have another look at it in 1998 and decide whether you have got to put it into the universal service arrangements.' That is exactly what the minister did in the legislation.

**Senator SCHACHT**—I want to draw your attention to two previous submissions from Western Australia, from the WA Department of Commerce and Trade, and from Dr Green of the Communications Expert Group. They recommended, particularly Dr Green, that the standard service be upgraded to 64 kilobytes per second. In view of your own centre's experience, and yours on that STS group, I wondered whether you would care to respond to us about that view, and whether it is possible to put in an upgraded universal service obligation—to 64 kilobytes per second—while the legislation is before us.

**Mr Given**—I am conscious that it is a bit of an unhelpful response, but I think we actually need that review. I think it is a really complicated issue and—

**Senator SCHACHT**—The problem we have is that this legislation is going to be debated before the review comes in.

**Mr Given**—I am conscious of that, but the capacity to upgrade is a capacity that the minister has, by regulation. Clearly there is a difference between the minister's power and the parliament's power to change it. But, as we particularly acknowledged in that review process, it is not simply an issue of consumers wanting a higher level of service in the universal service obligation and carriers and service providers not wanting to have to pay for it. For consumers there may be a real equity issue about the total cost of providing that higher level of service and who is bearing it. If a higher level of universal service obligation means that country Australia, in the first instance, is subsidising higher level services, or that 90 per cent of Australia is subsidising enhanced services that only 10 or 15 or 17 per cent of the population is using, then I do not think that is a sensible equity outcome. Although it is an unhelpful response at the moment, it is a tough issue and we need data, we need analysis, and we need that review to be happening.

**Senator CARR**—Mr Given, I would like to ask you a question relating to the actual performance standards and, particularly, enforcement of those standards. On page 10 of your submission, you say:

That Section 236A of the Bill be amended to provide that contravention of the Standard is a Civil Penalty Provision.

What are the implications of that proposal in terms of pecuniary damages? What sorts of damages do you think would be liable and to what extent would such an action assist the enforcement of any standards?

**Mr Given**—We think it is a useful amendment to the legislation to have this new power created. The point of the recommendation is that we think the amendment does not quite do the job, in legal terms, that is being claimed for it. There is another point that I think is very important to clarify in some of the claims that are being made about what this provision will do. At the moment, if a carrier is a day late connecting a service, they have to pay \$11.65 for it; these new provisions do not mean that they are suddenly going to be up for \$10 million. This is a quite different kind of provision—a quite different kind of step that will have to be gone through—and I think it would be very difficult, in the end, to sustain fines of \$10 million. There are a lot of steps to go through before we get to the stage of a telco being fined \$10 million for failing to do something. So I think the language of a \$10 million fine is nice to have there, yes, it is possible—

**Senator CARR**—But it is a bit of a gimmick?

**Mr Given**—But it is going to take a long time to get there. The customer service guarantee is a useful idea which might actually make some difference, but it has got to bite faster and it has got to bite for everyone who loses out on poor quality of service.

**Senator CARR**—Are you saying that section 236A can be amended in that manner to actually enforce the standard more effectively? Is that the proposition you are putting?

**Mr Given**—We think so, yes.

**Senator CARR**—All right. The final question I have relates to the question of privacy. You say:

The Centre believes that a liberalised and privatised telecommunications environment carries considerable risks for personal privacy.

How do you see that occurring in terms of privatisation? Do you actually see an increased threat to privacy?

**Mr Given**—In a highly commercialised environment where all of the telecommunications companies are seeking to maximise returns for shareholders, it is inevitable that they will take steps which push the limits of what is legislatively possible in areas like privacy. We have seen the ongoing debate about calling number display technology, where there has been, I think, very real difficulties in keeping apart what is essentially a marketing campaign about a new service, and a public education campaign raising issues about privacy problems which might result from it. I think that is a constant tension in the process now.

**Senator CARR**—And so you think that protection can be built in by an extension to the Privacy Act which affects the private sector? Wouldn't it also require some attention to the question of enforcement—in terms of pecuniary damages—as well?

**Mr Given**—The issue for us is that, when we looked at the customer service guarantee, there were a number of areas where we thought it could be applied and where it is not now applied but we think that the area of privacy is a much broader question than just the telecommunications industry. One of the key problems we are facing with calling number display technology is not just what happens with telecommunications players. The issue is how it applies to every business in Australia that subscribes to calling number display technology and how they use the information they gain about callers. You cannot address every business in the economy without economy wide, legislatively backed privacy protection. That is why we think the Telecommunications Act is okay as far as it goes, but you cannot address all the problems that we are going to face without economy wide privacy protection.

**Senator SCHACHT**—Can I ask you, on notice, whether you might care to comment about the ACA submission that describes what we have just been talking about—the penalties under the customer guarantee of \$10 million—as 'a systemic breach of service standards'?

When I asked them questions about what that actually meant, they still said that they are working their way through it. I would be interested if your Law Centre has any view about what would be described as a systemic breakdown in the system that would lead to fines of substantial amounts, of up to several million dollars leading up to \$10 million. In one sense, it might well be a paper tiger penalty—it never actually gets imposed because it is just too difficult to prove.

**CHAIR**—Mr Given, if you have got time by Friday lunchtime and could elaborate a little on that scaled penalty rate up to the \$10 million or suggestions on ways that you think it might bite slightly harder and sooner, I think the committee would appreciate that, too.

**Mr Given**—I am happy to do that.

**CHAIR**—We are trying to get the submissions in by Friday lunchtime so the committee can deal with them. Thank you very much. I appreciate the time and effort you put into your submission and for your attendance here today. Senator Margetts, do you have any questions?

**Senator MARGETTS**—I am on line, but I do not have any questions for Mr Given.

**CHAIR**—I am sorry, we called you before and we could not hear you.

**Senator MARGETTS**—No, I was not there. Nobody called me back at the end of lunchtime.

**CHAIR**—I thought you were there and had gone away from the table. Sorry.

**Senator MARGETTS**—I was not there. I had not been called back after lunchtime so I was waiting for a call.

**CHAIR**—Apparently, that was an omission to call you back, I am sorry about that. Just for the information of those witnesses who are here, in order to try and deal with our time fairly, we have got about one hour and five minutes, and the suggestion is that we have Mr Pinnock for half an hour and then we bring to the table together the last two witnesses, the Western Murray Development and the Australian Secondary Principals Association.

[2.57 p.m.]

**PINNOCK, Mr John Edward, Ombudsman, Telecommunications Industry Ombudsman Ltd., 315 Exhibition Street, Melbourne, Victoria 3000**

**CHAIR**—I welcome the Telecommunications Industry Ombudsman, Mr John Pinnock, to the table. The committee has before it submission No. 48, which it has authorised to be published. Are there any alterations or additions to your submission that you would care to make at this stage?

**Mr Pinnock**—There are some additions that I would like to make orally to the submission, particularly in relation to what could be called operational issues arising from the customer service guarantee which the submission is concerned about. I do mention in the submission the question of the lack of awareness which seems to be a fundamental problem. I would like to amplify that just briefly in a moment to give an idea of the sorts of problems that are arising.

However, specifically, in addition to those matters mentioned in the submission on operational issues, the CSG and the standards under it do not make any special provision for business customers. The definition of customer clearly encompasses a business customer, but business customers pay additional line rentals. That is reflected in the damages that are payable under the guarantee, but they do not get any special dispensation or any additional protection under the guarantee from residential customers. Yet they are particularly susceptible to problems encountered in relation to delays in the connection of new services. It seems to me that that is an issue which might be looked at.

The other issue is that, although there seems to be a perception amongst many people that the customer actually has to claim compensation under the guarantee as opposed to it being paid automatically whether by way of a credit or in any other way, it is the TIO's view that that is not clear at all from an analysis of the guarantee. It is arguable that there is not a requirement for individual customers to make a specific claim but that it should be, in effect, an automatic entitlement. However, if the view that there must be a specific claim by a customer is correct, then the problem that we see being encountered by customers about lack of knowledge of the guarantee is really quite fundamental—you cannot claim something you do not know anything about.

Finally, there has emerged a fundamental disagreement between the TIO and Telstra as to the correct interpretation and hence application of the standard in relation to new connections. We have been aware since the CSG was introduced that there was a difference of interpretation as to new connections, but we have not been aware until last week of the reasons for the difference.

Telstra is relying on an interpretation which it says has the approval or sanction of the ACA. The TIO believes that that interpretation is incorrect, and that it is leading to a skewing of the recording of complaints about breaches of the standard. This requires a little analysis of the particular provision itself, clause 7(3). Clause 7 provides for the periods in which connections must be made. It begins by stating:

A carriage service provider must comply with the request by a customer for connection to a specified service within the guaranteed maximum connection period unless subsection 3 applies.

Subsection 3 states:

If a customer when making a request for connection to a specified service specifies a date after the end of the guaranteed maximum connection period as the date from which the customer requires the connection, a carriage service provider may make an arrangement with the customer to connect the specified service on that date.

In other words, if the customer were to say, 'Look, I am going away for two months. I would like a connection at the end of three months,' which is clearly—if they are a metropolitan customer—outside the performance standard, then the performance standard does not apply in that instance. It would only apply if the carriage service provider subsequently failed to meet that three-month deadline.

The TIO has been applying that particular provision strictly; namely, if the customer specifies a date, then the carriage service provider—in this instance, Telstra—is relieved of the obligation to connect within what would otherwise be the guaranteed maximum connection period. However, Telstra's view is that, if it offers a period of connection which itself is outside the maximum guaranteed connection period and the customer accepts that without demur, then that is the agreement. Hence the CSG does not apply in that particular instance.

Moreover, because it does not apply, it appears—I have to say 'appears' because I am still uncertain about this—that Telstra would then regard itself as being relieved of the obligation under clause 6(3), which is the primary obligation to inform the customer of the existence of the CSG and their rights under it. So in that instance the customer—not being aware of the specific details of the CSG—would not know that they are actually entitled, in our view, to claim compensation. Telstra further says that, if the customer at that stage expresses frustration at that or demurs in any way, then they will attempt to make the connection within the guaranteed maximum connection period.

Effectively what seems to be occurring is that Telstra is adopting its previous internal standard of what was called the customer agreed date, which was a negotiated date; whereas the standard itself clearly says in subclause (3) that that only applies where the customer specifies the date, not where a date is offered by Telstra. So that is a fundamental disagreement. The implications for the way in which breaches of the CSG are being reported both internally by Telstra and by the TIO are obvious.

**Senator SCHACHT**—What is the remedy for this difference of opinion?

**Mr Pinnock**—The remedy is for a clear statement from the ACA as to the proper interpretation of the ACA.

**Senator SCHACHT**—Have you raised that with them?

**Mr Pinnock**—Yes.

**Senator SCHACHT**—What is their response?

**Mr Pinnock**—We hope to have a meeting of all interested parties next week to thrash it out.

**Senator SCHACHT**—Even though our own reporting deadline is very tight, if you do have a meeting next week and if there is any information that comes out of that, might you need legislative amendment to get a satisfactory outcome on this issue?

**Mr Pinnock**—If it did require an amendment, then I would be looking at the ministerial direction which has been foreshadowed in the minister's second reading speech whereby the ACA will be given a direction to review—

**Senator SCHACHT**—By the minister.

**Mr Pinnock**—By the minister, and that there will be a sunset clause, in any event, on the current CSG of 1 January 1999.

**Senator SCHACHT**—I wish you well with those discussions with the 600-pound gorilla on one side of the desk and you on the other. Mr Pinnock, on the last page of your submission, you state:

... the CSG provides an exemption from the relevant standards in the cases of natural disasters or extreme weather conditions that cause mass outages of services and may 'restrict rectification or connection activities'.

I raised that with the ACA, by the way, and they did not disagree that Telstra itself can declare whether or not it should have the CSG activated due to extreme weather conditions. Now none of us disagree with it when Katherine was under 10 feet of water, it is a bit hard to complain about the connection and getting it fixed, et cetera. That is quite clear.

But Telstra also claims that in northern Australia the incidence of lightning can affect the operation and the CSG becomes non-operative. That is a bit more of a concern to many of us, because the wet season has lightning every year in the Northern Territory. So it is not an extreme weather condition, it is a natural weather condition for northern Australia. There are two points I would make about that: firstly, the ability of Telstra to declare itself out of the CSG when they are the ones who could suffer the penalty—it seems like the poacher and the gamekeeper are almost the same thing—and, secondly, with these definitions about extreme weather conditions, whether they are whatever Telstra decides they might mean on the day or whether there is something you can get your teeth into and say, 'That does not fit with extreme weather conditions and this does.'

**Mr Pinnock**—If I can deal with the second point first. The TIO never supported this concept of extreme weather conditions when we were discussing the matter with the ACA before the introduction of the standard. We certainly could see the force of the natural disasters argument.

**Senator SCHACHT**—It is a natural disaster which is quite different.

**Mr Pinnock**—Yes, quite so, and readily comprehensible even if the precise confines of a natural disaster might be a matter of debate. However, the term 'extreme weather conditions' is so vague and undefined as to be virtually incapable of application, in our experience. We have had a number of cases in the TIO where this argument has been put to us—

**Senator SCHACHT**—By Telstra?

**Mr Pinnock**—By Telstra. I suppose you could say that we have tried to take a fairly tight line on it but we are hampered by the words themselves. There are going to be arguments because of the unsatisfactory nature of the words. So, in a sense, that answers the first question—that Telstra is seeking to say in certain circumstances that the CSG does not apply. But it has to result in mass outages. The exemption says 'beyond control such as natural disasters and extreme weather conditions resulting in mass outages'. So there is another argument: what is a mass outage? If you had an instance where a small group of individual customers were specifically affected, in our view, that is not a mass outage.

**Senator SCHACHT**—But for the customer it is.

**Mr Pinnock**—But if it is a mass outage, then the customer does not get the benefit of the guarantee.

**Senator SCHACHT**—Yes. Does the Bureau of Meteorology have a definition of ‘extreme weather conditions’?

**Mr Pinnock**—I have to shake my head, Senator. I do not think they do but I must admit I have not checked that.

**Senator SCHACHT**—In your discussions with Telstra, have you raised with them that there is going to be lightning every year in the wet season in northern Australia, so should they not, over a period of time, take action to design their infrastructure to reduce the outages from lightning strike which are going to happen every year?

**Mr Pinnock**—No, I have not. Without wanting to be seen to flick pass the matter, as far as I am concerned that is a matter for the ACA.

**Senator SCHACHT**—You said you have a number of cases on this issue of extreme weather conditions. They were raised with you by Telstra or were they also raised by customers?

**Mr Pinnock**—They were raised by customers who had been to Telstra and had not got what they considered a satisfactory response, come to the TIO as a last resort and then, when we took the case up, encountered this argument from Telstra.

**Senator SCHACHT**—Do you think they had a reasonable case?

**Mr Pinnock**—In some instances I think that the customer did have a reasonable argument. There were some—and we are not talking about a huge number here, Senator—

**Senator SCHACHT**—I appreciate that.

**Mr Pinnock**—Because of the vagueness of the phrase, you could equally say Telstra has got an arguable case.

**Senator SCHACHT**—Ignore the phrase. Someone at their home, their business or their store in the Northern Territory or northern Queensland had their telephone fall out due to a lightning strike—the lightning hit the pole outside or something like that—

**Mr Pinnock**—I think that should have been covered by the standard.

**Senator SCHACHT**—But Telstra claimed it was out?

**Mr Pinnock**—Yes. It has not just been lightning, it has also been very heavy periods of rain, like Sydney encountered over Easter.

**Senator SCHACHT**—Did Telstra claim extreme weather conditions for Sydney for that heavy rain over Easter?

**Mr Pinnock**—I cannot answer that because it has not fed through to us yet.

**Senator SCHACHT**—Have any complaints come from customers in Sydney saying that Telstra has knocked them back?

**Mr Pinnock**—I do not think there have been. I would have to take that on notice. I would have to check with my investigation officers. There would always be a lag in them coming to us.

**Senator SCHACHT**—At the very least, should the body independent of Telstra which decides whatever these definitions are be the ACA or you?

**Mr Pinnock**—Fundamentally it is the ACA and then I can enforce them at least on the individual complaint level.

**Senator SCHACHT**—I think it would be most useful if you could do that. It has been raised by other members of the committee that the penalty for the customer service guarantee is \$10 a month off your rental or something like that. Quite frankly, is that a penalty about which Telstra could say, ‘Oh, well, in our revenues that’s only a flea bite. We’ll just ignore it and get on with the job of doing what we’re doing and pay the money instead?’

**Mr Pinnock**—I suppose in the strict economic argument you could argue that. I do not know that Telstra is taking that view. I certainly agree with the comments that have been made by other witnesses that it is not a penalty in any event. In my view, it is simply a measure of recompense for inconvenience. The new penalty provision that has been considered under section 236A is much more fundamental. I agree also with Mr Given that unfortunately there is nothing in between—you have got the CSG and then at the extreme—

**Senator SCHACHT**—It is \$10 million.

**Mr Pinnock**—Yes, but, even allowing for that, the fundamental consideration in relation to 236A is whether it will be used to enforce whatever performance standard is determined there. This is not just an issue that Telstra has to confront because it will confront any carrier that is offering services. We know for instance that Telstra is under certain performance standards in relation to, for instance, public telephones and directory assistance—the number of calls answered or percentage of calls answered within 10 seconds—but the question with those standards is that they need to be enforced at some stage. It is not much use introducing 236A with these tremendous powers in terms of civil penalties if in fact it is not at some stage used. The other thing, as Mr Given has highlighted, is that there is nothing in between. It is either this very small recompense under the CSG or a whacking civil penalty by way of prosecution for a breach of the act.

**Senator SCHACHT**—I have asked Mr Given and others this. Do you have any idea what a definition of systemic failure of the system would be?

**Mr Pinnock**—The answer is no. I take a slightly different approach here. I actually favour putting any carriage service provider under an obligation to prove that a diminution of service or breach of the guarantee is not due to a systemic failure. In other words, all you have to prove is a failure to meet the performance standard at a certain level and you then enforce that unless the carriage service provider is able to show that it is a systemic issue, for instance, beyond its control.

In other words the ACA does not have to prove what the systemic issue is. All it has to prove is that there is a breach of the performance standard. It can then say to the carriage service provider, ‘It is clear from the statistics that you are failing to meet the performance measure. We are not interested in what the underlying cause is. There is clearly a failure which can be characterised as a systemic failure. You fix it.’

**Senator SCHACHT**—The definition you have just given, which seems to have some merit, Mr Pinnock, would that have to be put in by regulation, legislation or legislative instrument?

**Mr Pinnock**—I think it would have to be by legislation. It might encompass a reverse onus of proof and that would have to be legislatively agreed to.

**Senator SCHACHT**—In the very short time we have available now, would you care to draft what you think would be—I knew you would fall off the chair when I suggested this—

**CHAIR**—Rather than a draft could you give us the intent.

**Mr Pinnock**—Yes, certainly.

**Senator SCHACHT**—Is it a complicated piece of legislative amendment?

**Mr Pinnock**—I would not think so, but I am not an expert in drafting. I am reasonably good at interpretation.

**Senator SCHACHT**—If you could give us the clear intent and if you can think what it would be, as the second leg of the request, we would appreciate that very much because I think that is an amendment. I will have to say I think this issue is irrespective of privatisation.

**Mr Pinnock**—Yes.

**Senator SCHACHT**—Whoever owns the carriers ought to be meeting these requirements in a consumer-user friendly way.

**Mr Pinnock**—As long as it is not characterised, as the last one I put up was, as weak water.

**Senator SCHACHT**—What?

**Mr Pinnock**—On a previous occasion I suggested an amendment to the CSG and you characterised it as fairly weak water, Senator.

**Senator SCHACHT**—Oh, did I. My memory has gone.

**Mr Pinnock**—It stays in my mind.

**Senator SCHACHT**—Oh, I see. Make this one a bit of hot water then to give the carriers a bit of sting and curry.

**Senator TIERNEY**—Welcome back, Mr Pinnock.

**Mr Pinnock**—I think I should get a season ticket, Senator.

**Senator TIERNEY**—I think you should too. The number one ticket holder. Just on the customer service guarantee scheme, in your view would that be weakened in any way by Telstra moving to full privatisation?

**Mr Pinnock**—You will see that I do not express any opinion one way or the other in relation to the question of full privatisation. I have to answer the question this way. The statistics which Telstra is itself producing and reported by the ACA and the statistics which the TIO has accumulated over the last three quarters, that is to say September, December and March do show a fall off in service. However, I cannot say to anyone—and I will refrain from even suggesting it—that you can draw a correlation between that and, for instance, the partial and in the future perhaps the full privatisation of Telstra. All I can say is that there has been a fall off in those three quarters. I cannot say what is causing it. I am not able to answer the question clearly one way or the other.

**Senator TIERNEY**—You say on page 1 that awareness of the customer service guarantee is pretty low.

**Mr Pinnock**—Yes.

**Senator TIERNEY**—Are there any strategies that you could suggest that might change that?

**Mr Pinnock**—In relation to new connections, that would depend on a resolution of this fundamental disagreement between Telstra and the TIO at the moment. If the TIO is correct in its interpretation then in many instances where customers are not currently being told about the CSG they would in future be told. Beyond that it is very difficult to ensure that it is done on a basis that all customers know about it. It seems to me that it is almost an impossibility. It might be possible over a period of years.

What needs to be enforced is that, when a customer contacts any carriage service provider, Telstra included, and complains or raises a question of a fault rectification or seeks to have a new service connection, they should be told then and there what the CSG is. As it stands at the moment, there is no enforcement mechanism for that. An enforcement mechanism has been foreshadowed in the minister's second reading speech but it is not spelt out. In other words, the ACA will be given a direction which will enable it to enforce that primary obligation on the carriage service providers, but quite what it is is not clear.

I presume that it might involve, for instance, looking at what measures Telstra, or anyone else, takes internally in terms of staff training, even down to the extent of looking at the types of scripts that are used by the customer service representatives when dealing with customers. It actually needs to be drilled down to that level to ensure that the message is getting out. I believe that is a more appropriate way of dealing with it rather than a sort of shotgun or scattergun campaign where you try to tell every customer in Australia about the existence of the CSG.

**Senator TIERNEY**—Has your office noticed any systemic difference in approach to customer service issues between Telstra and its private competitors?

**Mr Pinnock**—On these issues of fault rectification or connection or generally?

**Senator TIERNEY**—You could start with that and then perhaps more generally.

**Mr Pinnock**—At the moment, in terms of fault rectification and new connections, there is very little difference, primarily because the vast majority of these cases are being raised with the TIO by customers of Telstra because it has the pervasive network and so it is usually the first port of call for both of those issues. Going beyond that, there are wide variations between the members of the TIO in terms of their profile of customer complaints.

If we put aside for a moment mobile operators, because they have a specific profile as opposed to what used to be called general telecommunications carriers, some members of the TIO have particular problems with backbilling and particular problems with delays in customer transfer for slamming—that is, unauthorised transfer—so much so that those issues may in individual cases account for up to 50 per cent of all cases registered against that particular member. Telstra's profile might be quite different—and it is, in fact—in relation to those.

The only thing that they all tend to have in common is that they are fairly close to the average of the TIO's statistics for billing complaints, at roughly somewhere between 33 and 40 per cent. The profile of those billing complaints varies depending on the nature of the service provided. What we try to show to our individual members on a quarterly basis is that we give them the profile of all complaints to the TIO and then we give them a profile of their own complaints. So they are well aware of how they vary from the average.

They will not be aware, of course, of how well they are doing against someone else and, to date, we have not published those figures publicly on a quarterly basis. We have published them, at least in relation to the original three carrier members of the TIO, in each annual report. I am considering, subject to the council and the board of the TIO approving that, putting these statistics on our web site each quarter so that everyone will know what everyone is doing.

**Senator TIERNEY**—I noted earlier your reluctance to comment on the Telstra ownership issue but, in terms of the things you are most concerned about such as performance standards and customer service guarantees, does ownership—whether it is a full monopoly, a partial monopoly, or a private company—really matter?

**Mr Pinnock**—Ownership is irrelevant in my view. The question of the level of manning may or may not be an issue. However, I would have taken the view that if you have a corporatised entity, as opposed to a privatised entity, then you are going to be looking at issues of efficiencies, et cetera. Telstra offers a number of reasons to the TIO for problems it has had over the last three quarters. I am not in a position to say categorically one way or the other whether it is right or wrong, just as I cannot say categorically one way or the other whether the evidence given earlier today on behalf of the union is right or wrong. I just cannot identify it from my statistics.

**CHAIR**—Mr Pinnock, before we finish, Senator Margetts, who is with us via teleconferencing, has a question.

**Senator MARGETTS**—Can you just clarify whether there is a qualitative or quantitative difference in the number of complaints that are being received by the Ombudsman's office? Is there any difference since the partial privatisation?

**Mr Pinnock**—Overall, there has been virtually no change. In relation to delays in fault rectification and delays in new connections, there has been a fall off in service in the three quarters ended 30 September, 31 December and 31 March. That fits the time frame of partial privatisation in a general sense but I do not know, and I have not tried to even work it out, whether there is a statistically significant correlation between those two. Secondly, even if there were a statistically significant correlation, it does not isolate the causes where there may be many factors at work.

**Senator MARGETTS**—I notice you mentioned that one thing that could be done, in your opinion, is that the ACA could be given more enforcement mechanisms. How do you relate the ACA and ACCC to the job that Austel was doing before? Is it better, worse, or just different?

**Mr Pinnock**—I am not sure that I am in a position to even comment on that, much less whether I should. The fundamental thing is that the standard is determined by the ACA, pursuant to a direction from the minister. Two issues arise: firstly, what the content of the ministerial direction is; and, secondly, when the standard is in place, what the correct interpretation of the standard is. Finally, if there is a disagreement about its correct interpretation then, fundamentally, that must be with the ACA.

We have to remember that the operational problems that we have discovered with the CSG have only arisen in the past two months, or thereabouts, simply because the guarantee itself has only been in since 1 January. It is quite easy to design a standard, it is quite easy to put it into law, but then you find the operational problems in terms of its interpretation and application, and that is what we are wrestling with at the moment.

**Senator MARGETTS**—Given the evidence that has been given from Western Australia that there is some indication that Telstra believes, or is making statements, that the customer service guarantee only applies to new customers, if that is found to be an incorrect interpretation, what can be done? Which is the correct body to actually take action?

**Mr Pinnock**—The ACA is fundamentally the proper body to give a view on that. If the standard itself is defective, then the standard needs to be amended, and that would be encompassed within what has been foreshadowed as a new direction to the ACA by the minister, and the sunset clause on the current CSG.

**Senator MARGETTS**—Thank you very much.

**CHAIR**—Thank you, Mr Pinnock, for appearing today.

[3.30 p.m.]

**BRIERLEY, Mr Edward John, Executive Member, Australian Secondary Principals Association, President, Victorian Association of State Secondary Principals, Unit 2, 13-21 Vale Street, North Melbourne, Victoria 3051**

**MARTIN, Mr Peter John, Executive Officer, Australian Secondary Principals Association, Unit 2, 13-21 Vale Street, North Melbourne, Victoria 3051**

**EAKIN, Mr Laurie, Executive Director, Western Murray Development, 306 Campbell Street, Swan Hill, Victoria 3585**

**CHAIR**—Welcome. The committee has before it submission No. 50 from the Secondary Principals Association and submission No. 74 from Western Murray Development and has authorised those submissions to be published.

Mr Eakin, I believe you have a statement. Could you make a brief summary of it to include anything that is not in your submission. Then, if it is in a typed form, we could incorporate it, which means it will appear in the *Hansard* rather than be a tabled document.

**Mr Eakin**—There are a few points I would like to raise.

**CHAIR**—You could do that, but not issues which are in your submission. You need to take the submission as read—the submission you put in, not the tabled statement.

**Mr Eakin**—I can table the statement. There are a couple of points I need to make.

**CHAIR**—Rather than table it, we will incorporate your statement, which means it will be in *Hansard* as if you said it.

**Mr Eakin**—That is fine, Senator. It is just the impact I want to make.

**CHAIR**—We understand that. Is it the wish of the committee that the document be incorporated in *Hansard*? There being no objection, it is so ordered.

*The document read as follows—*

TELSTRA (Transition to Full Private Ownership) BILL 1998  
PRESENTATION  
TO THE  
SENATE STANDING COMMITTEE ON THE  
ENVIRONMENT, RECREATION, COMMUNICATIONS  
AND THE ARTS  
WESTERN MURRAY DEVELOPMENT  
5 May 1998

1. INTRODUCTION

"Properly managed, the information economy has the potential to dramatically transform the way Australians live and work, to create new jobs, new categories of jobs, new export markets, and new opportunities for existing businesses and employees,"—Senator Richard Alston, Media Release 68/98 of 4 May 1998.

The Senator goes on to acknowledge that there is a recognition by governments at all levels ". . . of the need to ensure that laws and regulations are framed so as to encourage, rather than hinder, future developments."

He adds that "Australian consumers and businesses now need to switch on to electronic commerce and other on line developments." And that a four part public awareness campaign to facilitate this ". . . will target regional Australia, large corporations and small and medium sized companies. . . ."

The Minister has presented very clearly the existence of opportunities, the notion of government support to help realise them, and the need for the Australian community in all its guises to pick these opportunities up and to make the most of them.

## 2. THE WESTERN MURRAY SUBMISSION

The essence of the submission by Western Murray Development on behalf of the communities of north western Victoria and south western New South Wales is that unless appropriate and adequate infrastructure is in place, the existing opportunities will fail to be realised, and new opportunities will be missed altogether.

We argue that the base level of infrastructure necessary to realise Senator Alston's and many others' aspirations for an internationally competitive, 'smart' country is not yet in place, and unless provided for specifically by the Federal Parliament, will not be put in place in a commercially competitive environment.

In other words, without a specific and substantial provision by the Federal Government, significant areas of Australia will be without the telecommunications infrastructure necessary to make them internationally competitive into the future. The gap between the availability of services to metropolitan and non metropolitan customers, a gap which is already significant, will only widen. I believe the diagram I have circulated will support this proposition.

I would like to come back to the diagram shortly.

In the interim there are several points I wish to highlight:

- . The Universal Service Obligation is set at a level too low to ensure that the aspirations of the Government and the community will be realised. The consumer access network is currently the weak link in the chain. It needs to be upgraded to an ISDN equivalent capability.
- . The quality of much of the infrastructure in the ground, particularly the Customer Access Network (from the exchange to the home, business or farm) is poor—access speeds of only 2400 bps are not uncommon and high drop out rates are high.
- . Costs of internet access to non urban subscribers is an impediment. For example, in July 1996, the Wangaratta Telecentre (not the most remote part of regional Australia) paid \$450 per month for a 64 Kbps line, a port fee of \$150 and no volume charging. In July 1997, the charges were increased to \$900 for the line, a port fee of \$150, and a volume charge of \$200 per gigabyte. This level of ISDN charging does not support the technical reality that new technologies are largely distance independent.
- . The level of infrastructural capability and awareness in non metropolitan areas is compounding the problems arising as government services are withdrawn. For example, some Commonwealth Departments establish a webpage, close their regional offices, and assume they have done their job. Many communities are not however able to bridge the gap between the provision of the physical service and its replacement electronic service, either because of the infrastructure or the level of awareness.
- . The level of technical support in non metropolitan areas is a barrier to the efficient and effective take-up of the available technology.
- . In some instances, aggregation by governments is undermining non urban internet service providers. For example, governments insisting on schools and local governments using their own mandated network leave behind a critical mass that is not sufficient to sustain a commercial service provider.

## 3. THE NETWORK AVAILABILITY DIAGRAM

Senators will note that there are two axes—the vertical axis denotes market availability as a percentage; the horizontal axis denotes Network Services, running firstly through the analogue spectrum from the provision of a basic telephone service (the USO) on the left, through fax and increasing data or internet access speeds to the right. The three columns on the right represent digital services, each representing an increase in capacity as one moves to the right.

The darker curve at the top shows the availability of the services in the Capital Cities Marketplace. The lighter curve shows the marketplace beyond Capital Cities. The area in between the curves represents the gap in the availability of services between the Capital Cities and the rest.

At the current USO of a telephone availability, for example, about 100% is available in the Capital Cities, and almost the same percentage is available outside the cities.

For faxes, there is a slight decline in the Cities and a more marked decline outside.

Moving further along the Network Services or the "access speed" axis, the decline becomes more significant until at a speed of 28.8 kbps, access is available to about 98% of City users and only about 65% of non City users. This reduces to about 45% of country users at 56 kbps.

The non City availability increases substantially to almost 80% as digital access is made available.

This availability is, of course, referring to the availability at the Customer level, not at the exchange, many of which are already digitally capable.

The conclusion that can be drawn from this is that the "City-Country Service Availability Gap" is too big. Or, put another way, there is currently no equity in the grade of service between the city and the country.

#### 4. CONCLUSION

In conclusion, I would only restate that this legislation represents a significant opportunity for the nation. While it is highly desirable to reduce Australia's indebtedness, and this legislation if it is passed will enable funds to be raised to do this, it is also important, and perhaps more so, to ensure that in the information age, those Australians in the non metropolitan areas of the country, many of whom are directly responsible for producing much of this nation's wealth, are not left further behind but are given every chance to be at world's best practice standards of telecommunications.

**Mr Eakin**—The first point I want to make is to do with the media release by Senator Alston of yesterday—No. 68/98 of 4 May—which relates to the information economy and his contention about new jobs and new export opportunities, et cetera, relating to that. The essence of the Western Murray submission is that, unless appropriate and adequate infrastructure is in place, then the opportunities that Senator Alston has identified in his media release are not going to be realised, and that is because of the level of infrastructure that exists—or, in fact, doesn't exist—in regional and rural Australia at the moment.

You have before you a diagram showing network availability. This was not in the submission. It has been done subsequently by Wayne Lock, a senior consultant with Communications Innovations Pty Ltd who has expertise in telecommunications infrastructure. As you will see, that diagram has two axes. The vertical one denotes the market availability as a percentage and the horizontal one denotes network services—I apologise to Senator Margetts; she does not have this in front of her—going through the analog spectrum and then into the digital spectrum. The three columns at the right represent digital services.

In essence, the capacity is increasing from left to right in that diagram. The data curve at the top shows what is available in the city market place and the lighter curve underneath represents what is available in the non-city areas. The current USO is represented by the first column. In effect, it is about 100 per cent availability in capital cities and almost that outside the cities. As you will note from the diagram, for faxes there is a decline that occurs in the non-city availability of the service. As you move further along the line, that decline becomes more significant until, at a speed of about 28.8 kilobits per second, access is available to about 98 per cent of city users, but to only about 65 per cent of non-city users. This reduces to about 45 per cent of country users at 56 kilobits per second. It is also interesting to note the rise in that bottom curve as you move into the digital spectrum. That increases to around almost 80 per cent as the digital spectrum becomes available to those non-city users.

The conclusion that we draw from this is that the city-country service availability gap is too big for a start or, put another way, currently there is no equity in the grade of service between the city and the country. The central thesis of our submission to this committee is that the infrastructure is not currently in place to enable that gap to be narrowed but that, through the funds generated from this legislation, in the event that it should pass, there should be funds

to enable that gap to be substantially reduced. We would like to see some provision in the legislation to enable that to happen.

**CHAIR**—Thank you very much. Is that the major thrust of what you wanted to say? I have a couple of questions for you, but we should ask Mr Brierley and Mr Martin if they have a brief statement that they would wish to make, or would you like to just wait for questions?

**Mr Brierley**—No, we would like to make a very brief statement. As you can see from our submission, we have a number of grounds of concern. Access and equity would summarise the major part of it, with Telstra as a good corporate citizen being another one. I want to say a few other things which are not in the submission. There is no doubt that the way of the future of education, particularly in Australia because of its demographics, will involve telecommunications. One only has to look at the Internet, video conferencing thrust, et cetera, and linking schools via telecommunications to understand that. In fact, the use of telecommunications has been important in underlying the thrust in trying to remedy the disadvantage of isolated students in country Australia. We need an efficient, effective and, hopefully, cheap telecommunications system.

In Victoria, most of our schools—1,700 of them, and I am talking about primary and secondary here—are not linked up or do not have ISDN access. The cost of ISDN access is quite prohibitive, particularly when you start adding to it. There are about 100 secondary schools with 64KB. There are a few schools that go up as far as 256. That is going to explode over the next five years. There are going to be initiatives like school-home links which are going to require schools, particularly secondary schools, to increase the capacity of their information handling systems. It is going to be the backbone of the schools' links with home and also with the schools' access to information.

Telecommunications is an important issue for us. I think it is a good move that we and Mr Eakin are on at the same time because his points are also our concerns. We need access to it, and we need access at an affordable level. I have one further point before I pass over to Mr Martin, and that is do not assume that the telecommunications costs that are incurred by Telstra in the past to move schools into the corporate charging rate have been reimbursed by local school systems. They have not. In fact, again, schools have been asked to soak up these additional costs. Given the environment in that we depend more and more on telecommunications, we are seeing that as a large impost. I will pass over to Mr Martin.

**Mr Martin**—I would simply like to add that—again, it reinforces what the previous witness said—we would like to be convinced in the new regime that particularly the remoter areas are not going to be forgotten and that they are going to see some of the benefits of privatisation. When we represent people from Tennant Creek to Oodnadatta, to the backblocks of Western Australia as well as a small state like Victoria, it is very difficult to see how schools that are going to be relying, as Ted has said, on access to electronic communications are going to be looked after in the corporate race for profits. We would like to see some sort of legislative framework there to ensure that the country kids of Australia do not miss out.

**Senator SCHACHT**—First of all, you are not the only one today who has put forward a recommendation that 64KB per second be a minimum standard. You are clearly arguing, aren't you, that that should be included as a basis in the universal service obligation, a guaranteed capacity provided to people in Australia, and should be part of the cross-subsidy arrangements?

**Mr Eakin**—Absolutely, yes. One of the points I have here was that the universal service obligation was set at too low a base to ensure that the aspirations of the government and the

community are met and that the consumer access network is currently the weak link in this chain.

**Senator SCHACHT**—Do you have any idea what that cost would be?

**Mr Eakin**—I have some ideas. We have some plants in various places that help us get some numbers, but to upgrade that weak link in the chain—that is, the consumer access network—could cost in the order of \$3 billion to \$5 billion.

**Senator SCHACHT**—On page 4 of your submission, you mention that figure. You say that if Telstra is privatised part of the privatisation funds should go to pay the \$3 billion to \$5 billion for the upgrade. Are you aware that in the last couple of years Telstra, on average, in capital works has been spending close to \$4 billion itself on upgrading the network on capital works and that from the profit of Telstra, even two-thirds publicly owned over a period of years, that could easily be funded by Telstra?

**Mr Eakin**—I really would not mind who it is funded by, Senator, but, if there was no commitment on Telstra's part to bridge that gap, to upgrade that capability, and it seems to us from our anecdotal evidence, from discussions that we have had throughout our discussions—

**Senator SCHACHT**—But you would not mind if a future government used the power of direction on Telstra, as it is presently there, to direct Telstra to upgrade the system to 64 kilobits per second?

**Mr Eakin**—I think there is a practical difficulty with that once you get into a privatised commercial enterprise and start giving it powers of direction. Whilst it was a state owned, fully state enterprise, that was a different matter. As this track has already started to be moved down, then I do not know that that is appropriate. There has to be some other mechanism by which we can ensure that this increasing gap is not allowed to get even bigger as we move into the next century.

**Senator SCHACHT**—The Labor Party would argue that two-thirds should not be privatised so it is still majority government owned. On that basis, we made it clear that we will use the power of direction in the national interest. We see this delivery of 64 kilobits per second as one of those areas that is in the national interest for Telstra to be directed to provide the infrastructure.

**Mr Eakin**—Yes. Our submission comes from the premise that this legislation will proceed and that then it will be a different ball game.

**Senator SCHACHT**—The main thing is that, whether Telstra is privatised or not, you want 64 kilobits per second provided to the people you represent in the west Murray.

**Mr Eakin**—They are significantly disadvantaged at the moment. There is no question about it.

**CHAIR**—Mr Eakin, do you have a view about whether the rest of Telstra should be privatised or not, or is it basically that you are concerned about access and equity for rural areas?

**Mr Eakin**—We have not presented a view about the privatisation of Telstra, Senator. Suffice it to say, even under the arrangements as they have been up to date, as you see from the graph that I have presented to you, rural and regional Australia—if you can take this as being representative, and I think you can—has been severely disadvantaged over time, notwithstanding that Telstra has spent a lot of money to upgrade its infrastructure.

I suspect a fair bit of that has gone into the digital and the mobile phone infrastructure. I think it has also gone into the technology to the exchanges. I am led to believe that that technology is at world standard. As I said before, the weak link in the chain is the one from there out. Whilst it might be available for people in regional centres to access, the cost that has been mentioned by my colleagues is significant and is significantly beyond the capability of many, particularly small businesses.

**CHAIR**—Even before privatisation, you would have to say that even before the partial sale of Telstra, there were concerns and complaints from the country about equality of service. Do you agree? It is not as a result of privatisation that there has been a problem. There were problems before.

**Mr Eakin**—Our information is that, since privatisation, the level of service has decreased—that is, there have been positions and people physically withdrawn from country Victoria and New South Wales that were supporting the existing network, so it now can take longer to have problems rectified than it did previously because people are simply not there.

**CHAIR**—If the penalties for failure to rectify problems gave the carriers incentives to actually get it fixed up, would that alleviate some of your concerns?

**Mr Eakin**—As a general principle, I am not sure that sticks are better than carrots, and we now have a competitive, or a theoretically competitive, environment. The fact of the matter for rural and regional Australia is that Telstra has been and is likely to be into the future the major provider. If it was a commercial proposition there would be other carriers busting to get in there. They are not, and the reason they are not is because we do not have a critical mass outside of the major cities and the major regional centres, and it is that non-critical mass that we are finding is not being adequately serviced.

**Senator SCHACHT**—Just on the figure for this competition, do you have any figures from your organisation in the western Murray about where there has been competition—for example, on STD which people can get? There has been competitive STD operating—Optus, Vodafone and mobiles. Can you provide any figures in that area where there has been some competition but, as far as the general service is concerned in your area, none of the new carriers have decided to come in and provide a service.

**Mr Eakin**—On the first point, the figures, I do not have those service or traffic-type figures. I should have thought they would be available from the carriers. Secondly, a couple of new service providers have come into the system recently. Neighbourhood Cables in Mildura, for example, has come in to provide optical cables around Mildura, but again that is a relatively populated area compared with the rest of the region, and they have not shown a great inclination to go very far out of Mildura.

**Senator SCHACHT**—Can I ask this, Mr Martin and Mr Brierley? In your submission, you mention in part 1, charges, that this is exacerbated by Telstra's decision to place all schools in the commercial category so that they are expected to pay the same charges as business. When did they take that decision, or when did you get hit with it, I should say?

**Mr Brierley**—From memory, I think it was about two years ago. It may have been a fraction longer.

**Senator SCHACHT**—Do you have any information about what the phone bills for schools went up to when you got hit with this commercial category?

**Mr Brierley**—I personally do not because my business manager carries all those sorts of concerns, but I do know that he whinged long and loud. It was seen as significant.

**Senator SCHACHT**—It was significant. Could you, within your association, provide us with evidence of what the prices went up by? When Telstra did it, I presume your association of schools complained about it. What was Telstra's response to the complaint?

**Mr Brierley**—I do not remember seeing a response to the complaint, to be quite honest with you.

**Senator SCHACHT**—They just did it.

**Mr Brierley**—They just did it. It came out of the blue. We had no pre-warning of it, so the budgets were done and then bingo, you are now a corporate school.

**Senator SCHACHT**—State governments have not since provided you with any increased funding to cover the cost?

**Mr Brierley**—There have been some increases in allowances for rurality, but that is a general term and that is in Victoria only. That is a general term given to try and recompense schools for being in isolated areas, but no, there has been no specific telecommunications increase.

**Mr Eakin**—I have an example in my statement, that I will provide, about some increased charges for the North Eastern Telecentre at Wangaratta.

**Senator SCHACHT**—Wangaratta?

**Mr Eakin**—Yes.

**Senator SCHACHT**—I would appreciate that.

**Mr Brierley**—And I am the Principal of Wangaratta High School.

**Senator SCHACHT**—Are you? Mr Brierley, would your association favour, therefore, that telecommunication costs for schools be placed in the universal service obligations and be cross-subsidised?

**Mr Brierley**—Yes, particularly because telecommunications, as I said before, will be an increasing tool that schools will be using, and it really is going to be a significant cost area in the future.

**Senator SCHACHT**—I do not suppose you would have any idea of what it would cost across Australia for school telephone bills to be cross-subsidised so that they are at the same rate as a weighted average for city schools?

**Mr Brierley**—We could get the information for you. We have an ASPA executive meeting at the end of this month in Canberra and—

**Senator SCHACHT**—We have to report by about 13 May, is it not?

**Mr Brierley**—We have a teleconference—

**Senator SCHACHT**—I would still be interested in the information, or the committee would be, I should say.

**Mr Brierley**—We have a teleconference Thursday. I will try to get some information then.

**CHAIR**—If you do, and if you could get that to the committee by Friday, that would be quite useful. How were you advised that Telstra was charging you now business—

**Mr Brierley**—We just got a letter—'You are now being charged at the corporate rate.'

**Senator SCHACHT**—There was no, 'We would like to discuss this with you,' or no explanation of why this was?

**Mr Brierley**—No. It does not work like that.

**CHAIR**—What difference does that make, say, in an average bill for a school?

**Mr Brierley**—I am not quite sure but I will find out that information.

**Senator SCHACHT**—I only wish Telstra were still here so we could get one of the smoothies from Telstra to explain this triumph in public relations. Do any of your schools have the opportunity to go out into the competitive market, where there is competition available, and use Optus or Vodafone as the provider, or are you locked into a state government contract?

**Mr Brierley**—No, and I think it would be the same for most states, that you can opt for whichever provider that you see fit.

**Senator SCHACHT**—Per school?

**Mr Brierley**—Per school. I am not quite sure about that Australia-wide, but it certainly is the case in two or three states that I know of. New South Wales may be different; I am not sure.

**Senator SCHACHT**—You say in the paragraph ‘Equality of charging’:

This Association is concerned that in a completely market driven system some schools and their students will be disadvantaged—

I presume you mean disadvantaged not just by the cost structure but by having access to the latest communications systems which the students can learn how to use and become user-friendly with so that later in life they are not disadvantaged in employment opportunities, et cetera.

**Mr Brierley**—Yes. There have been large advances in techniques about using telecommunications to link schools and students together. If the costs go too high and if you have not got the money coming in to cover them, then that is going to go. Intrinsically, that is going to disadvantage students, and I do not think that the youth of Australia can afford that, particularly when our near neighbours like Singapore are really boosting up on the information technology side, and we have to compete.

**Senator SCHACHT**—In the paragraph on technology you say:

Even access to reliable and efficient email service is not possible in all areas of Australia.

Is that in the remotest areas or even, say, the western belt of New South Wales, or even Mr Eakin’s area? Is that the same problem?

**Mr Brierley**—It is patchy, but, yes, we have had principals who say that they cannot be linked up because there is no access to those sorts of services because of the bandwidth, I suppose, that is capable of being delivered.

**Senator SCHACHT**—And that is in some areas of reasonable agricultural settlement in, say, Victoria—not just in the remotest areas?

**Mr Brierley**—Yes, that is true.

**Mr Martin**—It goes back to the fact that there are still a lot of copper wires out there.

**Mr Eakin**—That was certainly the situation that we found in the six workshops that we held around our region, some of which is quite intensively agricultural based and settled. The problems range from even faxes dropping out, poor quality of line, through to people being able to access the Internet but it being so slow that it is not worth them pursuing it.

**Senator SCHACHT**—One of the issues that is raised is that Telstra has this ISDN service but everyone says the cost of it makes it prohibitive. Is that your experience?

**Mr Brierly**—That is certainly our experience and that is why only about 100 Victorian schools have an ISDN link and many of those have been subsidised by the government. My school is one, with a 128kb link, and you need that for video conferencing. So, again, if you are going to link students together via video conferencing—which I think is going to happen more and more—you are going to need access to those sorts of services and it is very expensive. The figure of \$8,000 pops into mind. It could even be more expensive.

**Senator SCHACHT**—So \$8,000 per annum is an average cost?

**Mr Brierly**—Yes.

**Senator SCHACHT**—Is that your experience, Mr Eakin?

**Mr Eakin**—That is the number that has been quoted to us, too. It is increasingly impossible for small business and small communities to access that sort of capability at that sort of price.

**Senator SCHACHT**—I have had evidence from Telstra itself privately that you cannot get access to ISDN if you are more than seven kilometres from the nearest telephone exchange. Have you found people in the bush have complained about that? Have there been complaints from farmers who want to be up to date with the market and so on?

**Mr Eakin**—I do not know of too many farmers who would have the money to pay out for that, but I have also heard that the five kilometres and beyond limit is a significant one. They can get around that with other technology, but it is a problem of the drop off rate in the signal through the wires.

**Senator SCHACHT**—So for both organisations, irrespective of your view about privatisation, the one issue you are really on about is getting these issues in the universal service obligation, even though that would be an extra cost.

**Mr Brierly**—If we do not get an upgrading of those services, then students in some schools will be so handicapped in their access to all sorts of information that it really will be of significant concern to us, as it should be to Australia.

**Mr Eakin**—I would extend that to the communities and the businesses, including the farming and productive businesses of rural and regional Australia. The western Murray region is just one area, but I feel it is a representative area in that, if it is bad enough here in north-west Victoria, then in some of the more remote areas it must be pretty horrendous.

**Senator SCHACHT**—You know the legislation before us from the government does not provide any increase in the extension of the definition of the universal service obligation?

**Mr Eakin**—Yes, and we believe that it should. We believe that is a matter that this committee ought to address and, as a result of that, the government ought to address it as well.

**Senator SCHACHT**—Apparently, Mr Frank Blount said yesterday, and it is reported in today's press, that if the government has put some of these new restrictions on Telstra—like extension of services and USOs—it will reduce the value of the privatised Telstra. Is that a concern to you?

**Mr Eakin**—No, not at all, not to the areas of western Murray. Really, the value of Telstra is incidental to the opportunities that Senator Alston talks about being provided to Australia. Indeed, he singles out regional Australia in part in that media release that I referred to earlier. The fact of the matter is that, unless this infrastructure is upgraded, those areas are going to get left behind internationally as well as nationally.

**CHAIR**—Can I ask you a question, Mr Brierly and Mr Martin? Obviously, you have a concern about access for students in a fully privatised Telstra. Would you see any benefits

in some sort of package being put together for schools that would meet some of your concerns and would provide some of the access and maybe some concessional rate that recognised they were not actually a business?

**Mr Brierley**—That certainly would be useful but you also have to remember that, within five years, the normal way in which students will be doing their homework at home will be by dialling into the school via their computer, along with parents checking up on the kids' grades and accessing the performance measures of the students. In other words, links between the school and the home will become increasingly more important. It is happening now in areas like Bendigo and Glen Waverley, and it will be happening statewide in Victoria; it certainly will also be happening in Australia. So, as well as specific packages centred on schools, you also have to remember the periphery of schools—the parents, some of whom could live many kilometres away.

**Mr Eakin**—If I could just add to that: once you start differentiating between schools and the rest of the community, you start creating some sort of a boundary over which you then have a grey area over which you start to create problems of definition and application. If the USO is indeed to be a USO, then it ought to be specified as such. Trying to treat different groups differently creates a potential anomaly.

**CHAIR**—I was talking about billing. They are billed as businesses—they suddenly became businesses rather than being billed on the alternative rate. That is what I was saying.

**Mr Eakin**—Okay. I thought you were talking about the access.

**CHAIR**—If you have a school that is a not-for-profit school and it is being treated in the same way as a business that can offset its costs or increase the cost of an item because the telephone bill goes up, that is very different from a school, especially a state school, which cannot increase fees—it has to find its money from somewhere else. That was the issue, and whether it would be appropriate for those schools to have some sort of package.

**Senator SCHACHT**—Mr Brierley, could I ask you to take on notice for your association to get some examples of what the phone bill at Wangaratta—which is a regional area making a lot of STD calls or community calls at a timed rate even just outside town—is compared with Mount Waverley in the metropolitan area, which is in a local call zone at a flat rate, untimed, of 25c per call.

**CHAIR**—If you could match the schools for size, that would be useful.

**Mr Brierley**—Certainly, and we can have them by Friday.

**CHAIR**—Senator Margetts, do you have any questions?

**Senator MARGETTS**—Yes, thank you. I have been interested for some time in the benefits and costs which are not included in the bottom line equation for a very large corporation like Telstra. Can either of the witnesses throw onto the table some of the kinds of things that might not get picked up in what might be the best benefits for the shareholders? Where and how should public interest be addressed?

**Mr Brierley**—As far as schools go, I think the national interest is served by ensuring that the students of Australia have access to first-class communications systems. If privatisation is going to lead to a situation where the infrastructure is going to be insufficient to keep us at the edge, I would have serious concerns, and I think that the nation should.

**Senator MARGETTS**—Is Telstra the means by which the government should achieve this? Are you saying that the government has an obligation or Telstra has an obligation, or both?

**Mr Eakin**—If I could just come in on that point, as I said to the other senators before, whilst there is a public institution such as Telstra, then the government obligation and the Telstra obligation are probably one and the same thing. A privatised organisation has different obligations. My view, therefore, is that if the full privatisation and the full selling off of the shares is to go ahead then the obligation comes back to the government to ensure that it achieves that aspiration of the smart society that Senator Alston talks about.

**Senator MARGETTS**—I tried very hard during the competition policy legislation to make sure public interest was included, and I am still trying to get interest from the Labor Party in doing a review of this. We can only hope that, in the future, we will actually look at this before it is too late.

**Mr Eakin**—Yes.

**CHAIR**—I would like to thank Mr Brierley, Mr Martin and Mr Eakin. I thank both groups for your submissions and for the time you have spent here today. We appreciate the effort and time you have put into it. Hopefully the committee will be able to address some of the issues that you have raised.

I would also like to thank the Senate staff for organising the hearing here today, and I thank, in particular, the staff of Hansard for their cooperation in only having a 10-minute break at lunchtime. I appreciate that, and I am sorry that it happened.

**Committee adjourned at 4.06 p.m.**