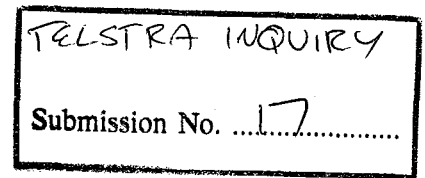


**McMahon, Paul (REPS)**

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**From:** Thor Prohaska [thorlp@melbourne.hotkey.net.au]  
**Sent:** Wednesday, 15 January 2003 7:40 AM  
**To:** Committee, CITA (REPS)  
**Subject:** Inquiry into Structure of Telstra



Dear Committee Members,

It has come to my attention that you are inquiring into the economic and social impact of structurally separating Telstra's core network from its other businesses and reducing the Commonwealth's current shareholding in Telstra's non-network businesses.

I am pleased to see that consideration is being given to this common sense idea.

Let me briefly introduce myself. My name is Thor Prohaska, I am 45 years of age, an Australian citizen by birth and I currently work as a software test analyst. I have spent approximately 5 years working as an IT contractor on various Telecom/Telstra projects. I have a long-standing personal interest in Australia's telecommunications infrastructure, how it is managed and resourced and how it fits into the wealth creation process.

I offer the following observations that I believe are relevant to your inquiry:

Telstra's core network is a natural monopoly like the national highway system where the public owns the foundational infrastructure and private enterprise can then compete to provide services on that infrastructure. In this scenario the entities that compete on the public infrastructure must do so on an equal footing. Therefore the non-network component of Telstra's business should not be given any special protection. Any non-material barriers to entry for other service delivery operators whether owned for profit or not for profit must be removed if the benefits of real competition are to be realised.

I have yet to hear any argument being put forward by the proponents of selling all of Telstra that convinces me that the cost of transactions on the national telecommunications infrastructure would be cheaper or more effective if it was held in non-public hands. Not to mention that the breaking up of any public monopoly reduces the benefits that flow from the economies of scale.

As a person who has spent a considerable time in various parts of the Telecom/Telstra organisation I can vouch for the fact that there was inefficiency in its operations. However, privatisation is not the only solution to addressing such problems in an organisation. It has been verified by experience both here and internationally that privatisation of public monopolies does not return the proposed benefits that the advocates claim. Globally many are now being bought back by the public sector due to their failure to deliver the promised service levels to the citizens who originally owned them.

A fundamental economic fact of life is that you are more careful about spending your own resources than you are about spending someone else's. Ever since the privatisation debate started it has amazed me that almost nobody has pointed out the logical absurdity of buying something that you already own. I see no reason why each Australian citizen could not have been issued shares in Telstra free of charge.

With this approach the board of Telstra is drawn directly from the shareholders. A shareholder who seeks a seat on the board would only be able gain this position by convincing other shareholders that they are capable representing their interests. If an Australian wanted to sell their shares they would be free to do so. However, non-shareholders would pay a higher price for service provision than shareholders (eg, like the Ambulance Service). If capital needs to be raised then it can be done directly by the shareholders. This opens up the possibility of direct micro investment. For example if a shareholder wants a second line installed into their home then they have the opportunity to invest their own resources in the form of money materials or labour. This increase in ownership is then reflected by increasing the micro investor's personal shareholding. Voting at board and management levels is done by proxy representation. Only shareholders have a right to vote. Non-shareholders have a right to be heard and to be given a considered response. This is a real alternative to the current 'privatisation' versus 'government' models currently on offer.

Why not think 'outside the square'? It is not too late to apply this approach to Telstra's core network.

In my assessment it is vital to the future of the Australian economy that the most efficient telecommunications infrastructure is made available to all Australians. Public ownership of the Telstra's core network is the most effective means to achieve this outcome. In most instances the wealth that comes from a natural monopoly is not from the monopoly itself but the facilitation of the wealth creation activities that utilise that monopoly. To view the natural monopoly as a primary wealth creation engine is misleading. You can't eat a road or a phone call and they will not keep you warm and dry.

As the representatives of the Australian people your primary obligation is to the common wealth & good of all Australians and not to any political party. In those instances where your conscience is at odds with the political process then I hope that you will keep this responsibility at the forefront of your mind .

Regards,

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