Environment and Communications References Committee

Inquiry into the impact of imposing a certain carrier licence condition on Telstra Corporation Limited

Submission by the Communication Workers Union (CWU)

July 2013

The Communication Workers Union (CWU), a Division of the Communications Electrical and Plumbing Union (CEPU, is the largest union in the telecommunications sector. It is the major union in Telstra and has sole coverage of Optus. Our members are also to be found in a number of smaller companies, in NBN Co and in the contracting companies who carry out maintenance and construction work on behalf of telecommunications carriers.

Changes to the levels and conditions of employment in the telecommunications industry have been a matter of ongoing concern to the union for more than two decades. The CWU welcomes the opportunity to comment on proposals which might affect such employment, in this case through requiring work traditionally performed by Telstra in Australia to remain so.

The immediate issue: the case of Sensis.

In February this year Sensis, a fully owned subsidiary of Telstra, announced it would cut 648 positions, some 391 of which would be sent offshore. The offshored roles reportedly involve customer care and "back of house" functions, including the production of directories.

Telstra is required by law (by way of licence condition) to publish and distribute an alphabetical directory on an annual basis. In fulfilment of this obligation it produces both White and Yellow Pages.

The CWU understands that it is now proposed that this condition be expanded to require Telstra to keep all production work for "printed and online national number directories within Australia"[1] – or more precisely that the References Committee has been asked to inquire into the impact of such a requirement on Sensis, presumably with a view to possible further action to this effect.

[1] *Senate Hansard* Thursday 27 June p.26

The CWU acknowledges that, viewed on a stand-alone basis, it is hard to see why Telstra should be subject to such a requirement when no such legal restrictions on offshoring have, to our knowledge, been placed on other Australian companies, including Telstra's competitors.

Despite widespread community concern over this trend it continues apace. With some notable exceptions, such as the Commonwealth Bank and Macquarie Telecom who have deliberately rejected this strategy, Australian companies from all sectors are continuing to transfer jobs offshore in the search for "efficiencies" i.e. cost reductions typically based on relatively lower labour costs.

Along with the rest of the union movement, the CWU opposes such developments and believes that where mechanisms to reverse it can be identified or developed they should be used. For this reason we would support the suggested modification of Telstra's licence requirement which has triggered this inquiry despite the fact that it imposes an asymmetric regulatory obligation on one company.

The CWU considers, however, that in the longer term government needs to develop strategies to counter offshoring which will have effect across the board. Last month IBM Australia began a restructure which will reportedly involve the loss of 1500 jobs, many of which will be transferred to Asia and New Zealand. At the same time ANZ is laying plans for the transfer of 590 call centre jobs to the Philippines and New Zealand. Optus is in the process of offshoring highly skilled IT jobs to India. , It is this larger context that needs to be addressed. By the same token, it is in this context that the Sensis decision and any government response to it should be viewed.

The context: offshoring in the telecommunications sector.

The last two decades, but more particularly the last 10-12 years, have seen extensive changes in the size and composition of the Australian telecommunications workforce.

Liberalisation of the sector, undertaken from the late 1980s onward, has not been accompanied by an expansion of the number of secure, permanent jobs for telecommunications workers. On the contrary, from the time of full industry liberalisation in 1997 to the present the number of workers in such positions has shrunk from some 76,000 (the then employees of Telstra, Optus and Vodafone) to an estimated 48 -50,000, a decline of around 34%.

While a significant part of this reduction can be attributed to technological change, a major contributor to the decline of such positions is undoubtedly the policies of outsourcing and offshoring that have been pursued by the major telecommunications carriers over this period.

Beginning with the growth of call centres in the 1990s as a specific industry sector, the telecommunications industry has seen a steady shift of any functions that can be performed remotely out of the carriers and into specialised service providers. While initially this transfer was largely to domestically-located providers and was limited to customer-facing functions (fault reporting, sales and marketing, technical support) increasingly carriers have sought cost savings through off-shoring while at the same time the range of outsourced work has expanded to involve higher level network and service functions.

In late 2011, for instance, Telstra announced that it would partner with Indian-based Wipro to off-shore some 250 jobs involving network diagnostics.

This followed decisions by VHA (the merged Vodafone/Hutchison entity) to engage global service providers to perform key network functions on its behalf. In May 2010, VHA announced it had contracted out the management of its merged mobile networks to Nokia Siemens Networks (NSN) who would use both Australian and off-shore operations centres, the latter being located in India and Portugal.[2]

Appendix A of this submission attempts to document the offshoring process at least to the extent that information about such decisions is in the public domain. It is not possible for the CWU to provide the exact number of jobs that have been lost locally as a result because companies do not always provide such information when announcing job cuts. However, based on the figures in Appendix A the union would estimate that at least 5,000 positions in the industry have been transferred offshore over the last decade and a half. If we were to measure the number of jobs which are currently being performed offshore on behalf of the local industry the number would probably be higher.

Why off-shoring matters.

The transfer of work from Australia to offshore locations is of course a matter of concern to unions such as the CWU whose members and potential members may be directly affected by such decisions. Offshoring usually leads to the redundancy rather than the redeployment of those whose jobs are transferred out of Australia. Both the individual concerned and the community at large are losers from the dislocation and economic disadvantage that commonly results.

More broadly, however, the CWU is concerned about the long-term consequences of this process for the Australian skills base and hence for the Australian economy as a whole. The Federal Government has recognised the central role that innovation will in future play in increasing both domestic productivity and international competitiveness. Innovation in production, whether it be in

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[2] LeMay, R.,"VHA deal will create offshore NSN jobs," *Delimiter,* 7 May 2010.

manufacturing, mining or services industries, depends on the availability of a skilled workforce and especially one with well developed technical skills. Processes which lead to the hollowing out of Australia's capabilities in this respect are not, in our view, in the national interest, whatever short-term cost benefits they may bestow on individual firms.

As noted above, it is not simply the lower skilled and routine functions which today are being lost to the domestic telecommunications industry. Diagnostic and design roles and network management capabilities are now also being transferred from Australia to offshore locations. Such trends, in our view, reduce the critical mass of ICT professionals and para-professionals that is needed for the success of modern economies.

The impact of imposing a new licence condition on Telstra.

It is in this context, then, that the CWU considers the Committee should view any change to Telstra's licence conditions. Imposing an "Australian made" condition on directories will not in itself stem the flow of skilled work discussed above. It will, however, draw a visible line in the sand such as may have a broader demonstration effect on other sections of this and other industries. It will raise the issue to a higher level in public debate. And it will save a significant number of local jobs.

At the same time it will not impose any new burden on Telstra/Sensis but simply preserve the status quo. On balance, therefore, the CWU believes that the public benefits of such a new licence requirement will outweigh any disadvantage to Telstra/Sensis, in terms of constraints on commercial decision making.

APPENDIX A.

1997 Telstra forms joint venture with IBM to form IBM Global Services Australia. Approximately 2,100 former Telstra staff and contractors engaged in IT functions were moved to the joint venture company.

May 2000 Telstra prepares to outsource/re-allocate three "streams" of IT functions : billing software development and maintenance; management of an Enterprise Resource Planning (ERP) system for finance, personnel and administrative IT systems; management of a Customer Relationship Management(CRM) application, service activation and assurance, wholesale and international operations, fixed and mobile network systems and marketing IT support systems.

November 2000. Deloitte Consulting Consortium, an alliance between Deloitte and Electronic Data Systems (EDS) is chosen to manage the outsourcing of the first two streams. Deal aims to cut Telstra's costs by 25%. IBM GSA retains third stream work.

March 2001 750 Telstra billing and support jobs transferred to EDS Australia.

September 2003 Telstra sells its share in IBM Global Services Australia and restructures its IT contracts with a view to halving costs. Transfers some IT work from IBM GSA to Indian-based Infosys at the cost of up to 400 jobs (Telstra estimate).

January 2004 IBM GSA off-shores 450 Telstra jobs to India. The roles off-shored include programming, application design and most of the testing and deployment of applications.

February 2004. Telstra IT work switched to Indian-based company Satyam. Telstra denies it will outsource payroll and accounting services.

October 2004. Telstra billing work (Flexcab) already outsourced to Electronic Data Systems (EDS) in 2001 is off-shored to EDS India as part of renewal of contract. Some 400 jobs involved.

October 2006. MEMO function outsourced from Telstra to labour hire firm Salesforce with the loss of 110 jobs from the Telstra customer contact centre in Moe. This work was subsequently transferred to Teletech which subsequently transferred some part of it to the Philippines.[3]

Sept 2007 Telstra off-shored some 500 sales support jobs from centres in Brisbane, Melbourne and Ballarat after first migrating them to "industry partner" TeleTech. While the decision to send the

[3] Williams, D., "Telstra mobile memo service suffers as TeleTech offshores op," *iTWire,* 22 January 2009.

work off-shore was said to be TeleTech's, Telstra managers were involved in training personnel in the Philippines centre to which the work was transferred.

October 2008 Further rationalisation of Telstra customer support outsourcing, with award of sales support contract to Teletech. Telstra says number of jobs to be sent off-shore "will not be small".[4]

March 2009. Telstra announces it will outsource payroll and HR functions to EDS, a Hewlett Packard company, with the loss of 64 jobs. At least some of these functions are now being performed off-shore.

July 2009 Telstra awards call centre contract to Philippines-based Teleperformance for handling residential customer service problems. Up to 300 local jobs in Townsville said to be affected. [5]

May 2010. Telstra transfers application development contract from locally-based firm Senetas to an "Indian-based consultancy". [6]No estimate of employment impacts.

January 2011. Telstra cuts 79 labour hire positions from its Ballarat call centre.[7]

March 2011. Telstra cancels contracts with local call centre providers Salmat and Vertex in favour of off-shore providers. 250 Vertex and 742 Salmat positions affected.[8]

July 2011. Telstra reveals it will outsource 300 administrative jobs (160 of them internal), including capex accounting and home phone service activation to IBM India and Tata Consultancy Services, both based in India.

December 2011. Telstra announces it will outsource 280 Telstra jobs and an unspecified number of agency jobs from its Network Applications and Services division, including 130 IT jobs to Indian-based WIPRO.

January 2012. Telstra announces it will send 73 data entry jobs to India.

June 2012 Telstra offshore 324 credit management positions to India and the Philippines.[9]

[4] Age 4 October 2008.
[5] Townsville Bulletin 30 July 2009.
[6] Corner, S., "Senetas loses $3m Telstra contract to India," *iTWire*, 31 May 2010.
[7] Lui, S., " Telstra downsizes Victorian call centre staff," *ARN*, 28 January 2011.
[8] Zappone, C., "Another 250 jobs to go as Telstra drops contract," *The Age,* 8 March, 2011.

August 2012 650 call centre jobs involved in testing (422 Telstra employees and 229 agency staff) cut. Undisclosed number to be offshored.[10]

This list is not exhaustive. It would suggest, however, that upwards of 3,000 of the jobs outsourced from Telstra since 1997 have either immediately or subsequently been off-shored.

Optus and others.

Off-shoring has also been undertaken by the other industry majors.

In 2004, **Optus** confirmed that it was cancelling its contract with Sitel, its call centre operator in Davenport, Tasmania, and establishing a 150 seat call centre in India.[11] The functions affected included Mobile, Consumer and Multimedia product transactions, and selected consumer customer inquiries. The centre is run by multinational outsourcing company Convergys.

By early 2006 the number of Optus jobs being performed in the Indian centre had grown to 500 and in the middle of the same year the company announced it would expand this number to 800.[12] Functions identified as being targeted for eventual outsourcing included consumer broadband cable support, sales order management, financial services, mobile post-paid customer services, small and medium business mobile activations and mobile customer service.

At this time, Optus directly employed some 3,000 call centre staff in Australia, giving it a relatively low outsourcing ratio of around 1 to 3 in this area. However, the most recent restructuring of the Optus workforce has been accompanied by further offshoring, involving a wider range of functions.

In May 2012 Optus announced a sweeping restructure of its operations as part of a wider regional reorganisation by parent company SingTel. Just under 1,000 positions were subsequently shed during the remainder of the year. Further cuts of 290 positions were announced in March 2013. The CWU believes that the total number of positions lost through the restructure could reach 1500 or more.

The CWU does not know the exact number of these positions which has been offshored but Optus has acknowledged that a proportion will be transferred to “industry partners” the current

[9] “Telstra call centre jobs go,” *SMH*, 15 June 2012
[10] “Telstra axes staff, regional call centres,” *CRN* 22 August 2012
[11] “Optus off-shore move upsets workers,” *SMH*, 18 November 2004.
[12] “More Australian jobs coming to India,” Rediff India Abroad, 6 July 2006.

euphemism for outsourcing companies. A number of skilled IT jobs among those most recently cut are to be performed by MSAT Mahindra Satyam, the Indian outsourcing giant.

As discussed below, **Vodafone Hutchison Australia (VHA)** has recently moved to boost its call centre operations in Australia, but historically the proportion of its call centre work being performed offshore has been high.

With the merger of Hutchison and Vodafone in 2009, the company rationalised its call centre functions and cancelled its outsourcing contract with locally-based Service Stream. As a result some 450 positions were made redundant. Of these 150 were transferred to the VHA call centre in Kingston, Tasmania with the rest of the functions being absorbed by the company's Mumbai centre.

In October 2009 it was reported that a further 150 jobs from VHA-affiliated retailer, **Crazy John's**, would be transferred to the Mumbai centre.[13]

Since that time Vodafone has increased staffing levels in Kingston while still maintaining a large offshore workforce. In 2011 the Kingston centre provided some 500 jobs, while the company's call offshore centre employed around 1600.

In March this year, Vodafone announced that it would create 750 new jobs at Kingston thanks to support from the federal and Tasmanian governments. A $40 million federal government package is designed to allow the expansion of the centre to house a total 1500 employees. The Tasmanian government has contributed a further $850,000 to the project as well as waiving payroll tax on the new jobs created.[14]

The project was touted as a step towards returning offshored jobs to Australia. At the end of June, however, only 100 new positions have been created, fewer than half the number initially anticipated to be added by this time.[15]

As is the case with the other carriers, customer contact functions are not the only forms of work now performed for the company offshore. In 2011, for instance, Vodafone contracted Indian-based Tech Mahindra for the management and operation of VHA's IT systems.

Telecom New Zealand subsidiary, **AAPT**, has progressively moved the majority of its call centre work off-shore. During 2008 it began moving functions to Teletech's operations in Manila, achieving a cost saving of some $7.5 million in financial year 2008-09 at the cost of 350 jobs.

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[13] "Mobile phone retailer to shift jobs to India," *The Australian*, 27 October 2009.
[14] Battersby, L., "Vodafone adds 750 call-centre jobs in Tasmania", *Sydney Morning Herald,* 1 March 2013.
[15] Smith, M., "Vodafone job growth stalls," *The Mercury,* 4 July 2013.

In April 2010, the company made a further 31 call centre staff redundant after sending their work to the Philippines.[16] The staff, 20 from Sydney and 11 from Brisbane, were involved in sales functions.

On 30 June 2010, the transfer of further work was announced with the loss of up to 80 jobs from the company's call centre in Glebe. AAPT's CEO Paul Broad signalled that the company expected to save $27 million from such moves over the 2009-2010 year.[17]

By mid-2010 the company had only one third of its call centre resources within Australia.[18]

TPG, now Australia's fourth largest Internet Service Provider, moved its call centre operations to the Philippines in 2005.[19] The move was estimated to displace some 103 technical support jobs.

[16] "AAPT axes 31 staff," *Computer World,* 13 April 2010.
[17] "AAPT to off-shore Sydney consumer call centre,"*CRN,* 30 June 2010.
[18] Ibid.
[19] LeMay, R., "TPG sheds staff to Philippines," ZDNet, 10 August 2005.