



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATIONS, INFORMATION
TECHNOLOGY AND THE ARTS LEGISLATION COMMITTEE

ESTIMATES

(Budget Estimates)

MONDAY, 24 MAY 2004

CANBERRA

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SENATE

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

Monday, 24 May 2004

Members: Senator Eggleston (*Chair*), Senator Mackay (*Deputy Chair*), Senators Allison, Lundy, Santoro and Tchen

Senators in attendance: Senators Cherry, Eggleston, Harradine, Lundy, Mackay, McLucas, Santoro and Tchen

Committee met at 9.08 a.m.

**COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS
PORTFOLIO**

In Attendance

Senator Kemp, Minister for the Arts and Sport

Department of Communications, Information Technology and the Arts

Executive

Ms Helen Williams AO, Secretary

Ms Fay Holthuyzen, Deputy Secretary, Communications

Dr Rod Badger, Deputy Secretary, Information Economy

Corporate and business

Mr Frank Nicholas, Acting Chief Operating Officer

Mr Mike Hutchings, Acting General Manager, Information Technology and Facilities

Ms Kim Ulrick, Acting Manager, Corporate Communications, DCITA

Legal

Mr Don Markus, General Counsel

Finance and budgets

Ms Jennifer Gale, Chief Financial Officer

Telecommunications

Mr Chris Cheah, Chief General Manager, Telecommunications

Mr Colin Lyons, General Manager, Telecommunications Competition and Consumer Branch

Mr Simon Bryant, General Manager, Regional Communications Policy Branch

Mr Colin Oliver, Acting General Manager, International Branch

Mr Brenton Thomas, General Manager, Enterprise, Infrastructure Branch

Broadcasting

Mr James Cameron, Chief General Manager, Broadcasting

Dr Simon Pelling, General Manager, Digital Broadcasting and Spectrum Management

Mr Gordon Neil, General Manager, Licensed Broadcasting

Mr Rohan Buettel, General Manager, Public Broadcasting

Office of the Information Economy

Mr Keith Besgrove, Chief General Manager, Information Economy Division

Mr Ashley Cross, General Manager, Business Environment Branch

Ms Anne-Marie Lansdown, General Manager, Access and International Branch

Mr David Kennedy, General Manager, Strategy Branch

ICT industry and intellectual property

Dr Beverly Hart, Chief General Manager, ICT Industry and Intellectual Property Division

Mr Philip Allnutt, General Manager, ICT Industry Development Branch

Mr Simon Cordina, Acting General Manager, Intellectual Property Branch

Mr James Barr, General Manager, Regional Funding Initiatives Branch

Mr Sceán Kearns, Acting General Manager, ICT Innovation Branch

Arts and sport division

Ms Lynn Bean, Chief General Manager, Arts and Sport Division

Ms Karen Gosling, Special Adviser, Collections and Governance

Mr Kevin Isaacs, General Manager, Arts Support and M2006 Taskforce

Mr Peter Young, General Manager, Film and Digital Content

Mr Paul McInnes, Acting General Manager, Collections and Governance

Ms Sally Basser, General Manager, Sport and Private Sector Support Branch

Ms Kate Cowie, General Manager, Old Parliament House

Mr Andrew Sayers, Director, National Portrait Gallery

Mr Simon Elliot, National Portrait Gallery

Agencies

Telstra

Mr Bill Scales AO, Group Managing Director, Regulatory, Corporate and Human Relations

Mr John Stanhope, Group Managing Director, Finance and Administration

Mr Darian Stirzaker, Head, Channel Management

Mr Don Pinel, Regional Managing Director, Telstra Country Wide, Queensland

Mr Anthony Rix, Head of Service Advantage

Australia Post

Mr Michael McCloskey, Corporate Secretary

Mr Peter Meehan, Chief Finance Officer

Mr Mark Howard, General Manager, Corporate Infrastructure Services

Mr Gary Lee, Group Manager, Letters

Mr Rod McDonald, Group Manager, Human Resources

Mr Terry Sinclair, Group Manager, National Logistics

Mr Mel Jackson, Group Manager, Retail

Mr Matt Pollard, Manager, External Relations

Australian Communications Authority

Dr Bob Horton, Acting Chair
Mr Geoff Luther, Acting Member
Mr Mark Loney, Acting Executive Manager, Corporate Management
Mr John Neil, Executive Manager, Telecommunications Analysis
Mr John Haydon, Executive Manager, Consumer and Universal Service Obligation Group
Mr Darren Hooper, Chief Financial Officer

Australian Broadcasting Corporation

Mr Russell Balding, Managing Director
Mr Geoffrey Crawford, Director, Corporate Affairs
Ms Sandra Levy, Director, Television
Mr Colin Knowles, Director, Technology and Distribution
Mr David Pendleton, Director, Business Services
Ms Sue Howard, Director, Radio

Australian Broadcasting Authority

Prof. David Flint, Chairman
Ms Andree Wright, Director, Industry Performance and Review
Mr Richard Fraser, Content Assessment, Assistant Manager
Mr John Boshier, Director Planning
Mr Giles Tanner, General Manager

Special Broadcasting Service Corporation

Mr Nigel Milan, Managing Director
Ms Julie Eisenberg, Head of Policy
Mr Jon Torpy, Chief Financial Officer
Mr Will Berryman, Chief Technology Officer
Mr Shaun Brown, Head of Television
Mr Quang Luu, Head of Radio

Australian Government Information Management Office

Mr John Grant, Acting Australian Government Chief Information Officer
Mr Patrick Callioni, Chief General Manager
Mr James Shaw, Acting Chief General Manager
Mr John Lalor, Acting General Manager, Service Delivery Branch
Mr Tony Judge, Acting General Manager, Corporate and Governance
Ms Robyn Fleming, General Manager, Policy and Strategy Branch
Mr Steve Alford, General Manager, Sourcing and Security Branch

Arts and sport**Australia Council**

Ms Jennifer Bott, Chief Executive Officer
Dr Catherine Brown-Watt, Director, Major Performing Arts Board
Mr Ben Strout, Executive Director, Arts Development

Ms Megan Coombs, Executive Director, Finance and Services

National Library of Australia

Ms Jan Fullerton, Director-General

Dr Warwick Cathro, Assistant Director-General, Innovation

Mr Gerry Linehan, Assistant Director-General, Corporate Services

National Gallery of Australia

Dr Brian Kennedy, Director

Mr Alan Froud, Deputy Director

National Museum of Australia

Mr Craddock Morton, Acting Director

Ms Freda Hanley, General Manager, Collections, Content and Technology

Ms Suzy Watson, General Manager, Operations

Ms Louise Douglas, Acting General Manager, Public Programs and Audience Development

Mr Adrian Brocklehurst, Chief Finance Officer

Australian National Maritime Museum

Ms Mary Louise Williams, Director

Mr Quentin Howarth, Assistant Director, Corporate Services

Ms Joan Miller, Section Head, Finance

National Archives of Australia

Mr Ross Gibbs, Director-General

Ms Jenny Anderson, Assistant Director-General, Corporate

Australian Film, Television and Radio School

Mr Malcolm Long, Director

Ms Reza Bilimoria, Head of Corporate and Student Services

Australian Film Finance Corporation

Mr Brian Rosen, CEO

Film Australia Ltd

Ms Sharon Connolly, CEO

Ms Judith Bowtell, Executive Officer

Australian Film Commission

Mr Kim Dalton, Chief Executive Officer

Australian Sports Commission

Mr Mark Peters, Chief Executive Officer

Mr Brent Espeland, General Manager, Sport Performance and Development

Ms Lois Fordham, General Manager, Business Operations

Australian Institute of Sport

Mr Michael Scott, Director

Australian Sports Drug Agency

Mr John Mendoza, Chief Executive

Ms Anne Gripper, General Manager, Strategy and Support

Mr Kim Terrell, General Manager, Operations

CHAIR—I declare open this public hearing of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee considering the budget estimates for 2004-05. By the resolutions of 3 December 2003 and 11 May 2004, the Senate has referred to the committee particulars of proposed expenditure for the year ending 30 June 2005, particulars of proposed supplementary expenditure for the year ending 30 June 2004 and the annual tax expenditure statement for the two portfolios of Communications, Information Technology and the Arts, and Environment and Heritage. We plan to examine the Communications, Information Technology and the Arts portfolio over the next three days and the Environment and Heritage portfolio on Thursday.

The committee is required to report to the Senate on 17 June 2004, and it has set a deadline of Friday, 6 August 2004 for the return of answers to questions placed on notice. I welcome Senator the Hon. Rod Kemp, Minister for the Arts and Sport, representing the Minister for Communications, Information Technology and the Arts, the Hon. Daryl Williams MP. I also welcome the departmental secretary, Ms Helen Williams, and portfolio officers who are appearing today.

Before we move to questions I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. I also remind officers that they will not be asked to express an opinion on matters of policy and that they will be given reasonable opportunity to refer questions asked of them to superior officers or to a minister. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege and that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. Minister, would you like to make an opening statement?

Senator Kemp—We are happy to be here to see what we can do to assist senators. Perhaps a comment that should be included in your opening statement in future is that, once a question is asked, witnesses be given a chance to reply. There have been examples of hectoring since I became involved with estimates about 7½ years ago and I think that is something that should not be allowed by the committee. Senators are entitled to ask questions and to get answers, but they are not entitled to hector witnesses.

CHAIR—Thank you, Minister, we will note those comments.

Senator MACKAY—I might respond briefly to that, if I could.

CHAIR—I will just finish and then you can respond. I will call agencies in accordance with the agenda. We will begin today's hearing with Telstra.

Senator MACKAY—I just want to make a general comment for ministers and not specifically related to Telstra: I agree with the minister, but the difficulty that Senator Lundy

and I in particular have had in the past is when we ask a question and we actually do not get an answer to the question that we are asking or it is a very lengthy answer. I think in those circumstances we would reserve the right to bring officers from whichever agency back on track. It is a bit different with budget estimates, where we have more time, Minister, as you would be aware, but when time is of the essence we do tend to try and cut to the chase. We have a lot of time today—in fact, we have a spill-over capacity for Friday as well.

Senator Kemp—We can go on forever, Senator.

Senator MACKAY—I just make the point that we have lots of time, but to expedite matters so that we do not have to bring, for example, Telstra, back on Friday it might be a good idea if answers were more to the point or we were allowed to intervene.

Senator Kemp—It is a matter of judgment, of course. I can understand senators may not be happy with the answers they are receiving—that has happened to me from time to time—but nonetheless officers are entitled to answer us in the way that they see fit and senators then have to deal with that. I was not so much speaking about the seeking of information; I was speaking about the discourtesy that I see occasionally at these estimates hearings and that is something I do not think should be tolerated. Having said that, let's proceed.

Senator MACKAY—Does that apply to senators as well?

Senator Kemp—It particularly applies to senators, absolutely particularly and specifically.

Senator MACKAY—We will be monitoring your behaviour very closely, then Senator.

Senator Kemp—It specifically applies to senators—I do not think I was talking to anybody else!

CHAIR—I think we will proceed with questioning. Senator Lundy.

[9.14 a.m.]

Telstra

Senator LUNDY—I want to gain an explanation from Telstra about the non-attendance of two officers of whom I had requests—David Moffat and Ted Pretty—primarily because of their involvement in the advertising contracts. Could officers provide an explanation as to why you have persisted in the representation, fine as it is, that you have brought? I did put in a specific request and have tried to cooperate with the committee by giving an indication of the areas of intended questioning. Why were those officers not brought before the committee?

Mr Scales—We appreciate the fact that you did give us some indication of the line of questioning. Both Mr Moffat and Mr Pretty, as you know, run very large parts of our business. Right at this particular point in time we are not only going through a range of strategic reviews, as we always do at this time of the year, but also going through all our own internal budget processes. Over the next four days, as it turns out, both Mr Pretty and Mr Moffat will be very heavily involved in those issues inside the company. In addition to that, we have always tried to make sure that we answer your questions as fulsomely as we can. While we can anticipate what some of those questions are, and having done so, we think we will be in a very good position to answer them for you. I can assure you that we will be able

to answer the questions that you put to us in as fulsome a way as either Mr Pretty or Mr Moffat.

Senator LUNDY—The general issue of concern, particularly when there have been reports in the media about this, is when specific officers are named as being responsible for it. I am certainly of the view that the best way we can deal with the accountability issues is to have those officers here. I know that Senator Mackay also is going to ask questions about the nonattendance of the CEO, Mr Ziggy Switkowski, and about whether it is Telstra's policy or whether there has been a decision made specifically to corral the number of individual officers who attend estimates hearings.

Mr Scales—Our general policy is to try and get a group of people that can meet your requirements. You will have noticed over the last couple of years that there has been a significant degree of consistency amongst the officers that have been here, and it is partly because this is somewhat of an unusual forum, as you would be aware, and it does require people to be aware of the normal formalities of this particular forum and to make sure that they do not in any way disturb the normal formalities of this particular forum, and that is why we try and keep together a group of people that understand each of those processes and can meet your particular needs. So, yes, it is our policy to try and keep a degree of consistency. But in addition it is our policy to try and make sure that we do meet your needs, and I can assure you that with the issues that may emerge we will be able to do that.

If I can make one other comment: the press comments on Telstra every day. If we were simply relying on what might be recorded in the press as a precedent for bringing along officers from Telstra, this chamber would be filled with Telstra officers. I do not think that a day goes by when a Telstra officer is not named in the press.

Senator LUNDY—I think that the issue of accountability on behalf of Telstra to the parliament is of essence. I presume that in your comments you are not implying that some Telstra managers are more accountable than others by virtue of their presence here.

Mr Scales—No, certainly not. This may sound counterintuitive but it is because we believe we are accountable to the parliament—we accept that—that we want to try and make sure that we have a group of people who understand the needs of the parliament and are able to meet those needs appropriately. It is exactly for that reason that you have this consistent group coming.

Senator LUNDY—I will come back to that later.

CHAIR—Telstra always sends along a well balanced team, in my view, and it covers the requirements quite well. We might proceed to questions.

Senator MACKAY—On the same topic that Senator Lundy raised, Dr Switkowski is not here today, obviously. Where is he?

Mr Scales—As I was saying to Senator Lundy, the whole of this period leading right the way through until June is a period of quite intense reviews inside the company, and Dr Switkowski is involved both with the board and senior managers doing those reviews over the next week or two. That is the role that he is playing right now.

Senator MACKAY—Are you not involved in that process?

Mr Scales—I will be involved on Wednesday. The way the process of reviews is done is that the board requires that each of us who run the various business units review with them on a regular basis not only our past performance but also our plans for the next three years. Over the next week those reviews are going on. Not surprisingly, Dr Switkowski needs to be at each of those reviews, and that is where he is today.

Senator MACKAY—So you are in the midst of conducting a triennial review?

Mr Scales—It is an annual review. At the same time, at the request of the board, we also give indications about issues that might be affecting Telstra over the next few years. For some of us those issues might go five years out, depending on where we think the technology might be taking us. For others it is a much shorter time frame. So I would not want to give you the impression that it is only a particular period, because it does vary.

Senator MACKAY—So the board has asked Telstra to review certain issues at this point. Is that correct?

Mr Scales—That is correct.

Senator MACKAY—What sort of issues has the board asked Telstra to review?

Mr Scales—It is the range of business issues, which is very normal. It will be reviewing issues around broad financial performance and the technologies we might be affected by over the next few years. In my own area there are issues around the likely regulatory questions Telstra might be confronted with that might relate to particular technologies in the future. There are issues around the state of the labour market and the extent to which Telstra is able to recruit and retain good talent. It is those sorts of issues.

Senator MACKAY—Is this usually undertaken at this time?

Mr Scales—Yes, it is usually undertaken at this time.

Senator MACKAY—On these particular days?

Mr Scales—I cannot tell you whether the dates were exactly the same last year, but it is generally around mid-May.

Senator MACKAY—What is Dr Switkowski involved in today?

Mr Scales—He is there with the heads of each of the business units. He is, of course, a member of the board as well as being the CEO of the company.

Senator MACKAY—That is right: he is a member of the board.

Mr Scales—All of the board are required to do these reviews, including Dr Switkowski. But he also has the dual role of being CEO, and therefore he is there with the various business unit heads to provide information about issues that might be raised.

Senator MACKAY—He is a member of the board and CEO of Telstra. That is correct. That is why we asked him to attend, and that is why we have asked him to attend every estimates that I can recall. What do think the general public would feel about the CEO having never attended Senate estimates?

Mr Scales—I have no opinion about that.

Senator MACKAY—Do you think they are entitled to feel somewhat miffed?

Mr Scales—I have no way of judging that.

Senator MACKAY—Is Dr Switkowski not interested in the parliamentary scrutiny process?

Mr Scales—He certainly is. That is why he sends along such a strong group of people to answer your questions.

Senator MACKAY—If he is so interested why has he never fronted?

Mr Scales—Because he has confidence in the group that has come here.

Senator MACKAY—He may have confidence in the group, but he has never once attended estimates—despite repeated requests, I have to say.

Mr Scales—I think it is because he has full confidence in the group that is here.

Senator MACKAY—So it is not because he cannot be bothered, we are not important enough, he is far too busy or whatever?

Mr Scales—Certainly not.

Senator MACKAY—Do you think it is acceptable for the CEO of a company which is majority owned by the people of Australia never to bother attending the estimates process?

Mr Scales—I do not have an opinion on that.

Senator MACKAY—You are aware that we could order Dr Switkowski to appear, aren't you? Are you aware of that provision?

Mr Scales—I am sure you could.

Senator MACKAY—We have not done that yet, but we could, through the Senate processes. If we were to order Dr Switkowski to appear, would he appear?

Mr Scales—It is not for me to answer that. I do not know how we would respond to that. I am sure that, if the law required it, Dr Switkowski would abide by what the law required.

Senator MACKAY—Is that the only way we are ever going to get him at estimates—by ordering him to appear? Will he attend the next estimates, for example?

Mr Scales—It is impossible for me to answer that. I think it does depend on the issues and the confidence that Dr Switkowski might have with regard to the group that is coming here.

Senator MACKAY—I agree with Senator Eggleston that it is not a reflection on the group that was sent. I think what it is a reflection on—and certainly this is the feedback that we have got—is Dr Switkowski's view about how important parliamentary scrutiny is. That is the only way you can make an observation. He has never attended an estimates hearing—ever—as the chief executive of the biggest company in Australia that is majority owned by the Australian people.

Mr Scales—You may need to correct me, and I do I stand to be corrected, but I do not recall that you have ever not had the opportunity to scrutinise us appropriately—

Senator MACKAY—That is not the issue that I am raising. I agree with you.

Mr Scales—I thought that was the point that you raised.

Senator MACKAY—No. The issue is that, as you say, Dr Switkowski has a duality of roles. He is the CEO and he is also on the board. Who else in this room is on the board of Telstra?

Mr Scales—There is nobody in this room that is on the board.

Senator MACKAY—That is correct. Do you go to board meetings?

Mr Scales—I do go to board meetings.

Senator MACKAY—So I can ask you about issues relating to what happens at board meetings or whatever?

Mr Scales—To the extent that I am in a position to answer, you can. John Stanhope also attends board meetings.

Senator MACKAY—We might try that and see how far we get. Telstra has advised us that you attend on the basis of being Dr Switkowski's chief of staff, as I think it was described. Is that what you are?

Mr Scales—I have a number of roles inside the company. I am responsible for the company's regulatory issues. I am responsible for corporate relations and government affairs issues. I am responsible for all the human resources within the company. I also do have a role called 'chief of staff' which requires me to act for and advise Dr Switkowski from time to time on a range of issues.

Senator MACKAY—Senator Kemp is here. He could have sent his chief of staff here, couldn't he?

Senator Kemp—I had not thought of that.

Senator MACKAY—But you would not do that, would you?

Senator Kemp—Thank you for the suggestion.

Senator MACKAY—Telstra sent their chief of staff.

Senator Kemp—I suspect that the job of chief of staff of a minister is probably a little bit different to the sort of role that Mr Bill Scales is involved in. Bill is someone who is very well known in the wider community. He has had a very distinguished career to date. I have been beside Mr Scales at a number of estimates hearings and, frankly, I think the estimates committee is fortunate to have a person before them of Mr Bill Scales's quality. If there are things that we cannot answer relating to Dr Switkowski, they can be put on notice and we will deal with them. My experience has been that the questions that have been put to Mr Bill Scales have always been comprehensibly and honestly answered. I think it would probably make a bit of sense to proceed and, if there are questions which you cannot have answered or if information is unavailable, we can always seek that information. My experience has been

that this committee has worked well. Frankly, we are fortunate to have an officer of Mr Bill Scales's quality before the committee.

Senator MACKAY—As I indicated, it is no reflection on Mr Scales or anybody else. The point I am making is that, while I understand that you are representing the minister, prior to you, Senator Alston, who was the minister, used to front up. He used to attend intermittently, but he did turn up. That was fine as well.

Senator Kemp—Ministers are required to attend, if I remember rightly.

Senator MACKAY—That is right. Ministers are required to attend, but you could put somebody else in for this session. You do not have to attend yourself. I am tempting you

Senator Kemp—It is an intriguing thought, but I think I would probably find it very hard to recruit another minister for this role today, as interesting as this session will undoubtedly be.

Senator MACKAY—Does Dr Switkowski turn up to annual general meetings of Telstra?

Mr Scales—He is a member of the board, and all board members attend. Also, at annual general meetings the CEO gives a report to all shareholders—which is not particular to Telstra—and Dr Switkowski certainly does that.

Senator MACKAY—The representatives of the biggest shareholders are here today. Why doesn't he turn up and give a report to us?

Mr Scales—He does give a report to the shareholders at the annual general meeting.

Senator MACKAY—But Telstra is a public company with majority ownership by the people of Australia. We are the representatives of the people of Australia. Why is he not here giving a report to us?

Mr Scales—But you are getting a report to you by us. Telstra is here.

Senator MACKAY—Yes, but not Dr Switkowski.

Mr Scales—But Telstra is giving you the report. Whether you have one particular officer or another here, it is Telstra, the organisation, that is reporting to you and providing you with whatever information you need.

Senator MACKAY—So he turns up to AGMs but not to estimates. Why does he turn up to AGMs and not estimates? What is the difference? Is he required to turn up to AGMs?

Mr Scales—It is traditional for a CEO to provide a report to all shareholders at an annual general meeting. At the Senate estimates, you try to divide the responsibilities, like all tasks inside organisations, amongst those who you believe will be able to fulfil those roles, and thus allow other people to do other roles. As I mentioned, right now Dr Switkowski is required to do other roles. He believes that the group he has here today is certainly adequate to fulfil the important role of reporting to you and to the parliament.

Senator MACKAY—The difficulty is, as the minister indicated, that you may be forced to take questions on notice. If I were to ask you what Dr Switkowski thought of something you would say, 'I do not know'—and in fact I have asked and you said that. He is the CEO of

Telstra. All you can do, as the minister has correctly pointed out, is say, 'I will ask him.' That is fair enough as well.

Mr Scales—And questions can be taken on notice—

Senator MACKAY—That is right, but is that acceptable?

Mr Scales—That is routine in Senate estimates, as I understand it.

Senator MACKAY—But you said earlier that questions to Dr Switkowski specifically—for example, 'What does Dr Switkowski think of X, Y and Z?'—

Mr Scales—You were asking me to offer an opinion.

Senator MACKAY—That is right.

Mr Scales—It is simply not appropriate for me to offer an opinion.

Senator MACKAY—That is the point. We are here to get his opinion on issues and ask him questions.

Mr Scales—I understood from Senator Eggleston that it is not about opinion. I think one of the points that Senator Eggleston made was that officers are not required to provide opinions.

Senator MACKAY—Has there been a massive change to the standing orders of the Senate?

Mr Scales—That is what I understood Senator Eggleston to say.

Senator MACKAY—If I were to ask you what your view is on how Telstra is performing as a company, how would you answer?

Mr Scales—We would provide you with the facts.

Senator Kemp—Yes, you would provide the facts. That is not a matter of opinion. I think Mr Scales has made a valid point. These are factual issues. Frankly, I think the history has been that Mr Scales has been able to deal very competently with all these questions. If there is a question that it is clear Mr Scales cannot deal with, then we will immediately seek a response from Dr Switkowski.

Senator MACKAY—There have been a lot of issues in the news recently that you would be aware of, Mr Scales. You say that issues about Telstra are raised in the media every day. That is true, and who better and more competent to answer them than the CEO—and that is no reflection on anybody here, because I agree with the comments that have been made. I will leave it there. I just think it is a continuing disappointment to the Senate that Dr Switkowski does not organise his diary sufficiently well to be able to front at at least one estimates. It would be nice to see him. He did come to Parliament House once, as I understand it, and gave us a briefing on what was happening with staffing. I suspect he will never come again, based on what happened.

Senator Kemp—Were you rude to him?

Senator MACKAY—No. He came and told us that Telstra was going to cut 10,000 jobs. I do not know if you remember that, Minister. I do not think the group of members of parliament, including many of your colleagues, were particularly happy with him.

Senator Kemp—I can recall the old days when I was in your shoes and we used to have Telstra before this committee and I used to ask about the job cuts that were involved there, particularly in Melbourne, if I remember rightly, so I am well used to this debate.

Senator MACKAY—So you will not complain if you are in my shoes again then.

Senator Kemp—These are factual issues that we shall try to deal with.

Senator MACKAY—If we do have another estimates round we will consider our position then. And I guess if you are in our shoes then you will be considering your position.

Senator Kemp—Dream on!

Senator MACKAY—Let us go to the issue of line rentals. How does Telstra justify increasing monthly line rentals on its two popular consumer packages, HomeLine Plus and HomeLine Complete, by, I am advised, \$3.45, which on our calculations equates to a 13 and 15 per cent increase respectively?

Mr Stanhope—As I think I have mentioned before in this committee, Telstra is going through a process that has been called ‘rebalancing’. That is because it has been recognised by the ACCC and the government that Telstra has an access deficit. In other words, call prices have been subsidising the access charges—or the lowness, if you like, of those charges. What we have done is put together a package of price increases, as well as a rewards program and the protection of low-income people, to move us towards closing that gap of the access deficit. You might recall that the ACCC said that that was about \$32 per month and now we are up to about \$29.95 per month, so the gap in that access deficit has narrowed. We have chosen for those increases to go across various plans, and it is right that a couple of those plans are 13 or 14 per cent increases, whereas others are not; they are much lower. The actual increase across the board—across the whole of the retail price products that are included in the bundle—is about 8½ per cent.

Senator MACKAY—You say the gap is closing.

Mr Stanhope—Yes.

Senator MACKAY—You are at \$29.95, so we can presumably expect more increases in light of this.

Mr Stanhope—Not necessarily. We have no plans for a future price increase. But the facts are that we are also subject to competition in the market.

Senator LUNDY—Not on line rental.

Mr Stanhope—Yes, on line rental. There are alternative carriers out there. Optus provides a direct service on their cable, for example. So we also have to take account of the competition that is in the marketplace. And we do. In fact, that is one of the reasons why we have not used all of our credits. Remember I have told you about the process of there being credits. We have not used all those credits, because we do recognise that there is competition

in the market. We do recognise that consumers can go elsewhere, and we do suffer from churn—that is, customers moving. So we try to get a balance between trying to close the access deficit and recognising the impacts on consumers and the competitive impacts on us.

Senator MACKAY—What you are foreshadowing is that, if you were to increase line rentals depending on what happened with the market, you would be justified in doing so. In terms of the parameters of the price regime, you could, if you so wished.

Mr Stanhope—Yes, we could. We do still have that capacity. But, as I said, we do not have any plans to do so.

Senator MACKAY—Please advise me how increases of 13 and 15 per cent can be in compliance with the government price control regime, which stipulates that line rental costs should not exceed CPI plus four per cent per year. How is this in conformity with that?

Mr Stanhope—Let me tell you. In access, for example, the price rules say that it is CPI plus four per cent. In 2004-05 that is 2.3 plus four per cent, so it is 6.3 per cent. We had a carry-in of 6.5 per cent. That is a 12.8 per cent increase that can happen in access. As I have said to you, as we have spread it across the retail—all the plans—it adds up to only about 8½. Therefore we have not used our full capacity. So the capacity for the increase in 2004-05—it starts 1 June and how much the increases add up to in 2005—is far greater because of CPI plus four and the carry-in than we have actually put the prices up.

Senator MACKAY—So you would contend that you have succeeded in meeting your line rental price cap obligations—for example, in terms of the ACCC's view—by not increasing line rental costs for businesses. Would that be fair?

Mr Stanhope—It is all retail, and business is included in the retail mix.

Senator MACKAY—Just talking about this line rental issue, Senator Kemp, you are aware that the government has CPI plus. You are aware of the provisions which are CPI plus four per cent per year. Does that match the government's intention with respect to the price control regime?

Senator Kemp—I am getting a briefing here, so bear with me.

Senator MACKAY—Is that what the government meant?

Senator Kemp—I might seek some advice.

Senator MACKAY—That is fine; we can come back to you. While the minister is being briefed on that, Mr Stanhope, you think that you have succeeded in meeting your line rental cap obligations by not increasing line rental costs for businesses. That would be one of the things that you would say.

Mr Stanhope—I certainly know we will not exceed our price control caps across the retail price increases, which include consumer and business.

Senator MACKAY—What have been the actual increases and the announced increases in business line rental costs this year?

Mr Stanhope—Maybe I will ask Mr Stirzaker to answer that. The question was about business?

Senator MACKAY—What have been the actual increases and announced increases in business line rental costs this year?

Mr Stanhope—With the recent announcement that we have made, there is no increase in business rental from 1 June this year.

Senator MACKAY—Does that include all these plans, packages in whatever iteration or incarnation?

Mr Stanhope—I am talking about line rental. There is no increase in line rental for business in our announcement.

Senator MACKAY—Some of these packages are fairly complex. Is that an across-the-board statement or are there areas where line rental increases may have occurred in the business sector—in a package, for example?

Mr Stanhope—Let me be explicit. In the standard business access line rental there is no increase. But we negotiate with corporate customers all the time. Each one of them can be on a different mix plan. They can have a different line rental and a different call regime. At the corporate customer end they will all be on individual contracts and they will have different prices.

Senator MACKAY—So it is conceivable that some businesses may have had a decrease in line rental as part of a package.

Mr Stanhope—And they may have chosen to have higher call rates—

Senator MACKAY—I understand.

Mr Stanhope—or data rates or—

Senator MACKAY—As a general rule there has not been an increase with respect to business.

Mr Stanhope—No. For example, a small business that has a single line phone would not get a business access line rental increase from 1 June because we are not putting one in place.

Senator MACKAY—So the punters are paying for all this then, are they? The consumers are paying for all this, are they?

Mr Scales—Maybe I should just add one small caveat to that: there is a growing group in business which is often described as SOHO—small office, home office—and people who are operating in that particular segment often cannot be differentiated, even by us, from people who might be receiving a consumer package.

Senator MACKAY—No, I understand, so they are lumped in as the average consumer.

Mr Scales—I am just trying, for completeness, to give you the view that there will be some people who see themselves in business who might get caught up in that other issue that we were raising.

Senator MACKAY—So it is the small businesses from home, or whatever, where you cannot differentiate that they are businesses; that is fair enough.

Mr Stanhope—But even then, if they have an ABN number and register themselves as a business—

Senator MACKAY—I understand. Thank you for that.

Senator Kemp—I may be able to add some information that was requested by Senator Mackay regarding the compliance with the price controls and the government's attitude. The ACCC undertakes an assessment process after the end of each financial year to determine whether Telstra has complied with price controls. Compliance is measured over the year and is not based on individual price rises. Telstra must comply with price controls and its compliance is monitored, as I said, annually by the ACCC. Within this constraint, Telstra, like any other company, may vary its prices as it considers appropriate.

The price controls require that a basket of fixed line telephone call prices are to come down each year by 4.5 per cent, in real terms, on average. However, Telstra is permitted to increase line rentals subject to an upper limit of plus four per cent per year on average to gradually remove what is termed the 'access deficit'. Removal of the access deficit has long been sought by the ACCC and the Productivity Commission to improve competition in telecommunications markets. I think this is an interesting figure: the ACCC's annual report on prices paid for telecommunications services in 2001-02 indicated that the real price of a basket of call charges and line rentals had decreased by 20.7 per cent since 1997—that is, real decreases in call charges exceed real line rental increases by around 20.7 per cent. I hope that provides some assistance to you.

Senator MACKAY—We will get to the ACCC later on, but thank you for that; that is useful. When you introduced your package in 2002, Minister, the government said that increases in line rental costs would be matched by 'real price reductions in the specified call services'—Senator Alston said that. It seems here that businesses are getting all the reductions and the consumers are actually paying the increased cost. I am just wondering whether the government really ought to have thought about perhaps quarantining business and residential under separate regimes. Or are you happy that the evidence that we have got here today indicates that the consumers are paying for the rebalancing or access deficit? They are the ones who are paying for the increased line rentals, because the businesses are not paying anything. Are you happy with that regime? You have heard that here today.

Senator Kemp—I have stated what the regime is, and I have not got any information that we are proposing to change it. I do not know whether you are proposing to change it as part of your policy; I am not aware that you are. If you are, I suppose this would be an interesting occasion for you to announce that. I am not sure whether anyone else has got anything more that they wish to add. Secretary, can you add anything more to that that would assist Senator Mackay?

Ms Williams—Only, of course, that Senator Mackay would be aware of the low-income package.

Senator MACKAY—Yes, we will get to that. Minister, I do not know if you are aware, but we have announced we will freeze line rentals. So there you go.

Senator Kemp—Have you?

Senator MACKAY—Yes. Which I would have thought is good news, isn't it, for consumers who are bearing the brunt of these increases?

Senator Kemp—It is a more complex issue, I suspect.

Senator LUNDY—When was the last time the government met with Telstra specifically to discuss the price control regime?

Senator Kemp—I have not personally, but then again I am not responsible in this area for Telstra. I do not know whether there is any information someone could give us.

Mr Scales—Senator, I might be able to help. The government has announced that the ACCC will be conducting a review under the price control regime, which you are probably aware of. Through that process I have no doubt that we will be making submissions. I can tell you from my perspective that only in the most general of terms have we spoken to the department about this issue, and it has not been specifically about the price control regime; it was more about when the review might be conducted, because we always knew that there was going to be a review of the price control regime. I do not have any recollection of us raising it with the government per se. The reason is that we knew there was a review on the horizon and there really was not much point in discussing it; those things will take their natural course. But it is certainly true that we would have inquired of the department when the review might be taking place and who might be conducting the review. That has now been resolved and now is in place, and we will be making submissions.

Senator LUNDY—Ms Williams.

Ms Williams—We presume that the minister and the minister's office were briefed by Telstra, but certainly at the departmental level we have been discussing this issue.

Senator LUNDY—I am sorry; I cannot hear you.

Ms Williams—We are not sure whether the minister has met with them. We cannot say definitely, but we presume that there was a briefing of the minister and the minister's office. Mr Scales would be able to say that. But, at a departmental level, we have certainly discussed this issue.

Senator LUNDY—You certainly have, with Telstra?

Ms Williams—Yes. We have ongoing discussions with Telstra about a whole range of issues, and this is one that came up.

Senator LUNDY—In the lead-up to the last price increase, what was the nature of discussions Telstra had with the department?

Ms Williams—It was very much an information briefing on the nature of the changes.

Senator LUNDY—So were you told after the effect or prior to it? Were you given advance warning of the changes?

Ms Williams—We were given advance warning of the changes.

Senator LUNDY—How much advance warning?

Ms Williams—I will have to check that, I am afraid.

Senator LUNDY—Was it like a week, a month, two days, three hours?

Ms Williams—Our memory is that it was a matter of a few days.

Senator LUNDY—And is it then your role to advise the minister?

Ms Williams—Certainly we do advise the minister on everything.

Senator LUNDY—Mr Scales, in that circumstance, when would the Telstra briefing for the minister have occurred? After the department had been appraised so the minister received advice from his department, or prior to that?

Mr Scales—Senator, before I add to that: I assumed that you were talking about the price regime, and my answer was to do with the pricing regime as distinct from the specific price changes that we have just announced. To address your question about the specific price changes, we did brief both the department and the government about those price changes. I cannot tell you exactly whether it was a few days, but certainly it was in advance. I can get you specifically how soon in advance we did make those briefings, but I just do not have it at the moment.

Senator LUNDY—Thank you. Going back to the general question, if you are saying you cannot really recall whether Telstra has met with the government—that is, the minister—or department specifically about the general price regime, I presume the committee can interpret that as meaning that Telstra has had no substantial complaint with the deal that was done in 2002 and you have not lobbied to change it in any way.

Mr Scales—I would not go as far as to say that we were happy with the arrangements which were put in place then, but I can certainly say that we have not lobbied for change to that arrangement. Getting back to the answer I gave earlier, we knew that there was to be a review; that is our opportunity to make any comment, and we will be doing so accordingly.

Senator LUNDY—Have you prepared that comment for the review?

Mr Scales—Not yet. It is still some time away. The ACCC has not yet decided the exact process which it will follow, or even time lines, but we are in the process of preparing it. We are giving some thought to it.

Senator MACKAY—With respect to the latest price rise announcement, why hasn't there been a reduction in the price of local call costs with this package for consumers who are not on reward options packages? What I am getting at is: weren't call costs meant to come down with increased line rentals under the price control regime? Why haven't local call costs come down for those people who are not on reward options packages?

Mr Stanhope—Before Mr Stirzaker talks about the details, I advise that the CPI was 2.3 and, as we have just heard, the regime is minus 4.5—so 2.3 minus 4.5. That meant that calls had to come down 2.2 per cent, but there was a carry-in to 2004-05 of 6.6 per cent. So we

could have put calls up but we did not. In fact, in total, across the basket—the calls basket—the reduction announced on 1 June will result in a 0.4 per cent decrease in call prices.

Senator MACKAY—Let us forget the basket issue, because I think—

Mr Stanhope—You cannot, really.

Senator MACKAY—I understand that it is pivotal to your argument. But, for the purposes of this line of questioning, we could come back to it—because I do understand. So, essentially, call costs have not come down outside of the basket issues? And I think you were saying that you actually could have increased them.

Mr Stanhope—But of course we have not. One of the mistakes we are making here is that you have to look at this over time. This is a change in access and call prices over time since the regime started. This is why we are in credit. We have actually given customers lower call charges than we were required to. That is how we get into credit.

Senator MACKAY—But the call costs—

Mr Stanhope—So when you look over time, consumers are better off. You also need to look at the business side over time as well. Whilst we have not done an access increase for business this time, we have on previous occasions. You do need to look at this over the time of the price control regime. Consumers are better off.

Senator MACKAY—But the call cost reductions are all for businesses, are they not?

Mr Stanhope—Do you mean on this occasion?

Senator MACKAY—Yes.

Mr Stanhope—On this occasion they tend to be, but on previous occasions they were not.

Senator MACKAY—So businesses are not getting the increased line rentals and they are getting call cost cuts. They are primarily for businesses, are they not?

Mr Stanhope—But if you look at the last price increases or changes, you see that it was the other way around.

Senator MACKAY—So consumers should count themselves lucky that they did not get an increase?

Mr Stanhope—I am not saying that. The rules are there and we are making our price decisions within the rules. We are not using the credits to the extent we can, which means that consumers are better off and businesses are better off.

Mr Stirzaker—Perhaps I can add to that. As you said earlier, the two plans you referred to are two of the most popular plans—HomeLine Plus and HomeLine Complete. They also happen to attract some of the higher line rental charges—even prior to the rise. Mr Stanhope also referenced that we certainly are operating in a very competitive market. Post our changes, I am sure you would have also noticed some of our competitors quite freely advertising their alternatives.

There is another dynamic at play in the market as far as we are concerned, which is around most households, particularly those on the higher-end plans that we referred to, Plus and

Complete, who have more than one service in their home, whether it is a fixed line or Internet access—broadband growth is very large and dial-up is large—and, in particular, mobiles; that is, the base of mobile plans or mobiles that are used out there. So bundling becomes a major part of what our options are. That is why we reviewed, revamped and released reward options—which are actually very generous.

Yes, you have to make a choice—and that is a major part of how we are approaching this. If you have a mobile and a fixed service, which a very large majority of the households have these days, you can have a choice between up to 50 free local calls per month or 50 SMSs or \$15 off mobile to mobile and fixed to mobile calls —where both are on a single bill—or, if you have a prepaid phone link to a post-paid account, a \$15 allowance on that. You can choose from any one of those.

Fifty local calls on the plan rate in the case of HomeLine Plus, which is 17.5 cents worth of local calls, is a benefit of \$8.75. On 50 SMSs it is a benefit of \$12.50; on family calls, as I mentioned, it is \$15; and on a mobile link it is \$15. But, if your household has a fixed line and Internet as well as a mobile, which most houses do, you can have up to 125 free local calls. Of course, on the way through we have looked after pensioners as well. Where their rebate has increased on their calls, they get a benefit of up to \$2.90. The point I am trying to make is that there is a market dynamic. You can look at it purely on fixed calls or fixed line rental, but most households these days, particularly those on upper plan types, have more than one service, and therefore that reward option is available to them.

Senator MACKAY—We have been contacted by a constituent—this is a real-time example, as it were—who received a letter from Telstra offering him 125 free local calls for the increased line rental, which I think was one of the things you talked about. Is that correct? You mentioned that figure of 125.

Mr Stirzaker—Yes, if certain things happen.

Senator MACKAY—If certain things happen, if the planets are in conjunction or whatever. This person then contacted Telstra to take up that offer, because he thought, ‘Here is a reasonable deal. There was a huge increase in line rentals; I might try and get something for that.’ He was informed that he would have to forgo the 10 per cent discount that he received.

Mr Stirzaker—That is right. There is a trade-off for those customers who were on a reward option. I am really pleased you have raised that because on the discount there are, or were, two regimes in place—five per cent and 10 per cent. The feedback we got from customers in particular was that there were a lot of conditions on those—the discount applied to certain eligible calls but not to others that were in the cap et cetera. The customer can stay on that 10 per cent discount if they want to. If they work the numbers, typically what they find is that by moving across the reward option choice the benefit to them is significantly bigger.

Senator MACKAY—So the more services they use the better off they will be. Is that basically it? If you have a mobile and you SMS and you have a couple of lines et cetera—

Mr Stirzaker—And Internet and Pay TV.

Senator MACKAY—the more services you use the better off you will be. Is that generally it?

Mr Stirzaker—Potentially, yes.

Senator MACKAY—So the people who can afford those services are the ones who will be better off?

Mr Stirzaker—The point I made earlier was that the two most popular plans are the two plans which are at the higher end of the line rentals in the first place.

Senator MACKAY—I accept that. So only people who have enough money to purchase the bundling are benefiting from the local call decreases?

Mr Scales—No, you cannot make that assumption.

Senator MACKAY—Why not?

Mr Scales—Because, as Mr Stirzaker was saying, it depends on the particular circumstances of the customer. It depends on whether they make a lot of local calls and whether they rely simply on having a fixed line in place in the event that they decide to make local calls. Each customer is quite different, so it is not easy for us to make those generalised assumptions any more. There are some people who will have in total a lower cost for their bundle as a result of this package.

Senator MACKAY—How many—what percentage?

Mr Scales—Mr Stirzaker may be able to tell you that, but I do not know the answer. There will be some.

Senator MACKAY—That is great for them.

Mr Scales—I was really addressing your general point earlier, Senator, in which you assumed that, for everybody, all local call costs will go up.

Senator MACKAY—No, what I was saying was that for people who use a lot of Telstra services, who have the money to purchase a lot of Telstra services—the people who have mobile phones, who have a couple of lines, who SMS et cetera—the more they use, the less they pay. I think that is the bottom line.

Mr Scales—With one caveat as well, though—the point that Mr Stirzaker made earlier about the low-income issues. That is certainly an important element of this particular package as well. I accept that that is not exactly germane to your point but it does have to be taken into account when we are making generalisations.

Senator MACKAY—We will come to that. Thank you for that. Why do call connection fees on timed calls increase from 33c to 35c? Again, weren't call costs supposed to come down with the new line rental increases under the so-called rebalancing policy? Why have you put them up? Is it because you can?

Mr Stirzaker—They went up as part of the normal market dynamics, and there were trade-offs with the rest of the reward option packages I have just gone through. As Mr Stanhope was saying earlier on, within the way that the price cap regime works, there was flexibility to

shuffle. On other plans—for example, HomeLine Complete—there have in fact been some reductions on fixed to mobile and STD caps; they went down by 50c. But, from memory, local call prices across the board stayed exactly the same.

Senator MACKAY—Isn't it true that most residential consumers are paying far more in increased line rental costs than they are receiving through any minor reductions in call rates?

Mr Stirzaker—I will say right from the word go that there is a choice mechanism for reward options. But a reward option benefit in true terms ranging from, as I was saying before, \$8.75 to \$21.88 for local calls is not really a minor reduction, not a small drop in the opportunity to reduce your call costs.

Senator MACKAY—What was that again?

Mr Stirzaker—With the local call choice in reward options, whether you have two services or three, if you take up 50 calls there is a benefit to the customer of \$8.75.

Senator MACKAY—Is that a straight benefit, or what else do you have to do to attract that?

Mr Stirzaker—You have to put the two services together on a single bill, and they have to be with Telstra. You get that allowance each month.

Senator MACKAY—That is hardly 'unencumbered'. Is Telstra concerned that consumers may begin to cancel their landlines?

Mr Stirzaker—Again, as Mr Stanhope said earlier, in the normal thrust of making these decisions it is a very dynamic and competitive market. We do not make these decisions lightly. But we believe that, because of the nature of the consumer base, where there are multiple services customers will find this very attractive. It will actually offset the risk of churn. There will obviously be some customers who do choose to do that. I also mentioned before that competitors are very active in the marketplace.

Senator MACKAY—I think competitors are something Senator Lundy would like to ask you about.

Senator LUNDY—Can you explain to the committee how your competitors—for example, Optus—put competitive pressures on you with respect to line rentals?

Mr Stirzaker—I saw on television last night an ad by one of the competitors—Optus is no different; it has been this way for some time—which was centred on the bundling element. They recognise, as most of us do, that the marketplace has customers with multiple services and that the dynamics and the consumer base have moved quite markedly in terms of how they use different services. So, in essence, they are also doing what we are doing.

Senator LUNDY—But Optus do not own the copper wires from the exchanges to the homes; they have cable. Are they really only putting competitive pressure on you where there is a cable running past peoples' houses?

Mr Stirzaker—Like all our competitors, they have put competitive pressures on us across all the services that they either provide directly or buy wholesale from us and on sell.

Senator LUNDY—That is right. Where they are putting competitive pressure on you, you are getting a wholesale return anyway, aren't you? Where there is no cable passing the houses, you still control that infrastructure.

Mr Stirzaker—Yes we do, and there are normal commercial arrangements between ourselves and those competitors, which I am absolutely not privy to.

Senator LUNDY—When you increase your line rental doesn't that pretty much affect everybody who does not have a cable running past their house—and therefore an alternative?

Mr Scales—The competitive dynamics operate at a number of levels.

Senator LUNDY—I certainly know that; I am trying to get to the bottom of line rental.

Mr Scales—But I think the essence of your question is: how does this competitive dynamic operate? It operates at a number of levels. It operates quite rightly, as you say, where alternative technologies are available for people to provide the same service—that is, through cable. It operates where there is substitution between different forms of delivery—that is, between fixed lines and mobiles. It operates where we provide a wholesale service. Some of our wholesale customers choose to offer quite different approaches. You would have seen, almost within hours of us making our announcement about our line rental and other charges, that Primus came out and, effectively, provided what we describe as an 'all you can eat' approach, which says: 'This is a fixed price. You won't need to pay any more.' The dynamics of the market operate on a number of levels. There is no doubt that there is quite intense competition in the fixed line area.

To get back to a related question Senator Mackay raised, we are concerned about whether people will cancel their fixed line. That is part of the dynamic which we are always trying to balance, because we know that there are people who will make choices. This competitive dynamic is in the market right now, and we are trying to balance all of those things as we think about not only technology but also pricing regimes and all of those issues.

Mr Stirzaker—Senator Lundy, it is interesting that you raised Optus specifically. It would be worth while looking back on history. I am not going to get the dates right, but it was some months prior to our latest range of increases as well as rewards options which we are discussing, that they put their line rentals up. That, of course, passed through relatively unnoticed within the media, as distinct from what has happened to us. But it was actually quite a significant increase, well above our access prices at the time.

Senator LUNDY—How many customers pay line rental to Telstra in Australia?

Mr Stirzaker—It is approximately six million.

Senator MACKAY—Out of how many?

Senator LUNDY—How many potentially? What percentage of the market do you have?

Mr Stanhope—There are about nine million basic access lines.

Senator MACKAY—So what percentage of the market do you have on line rentals?

Mr Stanhope—Our access market share is close to 90 per cent.

Senator MACKAY—90 per cent?

Senator LUNDY—So when you raise line rentals—

Mr Scales—But that 90 per cent also includes people who will buy wholesale from us. So it is retail and wholesale.

Senator MACKAY—That is still not a bad deal.

Senator LUNDY—You still make money either way.

Senator MACKAY—That is right. Exactly!

Mr Scales—But that is the policy construct. The whole idea of the approach which has been adopted was to try to reduce the inefficient duplication of infrastructure and then have a pricing regime, supervised by the ACCC, that ensured the appropriate access price for wholesale customers. We see this played out in a number of ways, as I am sure you are aware. So I do not think the fact that we have 90 per cent of wholesale and retail customers of itself indicates anything in particular. All it means is that that is the policy construct in which we are operating.

Senator LUNDY—Are those access lines declared? Are the terms and conditions set by a third party?

Mr Scales—For the PSTN, yes they are declared. We are required to go through, and we have been going through, our price list with the ACCC.

Senator LUNDY—So the wholesale price is set for those lines?

Mr Scales—If we are talking about, effectively, those products which we describe as PSTN products—

Senator LUNDY—We are talking about the lines themselves.

Mr Scales—The lines themselves?

Senator LUNDY—They are not declared.

Mr Scales—No, the lines themselves are not declared. The products are declared; the technology is not declared

Senator LUNDY—You negotiate with competitors for their access, don't you?

Mr Scales—But the interconnect prices, as Mr Stanhope very rightly said, are declared.

Senator LUNDY—But that is slightly different. I am talking about the lines themselves.

Mr Scales—That is true. The lines themselves are not declared, because that is a technology, of course—as distinct from the products.

Senator LUNDY—Indeed. The point remains that, because you can negotiate on that access, Telstra are still able to make money out of doing that. So it is a reasonable proposition to put to you that, although that 90 per cent is retail and wholesale, you are still making money both ways.

Mr Scales—Yes, we charge a fee. If that is what you mean by making money, that certainly is true.

Senator LUNDY—That is the point. But the implication I heard coming through from you was that that did not count in some way—that you are not making money and that you are subject to all this competitive pressure.

Senator MACKAY—Of course you are making money.

Senator LUNDY—The bottom line is, when you put line rental increases up, Telstra makes more money. However you want to couch it in terms of a basket or anything else, only Telstra has the capacity to charge consumers more—and consumers, through a reseller or Telstra direct, have no choice but to pay. This is a scheme that the federal government has permitted and endorsed, and it has gone unchallenged.

Senator MACKAY—It is basically only applying to consumers not businesses, which I would be a bit concerned about if I were the government.

Mr Stanhope—On this occasion.

Senator MACKAY—Yes, on this occasion, but what about the next occasion?

Senator LUNDY—Does the minister think it is fair that international calls are still part—

Senator Kemp—Can I make a point—

Senator LUNDY—Sorry, I am speaking.

CHAIR—You interrupted Senator Mackay.

Senator MACKAY—I do not mind being interrupted by Senator Lundy.

Senator LUNDY—Minister, do you think it is appropriate or fair that, in terms of the basket that Telstra is talking about under the price control regime, international call costs are still included in that basket, given the offsetting effect they have on the minimal price decreases or, indeed, increases on line rentals, which their inclusion in that basket permits?

Senator Kemp—Have you finished? Chair, I did speak earlier about allowing witnesses to complete their answers. I have been interested to witness in the last five to 10 minutes that, when the officers at the table were seeking to put positions, both Senator Mackay and Senator Lundy progressively interrupted so that the officers were not able to put their case. The officers were clearly putting some facts which, to my mind, Senator Mackay and Senator Lundy did not want to hear—namely, some very positive aspects of the Telstra policy and about what was happening. Chair, could you ensure that witnesses are given a chance to complete their answers before they are interrupted by senators? On the matter that you raised, Senator Lundy, I am advised that the ACCC—oh, you are shaking your head. I am providing an answer. I am sorry that it causes a shake of the head. I say ‘the ACCC’ and I get a shake of the head.

Senator MACKAY—I think the shake of the head was because estimates is not an advertorial for Telstra. They pay shock jocks for that.

Senator Kemp—You are butting in now. The ACCC recommended that international calls be part of the basket. I am advised that that was a recommendation made by the ACCC.

Senator LUNDY—What is your view, Minister? Do you support it?

Senator Kemp—I am the Minister for the Arts and Sport. My role here is to state the government position on it. If by some mischance of the electoral system you ever happen to be in this position over here, Senator, you will be very careful about commenting on areas which are not your within direct competence or authority.

Senator LUNDY—In which case you could say you do not know and then I can move on.

Senator Kemp—No. If you want to be rude and have an unpleasant exchange, we will have one. I am quite happy to do that. But my view is that I have certain responsibilities and I intend to keep to those responsibilities. You have certain responsibilities. You are entitled to ask questions, but you are not entitled to interrupt witnesses. I give notice to you, Chair, that if this behaviour persists from Senator Lundy and Senator Mackay I will be objecting strongly.

CHAIR—It is a fair point. Witnesses should be able to answer questions and make their points. We should respect their right to do that.

Senator MACKAY—Friday is looking good!

CHAIR—So be it, but I think we have to let the witnesses answer the questions.

Senator LUNDY—To get this clear, the government does not have a position on whether international calls should continue to be part of that basket, despite the fact that there is a review going on. The question I want to go back to, because in their longwinded answer Telstra got off the point, is: what percentage of the residential market, as far as line rentals go, does Telstra actually have?

Mr Scales—We will take that on notice.

Senator MACKAY—Can Telstra rule out an increase in line rentals next year?

Mr Stanhope—We have no plans to do so.

Senator MACKAY—You cannot rule it out?

Mr Scales—Senator, we have no plans.

Mr Stanhope—We cannot rule out anything, but we do not have any plans.

Senator MACKAY—‘You have no plans’ is different from ‘you can rule it out’.

Mr Scales—Yes, of course it is different, but the answer we can give you is that we have no plans.

Senator MACKAY—So you have no plans currently to increase line rentals next year?

Mr Scales—Yes, we have no plans.

Senator MACKAY—Does that mean you have no plans as in you will not or that you have no plans at the moment and you might?

Mr Scales—We just have no plans.

Senator MACKAY—It is just as well Dr Switkowski is off planning away for the next four days, isn't it?

Senator Kemp—You cannot make that assumption.

Senator MACKAY—So you cannot rule it out?

Senator Kemp—The officers have answered the question appropriately.

Senator MACKAY—You cannot rule it out—thanks very much. We are just about to move off line rentals, Senator Cherry. I have one question that I can ask while you get ready.

Senator CHERRY—Sure.

Senator MACKAY—How does Telstra justify its new charge of up to 1.69 per cent for credit card processing fees?

Mr Stanhope—The credit card surcharge?

Senator MACKAY—I do not know what you call it. It is an increase of 1.69 per cent for credit card processing fees.

Mr Stanhope—It is a payment processing fee. It is 1.69 per cent for a particular type of card and it ranges down to 0.67 per cent, I think, for a Visa card.

Senator MACKAY—What is the particular card?

Mr Stanhope—The highest rate card is an Amex card.

Senator MACKAY—What is the lowest increase?

Mr Stanhope—It is 0.63 per cent, which is for a bank Visa card. The non-ANZ card is 0.63.

Senator MACKAY—And Amex is 1.69 per cent. How can you justify that?

Mr Stanhope—We took up the opportunity given that the Reserve Bank of Australia deregulated the financial services market to allow the pass-through of merchant fees. We decided to do it for certain payments. There are a number of exemptions. The exemptions are—

Senator MACKAY—But why did you decide to do it? I know I am interrupting.

Mr Stanhope—We decided to do it because we want to recover some of the costs of providing the convenience of paying by card—

Senator MACKAY—Why all of a sudden has this been done now?

Mr Stanhope—Others in the community are doing likewise.

Senator MACKAY—Have you done this before?

Mr Stanhope—No.

Senator MACKAY—So why now? Because you can?

Mr Stanhope—Because we are able to with the new regulations of the financial services industry. It is quite a small charge, and the number of people who pay by card to Telstra is

about 20 per cent and 18 per cent pay by phone by card. It is not a full recovery of the costs in any event.

Senator MACKAY—You have a situation where Telstra just whacked up line rentals for the majority of consumers and now they are hitting people trying to pay their bills by credit card by up to 1.69 per cent. How is this justifiable? ‘Because you can,’ was your answer.

Mr Stanhope—We are suggesting that it is a payment convenience and we think it should be the user-pays principle.

Senator MACKAY—So people should have to pay for the convenience of paying their bill by credit card rather than you having to send them out bills repeatedly in terms of final warnings et cetera? What a joke!

Mr Stanhope—I would like to be able to answer, Chair, if that is okay.

Senator MACKAY—Yes, you can.

Mr Stanhope—We are not recovering all the costs. It is a convenience to pay by card and the Reserve Bank of Australia told people they are able to do that.

Senator MACKAY—Told companies like you?

Mr Stanhope—There are exemptions, and one of the most important things is that Telstra offers 18 payment options. So people can pay at the post office, the bank, the supermarket or the phone shop. There are various other payment methods.

Senator MACKAY—What if everybody stopped paying by credit card, Mr Stanhope, and all of a sudden you had to send out bill after bill in terms of reminders?

Mr Stanhope—We send out bills anyway.

Senator MACKAY—Yes, but people do not pay, then you send out another reminder bill. People use credit cards because it is convenient for them. It is also very convenient for you; that is why you urge people to use credit cards.

Mr Stanhope—It is high cost to us.

Senator MACKAY—Yes, but now they are and you are hitting them for up to 1.7 per cent because you can.

Mr Stanhope—You said it was convenient for us. It is high cost to us.

Senator MACKAY—So you would prefer people not to pay by credit card. Is that right?

Mr Stanhope—They have got a number of options. I do not mind which option they choose to pay by.

Senator MACKAY—Now that they know about this, they might stop paying by credit card.

Mr Stanhope—They may.

Mr Scales—But that is the reason why the Reserve Bank wanted these charges explicit. If you read the various commentaries by the Reserve Bank around this, what they were concerned about is that these were in fact hidden charges and consumers were not aware of

them, were not aware that they were flowing through to costs, and that they ought to be made explicit to them. So, to try and answer your question about why we did it, we have had an opportunity because of changes encouraged by the Reserve Bank and supported by the ACCC. What we know in those processes is that people make choices to reduce the costs of doing this, some of which Mr Stanhope has been talking about.

Senator MACKAY—Okay. Why is there no customer discount for cash?

Mr Stanhope—It is something we have not considered.

Senator MACKAY—Mr Scales has just taken us through the changes from the Reserve Bank so that people actually now know that Telstra is for the first time charging up to 1.7 per cent on credit card transactions because you can. So why don't you discount on cash? Are you going to?

Mr Scales—The assumption is that doing it by cash is less costly than paying a bill by some other means. That is not necessarily the case. In fact, although this might sound surprising, it might be as costly as some other methods. So I think the assumption needs to be checked.

Senator MACKAY—How could it be as costly?

Mr Scales—For example, if you go through the number of transactions, if you pay cash you have to bank cash.

Senator MACKAY—You just can't beat Telstra, can you?

Senator LUNDY—Has Telstra analysed the cost of a cheque based system as compared to a credit based system and is it your intention to start charging for cheques?

Mr Stanhope—It is not our intention to start charging for cheques.

Senator LUNDY—Have you done the analysis?

Mr Stanhope—Yes. The highest cost payment method to us is credit card by phone. The least cost payment method is direct debit, which we try to encourage.

Senator MACKAY—Do Telstra insist on credit card payments for any products, like Big Pond?

Mr Stanhope—Yes, we do, and they are exempt from the credit card charge.

Senator MACKAY—And will they remain exempt?

Mr Stanhope—They will remain exempt until we offer another payment option.

Senator MACKAY—Why is that?

Mr Stanhope—It is the same philosophy, that credit card costs are high.

Senator LUNDY—Why do you only offer credit card to Big Pond customers?

Mr Stanhope—Currently our billing system is not sophisticated enough to offer any other alternative.

Senator LUNDY—So your billing system is costing you money.

Mr Stanhope—We are going through a process of upgrading our Big Pond everything: authentication, billing. All I am saying is that it is only sophisticated enough to allow one payment method at this point in time. Because there is only one payment method, we have made that payment method by credit card exempt from the charge.

Senator MACKAY—So when there is another option for Big Pond, like the exorbitantly expensive one to Telstra in some circumstances of paying cash, then you will charge. Is that right?

Mr Stanhope—Where there is another payment option, we will charge, but there are exemptions for pensioners and those who have disabilities.

Senator MACKAY—Because they cannot lob down to the local post office and pay by the expensive option of cash.

Mr Stanhope—They may not be able to utilise the other payment methods.

Senator LUNDY—How do you get money from people who are disputing their bills under the credit card system of payment?

Mr Stanhope—How do we get money from people who pay bills under the credit card system?

Senator LUNDY—Say someone has exceeded their downloads and they owe Telstra money and they go into dispute with Telstra.

Mr Stanhope—It is the same as anyone else who owes us money. They will get a bill no matter how they pay it. If they do not make the billing payment timeframes then they will receive a reminder. It is a normal credit management process.

Senator LUNDY—Will that change with direct debit?

Mr Stanhope—With direct debit they will have paid their bill on time.

Senator LUNDY—So what will happen with direct debit if someone exceeds their downloads and gets a higher bill than normal? What adjustments will Telstra be able to make to recover that money and what permission process is involved to change that direct debit amount or allow Telstra to try and pursue that debt?

Mr Stanhope—I am a little bit confused. A direct debit is where the customer's money is taken from a nominated bank account.

Senator LUNDY—That is correct.

Mr Stanhope—What is the question?

Senator LUNDY—If someone exceeds—

Mr Stanhope—Are you asking what happens if they dispute that amount?

Senator LUNDY—Yes. The money will have already gone from their account, won't it?

Mr Stanhope—Yes, it will have.

Senator LUNDY—How much extra money will Telstra make from that process, given you have introduced a new product that is likely to create that circumstance?

Mr Stanhope—We would go through the normal customer complaint dispute process and give a rebate if the customer is correct in their assumption about an incorrect amount.

Senator LUNDY—With a credit card you have to prove that in advance of receiving the money, don't you?

Mr Stanhope—Or cash or any other payment method.

Senator LUNDY—So direct debit really works for Telstra if people exceed their download limit because you get the money up front.

Mr Stanhope—I would suggest to you that, as a payment process, direct debit is less than two per cent of our billings. Usually the reason for that is that customers are worried about volatility of bills or perhaps they might not think billing is robust enough. Therefore, the number of people who use direct debit is quite low. People who go onto direct debit are more likely to do so if there is a set rate—\$100 monthly or something.

Senator MACKAY—The bill might not be right, for example.

Mr Stanhope—That is another reason why people are reluctant to go onto direct debit. But if it is a flat fee people are more inclined to go onto direct debit methods of payment. We will handle any of those disputes in the normal way, but they are a very small part of our payments.

Senator LUNDY—But I guess the point is that, by charging more on credit cards and promoting direct debit, you are hoping to change that, so more Telstra customers are potentially going to become vulnerable to having to pay for billing errors or unfair circumstances up front and then to have the onus on them to recover that money, as opposed to now where effectively Telstra has to demonstrate to the consumer why they are liable for those charges. It puts the shoe very much on the other foot, doesn't it?

Mr Stanhope—I am sure that would be a consideration of any customer who thought about whether they should go to direct debit or not. It is today. It is shown in the low percentage of take-up.

Senator CHERRY—I want to take you back to an answer you gave to Senator Mackay earlier. It was about the rebalancing of the price package. You said you had a carry-forward of 6.6 per cent from previous years. Over what period is that 6.6 per cent being calculated?

Mr Stanhope—It is a carryover over the time of the price control regime.

Senator CHERRY—Over the whole price control regime?

Mr Stanhope—Yes, it is. Just to give you an example, in 2003-04, the carry-in was seven per cent—and I am talking calls now; because there are two separate baskets, calls and access. Then the carry-in to 2004-05 is 6.6 per cent. So it carries forward each year of the price control regime.

Senator CHERRY—Does the ACCC agree with the carry-forward being brought across the entire price control regime?

Mr Stanhope—Yes, they do. It is part of their proposed and operable regime.

Senator CHERRY—My understanding is that they have a concern that it should be counted over a triennium so that the—

Mr Stanhope—It is a triennium.

Senator CHERRY—But you are saying that it is over the full price control period.

Mr Stanhope—That is a triennium.

Senator CHERRY—So that 6.6 per cent is calculated over what triennium?

Mr Stanhope—I am just trying to recall whether there was a carryover from the previous triennium.

Senator CHERRY—I think there was.

Mr Stanhope—I think there was, yes.

Senator CHERRY—And I am not convinced that that is something the ACCC has agreed to.

Mr Stanhope—Yes, they did, because we would not have been able to get sign-off on our compliance with the last two years of this regime if they had not agreed with that. They would not have agreed that we were compliant. So they did agree with the carry-in from the last triennial—

Senator CHERRY—Is this part of the continuing dispute about the price control regime discussions with the ACCC?

Mr Stanhope—No.

Senator CHERRY—So that is on another aspect of price control?

Mr Stanhope—No doubt it will be part of the review that is about to be undertaken.

Senator CHERRY—Certainly the advice that we received from the ACCC at the time was that they did not agree with the carry-on policy which you have just been using to justify that particular increase.

Mr Stanhope—To my understanding it is agreed. We would not have been able to be compliant for the last two years if that carry-in was not—

Mr Scales—The ACCC audits what we do. The ACCC audits our approach with price controls. I must say that this is the first that I have heard that they have not been aware of it. We will certainly take it up with them but they do audit what we do.

Senator CHERRY—So those particular price increases last week would have been pre-approved by the ACCC—

Mr Scales—That is correct.

Senator CHERRY—before you announced them?

Mr Scales—That is correct.

Senator CHERRY—I shall check that.

Mr Scales—And we negotiate with and advise the ACCC of what our intentions are in advance of our making these decisions.

Senator CHERRY—All right.

Mr Stanhope—I think it is correct to say that they give consent for us to proceed but it still remains subject to audit at the end of the year. In fact only last week we received clearance of the 2002-03 compliance by Telstra.

Senator CHERRY—I have one quick question on broadband—there is an estimates hearing next door that I am keen to get to as well. Coming back to broadband pricing, on 12 November, Mr Scales, during the broadband inquiry in relation to broadband caps, you said:

... the more that somebody uses this service it does seem appropriate from our perspective that there should be a differential payment based on use.

Dr Warren went on to say:

... we would argue ... strongly that download caps are pro-penetration ...

A month later Telstra lifted its cap on the premium broadband plan and reduced the monthly fee. Could you explain what changed in that one month from Telstra's point of view?

Mr Scales—I think you are asking me about a point of principle. It is stretching my memory now. If I correctly remember, you were asking a question about whether there is a correlation between usage and cost. I think that was the nature of your question at the time. My response to that was: yes, there is a correlation. It was in that that I answered that question about if people used more should they pay more. It was in that broad principle about the correlation between usage and cost. That has not changed. But what we are obviously doing always in this broadband market, as you would have seen by the most recent activity in the broadband market, is responding to market dynamics. It is a very competitive market that we are operating in—over 300 ISPs operate in that market. We are trying to make sure that we have a competitive offering in that particular market. Is that what you are driving at with that question?

Senator CHERRY—I am just mystified because various Senate committees have raised questions about this download cap and it has been fiercely defended by you, Dr Warren and others at various hearings and then a month after it was fiercely defended Dr Warren said:

Download caps are also highly inversely correlated, so with non-download caps companies are going broke.

The strong impression was that it was a fundamental part of your strategy and then suddenly it has gone.

Mr Scales—You are saying that, because people are changing the download caps, somehow there is a contradiction between those two terms. Is that the point?

Senator CHERRY—Essentially, I am wondering why the evidence which was given to us six months ago is suddenly no longer Telstra's corporate policy.

Mr Scales—We still have download caps. I think Mr Pinel might be able to cover that in detail, but we have a range of plans whereby people can opt to have no download caps or they

can opt to have caps and pay a fee above if they exceed those caps. We have a number of plans available, depending on what people regard as being appropriate.

Mr Pinel—I think that is a fairly good response to that question. The other alternative on those uncapped prices is for, at some point, the speed to be reduced—usually well above what is expected to be a normal use. What is called ‘choking’ of the speed can occur. But, as Mr Scales said, it is a general reaction to market dynamics. We need to remain competitive. We have a mixture of uncapped prices and capped prices, and customers will choose from the range of pricing options that are there. Those options are well published; they are available broadly in the marketplace for people to choose from.

Senator CHERRY—And you do not think the company is going to go broke because of them?

Mr Pinel—Certainly the risk associated with uncapped plans is real. With respect to the comments that you referred to before about people who sell only uncapped plans being at risk, I think that is real. We keep a very close watch on the dynamics of the market, and our business, to make sure that we are operating in a sensible business way. But are we going to go broke? No, I do not think so.

Senator CHERRY—Coming back to my earlier question, Mr Stanhope: could I have on notice the breakdown of how that 6.6 per cent carryover is calculated and over what period?

Mr Stanhope—Certainly, I will provide that.

Senator CHERRY—Thank you. That will do me for the moment, Chair.

Senator LUNDY—Could I go back to this issue of billing, direct debit and so forth. I just want to get one thing straight. With BigPond, do you direct debit from credit card numbers, or do people have to wait until they receive the bill and then pay via credit card?

Mr Stanhope—My recollection is that they get a bill and they pay it by credit card, and there is no other payment option.

Senator LUNDY—I know there is no other option; but, not being a BigPond customer, I would not know, but my understanding is—

Mr Stanhope—There is a direct debit to credit card facility.

Senator LUNDY—I would give you my credit card number—

Mr Stanhope—Yes.

Senator LUNDY—And then you would direct from that credit card account, as my bills fell due, what I owed you. You would not send me a little email and say, ‘Pay your bill now’ and then I would have to do it.

Mr Stanhope—Yes. There is a direct debit to credit card facility.

Senator LUNDY—Right. So when you said there was only two per cent direct debit, you are not talking about direct debit to credit card?

Mr Stanhope—No, I am not.

Senator LUNDY—Even though direct debit to credit card still has the same kind of attributes as direct debit to bank accounts?

Mr Stanhope—No. When I quoted that less than two per cent number, it is direct debit to account.

Senator LUNDY—What would the percentage be that you have got on direct debit to credit card? Perhaps you could tell me what percentage of your BigPond customers are on direct debit to credit card as opposed to payment up front—or payment on request, I should say.

Mr Stanhope—I will give you some interesting statistics. The pay by phone by credit card is 17.6 per cent, which I mentioned before. Internet bill pay, which is what we—

Senator LUNDY—Is that BPay?

Mr Stanhope—Internet bill pay, yes.

Senator MACKAY—But is that BPay?

Mr Stanhope—No, it is not BPay. It is by credit card, so the credit card that you are referring to is 2.4 per cent.

Senator Kemp—What is BPay?

Mr Stanhope—BPay is 14.9 per cent. That is not credit card, of course. Telstra Shop credit card payments are 0.4 per cent. Direct debit to credit card mobile—distinct from the Internet one—is 0.17 per cent. Telecard, which is fairly low numbers, is 0.02 per cent.

Then we get to the other payment options I was talking about: mail wholesale payments, 12.6 per cent; Australia Post, at the counter, 41.7 per cent; mail, excluding wholesale payments, 6.2 per cent, Billpay, 14.9 per cent, as I just said; direct debit to bank account, 1.84 per cent—so less than two per cent; Telstra shops—as I walk into the shop—1.5 per cent; prepaid CDMA's, 0.46 per cent; Coles Myer, 0.08 per cent; direct debit by phone, 0.02 per cent; and C-PAY, zero—so that option has not been taken up. That is all the information, 100 per cent, on how people pay with Telstra.

Senator LUNDY—Could you provide that to the committee? We probably have most of it on the record, but if you could—

Mr Scales—It should be on the record now.

Senator LUNDY—It would be helpful if you could table it.

Mr Stanhope—I have read straight from it.

Senator LUNDY—I appreciate that, but it is good to have the reference document.

Mr Stanhope—I am happy to send you those.

Senator LUNDY—Thank you.

Senator CHERRY—Given that you said that direct debit is the most cost-effective means of paying for Telstra, what discount do you provide to customers for direct debit?

Mr Stanhope—We do not provide any discount at this point of time, but it is a consideration that we are thinking about to encourage direct debit.

Senator CHERRY—What do you estimate the savings are to you by using direct debit vis-a-vis cash or payment through a Telstra shop or whatever?

Mr Stanhope—These numbers are going to be very rough. Across the counter at Australia Post is about \$1 a payment and a direct debit would be something like 20c. It is quite a difference.

Senator MACKAY—How much is Telstra projecting basic line access revenue will increase by in 2004-05 as a result of the June 2004 price control changes? Are we talking about \$100 million or more? What is the ballpark here?

Mr Stanhope—It is hard to estimate, because you do not know what is going to happen to volumes, of course—and, as we talked about before, customers may leave. On a pure price basis it is around \$200 million.

Senator MACKAY—Is Telstra predicting any decrease—

Mr Stanhope—Let me just qualify that. That is if people do not take up reward options and all the things that Mr Stirzaker said before. So that is if everybody took the standard price increase without moving to a reward plan.

Senator MACKAY—I accept that. Is Telstra predicting any decrease in its core revenue in 2004-05 as a result of the June 2004 price changes?

Mr Stanhope—Again, we do not know what is going to happen with volumes—but, on a pure price basis, a reduction of around \$20 million.

Senator MACKAY—How much will basic line access increase in 2003-04 as a result of the price control line rental increases from July last year.

Mr Stanhope—The year has not ended, but from price we think around \$70 million for access. For calls—

Senator MACKAY—I am asking a very specific question. Do you want me to repeat it?

Mr Stanhope—No, I am not going to repeat the answer. You asked me for access and calls for 2004-05. Do you want the number for calls for 2003-04?

Senator MACKAY—How much will basic line access increase in 2003-04 as a result of the price control line rental increases from July last year?

Mr Stanhope—As I said, the access increase is around \$70 million. Calls go down, though, in 2003-04.

Senator MACKAY—That is my next question. How about I ask the question and then you can answer it.

Mr Stanhope—Sorry, I am just getting ahead of the game.

Senator MACKAY—I understand. These are very specific questions we want answers to, and if there are any changes please feel free to drop us a line and clarify. What will be the

decrease in Telstra's call revenue in 2003-04 as a result of any reductions in call costs from the July 2003 price changes?

Mr Stanhope—That was the question I was asking myself.

Senator MACKAY—Yes; that is correct.

Mr Stanhope—It will be around \$45 million down.

Mr Scales—The only point of balance that I think we ought to inject into this discussion is that, compared to the CPI, which has gone up over the last 10 years at roughly 30 per cent—and, admittedly, these changes have not been built into these numbers which I am about to give—the on-balance increase of telecommunications costs has only gone up around three per cent. Admittedly, these increases will rise at slightly above that, but when you compare 30 per cent with somewhere around about, let us say, three to five per cent, it is quite a significant difference over that 10-year period. So I think, just for balance, we need to understand that across that sweep of time telecommunications costs have not increased anywhere near the same as CPI.

Senator MACKAY—Thank you for that, Mr Scales. Based on your answers to the first two questions that I asked, Mr Stanhope, does that mean that the net effect of next month's line rental increases in 2004-05 will be in the order of \$180 million?

Mr Stanhope—On a pure basis—where nobody elects rewards and with all those codicils—yes, that is correct. But I do point out that this is a rebalancing over two triennial periods since 1999.

Proceedings suspended from 10.52 a.m. to 11.14 a.m.

Senator MACKAY—I now want to go to the issue of the Telstra's sponsorship arrangements with Macquarie Radio—2GB et cetera. Do we have all the officers that we need here, Mr Scales?

Mr Scales—Yes.

Senator MACKAY—Does Telstra have a view on the ethics of cash for comment arrangements?

Mr Scales—Telstra does not involve itself in cash for comment.

Senator MACKAY—So would you regard Telstra's deals with Alan Jones and John Laws as cash for comment?

Mr Scales—No, we do not.

Senator MACKAY—Mr Scales, I refer you specifically to the leaked *Telstra Marketing Plan for Alan Jones* and the strengths and weaknesses—SWAT—analysis that is in there. In that analysis one of Alan Jones's strengths is referred to as 'loyal listeners who value Alan Jones's opinion'. Why does this leaked Telstra marketing plan refer to Jones 'counteracting any negative media and perceptions about Telstra'?

Mr Scales—The arrangement which we have with Macquarie is a purely commercial arrangement. We came to the view that it was clearly a popular program in the Sydney area—

a very large demographic. The fact that Mr Jones attracts a loyal audience is what makes the commercial opportunity so attractive to us.

Senator MACKAY—But it actually refers to ‘loyal listeners who value Alan Jones’s opinion’. It does not say ‘loyal listeners who listen to Alan Jones and he has a broad ranging demographic of listeners’ et cetera; it actually says ‘loyal listeners who value Alan Jones’s opinion’. What has his opinion got to do with it?

Mr Scales—It is the fact that they listen to him because they value his opinion. By association, therefore, people are attracted to his program and, therefore, we can then attract that audience for our commercial purposes.

Senator MACKAY—So you would contend that opinion is really related to why people listen to Alan Jones. Is that Telstra’s line?

Mr Scales—His ability to attract an audience.

Senator MACKAY—How does Telstra then explain Alan Jones all of a sudden becoming more positive about Telstra following the 2002 agreement? Is that just a happy coincidence?

Mr Scales—Those issues are probably better off being put to Mr Jones. However, it would be true that in the process of this sponsorship arrangement we would have informed Mr Jones about the things which we were doing generally. Whether that has had an effect on Mr Jones, I simply cannot tell. But certainly from our perspective there was nothing in our arrangement that required him to make any positive comment about Telstra.

Senator MACKAY—So there was nothing in the breadth of the arrangement?

Mr Scales—That is correct.

Senator MACKAY—There were no verbal discussions associated with this between Telstra and anybody?

Mr Scales—About what?

Senator MACKAY—About the issue I have just raised.

Mr Scales—About somehow influencing his opinion? Is that the point?

Senator MACKAY—No. Let me ask it again in a different way. What verbal discussions were there outside of the written agreement between Telstra and either Alan Jones or Macquarie?

Mr Scales—That is almost impossible for me to answer in its totality. Outside of the written agreement there would have been a number of discussions to do with the arrangement between Macquarie and us. For example, we are required to talk to Macquarie about issues to do with how many ads will be produced and what the nature of the ads will be. There is reference, as you know, in the draft report by the ABA to live reads and we would have had discussions around those live reads. So there would have been a large number of general discussions.

Senator MACKAY—Going back to whether or not it is cash for comment, why does the leaked Telstra marketing plan refer to Jones ‘counteracting any negative media and perceptions about Telstra’?

Mr Scales—Just going back to the point I made at the beginning, it would be the fact that he has a loyal audience and the fact that we are advertising and promoting our products on his program. It is the ability, by association, to be seen to be attracting that particular audience.

Senator MACKAY—What was Telstra’s expectation then when it cited in the leaked market report ‘counteracting negative media and perceptions’? What was Telstra’s expectation of the arrangement that would lead to that objective being met?

Mr Scales—Our expectation would be that, if we advertised on Mr Jones’s program, it would potentially have the effect that they would see us as being associated with Mr Jones: that particular audience respecting his opinion, they would therefore respect our products and services.

Senator MACKAY—It is a bit of a tangential bow, isn’t it?

Mr Scales—The ABA did not find, as you would well know having read their report I am sure—

Senator MACKAY—In the final report.

Mr Scales—In their draft report they have made no suggestion of impropriety on Telstra’s part.

Senator MACKAY—What did Telstra think it was purchasing?

Mr Scales—We were purchasing advertising space.

Senator MACKAY—Was Telstra aware that it would not be attributed as advertising after it had occurred?

Mr Scales—We made no claims on Macquarie that they should see it as other than straight advertising. We saw it as being purely advertising on a particular program.

Senator MACKAY—So what was your expectation of advertising?

Mr Scales—That we would stimulate demand for our services.

Senator MACKAY—No; I am sorry. In terms of the details, was your expectation that Mr Jones would read out a prepared script from Telstra?

Mr Scales—Yes, that there would be some parts of prepared scripts, so-called live reads. That was part of the agreement.

Senator MACKAY—Live reads were part of the agreement?

Mr Scales—Yes.

Senator MACKAY—Was Telstra aware that they would not be attributed as advertising at the end?

Mr Scales—That is not an issue for Telstra; it is an issue for the company itself about how it—that is Macquarie—conforms to the broadcasting standards. We have always assumed—

and in fact it is in the agreement—that it is required to conform to those broadcasting standards. That is a given. Telstra would have expected and does expect that its various contractors, including people with whom we advertise, would abide by the law. That is what our expectation was.

Senator MACKAY—Was Telstra aware that there would not be an attribution—a simple yes or no will suffice—at the end of a live read?

Mr Scales—Telstra would have expected that what was required by the law was applied. Again in the report you would have noticed that Telstra went further than that and encouraged Macquarie to make completely transparent the arrangement between us. So Telstra's view always has been that we have, firstly, done nothing wrong; we do not agree with the principles that I think are espoused by cash for comment. Our strong desire is for as much transparency as possible, but we cannot dictate what other companies do.

Senator MACKAY—I understand that. So was Telstra aware—if you were not aware, you can answer no—that part of it included reading out an advertisement and not attributing at the end that it was in fact an advertisement? Was Telstra aware that may occur?

Mr Scales—I know you are not trying to put words in my mouth—

Senator MACKAY—No.

Mr Scales—and I am also not trying to mislead you. I cannot answer this any other way other than to say that we would expect any company we deal with to abide by the law. They would need to be aware of the law; they would have to get their advice about the law. If the law required that they needed, at the end of any live read or any other comment, to make clear that we were responsible for the program, we would expect that to happen. We would regard that as being an important responsibility of the company we are dealing with.

Senator MACKAY—I understand, and I am not attempting to attribute motivation to Telstra. I am asking whether you were aware that this circumstance was likely to occur.

Mr Scales—We have always assumed in this relationship that people would understand that we are advertising on Mr Jones's program. In fact, with the exception of one occurrence, what the ABA found was that in almost all other circumstances that was clear in terms of the comments that were made about Telstra and its products and services. I think the only occurrence that the ABA found was an issue to do with child flight helicopter services, where it may not have been as clear, according to the ABA, as it otherwise should have been. But certainly our expectation was that it would be quite clear that we are advertising on Mr Jones's program. Clearly, that is what our intention was—that it would be clear.

Senator MACKAY—So your expectation would have been that a live read would have been followed by an attribution?

Mr Scales—No, I do not think so. I think that the live read would, of itself, have had some indication about the fact that it was Telstra promoting that issue. I think, in fact, a number of the live reads had words to the effect of 'brought to you by Telstra'. Certainly, these live reads were constructed in such a way to make it clear that that was the case. Whether we went to the next step and made the assumption that at the end of that again there would be some

declaration—I do not know the answer to that. And I doubt that we would have actually thought about it from that perspective, because we would have expected everybody else to understand what the law required of them.

Senator MACKAY—So, in terms of what Telstra purchased, it certainly was not part of a tacit or a verbal understanding between Telstra and Macquarie or Mr Jones that live reads would not be attributed?

Mr Scales—Certainly not to my understanding.

Senator MACKAY—Is there anybody else in the company who can talk about this? Are you talking on behalf of the whole of Telstra here? This comes back to Senator Lundy's point.

Mr Scales—Yes, I am talking on behalf of Telstra—

Senator MACKAY—I am sorry to interrupt you, but this is one of the reasons we actually asked for Mr Pretty's attendance. He is not here because you are apparently competent to answer—and I appreciate that you are. But you seem to be hedging your bets a bit by saying 'my understanding'.

Mr Scales—We have 45,000 people who work for us. That is why.

Senator MACKAY—Yes. But we requested Mr Pretty to be here to answer these questions.

Mr Scales—But your question was not about Mr Pretty. It was about anybody.

Senator MACKAY—Our more specific questions. I asked about anybody because it may not have been him; there may have been others who were involved in negotiating the contract. This is a fairly straight line of questioning. Was anybody in Telstra aware of any agreement, tacit or otherwise, that there may be live reads that were not attributed as Telstra advertisements?

Mr Scales—No. I think I can say that, as far as the live reads were concerned, our expectation was that it would be quite clear that these were live reads for Telstra on behalf of Telstra.

Senator MACKAY—Was there any expectation on Telstra's part that Mr Jones may change his general view on Telstra? You would accept that it went from being fairly critical and generally in line with that of other commentators to being, as tracked in the ABA report, quite positive. Was Mr Jones's opinion part of any agreement with Telstra?

Mr Scales—No, that was not part of the agreement with Telstra.

Senator LUNDY—I would like to get the process clear in my mind. If a proposal is put up—perhaps by Mr Pretty, in some circumstances, or Mr Moffatt, in other circumstances—about a marketing strategy like the purchasing of advertising, such as Senator Mackay is discussing, what is the approval process involving you, Mr Scales, and your area, and indeed other departments or sections of Telstra, leading right up to the CEO? What is the process?

Mr Scales—It would depend on the nature of the proposal. A proposal such as this may not go to the CEO and may not necessarily even come to me. There are a whole range of

relatively low level proposals like this that are handled by middle managers inside the company; we expect them to do that. The normal approach is that our marketing team will decide, whether for promotional or brand reasons, that we need or want to advertise or promote. They would then develop a marketing plan. The marketing plan would look at all the associated positives and negatives. It would then be debated and discussed amongst a group within marketing. A proposal like the one we are alluding to here, which involves a fair amount of money, would generally go to the head of that particular business unit. Before it went to the head of that individual business unit, we would seek views from key parts of the company—those that would have an interest. For example, with the point you made about my own group, the corporate affairs and corporate relations team, we would normally look at that to see whether we felt there were a whole range of issues that we need to be concerned about. We would make comment on that. They would be made clear to the head of that particular business unit, and then a decision would be made.

Senator LUNDY—In terms of that information flow and decision making process, how far up that chain did this particular advertising contract go?

Mr Scales—This is an issue that the CEO was certainly aware of.

Senator LUNDY—Where was the CEO brought in, in terms of the process you have described?

Mr Scales—I cannot give you the exact date, but it was clearly before the contract was signed. The first contract with Mr Jones was signed in, I think, July 2002. The reason that was the case is that Sydney is a very important market for us. We were not being very successful in the Sydney market. We needed to find ways by which we could increase our success in that market. That is why this was an important broad strategic issue for the company.

Senator LUNDY—Obviously the business unit was involved. Did the business unit then come to you for your input?

Mr Scales—Came to me?

Senator LUNDY—Can you remember who made the presentation to you?

Mr Scales—I was not responsible for this group at the time, so it did not actually come to me.

Senator MACKAY—I want to come to a specific issue. Was Mr Jones's on-air support, on July 23 2002, for Telstra's purchase of naming rights at Telstra and Colonial stadiums and Stadium Australia part of 2GB's contract with Telstra to advertise and promote Telstra's communications services on the Alan Jones program?

Mr Scales—That particular issue was not part of our arrangement with him.

Senator MACKAY—So regarding Mr Jones's comments about the stadium naming rights—where he said it was not a waste of money; it was just Telstra being a good corporate citizen—is it Telstra's view that they were merely Alan Jones's personal views?

Mr Scales—Yes, that is our view.

Senator MACKAY—Did Telstra provide Mr Jones with any fact sheets, statements, scripts or any other advice with respect to the stadium naming rights?

Mr Scales—I understand we did brief Mr Jones, as we would have briefed government departments and the government.

Senator MACKAY—In what context was Mr Jones briefed on that issue?

Mr Scales—In the context that we were intending to enter into an arrangement for both of those stadiums and to let him know why.

Senator MACKAY—When did the briefing with Mr Jones on Telstra's stadium initiative occur?

Mr Scales—I cannot tell you the exact date but it would have been a couple of days or even maybe one day before it. It was close to the time.

Senator MACKAY—The on-air support occurred on 23 July 2002. So it was a few days prior to that?

Mr Scales—It could have been a few days prior to that. I cannot give you the exact date. But we would have briefed him—plus a number of others, of course—about this very issue.

Senator MACKAY—When you say that you briefed Mr Jones, was this an ongoing thing? Was Mr Jones briefed on issues of importance to Telstra?

Mr Scales—We brief a number of people on issues—

Senator MACKAY—No, I am asking specifically—

Mr Scales—Yes. I am giving a context, though. We brief a number of people around issues relating to Telstra. Yes, we would have briefed Mr Jones on a number of issues relating to Telstra from time to time.

Senator MACKAY—I will come back to that. Thank you for that answer. With respect to this particular issue—the naming rights of Telstra for Colonial Stadium and Stadium Australia—did you brief any other radio announcers?

Mr Scales—I am not sure whether we did or not. We would have tried to brief a number of other announcers. We would have put out press releases. We would have tried to give as much information as we could to as many people as we possibly could about that. It was an important announcement for us.

Senator MACKAY—All right. Let us come to the specifics, then. Who undertook the briefing provided to Mr Jones before the on air comment? Was it in person with Mr Jones?

Mr Scales—I do not know the answer to that.

Senator MACKAY—Does anybody know the answer to that?

Mr Scales—I will find out for you. It may have even been by a fact sheet. It may not have been an individual; it may have been simply the providing of information, which is what we do with a number of people.

Senator MACKAY—But you were aware, given your previous answers, that Mr Jones was briefed. Are you saying you are not aware what form this briefing took?

Mr Scales—No, I am not aware of the exact form.

Senator MACKAY—Did any briefing to Mr Jones from Telstra ever take the form of a verbal briefing?

Mr Scales—On that particular issue?

Senator MACKAY—No, in the broad.

Mr Scales—Yes, there would have been some verbal briefings.

Senator MACKAY—On this particular issue?

Mr Scales—I am not sure about this particular issue.

Senator MACKAY—On what issues, then, did the verbal briefings occur?

Mr Scales—From time to time Mr Jones would have had callers ring in about complaints. Mr Jones would have been briefed on issues raised in those complaints. We would have briefed him also on what we had done about some of those complaints.

Senator MACKAY—So, given that Telstra was presumably monitoring Mr Jones—and we will come to that a little bit later—if Mr Jones received an irate call with respect to issues like, for example, line rentals, which would not have been an issue at that time, did Telstra initiate the briefing or did Mr Jones ring Telstra? How did that occur?

Mr Scales—Mr Jones is not unique in the sense that, on a number of issues, we would have put out press releases to provide people with information around a number of those issues. So, in that sense, I do not think Mr Jones was treated any different to any other person we would have provided information to about those broader issues. It is true that Mr Jones, from time to time, has received an irate customer call about Telstra, and he has referred the matter on to us and we have looked into the situation and tried to address it.

Senator MACKAY—Specifically, did Telstra monitor Mr Jones's program regularly? I know it did prior to the contract. One presumes that Telstra continued to monitor Mr Jones's program. Is that correct?

Mr Scales—We did not monitor Mr Jones's program any differently than anybody else's program. As you would well know—because I am sure that the ALP also monitors programs—we have a contract with a company that monitors what is said around the country and monitors what AAP says, and they provide us with that information. Certainly our monitoring, as you described it, of Mr Jones's program was no different to our monitoring of anybody else's program.

Senator MACKAY—I understand that. Did Telstra then proffer briefings to Mr Jones on issues raised during his program?

Mr Scales—Only to the extent that we would have done it to anybody else—the ABC or anybody else. For example, we monitor what the ABC says. If we find that the ABC has made a comment about Telstra which we think is either inaccurate or not completely fulsome, we

will contact the ABC and ask the ABC for us to be able to reply to that. That is a normal process—within not only our company but also most large companies.

Senator MACKAY—I understand that. How did the verbal briefings that you referred to earlier come about, what issues were they with regard to and who initiated them?

Mr Scales—As I was trying to allude to, I cannot give you an exact answer to that because it could have been around a number of issues. I was trying to suggest that Mr Jones was not unique in this regard. We would be wanting to do exactly the same thing whether it was Neil Mitchell, Alan Jones or anybody else. We try to have a number of our corporate relations teams reply on air to any concerns, comments or issues that are raised by those particular commentators. So Mr Jones was not unique in that regard.

Senator MACKAY—I understand that Telstra seeks to do that, but is Telstra's capacity to talk to Mr Jones with respect to these verbal briefings any higher than, say, with somebody like Neil Mitchell?

Mr Scales—No, it is not.

Senator MACKAY—So you have regularly verbally briefed Neil Mitchell?

Mr Scales—No, we attempt to get on his program and we do. We are often on Mr Mitchell's program

Senator MACKAY—But do you brief Mr Mitchell verbally on issues?

Mr Scales—We providing briefing information to other broadcasters like Mr Mitchell. Whether they take any notice of them is a matter for them—the same as it is for Mr Jones.

Senator MACKAY—I understand that, but my question was about whether Telstra has ever provided verbal briefings to Mr Mitchell—to use him as an example?

Mr Scales—My recollection is that we have, but I would have to check that to make sure.

Senator MACKAY—So, as I understand it, Telstra seeks to brief a number of people based on what occurs in the media. How many times was Mr Jones verbally briefed by Telstra?

Mr Scales—I do not have an answer to that.

Senator MACKAY—More than once?

Mr Scales—It was probably more than once, but I simply do not have the answer on the exact number. But, again, I would put it in the context of saying that we would want to brief a range of people on issues.

Senator MACKAY—Does Mr Jones get—or has he got—briefs from staff different from the staff that may brief, say, Mr Mitchell?

Mr Scales—Is your question: do we allocate a particular staff member to brief Mr Jones? Is that your point?

Senator MACKAY—I take it that you do not. Would that be right?

Mr Scales—No, we do not.

Senator MACKAY—Is your process any different with Mr Jones than, for example, with Mr Mitchell?

Mr Scales—We have people in our marketing departments and other parts of our business who, from time to time, we call on to brief a range of people. That is not unique for Mr Jones.

Senator MACKAY—Let us say that Mr Jones was provided, and it seems that he was, with a briefing of some sort on the stadium naming issue, in a manner of which you are not aware, or you are going to get more information to us on: is Telstra aware of whether Mr Jones deviated from the brief he had been given, given your previous answers?

Mr Scales—No, we are not aware of it. But that would not have mattered to us.

Senator LUNDY—In terms of Telstra staff not providing those briefings, what about board members? Are you aware of any board members providing Alan Jones with these types of briefings?

Mr Scales—No, I am not aware of any.

Senator MACKAY—So there is nobody within your PR team that is responsible for liaising with Mr Jones?

Mr Scales—No. On a particular issue we might give somebody a particular responsibility for providing a brief to a number of people, including Mr Jones—by the way, we do not have a PR team; we have a corporate relations team, which is quite different from public relations—and they are allocated particular business units, required to disseminate press releases and, often, to be the spokesperson for a particular issue. In those circumstances, there could have been a number of people who would be briefing not only Mr Jones but other people right around the country and speaking on air and on television about a particular issue.

Senator MACKAY—So was there anybody who tended to speak with Mr Jones more often than not?

Mr Scales—Not to my understanding.

Senator MACKAY—Have you ever briefed Mr Jones?

Mr Scales—No, I have not.

Senator MACKAY—Has Mr Pretty ever briefed Mr Jones?

Mr Scales—I do not think ‘briefed’ is the right word. I think Mr Pretty may have in fact told Mr Jones about the decision we were making around the stadium.

Senator MACKAY—Told Mr Jones?

Mr Scales—Just advised Mr Jones that we were intending to do it. I think he at the same time said, ‘We will provide you with some information about it’—or words to that effect.

Senator MACKAY—So Mr Pretty spoke to Mr Jones with respect to that?

Mr Scales—Just to advise him that we were intending to do it, as I understand.

Senator MACKAY—But you just said a minute ago that you were not aware of the form of the briefing.

Mr Scales—Wasn't your point about a very general set of issues about how often—

Senator MACKAY—No, I specifically asked about the stadium naming rights.

Mr Scales—And I think I am answering in exactly the same way. Your question to me was, 'Did Mr Pretty speak to him,' and I said that I do not think he briefed him.

Senator MACKAY—Let me rephrase that: did Mr Pretty speak to Mr Jones on the issue of the stadium?

Mr Scales—I think he spoke to him to advise him that it was happening, but I do not think he briefed him.

Senator MACKAY—What is the difference?

Mr Scales—It was just to say, 'This is coming up, and we may provide you with some information.'

Senator MACKAY—Did Mr Pretty speak to Mr Jones on any other issue, about anything?

Mr Scales—Not to my knowledge.

Senator MACKAY—But he did speak to him, to your knowledge, about the issue of the stadium naming rights?

Mr Scales—As I understand it, that is right—but just to advise him that it was coming up.

Senator LUNDY—Is there an arrangement whereby Alan Jones has a direct contact person in Telstra that he can call at any time?

Mr Scales—No. Mr Jones does not quite work like that.

Senator LUNDY—What about on the board?

Mr Scales—No, there is nobody. No, he does not have a direct relationship, as I understand it, with anybody on the board. He may have relationships, as people do but, if the point of your question is whether there is some formal link between somebody on the board that gives a contact between Mr Jones and the board, the answer is no.

Senator LUNDY—What about an informal link? Are you aware of one?

Mr Scales—I cannot answer for that. Again, to be reasonably precise, there is no formality about that relationship with the board—none at all. If the suggestion is whether Mr Jones has any internal contact that he then uses to get things done or whatever, no, that is not the case.

Senator MACKAY—When Mr Pretty was advising Mr Jones that a briefing was on the way, in whatever form it was, did Mr Pretty talk to anybody else in talkback radio, for example Mr Mitchell, Ms Lyon and—

Mr Scales—Not that I am aware of.

Senator MACKAY—So did he just speak to Mr Jones?

Mr Scales—That is my understanding. The reason was—again, getting back to the point I was making earlier—that Sydney is a very important market for us; it is a very important area.

Obviously one of the stadiums was in Sydney. It was very important for us to give people as much information as we could about that.

Senator MACKAY—Telstra Dome is in Melbourne.

Mr Scales—‘One of them’ I said, Senator—one of them.

Senator MACKAY—Why didn’t Mr Pretty call Melbourne talkback—

Mr Scales—I think we did. I think it was felt that we could do that part of it adequately out of Melbourne. Mr Pretty is in Sydney and Mr Jones is in Sydney.

Senator MACKAY—Just to reiterate: as far as you are aware, Mr Scales, Mr Pretty had the one conversation with Mr Jones.

Mr Scales—About the sponsorship arrangements?

Senator MACKAY—We have established the stadium naming. On anything else are you aware?

Mr Scales—I cannot give you that assurance. I do not monitor—again, to use your word—what Mr Pretty does, so I cannot give you the assurance that he has not spoken to Mr Jones about other issues.

Senator MACKAY—Why are you aware that he spoke to Mr Jones about the stadium issues?

Mr Scales—Because it is a matter which did come up in the ABA report quite specifically. It is an issue that I was generally aware of.

Senator MACKAY—Did you inquire, when you made that inquiry based on the ABA report, as to whether Mr Pretty had any further conversations with—

Mr Scales—No, I didn’t.

Senator MACKAY—Why not?

Mr Scales—I didn’t think it was relevant, and we do not try and influence what Mr Jones says. Mr Jones is a free agent. It seemed irrelevant.

Senator MACKAY—But Mr Pretty, presumably off his own bat, rang Mr Jones a couple of days before Mr Jones’s effusive comments about Telstra and the naming rights et cetera. And you are saying here today that you do not routinely do this?

Mr Scales—No, I don’t, Senator.

Senator MACKAY—Why was it done in that instance?

Mr Scales—It was a particular issue. I think the ABA report made mention of the fact that this was an important issue for us. Mr Pretty was the head of the particular business unit responsible for it. That is why it was of particular interest.

Senator MACKAY—Did anybody else in Telstra other than you inquire whether Mr Pretty had had any further conversations with Mr Jones on any other matter?

Mr Scales—About other matters—that is a hard thing for me to answer, and I simply cannot answer that; I just do not know the answer to it.

Senator MACKAY—Are you intending to take it on notice? I assume that you will take on notice the questions that you are not able to answer today, Mr Scales.

Mr Scales—The ABA has found that we have done nothing wrong.

Senator MACKAY—Be that as it may, these are questions I am asking. Are you intending not to answer them or are you intending to take them on notice?

Mr Scales—If you ask me to take them on notice, I will certainly take them on notice, but I am trying to understand what is the context in which the questions are being asked.

Senator MACKAY—Okay. Presumably there were some verbal discussions involving Telstra, Mr Pretty usually. Are you aware of anyone else who had discussions with Mr Jones on impending issues of concern to Telstra? Did anyone else within Telstra talk to Mr Jones?

Mr Scales—Not to my knowledge, but that does not mean it did not happen the same way as I mentioned earlier, that we would have people talk to a range of broadcasters about a range of issues. It is possible that someone else did speak to Mr Jones. For example, if it was an issue about service performance, we may have had somebody who is involved in service talk to Mr Jones. But I do not know the answer.

Senator MACKAY—You are not aware of that?

Mr Scales—No, but I am trying to be as fulsome as I can to respond to your questions.

Senator MACKAY—I understand. Are you aware whether Dr Switkowski ever spoke to Mr Jones?

Mr Scales—I do know that Dr Switkowski spoke to Mr Jones about another issue. When the very difficult and unfortunate circumstances of Sam Boulding occurred some time ago, I know that there was a request for Dr Switkowski to go on a number of programs, which he did, including Mr Jones's program. I know he spoke to him then. I do not have any knowledge about other times that Dr Switkowski has spoken to Mr Jones about issues. He may have met him at social occasions and may have spoken to him then, but I am not aware that he spoke to him on any of these other issues.

Senator MACKAY—So with respect to the Boulding case, when you say Dr Switkowski went on air, presumably that does not constitute what you mean by talking to Mr Jones.

Mr Scales—As you would also be aware, what happens in those circumstances is that sometimes you are asked by the producer about how long the issue is likely to go for, or the main issues; sometimes it is the presenter themselves. I am not exactly certain in that case whether it was the producer of the program or whether it was Mr Jones himself who spoke to Dr Switkowski at that time. It could have been both.

Senator MACKAY—So you are not aware of any other occasion on which Dr Switkowski—

Mr Scales—I am not aware of any.

Senator MACKAY—What about any other officer within Telstra?

Mr Scales—Who would be aware whether Dr Switkowski did that?

Senator MACKAY—Dr Switkowski would, but he is not here.

Mr Scales—I am generally quite close to these issues and as you are speaking I am just thinking about what other issue might have arisen over that period. I cannot think of any. But I am loath to give a complete blanket that it did not happen, because I am not in Dr Switkowski's office every day of the week. I am simply not in a position to be able to monitor it to the extent that your question demands of me.

Senator MACKAY—To labour the point, if he had been here we could have asked him directly. I appreciate that you were not around at this period, and I might come back to those other issues in a second, but what is your information as to why Telstra decided against sponsorship arrangements with talkback hosts in 1999?

Mr Scales—Decided against it in 1999? I do not know the answer to that.

Senator MACKAY—Somebody must know the answer to that.

Mr Scales—Somebody will know the answer, but I cannot answer it specifically.

Senator MACKAY—Surely somebody here must know the answer.

Mr Scales—I will take it on notice. We are talking about something that is nearly five years ago. Those people may not even be around now as to why those decisions were made. There has been quite a change in the corporate relations team. There have been at least three reorganisations of the company since then. I will certainly try and find out for you, Senator.

Senator MACKAY—Are you aware of whether Mr Mansfield had any discussions with Mr Jones?

Mr Scales—Are you asking about any particular issues?

Senator MACKAY—We will start off with Telstra related issues, and then narrow it down.

Mr Scales—I am not aware of the specifics of any comments that would have transpired between Mr Mansfield and Mr Jones. I think it is on the record that Mr Jones and Mr Mansfield are friends, but I do not know of any discussion that has occurred between them.

Senator MACKAY—With regard to proceeding or not proceeding with sponsorship arrangements with talkback hosts, Anne Davies, in an article in the *Sydney Morning Herald* on Saturday, 12 February 2000 indicated that Telstra executives had been approached about this. She said that 'marketing was enthusiastic' but the corporate affairs team was 'appalled'. As you know, corporate affairs are the people who deal directly with government and she said that they had concerns that paying a large amount of money for on-air support had a potential negative side. She went on to assert that there was a colourful exchange of emails, corporate affairs won and the deal did not proceed. Do you know anything about that? Does anybody in Telstra know anything about that?

Mr Scales—This is always a lively debate. There is always discussion about any of these arrangements. I am aware of that very lively discussion. In the case of both Mr Jones and Mr

Laws, we felt there was such a compelling case on commercial grounds to advertise on their programs, because of their reach, that this was an important issue for us.

Senator LUNDY—When a caller rings Mr Jones and complains about Telstra, who at Telstra does he or his producer call to get those problems looked at?

Mr Scales—They will sometimes contact the marketing department. They may sometimes even send a direct note to the CEO.

Senator LUNDY—Does that come from the producer or from Alan Jones himself?

Mr Scales—It varies. Sometimes it comes from Mr Jones himself. If it comes to any one of the senior members of the leadership team, we obviously look at it in the same way as any other complaint, and then we handle it.

Senator LUNDY—You look at it in the same way as any other complaint?

Mr Scales—I do look at it the same as any other complaint. I know you may find this astounding, but, when complaints come to me in this way, I look at every complaint in exactly the same way. We judge them on their merits. We try and understand the efficacy of the comments being made, and we try and address them. We try and look at every complaint on its merits.

Senator MACKAY—You may do that, but you have already indicated that you cannot talk on behalf of everybody in the organisation.

Mr Scales—I was talking about myself.

Senator LUNDY—When an email is received from Alan Jones or from his producer, how do you action that? You say it is treated like everything else, but how is feedback provided to Mr Jones or the producer about that, and how is that communicated to the complainant?

Mr Scales—In the sense that Mr Jones is no different from any other person in this regard, they are advised about what we have done about it. We try and address those issues as quickly and efficiently as we can; we try and make sure we meet that customer's needs. Sometimes we cannot.

Senator LUNDY—How many complaints have you received from Mr Jones or from his producer since these contracts have been in place?

Mr Scales—I cannot give an answer on the exact number. It is not very frequent.

Senator LUNDY—For the sake of completeness, can I ask, in relation to Alan Jones's producer or a representative of Alan Jones, the same questions that we asked about anyone from Telstra, or associated with Telstra, or on the Telstra board communicating with Alan Jones.

Mr Scales—I accepted the totality of that point and said that I would take it on notice to do that. We will not try to obfuscate around that.

Senator TCHEN—It was listening to this most interesting exchange—

Senator MACKAY—We have a lot to go on this. Is this on the same matter?

Senator TCHEN—Yes. I was listening to this very interesting exchange, and thank you, Mr Scales: now we understand what has happened and what has not happened. I will not revisit the ground that Senator Mackay has covered, but I am wondering whether, before Telstra identified Mr Jones as someone whose audience was of interest to Telstra, you investigated any other radio personalities in the same line of work—for example, Mr Jones's then colleague Mr John Laws?

Mr Scales—We are always looking at particular programs to see which of them has large reach to a particular group of customers that are of interest to Telstra. We do advertise on Mr Laws's program. That is on the record. Mr Laws has a very broad reach not only in the Sydney area but also in rural and regional Australia. Rural and regional Australia—it will come as no surprise to you—is of real interest to Telstra. We have very many customers there. We are anxious to extend our coverage in rural and regional Australia, so we are always looking at that—in the same way as we are examining almost every day which of the print media it would be appropriate for us to advertise in; in the same way as we are looking at television programs and deciding whether we will become sponsors of, or advertisers in, television programs. That is part of the work of a marketing team.

Senator TCHEN—Are you surprised that your relationship with Mr Laws is not the subject of this inquiry?

Mr Scales—Do you mean the discussion here today?

Senator TCHEN—Yes.

Mr Scales—I do not have an opinion about that. My role here is to answer the questions as honestly as I can. I do not have an opinion about whether that is appropriate or not.

Senator TCHEN—I must say that I was surprised.

Senator MACKAY—Mr Scales, did you initially oppose the new 2002 arrangements—the change from 1999 to 2002?

Mr Scales—Personally, when I saw the very first of the drafts of the contracts which were being sent to Mr Jones and, I think, also to Mr Laws and saw there were some reference—as there is with some of our other contracts—to comments that could or could not be made, I was very concerned and, as a result—

Senator MACKAY—Certain comments that could not be made?

Mr Scales—Comments that may not be able to be made against Telstra. If you had read—and am sure you have—the ABA report, you would have seen that it refers to an early draft of a contract that suggests that Mr Jones is not entitled to make negative comments about Telstra. That concerned me. Subsequently, that was removed, not only because of my concerns but generally because that should not have been in the initial draft. It was there as a mistake and should not have been there. So we made sure that that was excised from any relationship that we had with Mr Jones, so that he was free to make any comments that he might wish to make about Telstra.

Senator MACKAY—What do you mean by 'it was there as a mistake'? It is hardly a typo.

Mr Scales—It was nothing more than a pro-forma contract that we use from time to time. Once it became clear that that pro-forma contract had not been adjusted to accommodate this particular contract we made sure that it was adjusted.

Senator MACKAY—So your pro-forma contracts include reference to people not making negative comments about Telstra?

Mr Scales—The pro forma does in some circumstances.

Senator MACKAY—Really—what circumstances?

Mr Scales—Depending on the relationship that we might have and whatever the relationship might be.

Senator MACKAY—Give me an example.

Mr Scales—It is a pro-forma contract and it is adjusted accordingly.

Senator MACKAY—So your pro forma includes reference to persons not making negative remarks about Telstra?

Mr Scales—It could from time to time.

Senator MACKAY—Does that exist in any contracts you currently have?

Mr Scales—It probably exists in some contracts.

Senator MACKAY—With media?

Mr Scales—No, not with media.

Senator MACKAY—With whom, then?

Mr Scales—It might be to do with a contractor that we are dealing with where we are asking them to raise issues with us in the first instance so that they can be resolved that way rather than going through the media—those sorts of issues.

Senator MACKAY—Does that clause exist in any contract that Telstra currently has with anybody in the media?

Mr Scales—No, it does not.

Senator MACKAY—So once that was removed, Mr Scales, were you happy with the contract as it stood?

Mr Scales—We knew that there were both very great positives and risks with this arrangement. Again, that is on the record. The marketing plan made those issues very clear. This was very much a decision that was made on balance because of the value of the particular audience that Mr Jones attracts.

Senator MACKAY—That did not quite answer my question. Were you happy with the revised contract?

Mr Scales—Yes, on balance, I was happy with the revised contract.

Senator MACKAY—Were you the only person who expressed concern initially or were there others in government relations or corporate affairs?

Mr Scales—I do not think that quite captures the nature of the debate that goes on inside the company—and ‘concern’ is not quite the right word with respect to these sorts of arrangements. We ask people to provide opinions and to give both pluses and minuses about any arrangement that we might enter into. Like most decisions, they are decisions that come out on balance. So there would have been people inside the company who would have been raising issues about how that might be seen. But, on balance, it was regarded as being a very important and valuable arrangement between us and Mr Jones.

Senator MACKAY—You indicated that, on balance, you were happy.

Mr Scales—Yes, I was.

Senator MACKAY—What were your reservations if it were ‘on balance’? Presumably, ‘on balance’ assumes a weighing up of pros and cons.

Mr Scales—Yes, it does. While Mr Jones has a very large audience, his show does attract particular people to that audience and you always have to take that into account. You always have to take into account the fact that Mr Jones is, by his very nature, a controversial person. It is part of the way in which he has the ability to attract an audience. Many people like that level of controversy. It is the same in politics. Controversial politicians attract people around them and sometimes they are criticised by people from the same party. So, in that sense, we try to look at the balances in any of these circumstances to determine the right thing to do in that circumstance—and this was no exception.

Senator MACKAY—So your reservations went to that particular issue. Were you concerned that it could be perceived as cash for comment?

Mr Scales—No, I was not, because I think there were sufficient checks and balances in the process. We did not require Mr Jones to speak positively about Telstra. He was free to do whatever he wished. I felt that there were sufficient checks and balances internally inside the company to ensure that we did not require that of anybody. No, I did not see this personally as being cash for comment.

Senator MACKAY—I understand, but were you concerned that it may be perceived as cash for comment?

Mr Scales—The words ‘cash for comment’ have a particular pejorative connotation. I think what is on the record now through the ABA would show you that there were concerns within the company about issues to do with sponsorship of a program which was of the nature you were talking about earlier—that is, callback—and all the controversy that surrounds callback type programs. That is on the record. It is in the marketing plan; there is nothing secret about that. But we felt that if there were sufficient checks and balances, if people applied the law, if we were quite explicit about Mr Jones being free to make comments in whichever way he wished, the commercial benefits to us outweighed some of these other risks.

Senator MACKAY—Thank you for that. With respect to the change which you have taken on notice to determine, between 1999 and 2002, was Mr Mansfield at all influential in that change, as somebody who goes to board meetings?

Mr Scales—Do you mean in terms of us deciding that we would sponsor talkback type programs?

Senator MACKAY—Yes.

Mr Scales—No, Mr Mansfield was not influential in that regard. The motivations that we had here were commercial. They are about us needing to influence a very large and important commercial market for us. They were our prime motivations.

Senator MACKAY—I understand that. What I am going to here is what changed between 1999 and 2002.

Mr Scales—I think what changed is the intensity level of competition.

Senator MACKAY—Is that the only reason Telstra changed its view from 1999 to 2002?

Mr Scales—Our prime concern is commercial, and what has changed from the commercial perspective between 1999 and now is the high level of quite intense competition which we face. If we believe that we are not advertising and promoting in a particular and large market then I think we are obliged to try and address that, and that is the motivation.

Senator MACKAY—So that is what changed, you are suggesting, between 1999 and 2002: increased competition?

Mr Scales—And the fact that we needed to make sure that we were promoting our products in the largest markets in this country, of which that Sydney metropolitan area is certainly one for us. Again, it is on the record that one of our competitors, SingTel Optus, has been very successful in that market, and from our point of view we just could not allow that to continue.

Senator MACKAY—Are you aware of any other change or any other imperative from the organisation that may account for the attitudinal change in 2002?

Mr Scales—I am not aware of any, no.

Senator LUNDY—Can you tell me about a person called Andrew Whist and when he was employed by Telstra?

Mr Scales—No, I cannot, but I can find out for you.

Senator LUNDY—Could you do that now?

Mr Scales—I am not sure I can, but we will try and find somebody who can find that out.

Senator LUNDY—I have got a number of questions, so if you could do that during the lunch period that would be helpful. I would like to know when he was hired or engaged by Telstra, why, what brief he was given, what sorts of things he did while he was at Telstra and a few other questions as well. I am sure you would be able to locate somebody—

Mr Scales—What was that name again, so we can make sure—

Senator LUNDY—Andrew Whist.

Mr Scales—We will try and find out for you.

Senator LUNDY—Thank you.

Senator MACKAY—Does Telstra or its media buyers link advertising spend to favourable commentary in newspapers, radio or television? We have been through this, but I want to ask this specific question.

Mr Scales—No, we don't.

Senator MACKAY—So this pro forma contract you were talking about which prohibits negative comment about Telstra—correct me if I am using wrong words—applies to no media.

Mr Scales—That is correct.

Senator MACKAY—Did anyone within Telstra express a concern about a majority publicly owned company being perceived to be involved in what could be seen as a cash for comment deal within Telstra? Did anybody raise that reservation?

Mr Scales—We did not see this as being cash for comment, as I was making the point earlier. The motivation here was purely commercial.

Senator MACKAY—Was and is Dr Switkowski fully supportive of these arrangements?

Mr Scales—Yes, he is.

Senator MACKAY—Can Telstra confirm that Mr Mansfield wrote to Ted Pretty on 17 April 2002 advising him of Alan Jones raving about Telstra line rentals and encouraging Ted Pretty to sign sponsorship arrangements with Jones and Laws?

Mr Scales—I am not aware of that particular correspondence, but if you can give me some reference to that I will check it through.

Senator MACKAY—All right, we will get that for you. So you are not aware of any email between Mr Mansfield and Mr Pretty along those lines?

Mr Scales—No, I am not aware of it.

Senator MACKAY—Is anybody else here aware of it? We are relying entirely on you here, Mr Scales.

Mr Scales—Are you referring to a document out of the ABA report? I do not remember seeing any reference to that.

Senator MACKAY—I will get the source. It is page 14 of a December 2003 ABA report.

Mr Scales—My page 14 must be a different page 14. I have got it here now. This is the reference you were making earlier to the monitoring at a high level within Telstra and an email.

Senator MACKAY—Yes.

Mr Scales—I am aware of it only to the extent that it is referred to here.

Senator MACKAY—Has anybody within Telstra attempted to establish the veracity of it?

Mr Scales—What threw me was your comment suggesting that we should enter into a sponsorship arrangement. This makes no reference to any sponsorship arrangement.

Senator MACKAY—I know; I was asking a separate question.

Mr Scales—I am sorry; I thought you were saying the email said that it needed to be a sponsorship arrangement. Sorry, I misinterpreted.

Senator MACKAY—No. People may make a link but I am not in the questioning.

Mr Scales—I thought your question was that there was an email that said, ‘He is raving therefore you should.’ No, I am not aware of any. By the way, I can now answer much more definitively, having seen that, that I know of no link between the issue of Mr Jones and his comments and a desire to enter into a sponsorship arrangement. I know of no link.

Senator MACKAY—Now can you answer the question with respect to this email?

Mr Scales—That email is obviously on the record. This information was provided by us to the ABA. I do highlight the fact that this email makes no reference to a link between comments made by Mr Jones and sponsorship.

Senator MACKAY—Was Telstra director Sam Chisholm involved at all in negotiating the Macquarie-Telstra deal, as chair of the Macquarie Radio Network?

Mr Scales—Not to my knowledge.

Senator MACKAY—Are you sure?

Mr Scales—Mr Chisholm did speak to me about this issue about two weeks ago. I can give you the context of it. This issue, as you may not be aware, arose and I was involved in an interview on the *7.30 Report*. Mr Chisholm rang me afterwards and was talking to me about the interview and said to me words to the effect of ‘Sometimes people don’t understand that my role as chairman does not have me involved in negotiating these detailed issues. I just don’t get involved in that. I leave that to the management.’ The only way I can answer your question is to give back to you what Mr Chisholm has said to me. That is the only way I can answer your question.

Senator MACKAY—So, as far as you are aware, based on what Mr Chisholm said to you—

Mr Scales—That is correct.

Senator MACKAY—he was not involved in negotiating the contract?

Mr Scales—That is what Mr Chisholm has led me to believe.

Senator MACKAY—That is what he said to you?

Mr Scales—Yes.

Senator MACKAY—Are you aware of anyone else within Telstra who was involved in negotiating the contract with Macquarie? Who was involved in negotiating the contract?

Mr Scales—There were a number of people in the marketing department. It is a guess, because there would have been a number of people: there would have been lawyers—

Senator MACKAY—No, who?

Mr Scales—Specifically the names of them?

Senator MACKAY—Do you know who negotiated this contract?

Mr Scales—There would have been not only our own lawyers but lawyers from Mallesons and others. There would have been people within the marketing department. Certainly the head of consumer and marketing would have been involved to some extent. There would have been a number of people involved. It is an important contract for us.

Senator MACKAY—Are you aware specifically of who was involved?

Mr Scales—I know of some of those that were involved, but I cannot give the details of all of the people involved.

Senator MACKAY—Can you tell me who you are aware of.

Mr Scales—I might have some of those names, but if I do not have them I can get them for you. It was a normal contract. Let me see if I can find any of the names. If not, you can take it as read that I will get the names for you. I think it might be better for me to take that on notice so that I do not miss any of the people who were involved. I do not have the actual names here.

Senator MACKAY—Are you aware of any involvement of the then chair, Mr Mansfield, in discussions with respect to the contract?

Mr Scales—No, I am not aware of any discussions in respect of the contract.

Senator MACKAY—Are you aware of whether Dr Switkowski was involved in any discussions?

Mr Scales—Only to the point that I raised earlier, that this was an important contract and Dr Switkowski would have been aware that it was being negotiated.

Senator MACKAY—Are you aware of whether that Dr Switkowski was involved in discussions with anybody at Macquarie, including Mr Jones, with respect to this matter?

Mr Scales—I am not aware of it. But, again, I cannot rule it out. I am not aware of it, and it would be unlikely that there would have been substantial discussions, because this is a matter that Dr Switkowski would have expected the head of the consumer and marketing team to resolve and address. He would not normally get involved in the construction of contracts like this. He would not get involved at that level of detail.

Senator MACKAY—But you cannot rule it out—and you cannot rule it in either. I understand that.

Mr Scales—I cannot rule it in or out

Senator MACKAY—Does Telstra regret its deal with Mr Jones and Mr Laws, given the negative publicity it has generated?

Mr Scales—We have always seen this as being an important commercial relationship. In any commercial relationship you would prefer not to have negative publicity, but certainly we think that this commercial relationship has been very valuable and helpful for Telstra.

Senator MACKAY—So there are no regrets other than that it got negative publicity?

Mr Scales—No, as I was saying, we saw this as a straight commercial arrangement and so, in that sense, because it undermines the commerciality of it when we get any poor publicity, it would have been preferred that we had not. We have been quite uncomfortable about that, certainly.

Senator MACKAY—If Telstra had its time again, what might it change? Anything?

Mr Scales—Both of these contracts are up for renewal in 12 months time. We will look at each of these contracts at that time. We will make decisions about whether it still has the same level of commercial imperative about it, but that is a decision which we will need to make in due course. As with all of these contracts, we are continually trying to modify the commercial nature of them so that we advertise more in some areas than others. Our relationship with Macquarie Broadcasting is a good one and we see no reason why we would want to disturb that in any way; it is quite a valuable commercial relationship between us.

Senator MACKAY—How does Telstra monitor outcomes from this particular contract?

Mr Scales—First of all, you try and make sure that any contractor is living up to its responsibilities under the contract, so that monitoring is going on all of the time—

Senator MACKAY—But do you have benchmarks in terms of outcomes?

Mr Scales—Yes, we do.

Senator MACKAY—What are they?

Mr Scales—We look at the straight monitoring of how many advertisements there would be; that is straight factual monitoring. That is one issue. We try and understand the growth in the particular market that we are trying to reach, and so we look at the extent to which there is movement and change in our market share in those markets—for example, in regard to Mr Laws we are always looking at the market that he is involved in and whether our advertising there is reaching that particular market cohort. We are doing those sorts of things all of the time.

I would not want to mislead you into thinking that this form of review is so precise and scientific that it can be done with great precision: marketing reviews are not like that—they tend to be slightly more nebulous. Even linking market share performance to advertising can sometimes be misleading, because there is so much else going on at the same time—changes in the competitive environment, what other competitors might do, and what other products competitors have in the market. But in general we try and isolate those things and see whether we are getting good value for money.

Senator MACKAY—Was there an increase—demonstrable or not—with respect to the particular audience that Mr Jones appeals to? Was there an improvement? Has Telstra monitored that?

Mr Scales—It has improved marginally in Sydney but, again, I would not want you to be misled by that comment. In the commercial world we are fighting for very small margins—we are fighting for one or two percentage points of market share all of the time. That is what we are looking for here—often it is that that we are involved in.

Senator MACKAY—Mr Scales, what do you say to the Australian people who may be absolutely mystified by and amazed at the fact that Telstra is prepared to spend well over \$1 million per year—of their money, or a proportion of it—to radio in agreements that have received the sort of publicity these have?

Mr Scales—We believe that we have a responsibility to advertise in the best way possible. Mr Jones does attract a large audience. We see no difficulty in advertising with companies or organisations which are able to attract large audiences. We are in the mass market business—that is what we are there to do. To answer your question: what we are trying to do is to give good value to our shareholders by looking at these areas and making sure that we are not disadvantaged commercially by not being able to participate in those particular markets.

Senator MACKAY—So you think it is well and truly justified?

Mr Scales—Commercially, we think it is justified.

Senator MACKAY—What about morally?

Mr Scales—We have done nothing morally wrong. I do not think anybody has suggested that we have done anything morally wrong.

Senator MACKAY—I understand that. But do you think it is morally justified?

Mr Scales—Macquarie is a commercial organisation. The law allows them to operate. Why wouldn't we—or anybody else—be entitled to work with Macquarie Broadcasting to enable us to be able to advertise with them? It is legal; it is appropriate. It is what they are in business for.

Senator MACKAY—So as long as it is within the letter of the law, that is all right with Telstra?

Mr Scales—That is certainly distorting the comments that I am making. I am addressing a broader issue that says that Telstra should not be disadvantaged by not being able to advertise in areas and markets where we can reach a particular audience.

Senator MACKAY—Thank you, Mr Scales. That concludes my line of questioning on that issue.

I would like to move on to the issue of Telstra's general corporate strategy. How does Telstra view itself? Does it view itself as a telecommunications company or does it view itself as a media company—or as a hybrid of the two?

Mr Scales—Telstra sees itself as a fully integrated telecommunications company, which clearly includes, as part of our core business, telecommunications.

Senator MACKAY—And media.

Mr Scales—We do have a media business with Foxtel, certainly. We are a part owner of a media business.

Senator MACKAY—So your definition of communications would include telecommunications and media.

Mr Scales—Yes.

Senator MACKAY—Does Telstra currently have a media acquisition strategy?

Mr Scales—No, we do not.

Senator MACKAY—Does Telstra still harbour ambitions to purchase a media company?

Mr Scales—No, we do not.

Senator MACKAY—Many industry analysts have indicated that Telstra paid way over the odds for *Trading Post*. What are Telstra's comments to them?

Mr Scales—I will ask Mr Stanhope to comment in detail, but we do not believe we paid more than appropriate for *Trading Post*. Senator, I need to get a bit of clarification from you. When you talk about 'media', do you put *Trading Post* in that category? We do have the issues around *Yellow Pages* and advertising, which are important issues for us.

Senator MACKAY—I guess I was more in the Fairfax- Channel 9 area.

Mr Scales—Then my answer is completely correct.

Senator MACKAY—Mr Stanhope?

Mr Stanhope—No, we do not believe we overpaid for the Trading Post Group at all. It is very synergistic to our business. The census business is largely a classified advertising business. The Trading Post Group is a classified advertising business. We believe that the progression of advertising is more towards local, and the Trading Post Group provides that local classified advertising addition to our classified advertising through the Yellow Pages. It will move, over time, into more online advertising. We expect to take to online some of the benefits of the Trading Post Group doing verticals like real estate, motor vehicles and so on, and there will be synergy between those two groups. So, with the synergistic benefits, we believe that we have not paid too much for the purchase of the Trading Post Group.

Senator MACKAY—Why do market analysts assert that you have? Are they all wrong?

Mr Stanhope—They are entitled to their opinion. We believe that they are incorrect. We believe that we have paid a full price, certainly, but that we have not overpaid.

Senator MACKAY—Is it true that the \$636 million purchase price represents 13 times the company's EBITDA figure, which is well above the usual levels for company purchases?

Mr Stanhope—If you look around the world, some of the most recent acquisitions of these sorts of businesses are about that amount. I think the number that you are citing is the current EBITDA number. It is about 10 times for the 2004-05 expected EBITDA, which has some synergies in it from the merging of the two groups. So, if you look around the world, you will see that it is about on the right EBITDA multiple.

Senator MACKAY—Chair, do you have any questions to ask while I am following up something?

CHAIR—I could ask about the management of Telstra Country Wide in Western Australia.

Mr Scales—We are very pleased with the way that Country Wide in general is performing. We think it has been a great development for the company in general, and we are getting very

good results out of rural and regional Australia generally. Let me ask Mr Pinel to cover that issue.

Mr Pinel—I think the question was about the general operation of Telstra Country Wide in Western Australia.

CHAIR—It is, but I have a specific question to ask you on it as well.

Mr Pinel—Telstra Country Wide throughout Australia has been operating now for just on four years. Western Australia has been one of the four regions that cover Australia. It performs extremely well, as do all of the regions of Telstra Country Wide. I think that has been recognised in the relationships that Geoff Booth, the Regional Managing Director there, has established with business and government in his territory, which covers Western Australia, South Australia and the Northern Territory.

CHAIR—I see. I did not realise that he covered South Australia and the Northern Territory as well.

Mr Pinel—It is a big patch.

CHAIR—One of the great successes of Telstra Country Wide in WA has been Wireless West, which extended CDMA coverage across the south-west corner of the state, from Geraldton down to Esperance, through the wheat belt. Also, there has been an extension of mobile coverage along the Great Northern Highway to Port Hedland using, I believe, microwave links. How was that funded?

Mr Pinel—I do not have the full details. My understanding is that Wireless West was a combined activity between the Western Australian government and Telstra for the extension of CDMA mobile coverage in areas that were not fundamentally economically possible or viable by normal commercial investment. These types of models have become relatively common and have been very successful, but I would suggest that Wireless West was one of the first and led the way in terms of establishing relationships between government and carriers such as Telstra to roll out infrastructure in this manner. It was seen as a very successful step and a very successful project, and it has taken mobile phone coverage, as I said, very broadly through parts of Western Australia that would not normally have been able to achieve it.

CHAIR—It has; I agree. I think in fact it was a tripartite relationship between Telstra, the state government and the Commonwealth, especially in terms of getting mobile phone coverage along the Great Northern Highway, which has long, very isolated stretches between Geraldton and Carnarvon, Carnarvon and Karratha and so on. However, there is no mobile phone coverage north of Port Hedland. Again there are long stretches of road. Between Port Hedland and Broome, for example, it is 600 kilometres. Then as you go on into the Kimberley it is about 300 kilometres between towns. Obviously having a mobile phone capacity along those highways is a safety factor, because if somebody has an accident then someone has to drive a couple of hundred kilometres, perhaps, to get assistance, and then they have to come back out. So getting mobile phone coverage along those roads is an important public safety

issue. I just wondered what the plans, if any, were to extend CDMA coverage north of Port Hedland along the Great Northern Highway and so on up to Kununurra and Darwin.

Mr Pinel—In a general sense we continue to work with governments at all levels—state, federal and, on occasions, local—to provide funding into areas such as you describe. It becomes very difficult economically in some of the very remote areas to generate any sort of revenue stream at all. For those areas we have up until now tended to rely—and we continue to rely—on Telstra mobile satellite, which is a different technology to CDMA. Telstra mobile satellite provides coverage across the whole of the landmass of Australia. The prices associated with using the TMS product are not significantly different to that of CDMA.

CHAIR—What would that mean? Would you have emergency phones at regular intervals along the highway or something?

Mr Pinel—Emergency phones along highways are well and good, but you can still get left a long way from them. We would certainly encourage people who regularly work or travel in those areas to acquire a TMS handset. There are federal government subsidies available that bring the prices of those handsets down to affordable levels—subsidies that go up to about 50 per cent of the price and make the price about \$950 for a handset. It is still more than a CDMA handset, but if you are looking at safety in those areas it is still a relatively small figure.

CHAIR—I suppose that is okay for truckies, buses and so on, but most of the people that travel on those roads are private individuals and, often, tourists—the caravanners aged over 55 from south-eastern Australia who go around the top. They are the ones who are involved in the accidents. These days people look for mobile phone coverage everywhere they go. I would have thought that some sort of arrangement, like the Wireless West arrangement, would be more appropriate.

Mr Pinel—That is very true, and there is currently another round of federal government funding under way that will provide further opportunities for that, but that is not yet determined. I am not personally familiar with the extent to which the Western Australian part of that is proposing to address the issue. Certainly with that group of people that generally get referred to as grey nomads—the retired group that travel extensively—by and large we try to work with them to encourage them to take up options, such as the mobile satellite technology, that will provide them with a level of safety. You are right. Some will take it up. Compared with the expense for other assets that they take—caravans, motorhomes et cetera—the price for that security is relatively small.

CHAIR—What about programs to put mobile coverage into small towns? I know there was a program to put coverage into towns of populations of around 500. The town I specifically have in mind is Marble Bar, which Wireless West said would in some way be pooled with Newman, and that would give them the population to meet the requirements. But in fact they have not got mobile phone coverage there. A lot of tourists go into Marble Bar these days, plus mining industry people, who expect to be able to use their mobiles in a town like that. What options are there for a town like that to get mobile coverage?

Mr Pinel—Once again, I refer to the current program with the federal government to extend mobile coverage even further. I think the level that we are down to by now is communities with a population of around the figure of 300. We have been progressively stepping that down through the application of both state and federal funding with Telstra to roll out further coverage. I will have to take on notice the specifics of Marble Bar, and I will arrange to get the answers about that to you.

CHAIR—That would be good, because I have had a letter about it from the people in Marble Bar. They were told that they were going to get CDMA coverage a couple of years ago and that has not eventuated. Presumably it is CDMA that you provide in these towns.

Mr Pinel—If we were rolling out coverage in that part of Western Australia, it would be CDMA, yes.

Senator MACKAY—Chair, thank you very much for asking those questions. I return to the issue of advertising. Mr Scales, you were telling me about a clause within the pro forma that prohibited or whatever—and you have not quite corrected me on the terms—a company with whom the contract is entered into from producing negative comment about Telstra. You were telling me that this clause does not exist in any contract that Telstra has with any media outlet, be it newspaper, television or radio. Are you sure about that?

Mr Scales—I can only go to my knowledge. The answer is, yes, to my knowledge we do not have any, but I will check that to make sure.

Senator MACKAY—That is fine. My second question is: if this is not actually specified in a contract, is it a perception at any level of Telstra that it is implicit, whether it is in the contract or not, that negative advertising or negative comment about Telstra is part of the deal?

Mr Scales—No, it is not implicit.

Senator MACKAY—Are you aware of anybody within Telstra advising any media outlet that advertising may be changed or the spend may be reduced as a result of negative comment by a particular newspaper?

Mr Scales—No, I am not aware of that. Just to give emphasis to this particular point, we advertise extensively in the *Financial Review*. The *Financial Review* continually criticises Telstra.

Senator MACKAY—Yes, I understand that. You can pick out a paper that does. You may want to look into this over lunch. I am asking a quite specific question: are you aware of any circumstance in which anybody from Telstra has reduced or altered an advertising spend based on negative comment about Telstra, be it a newspaper, television or radio? If so, one could then conclude that, whilst the clause may not be in the contract, it may in fact be implicit. You may want to check this out over lunch.

Mr Scales—I can tell you that it is neither implicit nor explicit in any contract.

Senator MACKAY—I understand, but I strongly suggest that you check this out over lunch and come back to me after lunch with an answer.

Mr Scales—I am not quite sure how I am going to be able to give you that answer. But I will do that.

Senator MACKAY—I am aware of cases.

Mr Scales—Where you are suggesting that we have reduced advertising because—

Senator MACKAY—So I am advised.

Mr Scales—I will do my best to get an answer for you on that issue.

Proceedings suspended from 12.54 p.m. to 2.04 p.m.

Mr Scales—A couple of questions were asked prior to the adjournment for lunch. Senator Mackay, I will try to give you what we have been able to find out. You asked a question about whether either explicitly or implicitly Telstra penalises any media outlets for critical comments on Telstra. We cannot find any evidence of that. We have spoken to a number of people in the marketing area, and we cannot find any evidence of that. We are happy to try to follow through anything that you might put to us, but we do not know of any examples of that.

Senator Lundy asked about Mr Andrew Whist. Mr Andrew Whist was on contract for us in 1999. He was engaged in February 1999 to provide advice and his views to the Telstra management of the day on matters relating to organisational structure, processes and resources in the company's public affairs area. His contract terminated with us in July of that same year, and we have no knowledge of his doing any work for us since that time. If I remember Senator Lundy's comments correctly, she had a number of other issues around that. I am happy to try to respond to them if I can.

Senator MACKAY—She has gone to a funeral, but she will be back later on.

Mr Scales—That is as we understand it. I understand he left Australia. We have no knowledge of his doing any work for us since that time. I mentioned in my evidence earlier that Dr Switkowski had been interviewed by Mr Jones regarding the Sam Boulding issue. It was actually Mr Laws, not Mr Jones, who interviewed him. So I apologise if I have misled you in any way on that issue. It was from memory, as you know, at the time. I should also raise that my colleagues from the department are concerned that in response to a question regarding the ACCC we may have given the impression that the ACCC somehow approves every price increase. It does not do that. It approves the process. That is its role. While I am not sure that our response did come across as saying anything other than that, to make sure that we are completely accurate I want to make it clear that the ACCC approves a process, not each price increase.

Senator MACKAY—I think that is really worth while pointing out because, although I understood what you were saying, I am not sure that everybody would have. The way it was put would indicate some form of imprimatur, which is not the case.

Mr Scales—No. The ACCC makes sure that we go through a particular process. In fact, it is relatively narrow in that the ACCC is required to be assured by us, and it is the evidence by

us, that we have gone through the so-called LIMAC process. That is the role that it plays in that process.

Senator MACKAY—So it is a fairly narrow role really for the ACCC?

Mr Scales—That is with regard to price increases.

Senator MACKAY—Yes.

Mr Scales—It does supervise and audit issues regarding access and compliance around price caps. That is quite a laborious process which it goes through. Putting that aside, I am talking about the issue of whether we have consulted appropriately. It then monitors that.

Senator MACKAY—Thank you, Mr Scales. I want to go into this a little further. In relation to Telstra's pro forma contract that it has with whomever—be it media, contractors or whatever—can you quote what the clause is that was removed with respect to the Jones-Macquarie news contract?

Mr Scales—The clause said, 'During the life of this contract you will not criticise the company,' or words to that effect.

Senator MACKAY—Do you have it there?

Mr Scales—I do not think I actually have the words.

Senator MACKAY—Does anybody have it? It seems extremely blunt. I would have thought it is couched in more legalistic language.

Mr Scales—To put this into context, every company has pro forma contracts written up by lawyers, and they are meant to cover almost every circumstance. What you do in these circumstances is you cross out various clauses because they do not apply. The lawyers, doing their job, make sure that every possible circumstance can be covered in a pro forma contract. Then it is up to the individuals who are in fact preparing their contract to delete or even to add any other ones that might apply.

Senator MACKAY—Is it as blunt as you describe? Does it say 'shall not criticise Telstra'?

Mr Scales—No, not quite as blunt. I simply do not have it with me.

Senator MACKAY—We will use that as a kind of working definition for the purpose of this exercise. I can appreciate why Telstra would not seek to pursue that particular clause with, say, the *Financial Review*, which I think was the example you used, because I do not think the *Financial Review* would cop it. But what about, say, regional media?

Mr Scales—No.

Senator MACKAY—If you were to enter into an advertising contract with, say, the *Financial Review*, it could not be implicit either, in that the *Financial Review*, as you say, along with other newspapers et cetera, does write articles that are balanced—critical sometimes, not critical other times. Certainly it is not implicit with the *Financial Review*. There is a contention, however, that it may have been implicit with regard to the contract with Macquarie news and Mr Jones. Whilst this clause does not apply or is removed or whatever, and you were quite explicit earlier when you said that it was not in operation either implicitly

or explicitly with respect to any media outlet, be it print or whatever, what about at a regional level? Are you aware of anything at all at a regional level?

Mr Scales—No, we are not. Over lunch we did try to check with our marketing department to see whether there was anything of that type. They have no knowledge or recollection of anything of such type.

Senator MACKAY—Would it have been brought to their attention if correspondence were sent to a senior manager with respect—

Mr Scales—Are you talking about verbal correspondence?

Senator MACKAY—No.

Mr Scales—Just written?

Senator MACKAY—I have it. I am not quite sure what to do with it.

Mr Scales—They may not, partly because there will be from time to time advertisements in regional areas that might be relatively small in terms of our total marketing spend. But it is not anything that I am aware of.

Senator MACKAY—There is a contention—estimates are really about establishing whether there is any veracity—that Telstra may be taking out advertising with regional newspapers or whatever and implicitly there is an expectation on the company's part that the paper, the radio station or whatever will attempt not to say negative things about Telstra. That is the perception. I have a letter here from McPherson Media Group to the Manager of Telstra Country Wide in Victoria. Is there anybody here who is competent to respond to this?

Mr Pintel—I can comment in a general sense on Telstra Country Wide, but I probably do not have the details in relation to Victoria. I would have to take that on notice.

Senator MACKAY—This letter, dated 25 March, contends that Telstra's advertising spend has been reduced from \$80,000 year to date to \$20,000 year to date. That was with respect to the *Shepparton News*. It is alleged that Telstra has reduced its spend fairly substantially, I guess, for a small paper—\$80,000 to \$20,000—on two bases: first, there is some allegation of competition with Telstra in respect of an ISP matter and, secondly, the *Shepparton News* is allegedly providing unfavourable news coverage to Telstra.

I will just leave the former and deal with the latter. The paper or the media group concerned went to the pains of actually going through its archives to attempt to work out whether in fact they had been, as is alleged, negative towards Telstra. I find it extraordinary that they would even bother to do this. In their archives they can find only five negative stories and 14 positive stories. This letter implies that the allegation was made by Telstra that one of the reasons that there was a diminution in the spend was negative publicity. I find it extraordinary if this is the case. I do not know why they did not basically tell Telstra where to go. I guess money is involved. This group spends a lot of money with Telstra in terms of buying products.

The letter also alleges that there was an explicit direction to Telstra shop franchisees to desist from advertising with the *Shepparton News* or 'Telstra would be displeased'. It is alleged that pressure has been brought to bear along these lines—this is a very serious

matter—and as a result some Telstra shop franchisees have ceased advertising with the *Shepparton News*, which would seem to be a matter to be dealt with in other fora because it would, prima facie, appear to be a breach of the Trade Practices Act. We have just received this, and I want to make it very clear it has not come from the company. If this is true, what possible justification can Telstra mount for this sort of behaviour?

Mr Scales—First of all, we would have to check its veracity.

Senator MACKAY—I appreciate that.

Mr Scales—Because, for a start, one of the reasons that we have had Telstra Country Wide operate in local areas is to work with local organisations and it seems just so contrary to the overarching principles which we are trying to apply with Telstra Country Wide in general. So I think it is really important that we check the veracity of those claims. Whether there is any justification for this, the answer is, no, there cannot be. That is why we would need to look at that. We would certainly look at that very carefully. In most rural and regional areas, most of these local newspapers are very local in their origin, by their very nature, and we try to keep good relationships with them.

Senator MACKAY—That is right. I have hesitated to raise this previously, Mr Scales, but we have had a lot of anecdotal evidence that this sort of thing is reasonably widespread. I am not saying it is systemic within Telstra, but I do understand the devolved nature of Telstra Country Wide in particular. We have had examples of this occurring, not simply with Telstra. Similar allegations have been made in relation to the ABC and federal politicians and state politicians et cetera. I think this warrants a fairly widespread investigation.

Mr Scales—This is not consistent with our overarching values.

Senator MACKAY—No, I understand that. I am not suggesting it is.

Mr Scales—We have an internal, very robust whistleblower process where people can bring these matters to the attention of both senior management and the audit committee of the board. It works well. If the particular individual who has raised this matter with you wants to bring this to our attention—

Senator MACKAY—No, it has not been raised by an individual. I make it extremely clear we have not got this correspondence from—

Mr Scales—No, I am not suggesting you have. I was really pointing to a process that could be followed to try to check the veracity of the issues, because it is not appropriate for us to take that sort of approach.

Senator MACKAY—What struck me about this correspondence, and I appreciate you do need to check its veracity, is that the person who wrote it not only was clearly not very happy but actually went to the trouble of checking the archives, which would seem to suggest some form of acceptance, I suppose, that this was the reality in commercial life, that the allegation has been made that this was occurring and the person then went back through the archives. I stress this does not come from the company. Mr Scales, this goes back to the contention about the Jones-Macquarie contract that, yes, the standard clause was removed but implicitly it was still there. How do you prove that that is not the case?

Mr Scales—In the case that you are talking about with regard to the *Shepparton News*, as you have described the facts, the facts do not substantiate that the *Shepparton News* were being overly critical of Telstra—quite the reverse, if what you have said is correct.

Senator MACKAY—That is correct. But who cares if they were?

Mr Scales—We care if they were.

Senator MACKAY—Of course you care, but it is a newspaper—they can report whatever they like, presumably. Of course you care as an organisation, but that is not going to impact on your contract on advertising.

Mr Scales—No, I am saying I care about the fact that this issue has been raised. That is what I care about. The point I was making was that, if I heard you correctly, the justification for our taking a particular action was that the particular newspaper had been overly critical. The facts as you have described them do not show that. So even if it were appropriate, and it is not, the facts upon which we took that decision, if in fact we did take that action, are not substantiated by the facts that you have just raised. That is the point that I was trying to make. Therefore, it does not hang together and we need to try to understand if we understand it.

Senator MACKAY—I understand what you are saying. There is this second allegation that Telstra shop franchisees were told not to advertise with the *Shepparton News*, otherwise Telstra would be displeased. That is extraordinary. That is almost more serious than the initial allegation.

Mr Scales—Again, we need to check this out because, while there might be some minor advertisements by individual shops, generally it does not work that way. It generally works through our broad marketing departments, and in this case it would be in conjunction with Telstra Country Wide, that would decide how we would be advertising more generally in rural and regional Victoria or rural and regional Australia. We need to try to get a handle on the amount of spend that a particular shop would have in one area.

Senator MACKAY—If it is the case, it seems to be, to put it mildly, incredibly heavy-handed and brings in that whole line of questioning we went through this morning. Mr Scales, I suggest that you do check this out, but I would not check this out in isolation. It is up to you what you do, obviously; but, given that Telstra Country Wide does tend to deal with regional issues more than, say, senior management do, it may be worth while—because we are hearing this anecdotally from other sources as well, not simply Victoria.

Senator CHERRY—I just want to follow up the questions Senator Mackay was asking because I think they are so important. When I heard the arguments about the contracts that Telstra had with Mr Laws and Macquarie Broadcasting, what struck me was the fact that Telstra had included this particular clause in its draft contract. I heard your evidence earlier that it was a standard clause your lawyers put in. How many contracts with that clause in them actually exist with media organisations?

Mr Scales—We did cover that earlier, Senator. I cannot tell you the exact number. I made the comments then that it is a pro forma—

Senator CHERRY—That it is a pro forma does not make it any better.

Mr Scales—I am not suggesting it is. I am answering your question. In most cases any such clause is removed. There might be some cases where we require contractors, for example, to work with us, rather than necessarily go to the press, to resolve an issue. But often when lawyers produce these pro forma agreements they will put in everything that they can think of and then require people to strike clauses out. That was the point I was making. Inadvertently, this was not struck out. Macquarie required it to be struck out, as did we, and it was.

Senator CHERRY—How many contracts where the clause has not been struck out do you have with media companies? That is the key question I am seeking an answer to.

Mr Scales—We answered that earlier. We do not have any such clauses with media companies.

Senator CHERRY—Do you have, with any presenters in the media, any sponsorship contracts that would have that clause in it?

Mr Scales—No, we do not.

Senator CHERRY—None at all? So it was represented in only those two pro forma contracts for those two broadcasters?

Mr Scales—I think it was only one of the pro forma contracts.

Senator CHERRY—It is in the pro forma contract. So it is still being presented to broadcasters in sponsorship arrangements?

Mr Scales—No, it will not be because it should have been struck out at the time. This is, as you know—you would have read the ABA report—public evidence. I am not telling you anything that you would not have already read. It is on the public record.

Senator CHERRY—With respect to those two contracts it is, but I am trying to work out whether there are contracts that we do not know about that have a clause of this sort in them.

Mr Scales—With regard to media you are talking about?

Senator CHERRY—With regard to media, broadcasters—

Mr Scales—No.

Senator CHERRY—Or restricting public comment. I can accept the argument—I might not agree with it—that it should be there for people with whom you have a business relationship other than advertising, but in sponsorship for programs or advertising where there is a public comment role that you are actually contracting—

Mr Scales—It is not in any of those clauses where people are appropriately required to make public comment.

Senator MACKAY—Has it been struck out by the companies or individuals themselves or has Telstra removed it? In the Jones case I think Telstra initiated the removal.

Mr Scales—Yes, we did.

Senator MACKAY—Has that happened routinely?

Mr Scales—That is what happens routinely.

Senator MACKAY—With respect to media outlets?

Mr Scales—That is correct.

Senator CHERRY—I think that has sort of cleaned it up from my point of view.

Senator LUNDY—I was out of the room when you responded to my question about Andrew Whist. Can you go back to that?

Mr Scales—Yes, I will repeat the answer. As I might have mentioned earlier, a question about this matter was asked in the House of Representatives by Mr Tanner on 12 December. Our response has not changed, it is the same, and that is, yes, Mr Andrew Whist was engaged by Telstra in February 1999 to provide advice and his views to the Telstra management of the day on matters related to organisational structure, processes and resources in the company's public affairs area, and his contract terminated in July 1999. I understand from some discussions I had with people over lunch that Mr Whist then left Australia, and certainly we do not have any knowledge of his having done any work for Telstra since that time.

Senator LUNDY—Just to go back to the purpose for his engagement, was it at least originally promoted as an executive swap with Philip Morris?

Mr Scales—Not as I understand it. I understand that he had left Philip Morris at that time. Remembering that we have been trying to get this information over lunch, the information we have been provided with is that he had left Philip Morris, that he was acting as an independent contractor particularly with regard to broad corporate affairs issues, that he was hired for five months or thereabouts and that he has done no work for us since.

Senator LUNDY—Do you or anyone else know what he actually did while he was at Telstra?

Mr Scales—The best that I can tell you about it is as I have described it: he provided advice and his views to management of the day on matters related to organisational structure, processes and resources in the company's public affairs area. So it was quite limited to issues with regard to public affairs, as I understand it.

Senator LUNDY—Was he involved in any way in the starting of any campaigns or grassroots organisations associated with Telstra or in groups associated with services that Telstra provided?

Mr Scales—Not as I understand it.

Senator LUNDY—It is an interesting issue because a quick search on Google will show that he is quite a well-known spin doctor, if you like, and has been used by Philip Morris in the past—I am not sure whether as an employee of that company or as a contractor—to handle I guess the very political campaigns on behalf of that corporation. His involvement in a number of what look on the surface to be scandals in the US casts his appointment in a rather suspect light, which is why I am interested in what Telstra's motivation was and exactly the sorts of things you had him doing.

Mr Scales—Since I have been responsible for corporate affairs I have had no contact with this particular individual and I have seen no evidence of his work—none at all.

Senator LUNDY—Do you know of anything that he initiated or was involved in during his period of tenure with Telstra ?

Mr Scales—No, I do not know of that. But, again, all I can say to you now—we are now talking about almost five years ago—is that in the two years or thereabouts I have been looking after the corporate relations team I have seen no evidence of any work which this individual had brought forward, has done, had intended to do or had planned to do.

Senator LUNDY—Was he involved in the creation of Telstra Country Wide?

Mr Scales—I do not think so, no.

Senator LUNDY—Can you take on notice to provide this committee with whom Andrew Whist met whilst employed by or contracted to Telstra during that six-month period in 1999 and any correspondence emanating from or going to him in the organisation?

Mr Scales—I am not sure that I can live up to that request. I will do my very best to find out about that, but trying to find out whom he actually met with will be quite difficult for me to do. I will be able to see whether we can find any correspondence. Regarding whom he met with, I will do my best.

Senator LUNDY—Are you aware of any subsequent executive exchange arrangement with Philip Morris?

Mr Scales—No, I am not.

Senator LUNDY—Particularly under the chairmanship of Mr David Hoare, who, I am sure you are aware, used to be CEO of Philip Morris.

Mr Scales—No.

Senator LUNDY—So nothing ever proceeded?

Mr Scales—No, I am not, Senator.

Senator LUNDY—Is anyone at the table aware of that?

Mr Scales—I presume this is still within this corporate affairs/public affairs area, and I can tell you categorically we have no such arrangement with Philip Morris.

Senator LUNDY—Andrew Whist was the vice-president of corporate affairs of Philip Morris in New York around this time.

Mr Scales—Yes, I understand that. I have been advised today, though, that he had left that role when he did some contracting work with Telstra. So it was not a secondment, as I understand it; it was a straight contract. I understand David Hoare was involved in that. It did not last very long, and that is the last we have seen of him.

Senator LUNDY—Is it pretty normal for Telstra to engage, via contract I guess, specialists in public relations and corporate affairs? Do you do that often?

Mr Scales—No, it is not normal, but it is not unusual either. We do from time to time have people who provide specialist advice in that area, just as we have other contractors similarly. This is no exception.

Senator LUNDY—Would you, Mr Scales, be involved in the decision-making process by which such people would be engaged?

Mr Scales—Normally, yes. Some arrangements may go back beyond my term in this area.

Senator LUNDY—When did you start in this area?

Mr Scales—Let me think about that. It seems such a long time ago now. In this particular role I think it was around two years ago.

Senator LUNDY—How is the reverse charge service managed within Telstra?

Mr Scales—When you say how is it managed, can you give me a better clue about what you are looking for and we will try to do what we can.

Senator LUNDY—When you ring reverse charges to Telstra, you are connected by someone—

Mr Scales—Yes, that is it: it is in a particular part of the company. It operates within the Telstra Consumer and Marketing business.

Senator LUNDY—Can someone at the table explain to me whether any private companies are involved in the provision of the reverse charge service?

Mr Stirzaker—Some competitors provide a reverse charge product. I think 1800 Reverse gets advertised quite a bit, and from time to time in payphone booths you will see organisations promoting a reverse charge service—some of them I think are based in America—and we do our best to remove them from the payphone booths, naturally.

Senator LUNDY—So you compete with private companies for the provision of the reverse charge service?

Mr Stirzaker—Yes.

Senator LUNDY—Can you describe how that service is managed within Telstra and whether it is a revenue-generating service for Telstra?

Mr Stirzaker—I do not have the revenue—

Mr Stanhope—Very, very small.

Mr Stirzaker—A very, very small amount.

Senator LUNDY—Sorry, a very, very small amount?

Mr Stanhope—Yes.

Senator LUNDY—That could still be hundreds of millions.

Mr Stanhope—No.

Mr Stirzaker—No.

Senator LUNDY—How much is it? What is the ballpark figure?

Mr Scales—It does not even register on most of our indicators.

Mr Stirzaker—A lot of the market has changed anyway in the main because of prepaid calling cards.

Senator LUNDY—Can you take on notice what the revenue—

Mr Scales—We can get you some revenue details on notice.

Senator LUNDY—It would also be helpful to know the companies you are competing with. Media reports say that there was no tender process entered into for the advertising contract that Telstra now has with George Patterson. Can you provide the committee with details about the nature of that contract and what the process was to secure it with George Patterson?

Mr Stanhope—I can. There was not a tender process for what we call the below-the-line advertisers. There was a process under way where we had decided that the ones we had we were happy with. They included Singleton Ogilvy One, Publicis Dialogue, Clemenger Direct and Simon Richards Group. I should say before I go too far with this answer that, because there has been a lot of publicity about this particular issue, at the board's request an external review is going on where we have engaged our external auditor in conjunction with our internal auditor to review the appointment. In keeping with telling senators all the information we have, what occurred was that there was no tender. We could see no better or no other available advertising agencies at the time, so the four we renegotiated with, or negotiated with, new terms; and then George Patterson Bates was identified as being available on 12 May, or thereabouts. It is unclear as to how, and this is what the review is trying to establish, that came to light and who suggested they were available. But a heads of agreement was signed on 12 May with George Patterson Bates, signed by Mr Pretty, under the authorisation of the CEO, Dr Switkowski. That added a fifth contractor to our agency list of below-the-line agencies.

As we had been conducting a process of negotiating with the other four, the product-sourcing document was signed by the CEO for those four on 19 May. So the heads of agreement with George Patterson Bates was signed on 12 May and the product sourcing document was signed for the other four on 19 May—2003 we are talking here.

As CFO, I have had the responsibility since 1 October for the sourcing group. The sourcing group became engaged straightaway to make sure that the terms and conditions were similar to those which had been subject to the prior negotiation. They were engaged on 14 May, and those subsequent negotiations took place over a fairly lengthy period with George Patterson Bates, and a final agreement was signed on 5 April 2004. Each of these contractors has a two-year contract.

As we are moving our below-the-line advertisers to both a fixed and a bonus type system, the agreement involved fixed remuneration and a performance bonus. The sorts of things that have to be satisfied, not just by George Patterson Bates but in more recent times by some and eventually all of the other below-the-line advertisers, include the agency performance, with a weighting of about 30 per cent; Telstra brand health, with a weighting of 10 per cent; and

business and advertising performance, 60 per cent. To get that bonus, those three elements have metrics that are measurable. So that is the way it occurred.

As I said at the start, just to make sure that everything has the right probity and so on, a review is under way. I do not want to pre-empt the review by giving my opinion, but I can tell you the terms of reference of that review: whether the appointment met corporate sourcing and tendering appointment rules and that probity has been satisfied; secondly, that Telstra delegations were followed; and, thirdly, that that review check the comparable commerciality. That review will be completed early June.

Senator LUNDY—I do have further questions, but I understand Senator Harradine is on a tight time frame and has one question, so I am happy to defer to him and I will come back to this issue.

Senator HARRADINE—Thank you. Has the government entered into an agreement with Telstra in relation to its Telstra Broadband eLab to test and evaluate Internet filtering technologies?

Mr Scales—I will ask Mr Pinel to cover that. As you probably are aware, as part of our association with the Launceston facility we do quite a bit of research and development, and I understand that is one of the elements of the research and development going on there.

Mr Pinel—The program that you refer to in terms of filtering content on the Internet is a responsibility given by the government to NetAlert as the prime leader of that particular endeavour. NetAlert will use the Launceston broadband project platform as a means for development and testing of capabilities, and Telstra, through its eLab facility, will provide engagement with and technical support for the project, although the project remains one for NetAlert rather than specifically for Telstra. But it is fair to say that it is a cooperative arrangement which we will provide active support to.

Senator HARRADINE—How much money has Telstra put aside for this exercise of evaluation and testing? By way of background, this is now getting extremely urgent.

Mr Pinel—I am not aware of any specific monetary allocation to it, and the dialogue with NetAlert is ongoing, but we will provide through the eLab capability or through the eLab facility the resources that are necessary in discussions with NetAlert and what they ask for. It is very difficult in a development project to be prescriptive about what the future costs are likely to be, but I do not expect there will be a constraint on our part in our support for the project.

Senator HARRADINE—Do you mean that Telstra will in fact provide everything that is needed for those assessments and tests to be undertaken within a fairly short time frame?

Mr Pinel—Once again, I think the program is for NetAlert. Telstra will respond to inputs from NetAlert in terms of facility. Certainly the platform that is there with 1,800 customers is available for this very sort of project, so there is no constraint on the use of the platform. The eLab staff there will also provide resources in line with what NetAlert request. But is it unlimited? I would hesitate to say it is unlimited, but it is certainly active support for the project within the availability of the resources of the eLab.

Senator HARRADINE—In other words, to cut a long story short, you will cooperate completely with NetAlert and provide what is requested for the testing and evaluation of particular programs?

Mr Pinel—I think there is a healthy dialogue between NetAlert and the eLab. I am not sure at this stage that NetAlert have articulated fully what their needs are, but when they do we will assess those needs in a constructive and positive way. I hesitate to give the sort of unequivocal answer you are looking for because of the open nature of the question, but certainly from Telstra's perspective we expect to be actively involved in and actively supporting the NetAlert project.

Senator HARRADINE—So you cannot give me what Telstra is spending on this project and what, say, the Commonwealth government is spending on this project?

Mr Pinel—No, I cannot.

Mr Scales—Because it is not our project, it is actually a Commonwealth government project through NetAlert, and really all we are are subcontractors.

Senator HARRADINE—What was I doing in the Telstra eLab when the minister himself gave the undertaking that this would be taking place in the B-eLab?

Mr Scales—It may do so, but it is still not our project.

Senator HARRADINE—This is the minister speaking, and you are a public company.

Mr Scales—But it is still not our project.

Senator HARRADINE—I am sorry, you are majority owned by the government.

Mr Scales—But we are not the prime contractor for the contract that this process is being worked through. NetAlert are involved. We are there only if they ask us to be.

Senator HARRADINE—That is what I am saying. I understand what NetAlert have been required to do, but all I am asking is: will Telstra do what NetAlert have requested them to do when it occurs in order to achieve outcomes within a short period?

Mr Scales—Sure. We will do everything that they ask of us—

Senator HARRADINE—We are talking about a very serious matter here. We are talking about child abuse, as a matter of fact. I have it recorded. This matter started to develop about five or six years ago or even before then. It is getting very urgent, and parents want outcomes. They do not want their kids being abused by material coming over the Internet. 'Abuse' is not my word but the word of Professor Freda Briggs in Adelaide.

Mr Pinel—I can only reiterate that NetAlert will have full access to our test facility there, the customer base that we use for research, and that they will have the active support of the eLab staff. These projects, as I say, as research projects, tend to be evolutionary, and the full dimensions of them are often not known at the start. But have no fear that we will be actively engaged.

Senator HARRADINE—Are you proposing to use the evaluation process of tests and evaluate products you will promote to Telstra BigPond consumers?

Mr Pinel—We will use the test bed there to evaluate the project. Do I understand you correctly that you are asking whether we will then take the outputs of that and recommend them to BigPond users? I did not hear the question properly, I am sorry.

Senator HARRADINE—Are you proposing to use the evaluation process and the test process to test and evaluate projects you will promote to BigPond customers?

Mr Pinel—I think it will once again be for NetAlert to make that evaluation. It is their project. Our role is purely to provide support and advice for the project.

Senator HARRADINE—But isn't Telstra keen on having a family-friendly ISP?

Mr Pinel—We are already signed up as such under the current code.

Senator HARRADINE—I will deal later with the current code and the way that has been pushed or has not been pushed.

Mr Scales—The NetAlert project is about the extent to which you can put filters on whole systems, which goes beyond what Telstra might want or not want to do. That will very much be an issue for the legislature itself to address, because that will go beyond what Telstra does or does not want to do. In addition, we of course provide an opportunity for our customers to have these forms of filters on their PCs and with their providers.

Senator HARRADINE—Thank you for saying that because that sort of opens this out, doesn't it? Telstra is making millions of dollars out of pornography going to their BigPond service. Aren't you interested in having ISP based filtering systems?

Mr Scales—Yes. That is what I was saying: we do. We do provide that service to our customers if they wish to use it. The point that I was making about the NetAlert issue was that that will be a system-wide approach that I understand is being researched to determine whether systems can have filters on them so that no form of particular content can get through those various filters. That is the general point I was making. I was not making a point specifically about pornography or not pornography. I was trying to emphasise what the project was and differentiate the system side filter from a particular filter on a PC.

Senator HARRADINE—So am I to understand that Telstra would support a system-wide filtering system on an opt-out basis?

Mr Scales—I think that is an issue for the legislature.

Senator HARRADINE—Isn't it an issue for a major company such as Telstra?

Mr Scales—It is primarily an issue for the legislature.

Senator HARRADINE—Why? Doesn't Telstra have responsibilities for the junk that is exchanged through their ISP?

Mr Scales—Yes, we do have a responsibility to be able to provide to people an opportunity to opt out if they wish. We are not the arbiters of the law, Senator; you are. We cannot take over your role, and we are not trying to take over your role. The only point that we are making here is that your important role is the one that we are looking towards to help guide us as to what the law should/should not do in these circumstances. We try to provide our customers

with the opportunity to filter out that material if that is what they want. We cannot go beyond the law. If the law, for whatever reason, enables people to receive this material, we cannot say they cannot. That is not our role; that is your role.

Senator HARRADINE—It would be interesting to consider what you have said when it is in print. Are you saying that Telstra does not have a responsibility in respect of child pornography or what?

Mr Scales—No, Senator, not at all—

Senator HARRADINE—Just a minute. I meant pornography. Have you not seen the work that has been done by the women's institute at the ANU—I cannot recall the name now—which did a study of what is going through ISPs into the homes of children and how children as young as 10 are trying to act out on younger ones what they have seen on their computer?

Mr Scales—Senator, you raise two questions. One relates to child pornography. Clearly that is against the law. There is no question about that issue. Telstra does everything it can to work with all of the various enforcement agencies to stamp that out—no question. You then raised I think almost in the same sense the issue of pornography. That is more difficult for us because, as I understand it, and please correct me if I am wrong, certain elements of pornography are not against the law, and that is what I was relating to. Where the legislature decides that various elements of what is currently described as pornography are illegal, then clearly Telstra has a responsibility to uphold the law. I was making that distinction. I am sorry if I was not clear when I referred to that earlier.

Senator HARRADINE—No, you were perfectly clear, which concerns me. Are you saying Telstra as a corporate citizen is not really interested in whether the material that it hosts on its ISPs is—

Mr Scales—No, I am not saying that; in fact, quite the reverse. I am saying that, as a company, we are always concerned about those issues, and that is why I made the point earlier that we are providing an opportunity for people to be able to buy and/or to apply filters for the very reason that you have alluded to. But the question is: to what extent can Telstra go beyond what is, for better or for worse—this is not a personal view—the law? It is about what is the law.

Senator HARRADINE—Are you saying it would be against the law if Telstra had a system-wide filtering service on an opt-out basis?

Mr Scales—As I understand it, the parliament is currently considering this issue about whether it ought to apply system-wide filtering. That is what I understand to be part of the current debate. The legislature will make these sorts of decisions.

Senator HARRADINE—Are you saying that Telstra would be acting against the law if it had an ISP with a system-wide filtering process which enabled people to opt out of that particular system if they wanted to and get what they want?

Mr Scales—No, I am not saying that. That is a slightly different argument about whether things should be changed to opt in rather than opt out. I am sorry if I misled you. I had not

realised that was what you were asking us. Is your question about whether there should be an opt-out rather than an opt-in with regard to pornography?

Senator HARRADINE—No, my question was: would Telstra consider it to be against the law if BigPond, for example, had a Net-wide ISP filtering service which people could opt out of?

Mr Scales—I would have to check that to see whether it was. Certainly the very debate, which you are obviously at the forefront of, is about whether there should be broader filters on networks and whether they should be legislated for. That is what I was referring to earlier.

Senator HARRADINE—Minister, I am not sure whether I should raise this issue here or when the ABA is up for consideration, but I am interested to know what their view of the matter is. Should I ask about it now or tomorrow when DCITA comes in? DCITA is on tomorrow.

Senator Kemp—We do have the ABA on tomorrow and DCITA will be on with it, so these matters can be canvassed then.

Senator HARRADINE—Thank you.

Senator MACKAY—We could not deal with them now, Minister? It might save a bit of time.

Ms Williams—It is only that, if Senator Harradine wants details, we do not have here the particular person who could give them.

CHAIR—NetAlert is listed for tomorrow under DCITA, of course. That is probably more appropriate, Senator Harradine.

Senator HARRADINE—I think it is, yes. Thank you.

Senator LUNDY—Just to clarify some of those dates, Mr Stanhope—you obviously have a reasonable brief in front of you, which is helpful—when was the contract with George Patterson signed with Telstra and in what form did that commitment take place?

Mr Stanhope—The final agreement was signed with George Patterson Bates on 5 April this year, but a heads of agreement was signed on 12 May last year.

Senator LUNDY—Going to 12 May last year, what were the circumstances leading up to that? Media reports have it that George Patterson found out some few days before or a very short time before that they had lost the contract with Optus, and then the heads of agreement or this arrangement with Telstra was put in place. Do you have that information in relation to the Optus contract?

Mr Stanhope—No, I do not. I would be struggling to get the information, I think, of what the circumstances were at Optus. All I can tell you is that we became aware that they would be available. Quite frankly, the advertising done by Optus, the marketing done through this group, we saw as very good, and that this firm became available was attractive to us.

Senator LUNDY—You say ‘attractive to us’. Just going back to Monday, 12 May, what form did that heads of agreement letter come in? Was it a letter signed by Ziggy Switkowski? Was it a letter signed by Mr Scales? Was it a letter signed by you?

Mr Stanhope—No, it was signed by the then group managing director of the consumer and marketing group, Ted Pretty. But I point out that it was in the full knowledge of and with the authority of the CEO.

Senator LUNDY—That took place on Monday, 12 May?

Mr Stanhope—Yes, it did.

Senator LUNDY—In terms of the review process that you have now engaged in to inquire into it, one of the terms of reference was whether or not it met the tendering guidelines, if you like, and followed Telstra’s procedures. Can you answer that question now—whether or not that did?

Mr Stanhope—I cannot, but let me be a little more expansive. It was whether the appointment met our corporate sourcing, tendering or appointment rules, because not always do we go out to tender. In fact, in the case of the four other below-the-line advertisers we chose not to go out to tender for the renewal of those contracts, but we went through a process of negotiation.

Senator LUNDY—That is right. But with this heads of agreement letter signed on the 12th there was no negotiation, was there?

Mr Stanhope—The heads of agreement itself had some element of negotiation with Mr Pretty because there were some fairly macro terms and conditions. What happened, as I said, after that—in fact, two days later—was the group that works for me, the sourcing group, were engaged to go through the preparation of a final agreement. That group of course were very much engaged in the terms and conditions for the other four. Therefore, their alignment as close as possible across the five with respect to what we want out of advertising agents took place over the January-February-March period leading to that 5 April this year signing.

Senator LUNDY—But, in relation to that process you describe, I think you mentioned the date of 19 May, when in fact the other four were signed.

Mr Stanhope—Yes.

Senator LUNDY—So this heads of agreement was resolved and finalised prior to the other four, George Pattersons’ not having been involved in the process up to that point.

Mr Stanhope—That was really just a procedural thing as the product source document for the other four went through the endorsement process and got signed on 19 May. It just happened on 12 May that we found out the availability of George Patterson Bates.

Senator LUNDY—When you say ‘find out the availability’, that related to their becoming available, having lost the Optus contract?

Mr Stanhope—Yes. We did not consider them beforehand because we did not know they would be available. We knew they were engaged by Optus, but we did not know they would be available.

Senator LUNDY—How was that contact made with George Pattersons between Friday of May and Monday of May, and that document drafted?

Mr Stanhope—It is not clear yet as to who told us they would be available—whether it was the chairman, the CEO or Ted Pretty—and that is part of the review. But it is somewhat irrelevant because, as we found out, it was Ted Pretty who was in charge of the marketing area who went and had discussions with George Patterson Bates, which led to the signing of the heads of agreement.

Senator LUNDY—So at some point Bob Mansfield, Ziggy Switkowski or Ted Pretty was approached by or approached George Pattersons with a view of doing a deal or coming to an agreement with Telstra?

Mr Stanhope—Possibly. I can see no other way that we would have learnt about it.

Senator LUNDY—So the external review that you have commissioned now is investigating Bob Mansfield, Ted Pretty and Ziggy Switkowski's role in the George Pattersons contract?

Mr Stanhope—Yes, how we found out about it, and that proper exercise of delegations took place and so on. As I said, I do not want to proffer a view about it because I do not want to pre-empt the outcome.

Senator LUNDY—Sure. What are the implications of that external review, particularly if any of those parties are found to have stepped outside the appropriate tendering guidelines/rules/Telstra procedures or indeed plain old corporate ethics in this matter? What action is open to that external review? Does that come back to the board for consideration? Does it come back to Mr Scales? What happens?

Mr Stanhope—That review has been commissioned by the board. The board asked the chairman of our audit committee, Dr John Stocker, to conduct that or lead that review. So early June that review will be brought back through the chairman of the audit committee to the board. They will decide what they decide.

Mr Scales—Senator, I think it is appropriate just to say that there has been no suggestion of illegality in this process. What we are talking about here are internal Telstra processes. What the board quite rightly has done is to just look at internal Telstra processes, not suggest that any illegality has applied in this circumstance.

Senator LUNDY—I think the word I used was the 'ethics' of this matter, particularly in the context of a well-established and an ongoing process with respect to advertising agencies and what seems to be an event that has absolutely changed the nature of the market and the ongoing negotiations at that time between Telstra and those advertising agencies. So there is quite a bit at stake regarding Telstra's reputation as an ethical operator as far as their advertising goes.

Mr Scales—They are certainly matters that the board would be looking at, but I just wanted to again put in context that there is no suggestion of anything illegal being done here—nothing at all.

Senator LUNDY—Mr Scales or Mr Stanhope, are you were aware of any events that were going on inside the George Pattersons agency at the time which added some imperative to this deal having been done? I refer obviously to the media reports about the management buy-out that was going on at that time, and I put to you that this arrangement, this heads of agreement, between Telstra and George Pattersons made the difference to those arrangements at that point in time. Does your external review's investigations extend into what was happening internally in George Patts, particularly in relation to the MBO?

Mr Stanhope—We do not believe so, but the review is a comprehensive review. Telstra reached agreement with The Communications Group Holdings Pty Ltd, which are negotiating to acquire Cordiant, the holding company of George Patterson Bates. But for us it had nothing to do with all that. It had to do with here is an agency that is showing that they are very valuable, Optus are—I will say it—outmarketing us in the marketplace with their ordinary advertising and we saw they were a very valuable agency. Up until 12 May we did not know that they were likely to be available at all. So, as soon as we knew that, we moved quickly to add them to our bottom-of-the-line advertising agencies, because we saw the value in their product.

Senator LUNDY—Can you say with confidence that you do not believe that Telstra were unwittingly placed in a position where they effectively underwrote activities that were going on in George Patterson Bates at the time?

Mr Stanhope—I can say that. The decision was about them as an agency and their quality as an agency.

Senator LUNDY—If that is the case, can you explain why they were not moved into the process that had already begun with the other four agencies and why it was necessary to establish a heads of agreement letter on the 12th when in fact you were heading towards a process of wrapping up the rest of the package only days later, not months? Why the rush on the Monday? Why did it not wait until the next week, like for everyone else?

Mr Stanhope—The reason they were not part of the negotiations that the other four were part of is we did not know they were available.

Senator LUNDY—No, I appreciate that. But, once they were, why weren't they brought into those negotiations? Don't you think that would have perhaps improved Telstra's negotiating position with the agencies?

Mr Stanhope—I think it would have been grossly unfair on the other four, who had been through a lengthy negotiation period and had an expectation that their contracts were going to be signed, to delay.

Senator LUNDY—So you think it was fairer that a special deal was stitched up on the Monday when all of the other agencies were entering into their heads of agreement seven days later? Do you think that is fairer?

Mr Stanhope—We use these groups as a panel. It is not a roster system or anything. These four, now five, are part of a panel that gets selected on a needs basis, on a best fit for job

basis, on a best quote basis. That is how we use them. We have just added one to the panel, one who we thought was a very valuable advertising agency.

Mr Scales—Maybe I could elaborate on that a little. What we then do is we often ask them to bid on particular projects, and they will bid against each other for a particular project. They will bring along all of their various briefs, and then we will look at any one and say, ‘Yes, you’ve got the job. This is what it means to you,’ and off they go. So that is the point about the panel: it gives us the ability to do that.

Senator LUNDY—Can you tell me whether George Patterson Bates’s participation in this panel also involves a fixed payment per annum of some \$10 million to \$12 million?

Mr Stanhope—There is a fixed element to their contract, as there is a fixed element to the others as well, if they win the job.

Senator LUNDY—In terms of that fixed element, are you able to comment on how important this particular contract is to George Patterson Bates in terms of a proportion of their work?

Mr Stanhope—I do not know what proportion of their work is our work.

Senator LUNDY—Now that George Patterson Bates are on the panel with that fixed rate of some \$10 million to \$12 million per year—I do not know whether you can clarify the actual amount; I am working from news reports—how are they paid that rate and what work are they required to do within the terms of that relationship?

Mr Stanhope—It is a commercial-in-confidence amount of money for all five, not just for George Patterson Bates. Whether or not they get it depends on their providing the agreed number of fixed-term employees to the contract. So there are certain conditions that have to be met to be paid the amount of money that is in the contract.

Senator LUNDY—So they need to do some work? You need to send them some work?

Mr Stanhope—Sure.

Senator LUNDY—In terms of sending them some work, going back to the fact that they were a last-minute ring-in, if you like, to the panel, how are you able to generate \$10 million to \$12 million worth of work, given you just spent many months concluding a process with only four? How do you find enough work for a fifth coming in in that way when you have effectively done the review and established the heads of agreement for the other four?

Mr Stanhope—Each of the five can tender or bid for the work. Obviously, with five rather than four it spreads it a little thinner. But I have to say our promotion and advertising budget and spend is higher than last year’s.

Senator LUNDY—That was lucky.

Mr Stanhope—It is not related, but we are obviously advertising more on broadband, in the prepaid youth market and so on. It is a competitive reality that we have to do that.

Senator LUNDY—Mr Scales, this is your area, isn’t it? This is something that you get involved in: marketing?

Mr Scales—No, Senator. It is certainly a pure marketing set of issues. Working with advertising agencies is completely in the whole area of Consumer and Marketing.

Senator LUNDY—What was your involvement with the four agencies on the panel and the review process that had been ongoing for quite some time up to May last year?

Mr Scales—I had very little involvement in that particular review. That is the responsibility of the Consumer and Marketing business. We leave it to them.

Senator LUNDY—Would you have expected to have been consulted or brought into that process if those decisions were on their way up to the CEO?

Mr Scales—Not particularly. Not on this one. This is pretty well a straight decision about who should work with us with regard to our advertising businesses and so on.

Senator LUNDY—Except that it is not, because there was a comprehensive review. From my reading of some of the reports, it was comprehensive. Telstra were reviewing how they went about their marketing and advertising in this way, and it was culminating in quite a significant process to restructure that. Are you telling me you were not involved in that at all?

Mr Scales—No, that is a matter for the head of that particular business unit. We do not involve ourselves—

Senator LUNDY—I am sorry, Mr Scales, my understanding is that these agencies were doing work right across Telstra for all business units and had a role to play in many aspects of Telstra, and part of the challenge of the review was to put in place more cohesive arrangements for how Telstra accessed their advertising and marketing needs?

Mr Scales—It was an efficiency issue as much as anything else, I agree. That is why it was very much the responsibility of that particular business unit to do that. That is what they are paid to do. That is what we expect them to do. That is what they did.

Senator LUNDY—So that business unit was responsible for delivering the efficiencies to all of the organisation?

Mr Scales—Yes. That is the way it is done. The way we have allocated the roles across the company is not to have separate buyers of advertising, separate buyers of advertising capability. There is some at the margin, but most of it is centralised. The lead agency for that is our business called Telstra Consumer and Marketing, and that is their role.

Senator LUNDY—Mr Stanhope mentioned before obviously the chairman, Bob Mansfield. What is your knowledge of his previous or ongoing relationship with the George Patterson agency?

Mr Stanhope—I think it is well known in the public arena that Mr Mansfield is a friend of Alex Hamill, the former Chairman of George Patterson Bates, and Bob and Ziggy had previously worked with George Patterson Bates when they were in Optus. That is common knowledge. But has there been any undue influence here? From what I see—and remember there is a review going on—not at all.

Senator LUNDY—I understand also—again, this was reported in the paper—that former Chairman Mansfield, prior to taking on his Telstra role, had an office at George Pattersons and was located there.

Mr Stanhope—I am not aware of that. Are you?

Mr Scales—No, I am not aware of that.

Senator LUNDY—With obviously a friendship between Bob Mansfield, Ziggy Switkowski and Alex Hamill, it looks as though the ethical issue or the ethical concerns relate to whether or not this was just a quick call and a deal amongst mates.

Mr Stanhope—I guess the review will conclude about that, but I think there are two important elements. When they became available we considered they were valuable, and that is why the heads of agreement was signed. The second important element here is that then my corporate sourcing group became engaged two days later—so it was pretty quickly—in negotiating an agreement just along the lines or very similar lines to the other four. Whilst, as you have said to me, and it is true, they did not go through the negotiation prior to 12 May, they have gone through it since, and the terms and conditions are very similar.

Senator LUNDY—Isn't it unusual that your area was brought in after a document was actually signed, a legally binding arrangement was put in place? Has that ever happened before, Mr Stanhope?

Mr Stanhope—I would have to go back to see if that has actually ever happened before. But you should understand the commercial reality of our wanting to sign up what we believe is a valuable advertising agency, given its performance in the market and our competitor's performance as a result.

Senator LUNDY—Are you trying to tell me that, for arguably one of the biggest accounts that George Patterson owned, they could not wait that two days to allow you to scrutinise the arrangement before Telstra entered into a legally binding deal? Are you trying to tell me that is good business, that that is accountable management on Telstra's part? I am sorry, I find that a little incredulous.

Mr Stanhope—I am telling you that it was important to sign them up on the understanding it was just a heads of agreement, and the agreement, their contract, had to be negotiated.

Senator LUNDY—Just because of that you are implying there was a sense of urgency. Who else could George Patterson have signed up with on a contract of this magnitude within that space of time that made it so important for Ted Pretty to sign on Telstra's behalf?

Mr Stanhope—I do not know. We were not prepared to take that risk. Those resources could have left the company. Those resources could have gone on to other accounts. We did not want to take that risk.

Senator LUNDY—Can you tell me whether the outcome of the external review that the board has commissioned will be made public?

Mr Stanhope—They have not made that decision. Certainly, if you have an interest in that regard, I can pass that on to the board.

Senator LUNDY—Absolutely. I think there is a public interest in this matter. I would argue that the board would have an obligation to make the results of that review known.

Mr Stanhope—I will pass that on to the board.

Senator LUNDY—Also, can you tell me whether it is open to the board to take any action if they in fact find that there has been a breach of procedure or inappropriate behaviour or unethical behaviour? Is that open to the board, given that we are talking about the CEO and one of the senior managers?

Mr Stanhope—I believe the board can take any action they wish. I cannot pre-empt what the board might do, but they are the board and they have a fair bit of power.

Senator LUNDY—So they could? That is their prerogative?

Mr Stanhope—That is their prerogative.

Senator LUNDY—I have one other issue in this area. Given the interest surrounding what was happening at George Patterson at the time—and this contract has obviously been of substantial financial benefit to that particular agency—has Telstra expressed or is Telstra planning to express an interest in purchasing its own advertising agency?

Mr Stanhope—It is not a consideration, no.

Senator LUNDY—Are you aware of any such thoughts being expressed by the former chairman or anyone else on the board?

Mr Stanhope—No, that certainly has not come to my attention. As CFO of the company, it would before we were making that sort of decision.

Senator LUNDY—Was that issue considered as part of the general review on marketing and advertising?

Mr Stanhope—No.

Senator LUNDY—Do you rule it out 100 per cent?

Mr Stanhope—It certainly never came to my attention.

Senator LUNDY—We know how big an organisation it is.

Mr Stanhope—A supply contract like that does not get signed by the CEO without the endorsement of the CFO. Any proposal like that, even if it was talked about in the bowels of the organisation, would not be serious until it got to my desk and the CEO's desk.

Mr Stirzaker—I had a brief stint in marketing. In fact, I was heading up 2CNM's marketing around Christmas-time. It was never a part of any discussion ever. We have got enough other things to stay focused on.

Senator LUNDY—So what is the value of the arrangement with George Patterson and over what duration?

Mr Stanhope—I have mentioned it is a two-year contract. But I believe in terms of dollars it is confidential.

Senator LUNDY—We can work on the media reports that it is somewhere between \$10 million and \$12 million per annum.

Mr Stanhope—That is their assessment.

Senator LUNDY—Given the formal and final contracts were not signed until April of this year, I am presuming the terms and conditions were honoured for that intervening year or does the arrangement start from April this year?

Mr Stanhope—Any work that they have done prior to the signing of that contract they will obviously be paid for and have been paid for. As you have mentioned earlier, and as Mr Scales mentioned, we are trying to get some uniformity across our contracts, manage our advertising spend better, have a fixed remuneration element and have a performance based element. Mr Moffat, who is now the group managing director of 2CNM, is very much focused on having both that fixed and performance based arrangement with our advertising contractors. That is what we now have with George Patterson Bates. Only just three weeks ago SOM and Young and Rubicam have also agreed to that arrangement, and we will progress that with the rest.

Senator LUNDY—So what has happened over the last 12 months prior to those final arrangements being determined? Was it really just five companies on a panel and paying each company for whatever work they did?

Mr Stanhope—Yes.

Senator LUNDY—How did you define the totals for each of those companies? Are you able to provide that information? That is, how much did George Patterson earn between May last year and April this year?

Mr Stanhope—I think we would not be able to do that, given the conditions of the contract, the terms of the contract. They are five very competitive companies.

Senator LUNDY—Sure, but I think the circumstances are quite unique. So effectively they are working on a fee-for-service basis? So all five companies have been working on a fee-for-service basis for the last 12 months?

Mr Stanhope—Yes. What has not been there is the performance element.

Senator LUNDY—And that is what has just been negotiated?

Mr Stanhope—Yes.

Senator LUNDY—So it is a reasonable question for me to ask how much or what value did George Patterson receive over the last 12 months in terms of work they did for Telstra? Will it not be in their annual reports, in your annual reports and things like that?

Mr Stanhope—Can I take that on notice? No, it is not. Our promotion and advertising spend I certainly can give you. But, separated out into advertising agencies, certainly that is not disclosed.

Senator LUNDY—I will take the opportunity to put that question on notice, because I think it is important. Perhaps you could answer it as a percentage of your total spend of the five companies.

Mr Stanhope—Yes, that might be the way to do it. All right, I will have a look at it. That will most likely not be in breach of the conditions.

Senator LUNDY—In fact, a percentage breakdown would be helpful.

Mr Stanhope—I will take that on notice.

Senator LUNDY—Given all of the companies doing the work know what they are doing, can you also give a description of the sort of work that each of the companies was doing? I note that is actually available to some extent anyway because of the review and the reporting of that.

Mr Stanhope—I just do not have that detail with me but, yes, I could take that on notice and do that as well.

Mr Scales—Senator, while you are going through your next question, maybe I can reply to Senator Mackay's question to us with regard to the McPherson Media Group. There has been correspondence between ourselves and the McPherson Media Group. I actually now have a copy of the letter, which I think you have got a copy of as well. The letter I think that you were referring to was dated 25 March. We replied on 13 April. I will just quote a number of elements of it to you. I will not read the name of the person involved, but it says:

There are a number of reasons why we have reduced our advertising with the Shepparton News. The primary and overriding reason is so that Telstra can "test" the effectiveness of the newspaper as a marketing medium. As you would appreciate, Telstra is always seeking to pursue the marketing medium that will lead to the best possible commercial outcome for Telstra.

It then goes on and talks about, for example, radio and television: 'Shepparton presents us with a number of' alternative 'advertising outlets'. I added the word 'alternative' just to give you a sense of the elements in the letter. Then it goes on to say:

Telstra continues to use other McPherson publications for advertising in the region. In fact, although the Telstra advertising spend with Shepparton News has tapered off, the spend with other McPherson publications has increased slightly year to date.

Going to the heart of the point you raise, which is whether we have been penalising this company for any comments they might make, I will read out what we say in our letter. It says:

In terms of news coverage, I can assure you this was not the reason for our rethink on where to place our advertising dollar.

Then it goes on to say:

All we can hope for with commentary and reporting of news and events is the balanced view. As you have indicated in your letter, there have been more positive than negative Telstra stories, and Telstra acknowledges this. Telstra refers you back to our primary reasons for directing our advertising spend, that is, to make decisions that are in the best commercial interests of Telstra.

Then it goes on to talk about the Telstra Shops. It says:

Firstly the Telstra Shop is not a franchise, it is a licensed agreement to trade under the Telstra Brand. It is the business owned and operated by ...

And then it mentions the family, which I will not mention unless you wish me to. It goes on:

At no time did I request them to desist from advertising with you nor did I say “Telstra would be displeased”.

Then it goes on to say:

Not only would it be inappropriate, it is not my place to advise them where to advertise.

Importantly, I will read out the last paragraph, which goes to the point that I was making earlier, and that is the way in which we see our role in that area. It says:

... the McPherson Media Group along with yourself ... is an institution in our region and has been since I can remember. Both our organisations in the past have worked together on many community events, can I suggest we meet and clarify any misunderstandings we might have.

I will call to arrange an appointment.

There was a subsequent appointment and a meeting. The note that I have on that says:

Yes, I have had all of the subsequent follow-up meetings with—

I will not mention the person’s name—

on 6 May 2004. It was a cordial meeting covering many topics. The meeting went for about an hour. We did not discuss the letter until the very last.

Then it went on to say that I mentioned the letter, and the other person’s reply was: ‘We did not need to discuss it, it was covered adequately in my letter responding to his.’ That is what we can tell you so far.

Senator MACKAY—That still does leave some questions that I think it may be worth pursuing and responding to us on.

Mr Scales—We will look at it, though, to make sure. I accept that point.

Senator MACKAY—As to the assertion that it is balanced—first, Telstra states that it reserves the right, which is correct I suppose, to test other media. Secondly, it seems to give them a bit of a tick for being more positive than negative. The issue that we are interested in was: why did they have that impression? This is quite a sensitive issue, because it does deal with money. I do understand that. But I would appreciate a further explanation as to exactly what happened and whether—I think you already agreed to do this—it has happened anywhere else as well.

Mr Scales—We will look at it. I can understand the point that you are making. By the way, the word ‘balance’ here was not meant to be in our favour. That is not the way we think of ‘balance’.

Senator MACKAY—No, but it transpires that once the person actually went through the archives it was in Telstra’s favour. One wonders if it had not been what Telstra would have said, or the person from Telstra would have said.

Mr Scales—It would not have made any difference.

Senator MACKAY—Why not?

Mr Scales—For the reasons I mentioned earlier, we advertise in Fairfax all of the time—every day.

Senator MACKAY—Yes, I know.

Mr Scales—I think it would be stretching it to be suggesting that the majority of the Fairfax commentary about Telstra is in Telstra's favour. I think it generally is appropriately—

Senator MACKAY—I understand. We have got an economies of scale issue here. You were not even aware of this until I raised it with you, for example.

Mr Scales—Sure.

Senator MACKAY—I have heard similar stories and so have many of my colleagues. It is not confined to this one. I am suggesting that you investigate the whole issue.

Mr Scales—We will do that. Getting back to your point about our not knowing about it, this was 13 April and it is now the middle of May. This matter was handled simply on the facts which we have available. I accept your point that we should look at it even further. The facts available are: we received the letter. It complained about the way we reacted. We responded fairly quickly afterwards. We addressed the series of issues which was put in the original letter. We gave what, on the face of it at least, seem like cogent reasons why that happened. We then followed up with another meeting with the individual, not prompted by this Senate estimates review. On the face of it, it looks as though our people acted completely appropriately and tried to address any misunderstandings, and we then move on with our commercial partners. However, having said that, we will look at it.

Senator MACKAY—I think they acted expeditiously. I would ask you to investigate the issue in the broad, and then we can probably have another discussion about it.

Mr Pinel—If I can just add one element to it, and that is that, whilst there is a significant amount of local decision making within the Telstra Country Wide offices, this particular sphere is well managed and monitored centrally by the Telstra Country Wide marketing group. They provide also oversight and direction of the spend of advertising in that local media. So there are controls there that give me confidence that things are quite appropriate.

Senator MACKAY—But do they then report to you about these sorts of incidents?

Mr Pinel—The marketing group is a separate department within Telstra Country Wide. As I say, they direct that and they deal with the district managers on this subject.

Senator MACKAY—This is a difficulty. As I understand it, we are talking about a very big company here. We asked whether you are aware of this. I do not expect people at the table to be fully apprised of the minutia of the company. But if we receive a 'No, we are not aware' we assume that, no, there is nothing; that is all.

Mr Scales—But again, just to put that into context, in most large companies what you are trying to do is to focus, particularly at senior levels, on the things that really require your immediate attention. Again, on the face of it, it looks as though the manager involved in this handled this appropriately. That is what they are paid to do. They may raise it in a meeting,

but we would not necessarily expect them to. We would expect them to raise it if it was not resolved—we absolutely expect them to do that—and there is a culture inside the company that does raise these things when they are not resolved. Otherwise we cannot provide people with the authority to be able to resolve these things as close to the customer as possible, which is very much what we are trying to develop inside the company.

Senator MACKAY—I understand that. However, *prima facie* I am not sure that the assertion has been dealt with. It may have been dealt with appropriately in the meeting. I do understand that. But there may be more to it. We are talking about sensitive issues. We are talking about advertising; we are talking about dollars. I accept what you have provided to date and, hopefully, you will get back to us at some point with the further investigation.

Senator LUNDY—I will go back over a couple of points. When the heads of agreement arrangement was made with George Patterson was there a fixed price for that first year's work as part of that?

Mr Stanhope—Yes, there would have been.

Senator LUNDY—So the CEO, the chairman and Mr Pretty were involved in signing the heads of agreement that committed Australia to a fixed—

Mr Stanhope—No, Mr Pretty signed the agreement with the authority of the CEO. The chairman was not involved. It was within the CEO's delegation.

Senator LUNDY—It was within the CEO's delegation. Thank you. He signed the agreement on behalf of Telstra without that having gone to the finance area of the corporation; is that correct?

Mr Stanhope—Yes, that is correct. Two days later, the sourcing group was called in to go forward and negotiate the final agreement. The heads of agreement was signed on the basis that they understood that that had to occur.

Senator LUNDY—That is right. Given there was a fixed price within that, that changes somewhat this concept of fee for service over the next 12 months in that presumably that fixed price had to be achieved or had to be met over that 12-month period. Can you confirm that that is the situation? Can you tell me what extra effort Telstra, or the business units in Telstra, had to go to in order to find enough work for George Patterson over that 12-month period in order to get their money's worth?

Mr Stanhope—There was no difficulty finding the work we needed George Patterson Bates to do. Part of the reason for their selection was to raise the game in terms of our advertising.

Senator LUNDY—Did that work come at the expense of the other four who had in good faith engaged in a long-term process of negotiation with Telstra?

Mr Stanhope—I think that will come out of that question on notice which you have asked me about—the percentages. I have already said to you that the promotion and advertising spend has increased. Whether that is actually the case, I cannot answer. We will see when I give you that information on notice.

Senator LUNDY—So to fix this embarrassing situation you made your pie bigger? Would you have been subject to action by the other four agencies?

Mr Stanhope—That has not been the driver at all. The driver has been \$29.95 broadband. The driver has been the youth prepaid market. It has been a commercial decision to spend what we have spent on price and advertising.

Senator LUNDY—What is your view, Mr Stanhope, given that you are responsible for the finances of the CEO and you are the head of the section, of committing Telstra to such a vast expenditure without it being scrutinised by your area? Does that happen often?

Mr Stanhope—No, but I do understand the requirement to sign this quickly. Whilst I was not the CFO at the time of the signing, I can understand the reasons for it. Two days later my group was engaged in doing an appropriate contractual arrangement.

Senator LUNDY—After the fact?

Mr Stanhope—This is a matter of commercial reality in signing up a valuable advertising agent.

Senator LUNDY—In terms of these advertising and marketing contracts, I understand they are now being managed by Mr Moffatt; is that correct?

Mr Stanhope—That is correct.

Senator LUNDY—You spoke before about the new arrangement as being both fixed price and bonus arrangements. What is the performance that is linked to a bonus in terms of advertising contracts?

Mr Stanhope—I went through them before and I will do so again. There are some key KPIs that are being put in place for these, so far three and two to follow, and they have all been agreed in principle. There is a 30 per cent weighting to agency performance and relationship management. How is that measured? It is measured by the results of the 360-degree review conducted by an independent body and it is measured by collaboration with other agencies, or how well they work together. Ten per cent is on Telstra brand health. That is measured by a power brand index. We measure whether that has improved or not. Incremental revenue growth—that is always hard to measure attached to campaigns, but we measure it as best we can. That is why that weight in fact is only 10 per cent. Sixty per cent is on business and advertising performance—for example, in segment specific market share, net acquisitions of customers, retention of customers, the contact rate of customers to us, the strike rate, the cost per acquisition of customers, and relevant market track research metrics around buyer preference, the likelihood to buy, and consideration of Telstra as their supplier. They are quite specific.

Senator LUNDY—Can I just ask what might be a naive question: why would you load such a high percentage of performance on your advertising agency when the advertising agencies are not the ones that are required to maintain the system and in large part are not responsible for the service quality or communications experience that Telstra customers have? What if you reduced your investment, for example, in those areas? Would that deliver you a saving in your advertising contracts?

Mr Stanhope—Obviously, yes. But this is about us trying to grow the company. Advertising is an important element of your marketing mix.

Senator LUNDY—But it just strikes me that you are asking your advertisers, your contractors, to deliver on outcomes that they have no control over.

Mr Stanhope—It is about quality. How well they do their job will result in a movement in these metrics.

Senator LUNDY—This is a little bit off-track.

Mr Stanhope—Let us remember it is 10 per cent.

Senator LUNDY—I am just curious because of the experience I have had with Telstra, obviously, about the resource allocations to network service and maintenance, the presence of pair gains and all of those things that, in my experience, are what drive your customers absolutely mad with frustration. Your advertisers are not going to be able to fix that with a glib campaign. In fact, the better the campaign the more angry these people get. Do they know that?

Mr Stanhope—Advertising is one element of the marketing mix, and customer satisfaction. They have got to understand what the product is we are selling. Certainly, customer service is important and also part of whether customers leave us or stay with us. It is all part of running the business, I guess.

Senator LUNDY—Going to the issue of procurement a little more generally, I received the answers to questions on notice about the way in which Telstra is managing its IT outsourcing and the question of whether jobs were going offshore. In the answers Telstra provided it was unable to give a guarantee that no staff visiting from India will work in Australia as part of their contractual IT outsourcing arrangements. How many are there visiting Australia and working on behalf of Telstra through those contractors? Indeed, how many specific jobs for those contractors servicing Telstra are actually offshore at the moment?

Mr Scales—The number is very small. I do not have the actual number here. It is a very small number. As we have discussed in the past, some of this offshore work is done in India. There are people from Satyam and Infosys who do come from Australia from time to time to work with us to understand what our needs are. But it is a very small number and it varies from time to time. It could be anything up to 20 at any one time. Then they generally go back to India and do whatever work needs to be done there.

Senator LUNDY—What, if anything, has changed in terms of Telstra's attitude and approach to the issue of offshore outsourced IT work?

Mr Scales—Since we last spoke?

Senator LUNDY—Yes.

Mr Scales—Nothing has changed.

Senator LUNDY—Nothing has changed at all?

Mr Scales—No. Our approach is the same. We have not entered into any other arrangements. The arrangements, which have now been well documented at a number of Senate estimates, are still in place. Nothing has changed other than that.

Senator LUNDY—Can I ask whether, given the premise that offshoring somehow delivers savings, in fact Telstra can point to any specific cost savings as a result of offshoring that work specifically?

Mr Scales—Mr Stanhope may be able to give you the details but, yes, it has delivered some benefits to us. Our estimates are certainly in the hundreds of millions of dollars.

Senator LUNDY—Is that because 20 jobs have moved from Australia to somewhere else or because the contract has been restructured?

Mr Stanhope—That is because of the changing of the providers, who are offering their services cheaper. Some of those services are provided onshore—some they do through their offshore locations.

Senator LUNDY—But you could not point to the offshoring that is occurring as being the reason you are saving hundreds of millions of dollars? That does not make sense.

Mr Stanhope—When we say a couple of hundred million dollars, that is in applications development. I am trying to remember the period. That is about over five years. In the context of the amount of work that is going offshore, a couple of hundred million over five years is not huge. It is about \$40 million a year.

Senator LUNDY—Given the risk and the politics of the concept of offshoring and the fact that we have many unemployed IT professionals in Australia who find it difficult to seek work, is it worth it for Telstra to allow that to happen? Is it not possible for Telstra to say, ‘We want to gain all these efficiencies, but we would like these workers, these IT professionals, to be based here in Australia’? Is it not within your capacity as a company to make that a condition of these contracts?

Mr Scales—Again, going back to the motivation here—our motivation is to deal with the very best IT companies in the world. These particular Indian companies are two of the best in the world. It is in both our interests and, we would argue, in our customers’ interests to deal with the very best. They just happen to be companies also operating out of India. Is it in our interests to do so? Yes, it is. We do believe it is. But Telstra still employs a huge number of IT people inside the country. You would have seen our recent acquisition of Kaz.

Senator LUNDY—I am coming to that.

Mr Scales—That is fine. But you would see that that shows our commitment to IT. We are now effectively No. 6 in Australia in IT capability, which does show, I think, that we are committed to providing high-quality IT jobs in the country. But we do need and will continue to work with the best, of which Satyam and Infosys are two very good companies in their particular area.

Senator LUNDY—I will persist with this for a little while longer. Given the magnitude of this contract with these particular companies—and I am sure given that Telstra is one of the

largest acquirers of these types of services in Australia—surely you would have the capacity to extend keeping jobs onshore as a precondition of that contract if you so chose? So you could, I guess, make that part of your requirements, part of your specification? Why has Telstra chosen not to do that? Are you making a political point?

Mr Scales—No, we are not making a political point. We are in a life and death struggle with large companies around the world. It is on the record that Singtel Optus also obtains IT services elsewhere than from Australia. All of the companies that we compete with are in exactly the same situation. Telstra, if it is to compete and to provide any jobs to people, has to be able to compete equally with those other companies. That is what we are doing in this case. We are simply responding to the highly competitive marketplace in which we operate. In addition to that, as I mentioned earlier, we are committed to the IT sector in this country. We not only employ a large number of IT people ourselves; we are extending our IT footprint. We are committed to doing both. The first thing is making sure that we can compete and, secondly, making sure that we operate in Australia.

Senator LUNDY—How is it then that Telstra have effectively engaged Infosys and Satyam on their terms and allowed those jobs to go offshore and, as you say, at the same time purchased the company which will position you, that is, Kaz computing, to be the sixth largest integrated IT services provider in the Australian market? In my mind there is an inconsistency there in the way Telstra have approached this. On the one hand, it is about extracting the last minute efficiency through Infosys and offshoring, so you claim, but on the other hand you are willing to pay \$330 million to occupy, as you say, more space in the IT services area. How do those two issues reconcile in a business and public interest sense?

Mr Scales—They are really two different sectors of the IT market. Satyam and Infosys and, to some extent, the work that is done by IBMGSA—they tend to be more in the applications development and software maintenance area. The Kaz application, as you quite rightly described, is really desktop applications, which is quite a different area. It does not mean that you cannot do both, because IBM GSA does do an element of both. But they are quite different in application. We do not see that there is any inconsistency between doing both.

Senator LUNDY—Is the motivation for the acquisition of Kaz that they take over those aspects of your IT services currently provided by your existing contractors like IBM GSA?

Mr Scales—No, we do not necessarily see that, because they are operating in quite different markets.

Senator LUNDY—But who provides Telstra's desktop at the moment?

Mr Scales—We do a lot of that internally. We do a lot of that ourselves. Our intention with Kaz is to keep it as quite a separate operation to work within the business community to provide desktop applications in that area. That is in a different segment of business. The software development and maintenance tends to be across-the-board primarily as a focused IT application that stretches right across both our consumer and business applications—all of our applications, not only our voice applications but also our data. So they are quite different sectors of the IT industry.

CHAIR—Senator Lundy, do you want to continue or should we take a break?

Senator LUNDY—I have still got a fair bit to go, so we might as well take a break.

Proceedings suspended from 4.02 p.m. to 4.19 p.m.

Senator LUNDY—Can you just describe at what stage that process is up to?

Mr Stanhope—The transaction is going through the courts. We think it will be finalised in early June in the court and the Kaz shareholders' approval has been obtained. So in early June it should be completed.

Senator LUNDY—Can you confirm that you, as the new owner of Kaz Computing, will not permit jobs currently in that company to go offshore?

Mr Stanhope—That is not our intention. We intend to operate Kaz as it is today on a stand-alone basis. We are more likely to put things into Kaz rather than do anything else.

Senator LUNDY—Rather than take anything out of it?

Mr Stanhope—Yes.

Senator LUNDY—Going back to Telstra's motivation for acquiring Kaz, Mr Scales talked about expanding Telstra's footprint in the IT area and so forth. Can you elaborate on what the business case is for the acquisition?

Mr Stanhope—We are in managed services. You have seen the journey that we have been on with managed services, with Advantra and all those sorts of things. Then we took all of that in-house. But we are in the managed services business—there is no doubt about that. Our strategic motivation for the purchase of Kaz was that they have a customer base that loosely you can call tier 2—tier 1 being very large customers—which is of interest to us to expand our managed services business. The other strategic reason of course is that many companies today enter into a business to sell these sorts of services—business process outsourcing, systems integration and so on—in order to obtain their carriage business. So our other strategic motivation is to retain, or even win back, carriage business, because we are largely in that business.

With respect to the financial elements of the investment, it meets our investment criteria. We have operational control of it—100 per cent of the business. It is cash flow positive in year 1, with its earnings per share accretive in year 2. We have been in the market saying that they are the sorts of conditions that we require to be met before we will make these sorts of investments.

Senator LUNDY—Just going to that issue of carriage services that you provide, how will the relationship with Telstra telecommunications services—that is, presumably retail—be managed in relation to Kaz? Will Kaz go to tender for their telecommunications partners or will Telstra automatically be a part of what Kaz has to offer?

Mr Stanhope—We would expect Kaz, given that we own it 100 per cent, to go to market with us as the preferred carriage provider. That is part of our strategic logic for the acquisition, as well as growing our managed services business.

Senator LUNDY—How much of that corporate market, particularly the government market, do you think that you can get back through this acquisition?

Mr Stanhope—We have not yet been so specific as to target a particular percentage. We do not own the company yet. When we do, we will sit down and set those directions for Kaz management. But we have not at this point.

Senator LUNDY—Again, I asked questions about this matter last time, when the lowering of the ADSL price and the subsequent issuing of a competition notice by the ACCC had just occurred. I would like to go back to the timing of Telstra's decision to lower the price of ADSL and ask: who at the executive level knew about the planned price drop for ADSL services?

Mr Scales—That was a decision that was made by a number of people inside the company. Certainly, Bruce Akhurst, who looks after, very broadly, our BigPond area—a number of people inside BigPond. There were discussions with the CEO, with people in wholesale, and with people in—

Senator LUNDY—Sorry, discussions with?

Mr Scales—Wholesale.

Senator LUNDY—Who in wholesale?

Mr Scales—In a very general sense—

Senator LUNDY—What position?

Mr Scales—At a very senior level.

Senator LUNDY—The most senior level?

Mr Scales—Yes, the managing director level. There was discussion across the company, particularly in Consumer and Marketing. There was extensive discussion across the company about the issue.

Senator LUNDY—Obviously, everyone was in agreement to proceed?

Mr Scales—Yes, we were in agreement to proceed.

Senator LUNDY—When did you become aware of the decision, Mr Scales?

Mr Scales—I became aware of it over the weekend. The decision was made effectively on the Sunday. The decision was debated and discussed on the Thursday and the Friday. My regulatory team were very heavily involved looking at what would be likely to be the regulatory risks, and then the decision was made to publicise the issue on the Monday.

Senator LUNDY—Were you only brought into it in your role in Regulatory on the Thursday and Friday, or were you aware of it prior to that?

Mr Scales—No, I was only brought into it around that time.

Senator LUNDY—Is that normal?

Mr Scales—This was a situation where we were wanting to meet the market. I think we said last time that we had heard that one of our major competitors was going to enter the

market with a very attractive proposition. We wanted to meet them in the market. This was slightly unusual. Normally we have a little longer to be able to look at and review these situations. It is not unusual, but it was not necessarily completely normal.

Senator LUNDY—Whose responsibility within Telstra is it to advise the ACCC in the lead-up to a change?

Mr Scales—It is my team's responsibility to advise them.

Senator LUNDY—So when did you advise them?

Mr Scales—On the Sunday.

Senator LUNDY—Why did you not advise them on the Thursday and Friday?

Mr Scales—We did not know whether we would be proceeding on Thursday or Friday.

Senator LUNDY—So it was still being discussed?

Mr Scales—It was still being discussed. As soon as the decision was made that we were intending to proceed we contacted the ACCC.

Senator LUNDY—In terms of that discussion on Thursday-Friday, you obviously had an input into that. Did you have an input into the final decision on the Sunday whether or not to proceed?

Mr Scales—Yes, I did.

Senator LUNDY—You did?

Mr Scales—Yes, I did.

Senator LUNDY—Can you tell the committee what the normal lead time is for Telstra advising the ACCC of substantial changes of this nature?

Mr Scales—There is no specific lead time to advise the ACCC.

Senator LUNDY—Or custom and practice?

Mr Scales—Normally around a week. There are some things where we might even discuss them a bit earlier than that. One of the issues which we were discussing this morning around price changes, I think, was a little earlier than that. But we try and give the ACCC as much notice as we possibly can. We are operating in a fairly dynamic market, particularly with broadband. This was not, as I said earlier, exactly normal circumstances.

Senator LUNDY—Can you tell me how long this had been discussed at the senior level of the company prior to it coming to your attention in Regulatory?

Mr Scales—It was literally days. The Thursday-Friday through the weekend was the period over which these decisions were made.

Senator LUNDY—When the ACCC was advised on the Sunday, what information was provided to them at that point?

Mr Scales—We advised them that we were intending to introduce this particular offer. We generally advised them that we had done the normal calculations around what is described as imputation tests.

Senator LUNDY—Sorry, what are they?

Mr Scales—Imputation tests.

Senator LUNDY—What does that mean?

Mr Scales—An imputation test is a test to determine whether in fact we are conforming to competition law. My team normally have responsibility for advising on that. We advised the ACCC that, in our view, we were conforming to the law. That was the generality of the advice.

Senator LUNDY—So when you contacted the ACCC you already had that imputation test work prepared?

Mr Scales—Yes.

Senator LUNDY—How had you prepared that given you only made the decision on Sunday?

Mr Scales—We had been preparing it on the Thursday and Friday beforehand. Our people had been working over the weekend to do it.

Senator LUNDY—In the event that the decision was made to go ahead?

Mr Scales—It was just a normal process, yes. You have a desire to do something, but whether you do it or not will very often depend on whether it stacks up. This is one of the issues that had to be addressed and looked at to determine whether it really stacked up.

Senator LUNDY—Given the ACCC effectively had one day to make an assessment based on that advice, are you aware that the ACCC actually had time to do that, particularly in hindsight given the fact that they issued a competition notice?

Mr Scales—We have discussed this with the commission almost from the very day that we made that announcement. We knew that this was short notice—

Senator LUNDY—Were you trying it on with the commission?

Mr Scales—I beg your pardon?

Senator LUNDY—Was Telstra trying it on with the commission?

Mr Scales—No, not at all.

Senator LUNDY—Putting them in a difficult position?

Mr Scales—No, not at all. It is not in our interests to do that.

Senator LUNDY—You got away with it?

Mr Scales—I am sorry?

Senator LUNDY—You got away with it?

Mr Scales—No, it is not in our interests to do that. We have to maintain a constructive and professional relationship with the commission. It is not in our interests to try and get away with anything, as you describe it, with the commission. No, we knew that we were operating in a highly competitive market. We knew we had to respond quickly and that is what we did. We knew we were taking a risk; we believed the risk was worth taking. We believed that consumers would benefit, as they have. Subsequent to that, we have been sitting down with the commission and trying to work out with them how we can achieve two things at the same time: firstly, operate in a highly competitive market and respond to the market; and, secondly, respond in a way which gives the commission appropriate time without it putting so many impediments upon us that we do not act as a highly competitive operator in a very competitive market. They are not easy issues for either us or the commission to address, and we have been in discussion with them for some time around how we could establish some protocols.

Senator LUNDY—When Telstra made the announcement, between that point and the issuing of the competition notice in relation to this price change, what proportion of market share did Telstra gain as a result of lowering their price in the way they did?

Mr Scales—In fact, there has been a greater gain by our wholesale customers than ourselves. So there is no doubt that two things have happened. First, the overall market has expanded, so all of the ISPs are gaining. But in addition, I think it is true to say the very competitive nature of the ISP market means that we have not gained as much of that increase as we would have liked. If the implication of your question is that somehow we were able to obtain first mover advantage and then gain a bigger percentage of the market than we otherwise would have done, that has not happened. There is no doubt that we have got extra customers, but we have not extended our particular percentage of the market.

Senator LUNDY—But given the competition notice related to Telstra's conduct in relation to its wholesale customers—the very people you say are benefiting from this—how do you reconcile that statement?

Mr Scales—I think it is appropriate to say that we have never believed that we have done anything wrong. We have made that quite clear. We have not been as vocal in the market as other people might have been, nor necessarily has the commission been. But we are still of the view that we have done nothing wrong. The fact that the competition notice was applied to us is not an indication of any wrongdoing. That will have to be tested at the appropriate time and in the appropriate way. We believe we have got a very good case to say that we have done nothing wrong. I think from our point of view there is no discontinuity between what we did in the marketplace and what we believe is completely appropriate, nor do we believe that we have undermined in any way the activity of our wholesale customers.

Senator LUNDY—I will let you argue that out in the appropriate forum.

Mr Scales—We will.

Senator LUNDY—I expected you to take the opportunity here. I will be interested to see what the ACCC has to say during the course of the estimates process.

Mr Scales—That is certainly true, although they may not be as familiar as we are with the number of wholesale customers that have now been signed up. We have now—I think at last estimate—almost 68 per cent of our wholesale customers now signed, either officially signed or intending to sign. It is true, if I can anticipate a follow-up question, that we have been negotiating with a number of those wholesale customers to meet their particular needs. What we have done, and again this is on the public record—at the request of the ACCC and at the request of the wholesale customers—is to provide a great diversity of pricing schedules that enable our wholesale customers to meet their own particular requirements. That is, from our perspective, moving along reasonably well, as we expected that it would. As you say, in due course we may have to defend this in the courts. If that comes, we will.

Senator LUNDY—When you originally lowered the prices, that was in direct response to Optus, wasn't it?

Mr Scales—The intelligence which we were getting at the time was that Singtel Optus was intending to put a very competitive product into the market. We wanted to make sure that we could at least match that product. We were also conscious of the fact that there had been comments and criticisms of us of not stimulating the market. It seemed to us that this gave us the ability to do both things—stimulate the market and meet the competition head on.

Senator LUNDY—Can you remind me of the timing of when you responded to Optus's business plan? Telstra started talking about it, at least from Regulatory's point of view, on the Thursday and Friday?

Mr Scales—Yes.

Senator LUNDY—When did Optus announce their new product?

Mr Scales—I am not sure about that. No, I do not know the answer to that. Don might know.

Mr Pinel—Timing is everything.

Mr Scales—That is right; it is. Do you know when Optus actually announced their package in response to our—

Mr Pinel—No, I do not have that detail, I am sorry.

Mr Scales—We can find that out for you.

Senator LUNDY—I am just interested in the timeline and the degree—and this has been raised before at Senate estimates—to which Telstra is privy through your wholesale division to the plans and strategies of your competitors, given they are effectively customers of yours at a wholesale level, and to what degree Telstra is able to tap into information. Optus, and I think Primus, certainly raised this issue at Senate inquiry hearings, as I know you are aware, Mr Scales.

Mr Scales—Yes.

Senator LUNDY—The general allegation is that Telstra misused information they were able to harvest from those wholesale relationships to inform your retail strategies, hence the timing and this ability to develop a regulatory response to changing the price within two days.

You gave the ACCC one day's notice. You can appreciate the overall picture looks like highly anticompetitive behaviour?

Mr Scales—Again, just on that last point, I do have to reiterate that we do not believe we have done anything anticompetitive. But let me address your quite specific point about our relationship with the wholesale customers. We have gone out of our way to try and have a very clear delineation between our retail and our wholesale businesses. It is not in our interests to do that with our wholesale customers. The ACCC is very concerned about any suggestions that we share any information between each other—quite rightly so. That is the nature of some of these regulatory accounts that we have spoken about on other occasions, and why it is that they are looking for any evidence of any misbehaviour in this regard. That is not the way we act.

Quite rightly so. That is the nature of some of these regulatory accounts that we have spoken about on other occasions, and why it is that they are looking for any evidence of any misbehaviour in this regard. That is not the way we act.

Senator LUNDY—Can you tell me when Bruce Akhurst, as head of wholesale and retail, became aware of Optus's new pricing proposals?

Mr Scales—I understand it was some time during that week. I cannot tell you whether it was exactly the same time that I have just suggested to you that I came to know about it, but it was some time during that week. I know that the first time that this was raised was around the Thursday or the Friday. Bruce might have known about it a few days earlier than that, but I do not think he did. I think it was very much one of those issues where we said that this has come to our attention through various sorts of intelligence sources.

Senator LUNDY—So you prepared a new product over a period of three days. I am presuming here that the Optus product was launched early in the week, on Monday or Sunday or something. You had it in Regulatory by Thursday. So between Monday and Thursday Telstra created a new product?

Mr Scales—It was a similar product with a different pricing structure. The pricing structure was significantly different. I think it would be a bit much to talk about it as being a completely new product. It was not that. But it is true that we did have to think about how we would implement pricing structures, how we would market those. That is certainly true. It is true that we did that pretty well over a weekend. We do realise that the ISP market is highly competitive and that if we are going to be successful in that market we do have to respond quickly.

Senator LUNDY—So you are actually telling me that you did respond effectively within three days with the new product?

Mr Scales—I am telling you that.

Senator LUNDY—And the marketing campaign that came with that?

Mr Scales—That was all being developed around the same time.

Senator LUNDY—What do you mean by 'around the same time'?

Mr Scales—At the same time there was the decision that we ought to begin the process of looking at what a marketing campaign should look like. That should not be an indication to say that we had planned to proceed at that point, but if you were planning to proceed quickly then you had to do things in parallel, not sequentially. I think it is also fair to say from our general strategic perspective that we know that if we are to operate in that ISP space it is not appropriate for us to operate in the same way we might be operating with the standard telephony market. It is a different market.

Senator LUNDY—When did Bruce Akhurst become aware of Optus's plans?

Mr Scales—As I said, I cannot—

Senator LUNDY—Can you take that on notice?

Mr Scales—Yes, I can. With a fair degree of certainty I can tell you that it was in that week, in the week prior to us making that decision.

Senator LUNDY—So after the Optus campaign had been launched or prior?

Mr Scales—No, it was before the Optus campaign. The whole reason we were doing it was to try and put our campaign in place before the Singtel Optus campaign was put in place.

Senator LUNDY—When that campaign was launched, obviously there was media speculation about—I remember at the time—plans that were taking place. But the issue really is to what degree were Telstra informed by intelligence gathered from within Wholesale in those plans pre-empting the Optus launch?

Mr Scales—The intelligence, as I understand it, came not from Wholesale but from the retail market.

Senator LUNDY—So who brought the proposal forward to the executive group?

Mr Scales—Justin.

Senator LUNDY—Justin Milne.

Mr Scales—Justin Milne brought that forward.

Senator LUNDY—From BigPond?

Mr Scales—Yes, that is correct. So that was the direction. Justin received the intelligence that this was going to happen. He discussed it with Bruce. Then it was discussed amongst the leadership team. Then a decision was made that we should at least begin to plan for it, doing the planning and then the application.

Senator LUNDY—Can you tell me the date or take on notice the date that that proposal was brought to the executive group by Justin Milne?

Mr Scales—I cannot tell you here now, but I know that it was very close to the sorts of dates that I have been talking to you about, or the days. The application was on the Monday. It was in the week prior to that.

Senator LUNDY—At what point did Telstra know what Optus's intentions were? It would have been prior to that submission to the executive group, would it not?

Mr Scales—We got some general intelligence that they were moving in a particular direction. We did not know the exact details of their plan until it actually came out.

Senator LUNDY—But you had a marketing campaign and a new product ready to roll?

Mr Scales—I am sorry, we developed it during the period in which we decided we should be doing something about it.

Senator LUNDY—Finally on this issue, you mentioned before your resellers, your wholesale customers. It has been reported in the media on more than one occasion that they are making agreements with you that they perceive as unsustainable. I think there was an ISP that made those comments. Are you actually doing deals now with respect to the wholesale price that are unsustainable? Is that a fair comment?

Mr Scales—I must say we are not getting the view from our wholesale customers that the prices are unsustainable. We have a range of opportunities. One of them of course is a fixed margin product that has been reported, which gives our wholesale customers a fixed margin and maintains a fixed margin against Telstra's product.

Senator LUNDY—They do not have any choice, though, other than to deal with you on that, do they?

Mr Scales—No, they have choice.

Senator LUNDY—Do they? Who else can they purchase wholesale from?

Mr Scales—Sorry, Senator. They have choice as to whether they accept that particular product or a range of other products. The range of other products is structured—

Senator LUNDY—But on that particular product it is a take it or leave it approach, is it not, as far as Telstra is concerned?

Mr Scales—It is take it or leave it in terms of that particular product, but when you say 'take it or leave it' they can also take a range of other pricing structures that might more appropriately suit them. That is almost like a defined margin product. There are other growth products that they may decide that they want to work with. In addition to that, we are sitting down with various ISPs and saying, 'What might suit you?' There is a set of very robust debates going on around the issue.

Senator LUNDY—As you know, Mr Scales, I have made representations on this issue before. It seems to me that what Telstra have been able to do is effectively fix a price on these services for their wholesale customers. They either take it or they leave it. If they do not take it, they do not participate in that aspect of the market.

Mr Scales—No, that is not the way we deal with them. Let me try to address the point about what I might call a fixed margin series of products. In our discussions with the ACCC, for example, in the aftermath of our releasing that particular set of products, the ACCC wanted us to give a degree of certainty to some groups within the ISP sector. That is one of the reasons why we came up with what is for all intents and purposes a fixed rate schedule. The ACCC felt that for some ISPs that would be exactly what they would want. They would understand that as long as they were efficient they could always compete against Telstra; they

would always be out there. At the same time, the commission also said that was not adequate in itself and that we should provide as much flexibility as we could. That is what we have been setting about doing.

Senator LUNDY—But a fixed margin surely does not provide for competitive tension. Effectively, it is almost like a cartel. You set the rate. Everyone else participates at that rate or not at all. They cannot go below that, because then they would not be able to make money on the prospect or mount a business case around it. So you have created a platform in the market. Those competitors will not be able to go below effectively what you set?

Mr Scales—Yes, they can.

Senator LUNDY—What, within the margin you allow them or you provide for them?

Mr Scales—Let me answer it in two parts. First of all, they can go up to 40 per cent below our price. They can undercut us by 40 per cent if that is what they want to do. They have a strong opportunity to be able to do just that, quite the reverse to what you are suggesting. Secondly, if you were to take that in isolation—you may even have some criticism—the point I am trying to make is that that is only one of the price schedules we have available to our wholesale customers. There are a number of price schedules to suit their particular—

Senator LUNDY—But that is the lowest priced one, isn't it?

Mr Scales—I do not think it is appropriate for me to describe them.

Senator LUNDY—I do not want to particularly debate it any further other than to say that I think there is a big difference between obviously what Telstra is telling the commission and how Telstra is mounting their own case and what the experience has been in the market as a result of this.

Mr Scales—But the commission has sources other than us.

Senator LUNDY—Indeed they do.

Mr Scales—The commission make it very clear to us that when we sit down with them, as we do very frequently, we compare notes, because the commission, quite rightly, is asking us to justify what we are saying by lining that up with their own intelligence of the marketplace.

Senator LUNDY—But you are using the fact that people are agreeing to say to the ACCC, 'See, it is all okay.'

Mr Scales—No, I was responding to a different question of yours; that is, you were suggesting that somehow we were providing information which was not complete to the ACCC. My point about that was that that is not possible for us to do because the ACCC obtains its own intelligence. As you would know better than anybody, the ACCC goes to various ISPs and various organisations and says, 'This is what Telstra is telling us. What do you say about this?' What we are able to do, quite appropriately, with the ACCC is line up what we are saying with what their intelligence is telling them. That is the way it works.

Senator LUNDY—Mr Stanhope, at what point were you aware of this new product, the associated marketing campaign and when did you redo your whole financial program to allow for it?

Mr Stanhope—It was in the same time frame. Over that period of time that Mr Scales referenced I had finance people estimating the impact on the revenue line and the costs line. It was during that same time period.

Senator LUNDY—So between the Monday and the Thursday you completely redid Telstra's financial plans?

Mr Stanhope—It is not too difficult. It is just broadband retail, taking the price down, and an estimate of the volume of customer demand increase, and how much it might cost to install those. It is not hugely difficult to do that.

Senator LUNDY—What about the impact this had on all of the marketing and advertising contracts that we were talking about earlier? Who picked up the new campaign?

Mr Stanhope—That is a good question. Who does BigPond? I do not know that I have it here.

Mr Stirzaker—They are called Belgiovane Williams Mackay.

Senator LUNDY—Mr Stanhope, you said that you increased your marketing budget for this financial year. Is this why?

Mr Stanhope—Yes, it is part of the reason why the promotion and advertising expenditure went up.

Senator LUNDY—In retrospect, did you think it was all a bit too hasty?

Mr Stanhope—I beg your pardon?

Senator LUNDY—In retrospect, do you think the whole process was a bit too hasty, given the fact that it did culminate in a competition notice and so forth?

Mr Stanhope—I think it was the speed that was necessary to be in the market when we were. Would I have liked more time to go over it? Yes, certainly. Again, that is easy to say in hindsight, but we were getting a product to the market quickly.

Mr Scales—Senator, one of my colleagues has reminded me that the intelligence which we got about the price with Singtel Optus, in fact, we think may have been through a press release by Singtel Optus itself saying it was intending to bring forward by two weeks its revised pricing arrangements. My colleague tells me that that was the thing that prompted us to get back into the marketplace, to look at our own options and decide what we might want to do. My other colleague also reminds me that we had already anticipated that possibility, and there had been some early plans about what we might do in the event that that might happen, and some very early development of some marketing plans. If I have misled you on that, I am sorry. Some of those things were in play. They were not completely brought to fruition until that relatively narrow time frame when we decided we wanted to move early.

Senator LUNDY—Thank you for that, Mr Scales. Can you tell me when the marketing budget was approved, Mr Stanhope?

Mr Stanhope—No, I would have to get you the precise date. I could not tell you.

Senator LUNDY—Was it prior to the Sunday when the product was announced?

Mr Stanhope—I could not tell you. Sorry, I will have to take that on notice.

Mr Stirzaker—I think Mr Scales just said there would have been some pre-work at a fundamental level, not at the detailed level.

Mr Scales—It is also true to say that in some of those discussions we were debating amongst ourselves about whether we needed to increase the marketing spend given the substantial change that was going to be going on in the market at that time. So it was moving about a bit as to whether we would reallocate some funds to be able to promote this new \$29.95 package.

Senator LUNDY—Thank you. I might come back to that. I will defer to my Senate colleague for a minute.

Senator McLUCAS—I have some questions about service disruption notices. I am not sure who to direct them to.

Mr Scales—Mr Rix will be able to answer those sorts of questions.

Senator McLUCAS—Can you help me understand what seem to be discrepancies that appear in a series of service disruption notices that I have that were printed in north Queensland newspapers at the end of last year and earlier this year? All of the ones that I have copies of refer to a Telstra reference number, then Queensland, then ‘RBP’ and then the word ‘north-west’, even though some of the disruption notices, in my way of describing the geography of Queensland, would not be in the north-west of Queensland. But there is probably a very sensible answer to that.

Senator MACKAY—I would not be so sure about that.

Mr Pinel—Perhaps I can elaborate on that. My understanding is that that reference to ‘north-west’ is about an operating district. In other words, we have the state carved up. Cairns forms part of the district for operational purposes that takes in the cape, Cairns and west, if you like, through the gulf and that area. So the district is called the north-west district. My understanding is that that is the reference there. It would be applied in that form to any advice that fell within that geographic area that is managed in that way.

Senator McLUCAS—Your descriptors of the geography do not coincide with your field service areas?

Mr Pinel—There are a number of definitions. If you are talking about the Telstra Country Wide areas, the Telstra Country Wide area is far north, and that takes in Cairns and the cape. The operational areas, I think, have different boundaries and take in slightly different geographies. But I can provide you with that detail on notice if you like.

Senator McLUCAS—What would be really helpful, Mr Pinel, would be a map that describes the field service areas of central, north and far north—the ones that I am particularly interested in—and the operational areas, so that I can start to understand what these things mean.

Mr Pinel—I am happy to provide that to you. We will arrange for that quickly.

Senator McLUCAS—Each of the service disruption notices goes on to describe an area of Queensland. The one that I am looking at says in the north-west area of Queensland. It then describes an area quite specifically, which I would describe as north-east Queensland or Far North Queensland—an area from Cooktown almost to Townsville, following the coast and west as far as Undara. I do not think you can describe that as north-west. Are these just typos?

Mr Rix—If you pass on that information, we could have a look at it. I am not sure what information you have got. I have got a list here of all of the service disruptions and the way they have been done. Certainly, I could have that checked for you. Your request with regard to the maps and checking whether we are making some mistakes in describing the areas appropriately would be really good feedback for us, because it is our intention to make sure we do get that right.

Senator McLUCAS—The purpose of these advertisements is to tell your customers that they may be disrupted, that they are going to be disrupted?

Mr Rix—Very much so.

Senator McLUCAS—An ordinary consumer reading this might think, ‘North-west. That is not me. I won’t read any further.’ In the first sentence, the descriptor of the geography does not actually connect with the actual description of where we are talking about. It seemed quite bizarre to me.

Mr Rix—Does it have in there as well the prefix for the telephone numbers?

Senator McLUCAS—Yes, I am about to get to that. Then you go through a description of the area, and then the number of services that are expected to be impacted. Then there is a list of all of the telephone numbers that could be impacted. On each of those, with one exception because it is larger, it basically includes every telephone service from just north of Townsville, in most cases almost to Cooktown. Everyone is grouped in, even though the descriptor of the geography is different. These numbers are in fact larger, from my understanding of the phone system of north Queensland, than for the areas described geographically by linking certain towns and places. I am just trying to understand how we as consumers understand, if we are trying to work this out, whether we are in or out.

Mr Rix—We do try to get it down to the lowest common denominator, so if there is an affected area—which could be as small as 100 customers—we try to make sure that that notification is accurate. In this particular instance, I am unaware of how wide it went and for what reason. I have certainly got a lot of information, with the number of activities that occurred regarding mass service disruptions in Queensland this year due to numerous storms or other weather conditions or different things. But I would check that with our regulatory area and make sure that that is consistent, keeping in mind that we do internal audits as well as having these things audited with the ACA to make sure that we do get them right. But regarding any of the feedback it is in our interest to get this right, and certainly we can take that question on notice. I could not give you a better answer than that today on that specific instance.

Mr Scales—Senator, I think your general point that says somehow the common descriptor of the region should line up with our descriptor of what goes on with a mass service disruption—

Senator McLUCAS—In each of the three ways.

Mr Scales—Yes, and I think that is a sensible proposition. But can you give us a chance to look at that and see whether in fact it is happening and, if it is not, what we can do to try to do as you suggest. It is a sensible thing to do.

Senator McLUCAS—Can I go then to the question: on what basis? This particular service disruption notice says:

Telstra wishes to advise that normal operations were significantly disrupted by heavy rain, and localised flooding ... on or about 27 to 28 April ...

In April of this year, the Bureau of Meteorology tells us that the average rainfall was in fact less than expected. So whilst we might have had one particularly bad flooding event in the Tully region, which is a long way from Cairns, I am unsure as to how Telstra can decide that because we have had bad flooding in Tully we can advise everybody that there is a service disruption notice everywhere from Cooktown to Townsville and west to Undara.

Mr Rix—That does not seem consistent, the way you have described it, with our process. But, again, if we can take that on notice we can certainly have that investigated. Again, it is certainly our intention to localise—if there has been heavy rainfall or disruption caused to our network or our plant for a safety issue, a productivity issue or whatever it might be—to make sure that we do get that right. In that particular instance, it is just impossible for me today to talk around that one, but I could take it away on notice.

Senator McLUCAS—I am sure you do not know how much it rained in Cairns this year, and I do not expect you to. Can you take me through the process, though? Somebody in Telstra says, ‘It is raining too much, we cannot fix all the faults, we cannot do the connection.’ What happens next?

Mr Rix—We work closely with a number of bodies, of which one of the first would certainly be, as you described, the Bureau of Meteorology: how much rain has actually occurred, what has the impact been in a particular area? There is input from our local areas. It then goes off to an independent group within the organisation that tests that through the process. The governing body of that group is our regulatory body to make sure that it meets our regulatory requirements, and it is tested by that group. So they look across the input measures, and then they call an MSD, making sure that they meet all the criteria of that area. At the same time, that body is also in charge of the notifications that then will go out, whether they are just to local newspapers or to a wider community area of more national papers, radio et cetera.

At the same time, areas like Telstra Country Wide will be informed to make sure that we get as many people on the ground letting our customers know what the impact is. Whilst the inputs are coming in, there is an independent body that oversees that, and then that

independent body will post the notice, which is obviously available to be audited as well. Mr Scales, did you want to add anything to that?

Mr Scales—Only to elaborate on the reason we do that. Because the ACA monitors very closely whether we are conforming to how you define an MSD, the regulatory team make sure internally that our people who want to declare an MSD in fact follow the rules that one would expect the ACA to agree to. So these internal checks are valid, because we know that if we do this in a way which does not conform to those arrangements the ACA will find us out. So that is why we do that.

Senator McLUCAS—Have you applied for MSD or service disruption category, for want of a better word, and been refused?

Mr Scales—Internally, certainly.

Senator McLUCAS—No, with the ACA.

Senator MACKAY—Telstra declares the massive service disruption.

Mr Scales—That is why I am saying internally.

Senator MACKAY—Not the ACA.

Mr Scales—No, the ACA monitor it.

Senator MACKAY—On your information, you declare it.

Mr Scales—No, they audit the process.

Senator McLUCAS—We can talk to the ACA about what they actually do.

Mr Scales—That is unfair to the ACA.

Senator McLUCAS—How do they audit your process? It is probably not an appropriate question to ask you; I should ask the ACA.

Mr Scales—I think you should. They look at the sorts of things that you are asking: to what extent was there rain in the area, to what extent was that rain such that it did disrupt our ability to get access to premises? It is not just the fact that it rains; that in itself is not sufficient. It has to be rain and it has to be dangerous, or it has to not allow us access to people's premises and so on.

Senator Kemp—Mr Chairman, before we continue with that very interesting discussion, could we look at some housekeeping arrangements. We have people from four or five authorities who have been here since nine o'clock this morning, I think they would be very interested to know whether they are likely to be called this evening or not.

Senator MACKAY—That is a good question. We will not get to SBS and ABC tonight.

CHAIR—I did seek an indication earlier today. We thought Telstra might occupy all of the afternoon, but it looks like it will fill the evening as well.

Senator MACKAY—No, we will deal with Telstra, then Australia Post, then the ACA, then the department—or a bit of the department.

Senator Kemp—So as far as the committee is concerned, the ABC and SBS will not be required tonight.

Senator MACKAY—That is correct.

CHAIR—That will be the case, yes.

Senator Kemp—All right, when would you expect them to be required?

Senator MACKAY—Tomorrow, after the ABA.

Senator Kemp—All right. I am sure that some people are marginally less unhappy as a result of that.

Senator MACKAY—We aim to please.

Mr Rix—I have identified now in my file a comprehensive process which we would be happy to table. I would be happy as well to go through that now if you would like. But the only point I will make is that eligibility is measured by the impact on Telstra operations, not by the severity and disruption of the force itself. So the process includes things like damage to cable and other telecommunications plant or equipment by forces outside our control, restrictions on access to customer premises caused by natural disasters, extreme weather, civil disturbances et cetera—restrictions on Telstra's work force to comply with the standards caused by such factors as natural disasters, weather, et cetera. After that, there is a comprehensive process for the period of claiming CSG exemptions, notification of periods, notification of regulatory bodies et cetera. We would certainly be happy to table all of that information. As well, we will certainly go over the examples that you have given us today to make sure that we have complied and that we can demonstrate that compliance.

Senator McLUCAS—Okay, I am happy about that, Mr Rix. Could I also get a copy of the report of the independent group that recommended the MSD on 27 April 2004 through to 5 May, so it can explain to me how your processes work. I think the key is that it is an analysis of the impact on Telstra's operations. You would be aware of the concerns that consumers in North Queensland have about sealant jell because of the fact that that jell, when in contact with water, disrupts the network quite considerably.

Mr Rix—Very much.

Senator McLUCAS—There is a question in the minds of consumers in North Queensland about whether these service disruption notices are more to do with the fact that our network is held together with plastic bags rather than the fact that it has rained. I think that is a legitimate concern. If I get a copy of the report it might be able to allay some fears about whether this is about rain or about the system that has been put in place.

Mr Rix—We are happy to provide that to you. We are also happy to provide information with regard to the faults in that area over that period of time, the best indications of the causes and the programs we have in place in that area to address some of those. There is a very strong link there to the network reliability framework that is put in place so that, if you have reoccurrence of faults by exchange area, field service area or individual customers, those are being proactively managed. We need to now report on all of those. We have a number of

proactive management people in place to look at a lot of indicators, such as the number of faults and how regularly they come in, and then to address those issues. We are happy to run you through that as well.

Senator McLUCAS—Can I also have on notice the capital expenditure for those three regions—I think I should be referring to the north, far north and central FSAs—so we can track where expenditure has been put into the network. Hopefully we will be able to identify when we are going to get over this sealant jell problem. It would be very useful if we could have those for the last three years and the projections for 2004 and 2005 by those three regions.

Mr Rix—Certainly; I do not see any problem with that.

Senator McLUCAS—There is something else I would like on notice as well. I am not sure whether I should be asking for field service areas or operational areas, but I would like to know what the expenditure on television, radio and print advertising by Telstra and Telstra Country Wide has been for those regions for the last three years, and what is projected for the next year.

Mr Scales—We will take that on notice.

Mr Pinel—Does ‘central’ in your definition include Rockhampton?

Senator McLUCAS—I do not know where the FSA of ‘central’ is, to be frank. I am trying to understand your regions to work out what my needs are too.

Senator MACKAY—How about if we got those for all regions in Australia?

Mr Pinel—We will talk to you off-line, Senator.

Senator McLUCAS—Should I be talking about FSAs or operational regions?

Mr Pinel—You should be talking about Telstra Country Wide regions. I will arrange to talk to you off-line and provide you with that information for the part of Queensland you have referred to.

Senator McLUCAS—Thank you. Finally, I have a question regarding broadband and the northern beaches and Cairns. There has been quite a long story and I will not traverse it all. I do not know if you know the whole story, Mr Pinel. Essentially, like many other regions, there has not been a business case made for Holloways Beach and Yorkeys Knob. I understand that the local federal member announced, on the 22nd of this month, that Holloways and Machans beaches would have access to broadband within three months. Can you tell me how that can happen?

Mr Pinel—Yes, I can. Many of the senators here are familiar with the broadband demand register and the process around that.

Senator McLUCAS—Yes.

Mr Pinel—Holloways Beach qualified for provision of ADSL, as I understand it, by reaching a threshold of demand under the demand register—enough people indicated interest

in having ADSL from Holloways Beach to provide us with the necessary financial justification to provide the service there.

Senator LUNDY—Can you tell me what that threshold was and when it was established?

Mr Pinel—No, I cannot today. I do not have the details of each of the exchange areas, but they are available.

Senator LUNDY—I will come back to that point later.

Mr Pinel—The advice I have is that Holloways Beach qualified as a result of the demand register process. Yorkeys Knob has not yet got to a level of demand that will justify it. Although with the level of interest expressed to date, coupled with our expectations of the HiBIS plan—which is federal government funding that will subsidise carriers for the provision of broadband services—my expectation is that Yorkeys Knob is likely to qualify with the combination of those two elements.

Senator McLUCAS—Yorkeys will qualify because of the application of HiBIS?

Mr Pinel—I believe that is the case. I will have to qualify exactly where it is today, but that is my understanding.

Senator McLUCAS—I will come back to Yorkeys in a moment if you do not mind. I have an email from the appropriate Telstra dealer for that region who tells me that, in fact, there are only 44 valid names on the register for Holloways. I am trying to understand how the local member can say that they are going to have broadband.

Mr Pinel—The numbers do not align with my understanding—

Senator McLUCAS—No, I understand that 152—

Mr Pinel—I will have to check the details and come back to you.

Senator McLUCAS—were reached. Then Telstra went and spoke to these people and apparently a lot of false names had been placed on the register.

Mr Pinel—That happens occasionally.

Senator McLUCAS—Yes, I am aware of that. I am still trying to understand how the commitment can be made by the local member when I have been told repeatedly by the Telstra Country Wide office that you have to reach the magic number and that, if you do not, you cannot expect to get broadband.

Mr Pinel—That is certainly the case. The demand register is a very defined program and, unless there are extremely exceptional conditions—and I cannot think of any as far as Holloways is concerned—we would follow the demand register process. It is best that I get the details for you and provide you with that information.

Senator McLUCAS—Can you tell me also—and you might need to take this on notice—why Holloways, Machans and Yorkeys have to hit the appropriate number on the demand register, yet Clifton Beach, Kawana Beach and Palm Cove did not. It is certainly the view of people in North Queensland that the rules are applied differently to different areas. Could you investigate that for me?

Mr Pinel—I will certainly investigate that.

Senator McLUCAS—The other real issue that needs to be investigated is the varying high jump bar. We have been advised, with respect to Yorkeys and Holloways, on regular occasions that the number of expressions of interest that are required consistently rises. Consumers were advised that they had to have 60 people in the area, then 80 and then 150, but every time they reach a number the high jump bar goes up yet again. You might want to respond to that concern as well.

Mr Pinel—Certainly. I will take it on notice. I do know that, in that particular instance, in the very early stages when the demand register was being established there were some indicative hurdle rates set that had to be revised when the economic analysis was later done in a more rigorous way, which reset the hurdle. But I understood that it was only a one-off event when that hurdle was reset. I will do the background on it for you and we will work through it.

Senator LUNDY—The last evidence we heard on the broadband register was that Telstra did not set any arbitrary level—that they retained their right to assess the commercial viability regardless of what the register showed. There are obviously a whole series of implications in that, given your recent announcement relating to the HiBIS scheme which I would like to come to shortly. On the announcement that was made in this area, it was Senator Jan McLucas who convened the community meeting that highlighted the problems for those residents. She asked me to attend. Why is it that Telstra worked with the local member and not the senator who is actually doing the work in making the announcement of your response? Surely that it is a pretty obvious example of Telstra operating in a party political way when all the local senator is trying to do is get the job done. Why wasn't Senator McLucas notified about that announcement and the details thereof?

Mr Pinel—I do not have the specific details of how it was done.

Senator LUNDY—Could you take that on notice?

Mr Pinel—I will take it on notice, yes.

Senator LUNDY—Could you also take on notice the process by which the communication between that member and Telstra surrounding that announcement occurred?

Mr Pinel—Certainly.

Senator McLUCAS—Another specific question that I would like you to take on notice concerns the Queens Beach area near Bowen. Can we get an update on what is occurring at Queens Beach?

Mr Pinel—Sure.

Senator McLUCAS—They have been given various and changing undertakings as well, as I understand. You were saying that HiBIS will come into effect in relation to the Yorkeys Knob application. How does that work technically? How do we get an application approved?

Mr Pinel—There is still a level of uncertainty about HiBIS. The HiBIS scheme as it is articulated at the moment provides subsidies to carriers who will provide broadband service in

locations defined by the scheme, generally in regional Australia. Those subsidies are intended to change the investment requirements to create a situation where it makes sense for a carrier to provide service. I think the subsidies range from about \$1,500 to \$3,000, depending on a range of circumstances. When we factor these sorts of subsidies into the equation and do some analysis, we get an expectation that that will be delivered by dropping the hurdle rate. It will change the fundamental economic sums that we do, because of the subsidies we can expect to get back. There will be a stream flowing to us through the HiBIS scheme on an individual customer basis that will make it easier for us to justify the investment.

Senator McLUCAS—You make an application, then? You identify the areas where—

Mr Pinel—We will get paid. We register the department as a HiBIS carrier. I think we are still working through that with the department at this stage; I do not think we have achieved that registration yet. Once we do that, for each customer that we connect in an area defined by HiBIS we will receive a subsidy from the government for that particular service.

Senator McLUCAS—I thought that maybe HiBIS was going to solve the problem at Holloways Beach, but that would not seem to be the case.

Mr Pinel—It could well do so but, as I say, in the analysis of how this will apply we have expectations about demand and the additional money we will receive from the government through HiBIS that will change the way we establish the threshold. So the impact it will have for a place like Yorkeys is to reduce the threshold from where it is now to some lower figure. We do not have an accurate sum on that at this stage—we are still working through the economic modelling—but general expectations are that that will drop the hurdle by roughly 40 to 50 per cent. That is indicative only at this stage, but we should have answers on it relatively soon—as soon as we can get registered with the HiBIS people in the department.

Mr Scales—As you know, the HiBIS scheme when it finally fully operates will be able to provide to other Internet service providers the opportunity to also be recipients of HiBIS. In addition to that, our wholesale group is also registering so that it can then provide that benefit to our wholesale customers, our competitors in the retail market. We are trying to make sure that we make the best of this opportunity to lower the cost and therefore provide Internet services to some of the more remote locations with smaller populations.

Senator McLUCAS—The issue that is raised with me all the time is that people have to lock into a two-year contract with Telstra BigPond in order to put themselves on the demand list—to get the agreement underway. You have just described a situation where another provider can be part of this process, but the high jump is set by the number of people who are linked into Telstra broadband BigPond. So the opportunity for other service providers to move into a very small and limited market—and the two markets we are describing are—I just do not see.

Mr Pinel—The demand register is agnostic about carrier. It covers Telstra's potential customers as well as other carriers' potential customers through the wholesale arm of the business. The hurdle is initially set, and when the hurdle is met there is a test back with the customers. For those that have indicated a Telstra preference, the Telstra retail part of the

business goes back and tests whether they are serious; and the other carriers will go and test theirs. In aggregate that sets the total demand in that area for all interested people.

Senator McLUCAS—How does that aggregation actually happen?

Mr Pinel—Do you mean where does it happen, or how? The other carriers who buy from us confirm with us the level of confirmed demand that they have in the area.

Senator McLUCAS—They will talk to you directly on a location by location basis?

Mr Pinel—Not to us—they would talk to Telstra Wholesale. They would be asked to confirm, once the threshold is met, the real demand that is buried in that and eliminate all of the duplications and the things that you referred to before—false addresses, dummy entries et cetera. They would go to the customers that have identified them as their preferred carrier and confirm that they have 30, 40, 50 or 60 real customers out there that are looking for broadband. We do the same with the BigPond candidates. That is then aggregated together so that we know the total level of demand in the area.

Senator McLUCAS—I will leave the broadband question now and ask a question on notice about black spots that are in existence within ADSL enabled exchanges. I have become aware that there are huge black spots in the Cairns city region. I have asked the local Country Wide office for a map, but that has not been provided to me at this point. Could I ask on notice for a map of those areas in the cities of Cairns, Townsville and Mackay that for a range of reasons cannot be provided with broadband?

Mr Scales—There is a difference between broadband and ADSL. I presume you are talking about ADSL as a technology, as distinct from broadband.

Senator McLUCAS—Sure.

Senator LUNDY—Are you talking about satellite broadband?

Mr Scales—I am talking about that.

Senator McLUCAS—No. I am wanting to—

Mr Pinel—It is about ADSL.

Mr Scales—That is right. That is why I wanted to clarify it.

Mr Pinel—I will take the question on notice. I am not sure that we can put clearly defined geographic boundaries around areas that cannot get it for a range of reasons. But let me take it on notice and we will see what we can provide, if we can provide it.

Senator McLUCAS—My understanding is that it has to do with the distance from the exchange to the residence or, as in the case I am talking about, a very small school that cannot get a fast Internet connection.

Mr Pinel—There will be some areas where we can define it. There are limits imposed by the length of cable but it is also dependent upon the gauge of the cable—the thickness of the copper wires. So it is not a fixed distance from an exchange; it is—

Senator McLUCAS—What I am looking for is an understanding of the geography of where the black spot is. I have been advised that the people who cannot get connection

through ADSL cannot even advise anybody that they cannot get connection. They log on and the answer is, 'You can be connected; just ring up.'

Mr Pinel—We are very aware of some of the issues to do with technology and geography. We are working progressively to remove those black spots. I will provide you with what I can on definition and to give you some visibility of what is possible and what is not possible. I am just cautioning that it may not be as absolutely clear as you may be looking for.

Senator LUNDY—Going a step further on the HiBIS arrangement that is now in place, I noted Telstra's media release saying that you had reduced the number of broadband registrants required because you anticipated accessing HiBIS money. You said earlier that you had not finalised your arrangements with the department about being an eligible HiBIS carrier. So why did Telstra put the press release out?

Mr Pinel—We have had an ongoing dialogue with the department about this. I think both parties have clear expectations that our registration will be accepted. What we are going through at the moment is largely a process to get that registration done. At this stage I do not think that any carriers have yet achieved registration, but I am not 100 per cent certain of that.

Senator LUNDY—Can you explain the link between Telstra's broadband register—which was originally created specifically to inform Telstra about the commercial viability or otherwise of enabling exchanges—and HiBIS and what led to the circumstance whereby Telstra made the link between the register and HiBIS in the way that you did?

Mr Pinel—Probably not, because I was not party to the decision process.

Senator LUNDY—I will need to speak to someone who was.

Mr Pinel—As I understand it, the demand register sets some levels based on an economic model about demand, expected revenues and return on investment—a very straightforward economic model.

Senator LUNDY—Except that no-one knew what it was because Telstra retained the right to fix it at any number they wanted.

Mr Pinel—Our investment decisions are matters for Telstra. I say it is a simple model, but it varies from location to location because of things like transmission, backhaul et cetera. You cannot have one solution for all locations; it is very much location specific. Our expectation comes from our experience with broadband et cetera, how price sensitive demand will be and what we can expect to receive in the way of customers and subsidies. The additional money flowing in from the HiBIS scheme changes the economic model. When you change the economic model, what pops out the end is a different threshold. It is an inexact science, but our expectation right now is that that will drop the demand thresholds by between 40 and 60 per cent. It will be variable, once again, from location to location to some extent; but as an average that is our expectation.

Senator LUNDY—Given that you had not really put a figure on what the threshold was for anybody, what substance and meaning does that have for consumers, given the figure was secret or arbitrary at best and that, as we found with Holloways Beach and other places, consumers are told one thing and it has no relationship with Telstra's decision making

whatsoever? I am just trying to pin Telstra down here, Mr Scales, as to why you can say, ‘We will drop that threshold,’ when no-one knew what the threshold was and Telstra retained the absolute right to change that threshold anyway. Wasn’t it just a stunt to try and associate your broadband register with the government’s HiBIS subsidy of a product you should be rolling out anyway?

Mr Scales—No, it was not. There are a number of parameters around how you think about what might be an appropriate number with a register. Some of it will be around what you think the growth of a particular area might be, for example. We and you have had an ongoing discussion around Gungahlin. One of the reasons why Gungahlin was provisioned the way it was and why we built a new exchange there was partly around growth. There will be some other parts of Australia where there is not quite the same level of growth, and that is part of the reason why it is not possible to be completely precise around how you might think about some of these issues. That is the first point. The second point around the HiBIS scheme is HiBIS is primarily a government scheme; it is not a Telstra scheme.

Senator LUNDY—That is right. You were claiming ownership of it in a way.

Mr Scales—But Telstra’s involvement in the HiBIS scheme is no greater than the involvement of any other carrier in the HiBIS scheme. What HiBIS does is what you would expect from a particular program like this which tries to address two things at the one time, one being to affect the economics of what becomes viable through looking at where might there be a public good for the provision by governments, or the taxpayer if you like, for that particular service. So it is not surprising that the very nature of that particular program lowers or changes the economics, because it is primarily a subsidy—that is what it is intended to do. But Telstra was not, other than at the margin, other than being like most other providers, consulted on the issue. This is primarily a government issue. We, like other providers, are affected by it, and we are trying to make sure that we take advantage of it, quite frankly.

Senator LUNDY—So even though you never made public the specific thresholds for each of these exchanges, in terms of the broadband demand register, you were able to put out a statement saying, ‘Well, whatever we were going to do we are now going to halve it because we are going to get a government subsidy for it.’

Mr Pinel—The threshold is established on the demand register for a large group of exchanges, so that is very visible, as I understand it, and that is the threshold level for expressions of interest.

Senator LUNDY—Can you just step me through and tell me where the web site is and show me where I can find that.

Mr Pinel—I might have to call on a colleague. I do not have the URL with me, but I am happy to take it offline with you, Senator.

Senator LUNDY—I am sure someone will have. Let us take a punt and do a search on the web site to take us to the broadband demand register.

Mr Pinel—Probably if you go to the www.bigpond.com site but, as I say, it would probably be easier, if you like, if I test it out over the dinner break tonight and come back to you after that. It is hard for me to walk you through it remotely.

Senator LUNDY—It seems a bit tricky to find, even using the search engine. It must be there somewhere, I am sure. What I am interested in particularly is where you put those numbers for each exchange and to demonstrate how they have been halved.

Mr Pinel—They will not have been halved at this stage because—

Senator LUNDY—The press release went out weeks ago.

Mr Pinel—I think they indicated a likelihood: ‘as a result, Telstra expects to be able to reduce the thresholds in rural areas by between 40 and 60 per cent’. It is an expectation.

Senator LUNDY—So it was not an announcement at all. It was an expectation.

Mr Pinel—It was an announcement of an expectation.

Senator LUNDY—Contingent upon you getting the tick from the department anyway.

Mr Pinel—That is correct.

Senator LUNDY—The press release did not say that though, did it?

Mr Pinel—I would have to read the details of the press release again. It says ‘Telstra expects to be able to reduce’ that. I do not think it explicitly talks about that but I do not see that as an issue really.

Senator LUNDY—Well, I do. A lot of consumers out there, who invariably contact me as part of their ongoing experience of frustration, point these things out to me on a regular basis. What dollar figure does the HiBIS program subsidy amount to if you are able to connect a customer in an eligible area, which I understand is everywhere outside a city?

Mr Pinel—My recollection—and I probably have a paper on it somewhere—is that the figures vary from about \$1,300. It is dependent on—

Senator LUNDY—I am sorry, how much?

Mr Pinel—There are different rates of subsidy depending on the current availability of ISDN. The subsidy can vary from \$1,540 to \$3,300, GST included. There is also a capacity for travel costs to be reimbursed to suppliers in remote Australia.

Senator LUNDY—That is for each connection?

Mr Pinel—That is correct.

Senator LUNDY—Is that a subsidy or does that cover costs?

Mr Pinel—No, it will not cover costs.

Senator LUNDY—What percentage of, for example, installing one ADSL service in the Holloways Beach exchange would \$1,500 cover?

Mr Pinel—What the Holloways Beach exchange is like technologically would determine the nature of the physical equipment we would put in and the backhaul transmission

requirements, so I cannot give you that answer right now. It would depend on the number of ports that were to be provided and the particular supplier of those ports et cetera.

Senator LUNDY—Obviously, in your assessment about the commercial viability you would need to know how many RIMS are in place, how many pair gains, what the quality of the copper was like and all of that detailed exchange service area information?

Mr Pinel—For Holloways Beach, as an example, we would need to know the level of demand and within that we would have to know that those customers could be provided with the service when the equipment was provided.

Senator LUNDY—That is an interesting technicality. Can I just pursue that. If the register for that particular exchange says, ‘We need 150 people to register,’ and 150 people register, for all intents and purposes, do you then do a technical assessment of the physical capability of delivering to each of those registrants and then determine whether or not you have commercial viability? How does it work?

Mr Pinel—I believe that is the case but I would take it on notice.

Senator LUNDY—Is that why 150 could register and Telstra, for whatever reason, could turn around and say, ‘Actually, you still don’t qualify’?

Mr Pinel—The process of the demand register itself involves a prequalification of where the customer’s phone number is, so that immediately takes out some that are technically not able to be provided with the service.

Senator LUNDY—Sure, but it would not take out—

Mr Pinel—It will not take out those that are artificially loaded with false data, for example. There is certainly a culling process that is gone through to make sure that the data that is there is real data and real customers or real potential customers.

Senator LUNDY—If I register my interest, which I just did using my own home number, it gives me the exchange name, it tells me that three have registered interest and it has zero for ‘required interest’. It says:

Site is in ACT. ADSL availability to CRACE exchange area to increase from mid 2004 with new GUNGAHLIN exchange.

How do I know how many have to register interest for that particular exchange name?

Mr Pinel—My understanding is that thresholds are not set for all exchanges but for a large percentage of those where we would have an expectation of high demand. I do not know the circumstances of Canberra to be able to comment on that one.

Senator LUNDY—But you would not know from this whether I was on a pair gain or a RIM, would you?

Mr Pinel—My understanding is the demand register, based on your telephone number, will be able—

Senator LUNDY—Can you tell me if I am on a pair gain or a RIM?

Mr Pinel—Yes—I think.

Senator LUNDY—Are you sure about that?

Mr Pinel—No, I am not sure about it.

Senator LUNDY—Can you take that on notice?

Mr Pinel—When you ask the questions I always hesitate a little bit.

Senator LUNDY—The problem is that if it does not the whole process is misleading, and if the numbers that people see on this screen bear no real relationship to Telstra's determinations and everything, that is where we get into a difficult situation where you have got a local member spinning one yarn—

Mr Pinel—I am being assured that it does do that. I guess I have to qualify it: within the limits of the accuracy of our cable records. So, at a high level of confidence, I would say that it will identify customers that are prevented from having ADSL because of technology limitations or cable length.

Senator LUNDY—Just to really make your night a nightmare: I do not think I am connected to that exchange anyway. So I do not what is going on with the demand register.

Senator MACKAY—Has Telstra spent any money upgrading mobile coverage around Minister Williams's home since he was appointed minister?

Mr Scales—We are always upgrading mobile coverage. I am not even sure I know where Minister Williams lives.

Senator MACKAY—Does anybody else know?

Mr Scales—We are going to have to take that one on notice, partly because we are doing those upgrades all of the time. For example, last year we put in something like an additional 1,000 towers, so we are doing that all of the time.

Senator MACKAY—That is fine; I understand that. I was just wondering if you knew offhand.

Mr Scales—We will have a look at that. I will take it on notice.

Senator MACKAY—There is a vicious rumour floating around. Dr Switkowski had a microcell, I think, put in his backyard.

Mr Scales—Senator, would you like a microcell put in?

Senator MACKAY—No, thank you. I do not want any special treatment.

Senator LUNDY—Did you give him a plasma TV?

Mr Scales—Would you like one, Senator?

Senator LUNDY—No. Did you give Minister Williams one?

Mr Scales—No. I have one in my office, if you would like one of mine.

Senator MACKAY—While we are on the issue of plasma TVs, are there any out on loan at the moment?

Mr Scales—No, there is not.

Senator MACKAY—Not just to politicians, but beyond politicians.

Mr Scales—No, there is not.

CHAIR—Just for the record: Mr Williams lives in the city of Melville on the south side of Perth.

Senator MACKAY—Of which I am sure you are extremely proud.

CHAIR—Well serviced by mobile phones.

Senator MACKAY—So maybe he does not need upgrading.

CHAIR—I do not think so.

Senator MACKAY—What about phones or whatever: any phones or whatever out on loan?

Mr Scales—We certainly provide to staff phones; we certainly provide to the board some mobile phones so that they can use the equipment. They are required to return them after a certain time if they do not want to proceed to use them or they have got to buy them. We from time to time provide mobile phones to people on trial. We certainly give things like BlackBerries to various businesses so they can trial them as well. We are doing that all the time. That is the business we are in, so we do have them out there for people to look at.

Senator MACKAY—Okay. The obvious question would be: are there any bits of equipment out on loan or whatever to, say, Mr Jones or Mr Laws?

Mr Scales—Certainly not to my knowledge.

Senator MACKAY—Anybody else aware of any?

Mr Scales—No, we are not aware of it.

Senator MACKAY—What about any gifts or payments of any kind to anybody? What about Professor Flint—does he get anything?

Mr Scales—No.

Senator MACKAY—No, I am quite serious. Is there anything beyond—

Mr Scales—No, we have not provided to Professor Flint.

Senator MACKAY—What about anybody else?

Mr Scales—You mean other regulators?

Senator MACKAY—No. In the broad, is there anything out there on loan to anybody beyond what you have articulated, which is mobile phones to some board members, which is fine?

Mr Scales—Let me give you an example. We have people on the Telstra Foundation board who provide their services for nothing. We provide them with a broadband connection. I provide the chairman of the Telstra Foundation, who provides services for nothing, with a mobile phone. That is why it is a bit difficult for me to answer your question. There are some of those things which we do have in place.

Senator MACKAY—They get broadband connection, which is fine. Is any broadband connection given to anybody outside Telstra?

Mr Scales—Certainly not to my knowledge.

Senator MACKAY—What about sporting tickets? Are any sporting tickets provided to Mr Jones or Mr Laws?

Mr Scales—I would have to take that on notice, for obvious reasons. We entertain at both the Telstra Dome and the Telstra Stadium. As part of that arrangement we have a number of boxes. We have our business groups using them all the time for entertainment. That is going on all of the time.

Senator MACKAY—Has Mr Jones been a guest of Telstra there?

Mr Scales—I do not know. I will have to find out.

Senator MACKAY—Does anybody else know?

Mr Scales— I will have to find out. I do not know the answer to that.

Senator MACKAY—You will take that on notice?

Mr Scales—Yes.

Senator LUNDY—Going back to the issue of the broadband register and the provisioning of exchanges for ADSL, does Telstra sell information to your competitors about what I would describe as the reach of a given exchange or the services you are capable of providing in an exchange service area?

Mr Pinel—I have never heard of that.

Mr Scales—Not that I am aware of.

Senator LUNDY—You do not charge for basic technical information about what your copper network looks like?

Mr Scales—No, we do not do that. In our wholesale business we are out there trying to sell that facility. It is not in our interests to try—

Senator LUNDY—You do not sell information about it?

Mr Scales—We do not sell that information.

Senator LUNDY—How would your competitors find out, for the purposes of accessing HiBIS subsidies to install ADSL or DSLAMs in exchanges, to what degree the copper network emanating from that exchange is riddled with pair gains or RIMs and is therefore unable to deliver an ADSL service anyway?

Mr Scales—They would talk to our wholesale division, and they would provide—

Senator LUNDY—That information would be provided free and in a timely way?

Mr Scales—That is the only way we can sell a service—and sell a service which is fit for purpose.

Senator LUNDY—Are you sure of that?

Mr Scales—Yes, I am sure of that.

Mr Pinel—Whilst what Mr Scales says is the general situation, if there are requests that fall outside what you might define as a normal request—if there is additional work involved or additional research required—

Senator LUNDY—What if they are doing marketing research about the commercial viability of their investing in a DSLAM in a given exchange—do you sell that?

Mr Pinel—I do not know the details. All I am trying to do is qualify it and say that, in some circumstances, when anybody comes to us and we are required to do additional work to provide information or details it may be done on a commercial basis.

Senator LUNDY—So if it is not linked to your selling that service to that reseller—

Mr Scales—I think the best thing we can do is take it on notice. Mr Stirzaker tells me that wholesale also provides maps from time to time to wholesale customers. Just to make sure we are not in any way misleading the committee, we will check to make sure that they are not sold. We do not think they are, because it just does not seem to be in our interests to do so; but, rather than give you half an answer, we will find out. We will answer on notice whether we do or do not and the nature of any of those arrangements.

Senator LUNDY—Regarding the proposed new exchange at Gungahlin in the ACT, I have requested through the local management technical information about the capability of that exchange. I did not get that information so I would like to ask for that information now, particularly in relation to how that exchange will be connected through the RIMs and what percentage of existing retail services, dial-up services or voice telephony services will be able to be translated into broadband services. I appreciate that some of this will relate to the demand, but it is the—

Mr Scales—It is the broad capability.

Senator LUNDY—Yes. What I need to be able to do is to assist my constituents in that area to have a realistic expectation of what the promise of a new exchange holds, if anything, as far as their ability to get a broadband service from Telstra or anyone else.

Mr Pinel—In a general sense, there are a total of 44 RIMs within the Gungahlin exchange area, as I understand it. Thirty of those will now be inside ADSL transmission limits and they will be able to be provided with ADSL through direct cabling. ADSL demand for the remaining 14 RIMs is likely to be able to be provided through minimux or some other form of similar technology. The advice that I have, and I will confirm this with you later on if you like, is that 30 of the 44 will be directly fed by cable and the other 14 will be dependent on minimux. As always, minimux is dependent on there being space inside the RIM for us to physically put the equipment. I cannot identify exactly which RIMs are which in that but—

Senator LUNDY—Can you take that on notice?

Mr Pinel—I will take it on notice, yes.

Senator LUNDY—The issue also relates to a number of other exchanges in the ACT, but in particular the Hall exchange, which is not far from Gungahlin, is not ADSL enabled and I

have a number of complaints emanating from constituents in that area as well. Can you tell me—and you cannot because you have not got it in front of you—what the threshold is for the Hall exchange to create a case for commercial viability for its upgrade?

Mr Pinel—You are right, I do not have the information with me. We will take it on notice.

Senator LUNDY—If someone asks for a second line—and anyone with half a brain would know that that is probably for an Internet connection—is it still Telstra policy to place that person on a pair gain regardless of that general knowledge?

Mr Pinel—I would not say it was general policy. It will depend on the cabling circumstances at the location.

Senator LUNDY—I put to you that to put someone on a pair gain, if you have been requested to give them a second line, would be both—

Mr Pinel—If we have other cable available we would use the other cable.

Senator LUNDY—When you connect someone via a pair gain, if that cable is not available, is it Telstra policy to advise the customer of that fact and the implications in terms of dial-up speed and blocking of ADSL? If not, why not?

Mr Pinel—I cannot give you an answer on that, unless—

Senator LUNDY—Well, I can. From feedback, you do not tell and people still email me very angry about it, even now.

Mr Stirzaker—I will certainly double-check. I seem to remember that in a previous estimates we actually went through the sorts of processes that are used at front of house—my memory is testing me and we will correct it if it is wrong—and that we do ask about the use of the second line as to whether it is for the purposes of Internet, and where possible we try and prewarn customers—well, if it is for Internet we are going to try and do it a different way. I do think a lot of those things are actually meant to be covered off. But I do recollect, and it was probably three or four estimates ago, that we went through this.

Senator LUNDY—You need to know, all of you as senior managers in the organisation, that I still get feedback about people being connected via a pair gain without being advised of that fact or the implications of it.

CHAIR—It is almost six o'clock and we are due to break for dinner. Do you have questions you want to put on notice?

Senator LUNDY—Perhaps if I could ask one more and then place the rest on notice. It relates to Mr Marshall, who is a constituent—actually, he is not, he lives in New South Wales, but nonetheless he is in the general region. He claims to have been treated quite unfairly by Telstra and believes that there is an outstanding issue yet to be resolved. His problem relates to a request for a service not being able to be provided. Can Telstra advise me what the status of Mr Marshall's case is and whether Telstra is going to force Mr Marshall to sign some sort of waiver of any further action before he will be reimbursed moneys owing, and why that is the case?

Mr Pinel—I am vaguely aware of Mr Marshall but I do not have that level of detail—unless somebody else here does.

Mr Scales—No, we do not. The only thing we know is there is a long history to the issue. The best thing we can do is not to try to answer it here but to take it on notice.

Senator LUNDY—If you could. My understanding is that the resolution to his problem has reached a stalemate because Telstra will only provide him with a rebate, that apparently everyone agrees he is entitled to, if he signs some sort of waiver of any further course of action. My question to Telstra is: if it is agreed that this rebate is payable, why is Telstra insisting that he sign off any rights to take further action about a series of related or other complaints before he receives his money? Why is that policy, given that everyone seems to agree that he is entitled to the rebate?

Mr Scales—That is why we need to take it on notice, if we can do that, rather than give you what might be a glib answer to that question.

Senator LUNDY—Okay. I will be placing some questions on notice.

CHAIR—I thank Telstra for appearing. We will move on to Australia Post after dinner.

Proceedings suspended from 6.02 p.m. to 7.05 p.m.

Australia Post

CHAIR—I welcome Australia Post.

Senator MACKAY—I think I asked on notice last time around how many post offices, both licensed and corporate, had been closed. I think there were nine in the annual report. Can Australia Post update me on how many post offices, both licensed and corporate, have been closed since July 2003?

Mr McCloskey—I have some figures for the period until the end of December. At that stage, our total number of outlets was 4,483 against a figure at 30 June 2003 of 4,493. There were a number of closures in that period accounting for that decline of 10. They were the Beaconsfield Business Centre in New South Wales, the Mulgrave Business Centre in Victoria, the Hamilton Business Centre in Newcastle in New South Wales, and the Newcastle West PostShop. As for our corporate outlets, there were a couple of LPO closures: Bena in Victoria and one at Newcastle Street in Perth. And a number of community postal agents also ceased operating in that period: Ravensbourne in Queensland, Copeville in South Australia, Ashley in New South Wales and Canna in Western Australia.

Senator MACKAY—And that is the totality, is it?

Mr McCloskey—That is the totality, as I say, to the end of December.

Senator MACKAY—What were the reasons for these?

Mr McCloskey—I do not have specific reasons for all of them, but business centres are a relatively recent initiative in the case of Australia Post in that they date back to the early 1990s. There are about 136 of those nationally. They would have been established in particular areas to cater for the specific needs of small business in those areas, and a number

of them over time would have proven not to be profitable, and that would account for their closure. I understand that the licensed post office in Newcastle Street in Perth was a very small operation in a fairly quiet area and the licensee basically decided that they did not wish to remain in business any longer. The community postal agents tend to be in very small communities and would have found that they just did not wish to continue in business.

Senator MACKAY—So none of them were replaced with PostShop franchises?

Mr McCloskey—No, none of those would have been replaced with PostShop franchises.

Senator MACKAY—Can you give me in writing what you have just advised, including any expansion of the reasons and what public consultation took place? I think this is exactly what happened in the February estimates.

Mr McCloskey—I would be happy to do that, yes.

Senator MACKAY—Did any of these have a PostShop outlet nearby?

Mr McCloskey—I am not sure of that. I think I would have to take that on notice. One of them was a PostShop, the one in Newcastle West. But, as a general rule, particularly with the corporates and the LPOs, there would be a reasonable expectation that there would be other facilities in the nearby neighbourhood, with the exception perhaps of Bena in Victoria, which I believe is a very, very small community.

Senator MACKAY—You say that there is an expectation that there would be other facilities. What sort of remedial strategies does Australia Post have in place to ensure that?

Mr Jackson—What we would do if there is poor patronage of business outlets is look at the adjoining or nearby postal outlets to see the distance and the convenience factor in terms of the customer profile for those outlets. And there would be a deal of consultation that would take place, particularly with boxholders, who will obviously have a relocation of their post office boxes, and we would usually work towards an outcome that satisfies the majority of those people.

Senator MACKAY—Let us take one of those variables—geographical location. What benchmark do you use there?

Mr Jackson—When you say ‘geographical’—

Senator MACKAY—Is it 100 kilometres or one kilometre?

Mr Jackson—I think with the ones in the urban areas—in particular the Newcastle ones—I can recall a little bit of detail without being spot on with the actual distance. But it was well within a kilometre, from memory. The shopping centre where it was located—I think it was Newcastle West—was not patronised. It had fallen into disrepair; there was nobody going there. The number of customers had dropped to a very low customer count. Off the top of my head, I would say there were something like 200 customers a day, which is not enough to sustain an operation. With a corporate outlet, we would have a minimum staff of two people. So we would have looked at how close we are to other sites, what it would mean to customers on that site if we closed it or whether we needed to leave some sort of a facility in the adjacent

area, like a post point or something, whereby we could actually service those people with their postal business needs.

Senator MACKAY—Were all these closures in line with the current standards for letter and parcel lodgement points outlined in Australia Post's statement of corporate intent?

Mr McCloskey—Yes. We are required under the performance regulations to maintain at least 4,000 retail outlets nationally, of which 2,500 must be in the rural and remote areas. At 31 December we had 4,483 outlets nationally, of which 2,582 were in rural and remote locations.

Senator MACKAY—So, presumably, you are not looking as though you have a buffer of 82?

Mr McCloskey—We do have a buffer of 82. We also have measures in place to support outlets in rural and remote areas in particular. With our licensed outlets we have a minimum payment for licensees of \$10,000 a year, and there is another range of top-up payments that are available to other licensees as well.

Senator MACKAY—Let us go straight to the issue of the franchise PostShops then. We revisit this periodically, as you would be aware. Last I heard was that Australia Post had advised that it envisaged a network of 150-odd franchise post offices to be established in the next three to four years. Mr Jackson, can you please provide me with an update on that?

Mr Jackson—Yes. That is correct. We had proposed around 150 outlets over three to four years. What we have done is continue to operate with four pilot sites which we have already established—for several years now. What we have been doing is trying to close off on some consultative arrangements with the CEPU and the POAAL organisation. Some discussion has taken place. We are currently putting together a response to some requests for more detail about the model and about the average performance of outlets, which we will be responding to. So, basically, we have not progressed with any actual physical roll-outs of any more franchises until we are satisfied that the consultative process is complete. There has been some involvement in the EBA discussions with the franchising topic, and that has probably taken priority in recent times.

Senator MACKAY—So are you still on track for the 150 in three to four years or has that been revised?

Mr Jackson—We would still be aiming for that quantity, and obviously the time line has been put back by several months.

Senator MACKAY—Let us take by the end of next financial year. Have you disaggregated it year by year?

Mr Jackson—We would be rolling initially, in phase 1, with about 10 in Sydney and Melbourne metropolitan areas, which would be licensee buybacks, subject to the licensee—

Senator MACKAY—Is this each in Melbourne and Sydney or is this aggregate?

Mr Jackson—Ten each.

Senator MACKAY—Ten each. By when?

Mr Jackson—Our initial phase is to do that. There is a time line obviously by the time we have to talk to licensees about what the model is, what it means to them. We have to let them make a decision that is purely voluntary. We would look at areas where we believe a PostShop is more appropriate than a licensed outlet. Once we have identified sites where there is an interest, we would need to actually have a tenancy established, with contractual arrangements, and then we would have to have a fit-out, and there is training et cetera.

So there is a significant lead time—probably a good six months lead time. If we started now, it would be six months before we would get an operation actually on the ground. So we would be hopeful of running those 20 within the fiscal year starting 1 July. In the meantime, we have been looking at corporate outlets in terms of the conversion policy we have. We have undertaken to work with the union on how we can achieve greater profitability in underperforming outlets and how we lift that underperformance, and at the same time look at what our conversion policy might need to be in the future to take account of underperforming corporate outlets. And that would be run in parallel to the initial roll-out of the buybacks of the 20 or so licensees to be rebadged as franchises. So we would see that commencing probably within 12 months, subject to reaching a satisfactory agreement on the conversion policy.

Senator MACKAY—So that is 20-odd within the next financial year. You described that as phase 1. Can you run me through the other phases?

Mr Jackson—Once we have reached agreement on any changes to the conversion policy, obviously there would be some underperforming corporate outlets. Up to a maximum of 100 over the next two to three years would be involved, as well as about another 30 licensed outlets—and, on average, just dividing by three for those numbers, because that is a reasonable roll-out that is able to be absorbed in the business.

Senator MACKAY—So that amounts to 150 over the next three to four years. So you are looking at 100 underperforming corporate outlets and, what did you say, 20 LPOs?

Mr Jackson—All up, about 50 LPOs.

Senator MACKAY—So the PostShops will effectively be replacing the existing outlets?

Mr Jackson—Yes. They will be replacing a licensed outlet where we deem a PostShop format to be more appropriate and/or a small corporate outlet in the same sort of shopping centre that has underperforming economics.

Senator MACKAY—How do you define ‘underperforming’?

Mr Jackson—Where we do not get a reasonable rate of return—a negative rate of return—or just over in the positive stakes.

Senator MACKAY—In the broad, would Australia Post have any more than 100 that within that definition would be regarded as underperforming?

Mr Jackson—There would probably be more than 100 corporates in that category. At the same time, we are still working on trying to improve the performance of these outlets, and we

have agreed with the CEPU to sit down and look at some innovative ways of how we could in fact do that.

Senator MACKAY—So all of the outlets which will be replaced are what Australia Post regards as underperforming—that is, losing money or marginally making money?

Mr Jackson—Yes.

Senator MACKAY—I do not know if you have had negotiations with respect to this aspect, but let us say that this does occur. What is to stop these outlets, or these post offices or PostShops, closing in the future?

Mr Jackson—Obviously we have our CSO and obviously we have customer service considerations. Sometimes we do relocate but, generally speaking, we are looking to preserve an operation in those sites with a more economical format, for better economics in terms of Post and an opportunity for somebody else to run it with an entrepreneurial spirit.

Senator MACKAY—But there is no compulsion for somebody to retain the PostShop, though, is there? What we are looking at is what you regard as underperforming outlets or corporate post offices now. So what is there to say that they will be more viable after they have been franchised out and what is to stop people saying, ‘We tried, they were not viable; we are closing’?

Mr Jackson—We have concluded from our pilot sites that we can in fact significantly improve the performance of outlets by going from corporate to franchise. After looking at other franchise models in the community, typically many of those people would say to me that they improve their performance by around 30 per cent.

Senator MACKAY—How are you able to do that?

Mr Jackson—Normally with franchises there is a very precise selection process. Obviously, you introduce people with much more of an entrepreneurial mindset, and these people are usually able to make significant gains in the performance of those outlets, because they are people who are skilled in that area, and we will have an exhaustive selection process. So we do get people at the top end of the scale in regard to their ability to deliver good quality customer service and with a good entrepreneurial mindset. So we believe that, by franchising them, we can retain those outlets in the network, rather than needing to close them because they are a burden on us in a cost sense. In doing so, we can get a win-win with the franchisees and our business.

Senator MACKAY—What is happening at the moment? Are you saying that they are being run by people who do not have an entrepreneurial mindset?

Mr Jackson—I guess what I am saying is that, typically, franchisees have a much greater stake in the business because they have put their money on the line, so they are motivated in a much greater sense than corporate staff would be. It is just a fact of life, I guess. We have seen it in our pilot site trials and, as I said, I have talked to other franchisors who have done similar things in their businesses and they came up with almost the same sorts of outcomes.

Senator MACKAY—Prima facie, that seems to be a bit of an indictment by Australia Post of these so-called underperforming corporate post offices—because they do not have an entrepreneurial mindset or because their money is on the line and therefore they will make it more profitable. It must be more than that, surely.

Mr Jackson—No, not really. These people tend to use the experience of what they have had in life and are able to bring to the table a lot more ability to do that than corporate staff. In a lot of senses, a lot of those corporate staff have been with Post for a number of years and they do a solid job, but where you have low customer counts, and with the cost structures we have, it is very difficult to make that a profitable format.

Senator MACKAY—Have you thought about training the staff?

Mr Jackson—A significant amount of training has occurred over the years. Since the advent of retail post in the early 1990s, there has been very significant training. But I guess it is a question of experience and motivation. As I said, if you have got a lot of money on the line, you are likely to be pushing it harder than if you are on employee wages.

Senator MACKAY—Why not have a look at your underperforming corporates now and see what can be done to retain them? Are you saying that you have tried everything and nothing has worked?

Mr Jackson—There have been exhaustive efforts throughout the network on the underperforming outlets for quite a number of years. Some of those have improved, but others were not able to get over the line effectively. There are always the area managers that work with the postal managers and employees at those outlets to look at ways and means of how they can do it, but at the end of the day sometimes if you have intermittent customer flows et cetera it is very difficult.

Senator MACKAY—But that is not their fault—if there are intermittent customer flows.

Mr Jackson—No. It is just that the format there will not turn a profit; that is right.

Senator MACKAY—Are any staff losses anticipated which might make these franchises more profitable?

Mr Jackson—I am not sure that staff losses will occur in totality. Obviously, if there is going to be a corporate outlet converted to a franchise, there will be fewer corporate jobs. But at the same time there will be jobs in the franchised outlets, and if the franchisees can grow the business, as we have in fact seen with the pilot sites, there may be even more jobs, in the totality.

Senator MACKAY—So would I be right in assuming that, for the Australia Post staff who move from a corporate post office to a PostShop, there will be an automatic transfer?

Mr Jackson—No. Corporate staff will be redeployed within the corporate network, and franchisees are responsible for hiring and training their staff. The standards we have set—

Senator MACKAY—But they will not necessarily take the staff that are there.

Mr Jackson—They will not necessarily take those people.

Senator MACKAY—That is right.

Mr Jackson—We have a triple R policy whereby we will redeploy and retrain those people within our corporate network.

Senator MACKAY—I am actually not talking about individual job losses. I am talking about an aggregate. How many job losses will there be in the aggregate? Zero is that what you are saying. Is that right?

Mr Jackson—If you aggregated what would be there before and after in a total sense in both corporate land and franchise land combined, I would say it would be roughly the same. Indeed, there may even be more if the business is able to grow over a period of time.

Senator MACKAY—No, that is not what I am getting at. In terms of official Australia Post staff, in the corporate—

Mr Jackson—It would be less.

Senator MACKAY—There will be less. How many less?

Mr Jackson—Generally speaking, with this stratum of outlets that we are looking at, it would probably be in the order of 4½ full-time equivalent staff. So you are looking at 450 if you use those maths with 100. That would be the impact on corporate staff levels.

Senator MACKAY—Will the same wages and conditions be offered in the franchises?

Mr Jackson—Franchisees are required to conform to the Workplace Relations Act, which requires them to pay staff in accordance with awards or it could be workplace agreements. It would be a transmission of business issue from corporate outlets to franchise. So I cannot say exactly what the difference would be, because each of those is the result of what relations that employer—that franchise company—has with the employees there. But they are required to conform with the Workplace Relations Act. They could employ them under a number of different awards.

Senator MACKAY—But they will not be required to employ them under the existing EBA, though, will they?

Mr Jackson—No.

Senator MACKAY—So would it be fair to say that the provisions of the Workplace Relations Act are not as good as the current EBA?

Mr Jackson—I could not say that, because licensees have been paying staff for quite some time under the same conditions, and I do not know what they pay their people, so I cannot really say categorically one way or the other. There would be instances where people would pay above the odds in an AWA sense because they might be very satisfied with how those people add value to their business. So I cannot really categorically say where that would end up.

Senator MACKAY—Experience shows that that generally is not the case with respect to AWAs. You mentioned your triple R policy. How many of those 450-odd are you anticipating will take early retirement?

Mr Jackson—We believe, with the turnover we have and that rate of start-up that I talked about earlier, that we could virtually absorb the majority of those people back into the corporate network without any surplus.

Senator MACKAY—Does that answer my question?

Mr Jackson—How many might take up a redundancy?

Senator MACKAY—Early retirement.

Mr Jackson—As I said, I believe we can absorb them, but I guess it would be what the situation was like at the time as to whether the rate of turnover is the same as we have experienced in the last six months. But, generally speaking, with the rate of conversion that I am talking about with that 100, we should be able to basically absorb the majority of those. But there could be the odd redundancies, yes.

Senator MACKAY—So there will not be any compulsory redundancies?

Mr Jackson—We do not believe so. As I said, I believe we can virtually absorb them with the rate of turnover we have of staff.

Senator MACKAY—Would you rule out compulsory redundancies?

Mr Jackson—I guess there is provision in our triple R agreement for that. But I do not have an expectation that that will be required.

Mr McDonald—We have managed workplace change for at least the last decade without the need for compulsory retrenchment. In our current EBA we have put a provision that we expect to be able to get through the life of the EBA without the need for compulsory retrenchment. We are in the midst of without prejudice discussions with the unions on a new EBA 6, and again we have said to them that we are prepared to give the same commitment. So, in answer to the question, our expectation is that we will be able to manage that change with a mix of redeployment and voluntary redundancy packages—for the life of it.

Senator MACKAY—So, when you say ‘our expectation’, the answer is that there will be no compulsory redundancies or compulsory retrenchments. Is that the case?

Mr McDonald—I cannot say 100 per cent categorically. No-one knows what might happen in the business in three years time. But the clause we have got—and I can read it out to you—is a very reassuring clause about our expectation that that is what will happen, that we will manage it without the need for compulsory retrenchment.

Senator MACKAY—How many compulsory retrenchments has Australia Post had, say, over the last three or four years?

Mr McDonald—None.

Senator MACKAY—Has Australia Post ever had compulsory retrenchments?

Mr McDonald—I think there may have been two people in the life of Australia Post where there was compulsory retrenchment, and that goes back a long time. It goes back at least eight years.

Senator MACKAY—So why are you not able to give that commitment, then, that there will not be any compulsory retrenchments?

Mr McDonald—If we are looking at a period of three years, no-one can be 100 per cent certain of what will happen to the business over those three years. All we can say is that our expectation is that that is what will happen. We have been able to deliver on that expectation in the past and we believe we will be able to deliver it again. But I cannot be any more firm than that.

Senator MACKAY—Is the clause in the EBA that you are looking at the same clause that existed in a previous EBA?

Mr McDonald—Yes. Again, we are in the midst of without prejudice discussions, but that is what we have put to the union. The words are ‘Australia Post remains confident that with consultation and cooperation in change, the change program can be managed without resort to involuntary retrenchment.’ We regard employment security as a very big advantage for our staff with Australia Post.

Senator MACKAY—Where would these people be absorbed to?

Mr McDonald—They could be redeployed elsewhere within the retail area. They could be redeployed elsewhere within Australia Post. What we have tended to do is to ask people for their expressions of interest with redeployment and, where we can accommodate people, provided they meet the requirements of the job, we would seek to do that.

Senator MACKAY—Presumably, you are not expecting people to move, are you? It would be in the same geographical area, would it?

Mr McDonald—We try to accommodate them within the same geographical area, and we try to accommodate their preferences on job type. We are not going to require people to move unreasonably geographically.

Senator MACKAY—Move unreasonably?

Mr McDonald—There is a provision in the triple R agreement—I do not have it—in terms of the radius. I think it is 30 kilometres, but I would need to check that.

Senator MACKAY—Has Australia Post had any negotiations with other retailers at all, such as supermarket lines or whatever, with respect to potential PostShops down the track—within existing retailers?

Mr Jackson—No..

Senator MACKAY—Is that something that Australia Post may want to do in the future?

Mr Jackson—At this stage we do not see a need for it. Our brand is paramount, and we believe that, with the standalone arrangements that we are proposing with franchise PostShops and with our corporate PostShops, they can stand on their own feet, and we do not believe that there is any advantage in going in conjunction with another brand. Obviously, there are a lot of licensees which are much smaller agencies. About half the licensee network is in conjunction, but that is all about economic viability.

Mr McDonald—Perhaps I could clarify something too. In handling workplace change, redeployment and voluntary redundancy are a key part. Of course, over a period of three years there will probably be some natural attrition as well, so the planning would accommodate each of those processes.

Senator MACKAY—Have you quantified that at all?

Mr Jackson—In terms of retail?

Senator MACKAY—In terms of natural attrition in retail.

Mr Jackson—Yes, we quantified that, and that is why I was able to say to you that we believe that we can accommodate that with the current rate of turnover we have with retail staff in the metropolitan areas.

Senator MACKAY—What is the current rate of turnover?

Mr Jackson—When we did the calculations it was around about 12 or 13 per cent.

Senator MACKAY—So you are looking at that over the period of three to four years.

Mr Jackson—Assuming that continues, yes, we would be able to encompass that absorption into the business.

Senator MACKAY—In answer to a question on notice of mine—I think it was question No. 129—Australia Post responded that Australia Post has no intention of locating post offices adjacent to licensed post offices. What does Post mean by ‘adjacent’?

Mr Jackson—I guess that response was saying that we would not be opening up a franchise in competition with a licensed outlet. We are replacing existing outlets with another format. So it is a replacement issue; it is not opening another one up to compete with them.

Senator MACKAY—Is that objective likely to stand over the next three to four years—that you are replacing and not in competition?

Mr Jackson—There will be the odd new outlet where a new shopping centre develops on the peripheral areas of the major cities. Obviously, if it is semiregional or something like that, we will look at that and at the appropriate time we will probably establish a greenfields site in those. In some cases, we do relocate an adjacent outlet to that site if it is a much stronger trading site compared to where it was previously located. But in a general sense, no, we will be replacing rather than opening up new ones in competition.

Senator MACKAY—Thank you for that. Back to you, Mr McDonald, I am assuming that there will be no disadvantage in wages and conditions to those employees who are redeployed.

Mr McDonald—There is a salary maintenance provision under triple R.

Senator MACKAY—It is not unlimited, though, is it?

Mr McDonald—No, it is not unlimited if they move to a lower level job. But we would seek to accommodate them where possible at jobs at the same level.

Senator MACKAY—You have qualified that about five times. What I am saying is that redeployment options could result in staff being on lesser wages and conditions if you are not able to accommodate them at the current wages and conditions they are on.

Mr McDonald—I suppose it is possible, but the experience to date has been that people at base level have been able to be accommodated at their level.

Senator MACKAY—Did you say ‘at base level’?

Mr McDonald—At the base retail level. But the provision of the triple R agreement, the redeployment-redundancy agreement, is for salary maintenance in a situation where somebody moves to a lower level job for a defined period, which I think is two years.

Senator MACKAY—What happens at the end of the two years?

Mr McDonald—The salary would be frozen until they adjusted to the normal rate for the job that they were redeployed to.

Senator MACKAY—The salary would be frozen for two years and then they would go onto the lower rate if it were a lower rate?

Mr McDonald—Yes, but their pay would not be reduced; it would be held at that level.

Senator MACKAY—In perpetuity?

Mr McDonald—Yes. They just would not get the same income. For example, if they were on a rate of \$30,000 and the rate that they were redeployed to was \$28,000, they would go over their existing rate and the rate would be frozen until such time as they adjusted to the other rate. So there is a two-year maintenance period.

Senator MACKAY—Is the adjustment period two years?

Mr McDonald—I think it is two years, but I will make absolutely sure of that and take that on notice and give you the exact provisions.

Senator MACKAY—What I am getting it is: if it is maintained for two years, what happens at the end of the two years? Presumably, they would go to the lower rate. Is that the way it works?

Mr McDonald—What tends to happen is that the rate is frozen—

Senator MACKAY—For two years. Then what happens?

Mr McDonald—until such time as it equates with the rate for the job to which they are redeployed—if, in fact, that job is lower.

Senator MACKAY—Let us say it is. When do they start getting less money? Is it at the end of the two years?

Mr McDonald—Yes, I think it is at the end of the two years. I need to check the exact time period, and I will get you the exact provisions.

Senator MACKAY—That is fine. Mr Jackson, are the pilot sites achieving the expectations that Australia Post envisaged?

Mr Jackson—Yes. We are quite happy with the performance of those.

Senator MACKAY—What were those expectations?

Mr Jackson—We only went on the basis of what we had been told by the franchise industry, and we are achieving outcomes in that realm.

Senator MACKAY—What are the outcomes and how are they being achieved?

Mr Jackson—The performance is close to a 30 per cent improvement on how they were performing before.

Senator MACKAY—How is that 30 per cent measured?

Mr Jackson—It is measured by a profitability model, which we have for our processes.

Senator MACKAY—So it is a straight 30 per cent increase in profitability?

Mr Jackson—Basically, yes.

Senator MACKAY—Are there any variables that deal with customer service or whatever? Is it just straight profitability?

Mr Jackson—There are very stringent customer service requirements on the franchisees. They are mystery shopped and have a requirement to meet standards similar to corporate outlets. Indeed, all bar one of the four franchises are performing well above the average for the corporate outlets in customer service quality.

Senator MACKAY—Did you say ‘mystery visits’?

Mr Jackson—Mystery shoppers. We have mystery shoppers attend all outlets—corporate, franchised and some of the larger licensed outlets—every month. There is a raft of measures that they use: how we present, how long they queue for and the attitude of the staff et cetera. So we are able to gauge whether we are giving customers a positive customer service experience.

Senator MACKAY—How are the sites for pilot franchise PostShops selected? I know this is going back, but it is all starting to happen now, so it is probably worth while revisiting it.

Mr Jackson—A number of outlets were underperforming. I was not involved at that time, but I guess they were identified where there were opportunities to convert them, based on the existing conversion policy. The decision was obviously taken to select a small number of the ones that met the policy guidelines and trial them in a couple of different locations.

Senator MACKAY—Were all four underperforming?

Mr Jackson—I think three of them were. From memory, the fourth one may have been a greenfields.

Senator MACKAY—Did the franchisee put up the money to buy the franchise?

Mr Jackson—No. Part of the conditions for our pilot site operators was that we would not charge them for the licence at this stage, because we were going to be refining the model through the process. When we felt it was ready to go forward, fully fledged, we would then require them to pay the franchise fee.

Senator MACKAY—When will that occur?

Mr Jackson—Let us assume that we start the roll-out in July. That would be when we would formalise the existing pilot sites and when we would require those four people to stay on. If they wish to stay on, they will pay the fee; if they do not wish to stay on, we will advertise those franchises as vacant and select a new incoming franchisee.

Senator MACKAY—How much does a franchise cost to purchase?

Mr Jackson—There is a calculation based on turnover of site et cetera. We believe that these sorts of operations would typically be around \$400,000 in indicative numbers, which is a multiple of the business payment.

Senator MACKAY—Is that an average? Are there many wide variations within the scenario you outlined to me earlier or is \$400,000 generally it?

Mr Jackson—We have not picked out which sites we will be selecting at this stage, but for the typical average outlet in that stratum of outlets with that level of customer account we believe it would calculate out at about \$400,000. Obviously, there are going to be some over and some under, but it would be typically that.

Senator MACKAY—How are the trial franchises remunerated?

Mr Jackson—They are remunerated by the same method as we will use for normal franchisees. They receive all fees and commissions, and we claw back a franchise service fee from them.

Senator MACKAY—With respect to the guidelines for the potential franchises overall, are the franchises held for a set term? How long is it?

Mr Jackson—Ten years.

Senator MACKAY—So \$400,000 buys you 10 years worth of franchise?

Mr Jackson—Cash flow.

Senator MACKAY—Who will hold the lease of the premises?

Mr Jackson—Australia Post.

Senator MACKAY—Are you going to be asking for rent?

Mr Jackson—That is part of the franchise service fee.

Senator MACKAY—So that comes in the \$400,000?

Mr Jackson—No. That is the licence fee. You buy the licence and you actually earn an income monthly. At the end of the month we take a franchise service fee out, which is to pay for your rent, your technology and all the marketing and overheads in running that operation.

Senator MACKAY—What is the fee, on average?

Mr Jackson—It is 45 per cent of the gross income.

Senator MACKAY—So the potential franchisees will pay \$400,000, which will give them 10 years, if they so wish, and then an additional 45 per cent gross?

Mr Jackson—They will pay the \$400,000 for the licence each year, but each month there will be a fee of 45 per cent of income, which is really only a mathematical way of saying that they get the 55 per cent. At the end of 10 years, the licence is valued, based on cash flows and projected cash flows et cetera. They will receive half the value, and Post will receive the other half. In other words, if they grew the value to \$800,000, they would get their \$400,000 back.

Senator MACKAY—Presumably, the outgoings will be met by the franchisee?

Mr Jackson—The minor outgoings will be. They pay for their staff, but we pay for the accommodation, marketing activities and the technology fee. But we take a fee back off them to offset that.

Senator MACKAY—Ten years is quite a long period. Can they close at any stage during those 10 years?

Mr Jackson—If the franchisee wants to leave after five years, there are a couple of ways they can do it. They can novate it to another person, or we can buy it back, taking account of the pro rata part of the term, and we would on-sell that licence. In other words, it would reflect the number of years that they occupied that cash flow with that licence. Then we would be able to buy them back with a prearranged formula, and we would advertise that licence again and select a new licensee to come in for another 10-year period.

Senator MACKAY—But they cannot exercise that option until after five years?

Mr Jackson—No, they could do it at any stage.

Senator MACKAY—How could people be assured that they would be no diminution of service, if you are advertising for a fresh franchisee?

Mr Jackson—We have a fairly stringent selection process for franchisees. An interesting point is that we have received over 100 formal applications for franchises at this moment, and we have not formally advertised that. Plenty of people are interested, and we would be able to select the better qualified of those to undertake those outlets.

Senator MACKAY—That is presumably expressions of interest. That does not necessarily translate into firm offers.

Mr Jackson—They will have to go through the selection process. Obviously, some will be weeded out.

Senator MACKAY—Will Australia Post pay for fit-out?

Mr Jackson—We would lease the premises and fit it out. That is part of the franchise service fee—the recovery of that.

Senator MACKAY—We will revisit this issue periodically, I suspect, depending on what happens at the election. Somebody will be revisiting it, unless there is a policy change of course. Have any of Australia Post's competitors in the delivery market, such as TNT or FedEx, successfully tendered for a mail contract of any kind?

Mr McCloskey—I am not aware of any at this stage. Do you have a particular type of contract in mind? Do you mean to do work on our behalf?

Senator MACKAY—Yes—with the reserve service?

Mr McCloskey—No, certainly not with the reserve service.

Senator MACKAY—Are there any tendered mail contracts around at the moment at all, putting aside the issue of reserve service?

Mr McCloskey—We tender our parcel delivery contracts—or there would be a tender call annually. Not every contract would come up for renewal annually, but each year at around this time there would be a tender call for parcel delivery and for some street mail delivery in some rural and regional areas.

Senator MACKAY—What is Australia Post policy in relation to tendered mail contracts? You have not got any. Is that the answer?

Mr McCloskey—We do have a public tender process in place.

Senator MACKAY—If a competitor carries letters under 250 grams as part of an Australia Post mail contract, is that permissible?

Mr McCloskey—A competitor?

Senator MACKAY—Yes.

Mr McCloskey—I do not think we would contract a competitor to carry letters on our behalf.

Senator MACKAY—What I am getting at is that you may not be aware of it.

Mr McCloskey—Contractors tend to be individual small businesses. We have about 5,500 mail contractors nationally. I do not think anyone would fall into the category of being competitors of ours.

Senator MACKAY—Do any of those carry letters under 250 grams?

Mr McCloskey—A number of those mail contractors would deliver letter mail on our behalf.

Senator MACKAY—In the last two years, has Australia Post measured how many mail contracts have been abandoned, or not pursued, by mail contractors?

Mr Sinclair—As Mr McCloskey stated earlier, we are nearing the completion of the 2004 tender call for mail contracts. I am not aware of any specific numbers regarding ‘abandoned’, as you described it, contracts. Over the last 18-month period, we have retendered 2,045 of our approximately 5,500 contracts.

Senator MACKAY—Let me put some detailed questions on notice in response to those answers. Getting answers in writing might be the easiest way to go. What is Australia Post policy with respect to the engagement of former Australia Post staff as consultants—people who have previously been made redundant?

Mr McDonald—If they accepted a redundancy package, we would not be rehiring them as employees. There is no specific policy that I am aware of in relation to consultants.

Senator MACKAY—So you could be made redundant by Australia Post on one day and then employed by Australia Post on a contractual basis on the next day?

Mr McDonald—You asked me about consultants. We have a policy of not engaging people on our staff once they have accepted a redundancy package, but there is no policy that I am aware of in relation to people who might go and work with a consulting firm.

Senator MACKAY—So the answer is yes, in theory.

Mr McDonald—There is no policy that I am aware of.

Senator MACKAY—So the answer is yes?

Mr McCloskey—Do you mean employed directly back as a consultant by Australia Post or that they might come back acting for whichever consulting firm?

Senator MACKAY—Let us take two scenarios—I understand the distinction you are drawing. Let us say to employ them back straightaway as a consultant. Could that happen?

Mr McCloskey—Theoretically, it could, but in practice it does not happen. We have a definite policy of not re-employing people who accept voluntary redundancy.

Senator MACKAY—For how long?

Mr McCloskey—Indefinitely.

Senator MACKAY—Indefinitely?

Mr McCloskey—Indefinitely.

Senator MACKAY—For 20 years, or two years, or two months, or forever?

Mr McCloskey—There is no specific time limit on it. It is a policy. The person has accepted voluntary redundancy presumably because their position has become redundant and is abolished. Then there is no capacity to redeploy them within the company. If they accept a voluntary redundancy, there is no reason for us to re-employ them. It is a matter of policy. Because they have warranted that they are accepting retirement, and they gain access to certain superannuation benefits on the basis of the warranty Post has had in place for quite some years, Australia Post has a policy of not re-employing them.

Senator MACKAY—What about employing them on a contract? Does that fall into the same category?

Mr McCloskey—As I indicated earlier, theoretically it is possible, but in practice it does not happen, to my knowledge.

Senator MACKAY—Is anyone aware of circumstances where this has happened?

Mr McDonald—No. As Mr McCloskey said, our policy is quite explicit. It is in the undertaking that people sign when they take the redundancy package that they cannot be re-engaged by Australia Post.

Senator MACKAY—I understand the re-engagement. The consultancy is what I am after.

Mr McDonald—I am not aware of a policy. Similarly, I am not aware of anybody who has taken a package and then been hired back as a contractor—

Senator MACKAY—Or a consultant.

Mr McDonald—Or a consultant, the next day. Somebody could go to work for a consulting firm, and that consulting firm at some stage could provide services to Australia Post. That obviously can happen.

Senator MACKAY—Has it happened that somebody has gone off to work for a consultancy firm and that consultancy has got work from Australia Post?

Mr McDonald—Who has taken a package?

Senator MACKAY—Yes.

Mr McDonald—Again, I cannot think of any instance where that has happened. The policy statement we have is explicit in terms of re-engagement by Post in an employment situation.

Senator MACKAY—There is a range of questions here I am going to put on notice. Can Australia Post provide, on notice, delivery performance figures for each of the months over the previous two years, up to and including March 2004?

Mr McCloskey—We can do it on notice.

Senator MACKAY—I am advised that there has been a diminution in delivery performance.

Mr McCloskey—We have a regulated performance standard of 94 per cent of letter delivery on time. Our audited performance for the previous 12 months, ending 30 June 2003, was 96.5 per cent on time. Until the end of the March quarter for this year—I may be out by a small point percentage—it is something like 95.8 or 95.9 per cent on time.

Senator MACKAY—That is one per cent-odd.

Mr McCloskey—It would not be a full one per cent, and it is still well in excess of the 94 per cent regulated performance standard.

Senator MACKAY—Why has this changed occurred?

Mr McCloskey—Performance tends to fluctuate up and down over time, within certain parameters, depending on mail volumes and things like that. There can be external factors that may have an influence, and the introduction of new technology may also tend to have an influence. Late last year we began the introduction of our FMOCR machinery, which is for large letter sorting, which makes up about 10 or 11 per cent of the sample size that is monitored. Obviously, with the introduction of any new technology, there can be some blips in performance. That technology is still being bedded down.

Mr Sinclair—I reinforce that each year for the past three years Australia Post has achieved record service performance levels at above the required target level.

Senator MACKAY—I am not disputing that; I am just curious as to why there was this change. The new technology, the specialist sorter or whatever you just referred to—is that the right term?

Mr Sinclair—That is correct. They are a flat article optical sorting machine.

Senator MACKAY—When was this change instituted?

Mr Sinclair—The change has been in planning for approximately six years and commissioning has been under way for approximately six months.

Senator MACKAY—Up and running for six months?

Mr Sinclair—In various facilities and in various forms. This is rather large-scale technology, complex equipment, which has a fairly long commissioning period.

Senator MACKAY—How much do these cost?

Mr McCloskey—From memory, there are eight machines nationally and they cost in total something just short of \$50 million. I am told that they are \$6 million each, so it will be \$48 million in round terms.

Senator MACKAY—Is it possible that the reorganisation that has occurred may have impacted detrimentally on delivery performance?

Mr Sinclair—Theoretically possible and, indeed, any introduction of technology which changes business processes and operational activities does create a degree of risk. In this instance we have had fairly extensive risk mitigation strategies in place for the commissioning period, and we are satisfied that that risk is being mitigated.

Senator MACKAY—That is a lot of money, isn't it—\$50 million? What are the projected savings?

Mr Sinclair—The savings in the business case are in the order of \$60 million to \$70 million over the life of the investment, which was seven to 10 years approximately, and those savings arrive as a result of consolidation of multiple facilities around the states and subsequent real estate and other facility costs. Those savings result from projected labour reductions, and those savings result from the ability to sort mail to a lower level of detail—for example, being able to sort the mail down into the frames that the postal delivery officer uses to create their delivery round. That technology enables that type of sortation, which minimises the number of times that a postal officer needs to handle your mail.

Senator MACKAY—Just to take one of those variables, projected labour reductions, what are the projected labour reductions?

Mr Sinclair—Over the life of the project, they are in the order of 800 full-time equivalents nationally.

Senator MACKAY—Over six years?

Mr Sinclair—Over seven to 10 years nationally. The bulk of those full-time equivalent savings would be achieved in the first 12 to 18 months of the project which is, as I said, about six months under way at the moment.

Senator MACKAY—Presumably the same provisions apply that Mr McDonald was referring to earlier.

Mr Sinclair—Absolutely. As Mr McDonald confirmed earlier, there have been zero compulsory redundancies in Post in the last eight or so years, and we expect this change program to achieve a similar result.

Senator MACKAY—There seem to be a few plans for labour reductions. Has Australia Post done any aggregate figures about how many FTEs are likely to be shed?

Mr Sinclair—I certainly do not have that information. I am happy to take that on notice. However, like any other postal organisation, efficiencies are really only able to be sought through the replacement of capital or technology with labour. Australia Post has been successful over the years in achieving that outcome without compulsory redundancies. You would note that most other postal organisations have not been able to achieve that over the previous five to 10 years.

Senator MACKAY—Could you take on notice whether Australia Post has done any work on staff reductions, FTE reductions, over the next financial year, then over the next two or three financial years and then over a five-year period—just whatever projections you have done in terms of staff downsizing.

Mr Sinclair—I am happy to take that on notice.

Senator MACKAY—Senator Harradine is here so what I might do with Australia Post, if it is all right with you, Chair, is write up some fairly detailed questions on notice, to allow the calling of the ACA. Thank you, Australia Post.

[8.08 p.m.]

Australian Communications Authority

Senator HARRADINE—Dr Horton, the minister announced on 13 May, as you know, that he had directed the ACA to impose a number of access controls to content accessible to 3G mobile phones and other devices with similar capabilities. However, the announcement did not provide details of how those restrictions would be achieved. Would you please explain in some detail what those restrictions would be and how they would work.

Dr Horton—The number range you refer to is the 19 number range, or 190 or 101 et cetera, and I think I should take you through the number range because there were a number of directions from the minister which addressed how all of those numbers should be treated, and some of them are very similar. To begin with, for customers who have access to a prefix 190, which is international premium rate services, carriage service providers are required to provide information for customer protection, and that information includes the risks of unexpected high bills from the use of these services and the actions that they can take to lessen those risks, information about the kinds of premium services that are available, information on the financial risks of using the services, how the services are charged for, how they are accessed, the role of relevant complaint-handling bodies and a range of other matters, essentially providing information to consumers on the use of that service.

The ACA made a determination, a service provider rule, requiring carriage service providers to provide that information by 19 August—in other words, within three months. The ACA will also conduct its own information campaign to assist consumers of these services,

and that will be completed by 30 June 2004. In this way, over 23 million customers will receive all of this information and carriage service providers are to provide the information every two years and to new customers. They are required to keep that information up to date.

Turning to the numbers with a prefix 191, 193, 194, 195, 196, 197 and 199, the ACA will be issuing a draft service provider determination for industry and consumer comment, and that determination will require the same information to be provided to customers and also information to customers of proprietary network services. I should add that most of these numbers will be used by mobile services, whether they be 3G or other generations of mobile service. The range 195 and 196 will be used for adult content, and there will be a service provider rule associated with adult content. In the numbering plan, what we have done with 195 and 196 is to prohibit the use of adult services in the numbering plan until a service provider rule has been created which will take into account not only those issues I mentioned before with the 190 range, but also for the 195 and 196 range, the principles which will be handed to us by the minister also imminently. We are waiting for this to complete our draft service provider rule. Those principles are in the hands of the minister at the moment, and we are ready and willing and able to move ahead with the draft service provider rule as soon as we get them, but there is a prohibition on using those two number ranges for adult services until the service provider rule is in place.

Senator HARRADINE—Is that the minister Mr Williams?

Dr Horton—Yes.

Senator HARRADINE—You are expecting those principles. How does it work? Does the minister direct you in respect of these matters?

Dr Horton—The minister will give us what you might call guidance on the sorts of principles that he would find acceptable to be included in a service provider rule, and then we must consult generally with industry, consumers et cetera over the period of time. We think it will take three or four months to develop the service provider rule.

Senator HARRADINE—And until then?

Dr Horton—Until then, there is no use of those numbers. They will not be allocated for adult services.

Senator HARRADINE—It is possible to link certain 3G phones into the Internet at the moment, is it not?

Dr Horton—It is, and one of the principles that we might anticipate from the minister is that those Internet services will also be covered by the service provider rule.

Senator HARRADINE—I see.

Dr Horton—That will extend us the powers, and, in fact, the direction from the minister allows us to move ahead with the service provider rule in that area, which we intend to do pending the guidelines from the minister.

Senator HARRADINE—What happens if the service providers or carriers do not observe your requirements?

Dr Horton—A violation of the service provider rule carries with it a penalty of up to \$250,000.

Senator HARRADINE—Even with all those restrictions, what is to stop children with a mobile phone, not necessarily their own, receiving multimedia services or accessing inappropriate Internet sites using a mobile phone? Are you saying that this particular area may also be included in the principles that will be provided to you by the minister?

Dr Horton—Yes, I do agree that that could well be included in those principles, and it would be our expectation that even if they are not included in those principles we will include them in the consultation that we have.

Senator HARRADINE—I am a bit confused actually, not by what you have said but in my own mind. I think the last time we were discussing the matter at an estimates committee with the ABA I raised this matter—I raised it maybe a couple of years ago—but they seemed to say that they were investigating the 3G services. What is your relationship work wise with the ABA and Net Alert, for example?

Dr Horton—We have been working very closely with the ABA on content rating and examination of services which could be carried on mobiles, so we certainly depend on their skills to enable us to appreciate the approach to classification of content so that we can apply a similar regime in the mobiles domain as applies to the Internet domain where the ABA has some responsibilities. We are working very closely with the ABA to find solutions in this area. For instance, the principles may say that there is a need to have content restricted in a classified way similar to how the ABA classifies material with an MA or R content classification, which we should apply in a consistent manner.

Senator HARRADINE—How would that occur with, for example, material that is unsuitable for children or teenagers or whatever—and every second one seems to have a mobile. How would that be implemented? If certain material is regarded as beyond the path of these groups, how can that be monitored and policed?

Dr Horton—Part of the approach is to consult fairly rigorously with the service providers, with the industry itself, so that they can devise mechanisms to put controls in place, in very much the same way as we are looking to industry to put in place mechanisms which will assist with payment difficulties, credit management techniques et cetera.

Senator HARRADINE—Some considerable concern has been expressed about the coolness that the Internet industry association and the service providers have for any compulsory requirements in respect of the Internet. Do you get into that R roundabout again? The Consumers Association has far more powers than the ABA.

Dr Horton—It is certainly true that the Internet industry comes from a very different regulated background in its history than the telecommunications industry, for instance, so we would anticipate that the carriage service providers, the mobile providers, become the control element in this field. We will, I think, see these convergent difficulties in many ways in the future and we have to learn to handle them and learn to deal with quite different industries as

they converge. Nobody has said it is going to be easy but nobody has said that we will resile from the task either.

Senator MACKAY—I have some questions for Mr Horsley. Is he here?

Dr Horton—Mr Horsley is not here. I think he is on the way to Tasmania.

Senator MACKAY—They are pretty important questions.

Dr Horton—I will try to answer the questions for him.

Senator MACKAY—What about Dr Kelleher, is she here?

Dr Horton—She is no longer with us. I will try to answer the questions you would have asked Dr Kelleher as well. By the way, Mr Shaw is also not with us any more. So I can blame any one of them, can't I?

Senator MACKAY—Except for Mr Horsley, who is on his way to Tasmania.

Dr Horton—I didn't say he was coming back!

Senator MACKAY—We will see how we go with the line of questioning. We cannot accuse him of being on a junket then, can we. I refer to the article by Megan Doherty on 5 December in the *Canberra Times* outlining events surrounding the tragic house fire in Gilmore in the early morning of 3 December. I would like to ask the ACA for some feedback regarding comments Mr Horsley made about these events. In the article it is asserted that Mr Horsley described the events of that morning as 'a once in 100 years event'—I am quoting from the article. Are you aware whether he has been quoted correctly, Dr Horton?

Dr Horton—I believe that is what he may have said, yes. I think he may have derived that colloquialism from things they say for emphasis about the weather.

Senator MACKAY—But did not the ACA's own final report into this matter say that the call load at that time was quite 'modest', compared to loads during the recent Canberra bushfires and the Sydney hailstorms? That is sort of stretching it a little bit in terms of colloquialism.

Dr Horton—There were a couple of complications involved in this and we made two reports on the incident. Our preliminary report made something like 10 recommendations. One recommendation coming from that, which was implemented in December, was to pay attention to a recorded voice announcement system which would be activated if calls remained unanswered. The RVA would tell the caller to stay on line for the next available operator.

When we looked into it, we found that Telstra was not at fault. It is required to answer 85 per cent of calls within five seconds and 95 per cent within 10 seconds, and it met those benchmarks. But we did find that the emergency services, who it was passed on to, did not act in sufficient time. That seems to be the issue that Mr Horsley found. The dedicated emergency network and infrastructure operated by Telstra for handling emergency calls functioned correctly but there were also a large number of calls that should have been made to other non-emergency services, such as the SES. We found that the Telstra emergency call centre was adequately staffed to handle the number of calls received but its answering times were

affected by those difficulties in transferring calls to Victorian emergency service organisations who were engaged in the storms which Mr Horsley referred to as ‘a once in 100 years event’—the floods in Melbourne. That, I believe, is where the colloquialism came from.

Senator MACKAY—How would you phrase it, with the benefit of hindsight?

Dr Horton—I would not put any figure on it, like ‘once in 100 years’, but certainly it was an unusual complication which was caused by flooding in Melbourne.

Senator MACKAY—I guess my confusion was that the ACA’s report noted that the traffic loads in that period were modest compared to the 000 traffic loads associated with the Canberra bushfires and severe Sydney hailstorms, so it does not strike me as a being a one in 100 years event. Would that be a fair comment?

Dr Horton—I do not know whether that is a fair comment. Perhaps I need to defer to Mr Horsley on this to get more background on that situation.

Senator MACKAY—Why did he make this assertion without investigation, because when the investigation occurred it seemed that it was not quite as bad as it was made out?

Dr Horton—I will get a few more of the facts of the situation together and give you a report on that. That is as far as I understand it.

Senator MACKAY—Are the reports in that article true that Mr Horsley said that putting on more lines or opening your call centres might be, and I will quote from the article, ‘an excessive response’?

Dr Horton—Is it true whether he said that?

Senator MACKAY—Yes. He is not here so I cannot ask him.

Dr Horton—Perhaps I could refer that to him. I do not know what he said to the journalist so I cannot defend it or debunk it.

Senator MACKAY—In general terms then—this is the difficulty of his not being here—I am wondering why terms like ‘a once in 100 years event’ and ‘excessive response’ to the suggestion about putting on more lines or opening new call centres were trotted out so quickly before the matter had even been properly investigated.

Dr Horton—If you knew Mr Horsley you would realise that these are some of the expressions he comes out with, but the population of Australia in general is not aware of this. Mr Haydon tells me that the issue here—and I will just repeat what I said—is that the Telstra call service was working fine but it had difficulty passing on the calls to the emergency call services.

Senator MACKAY—I understand that, but other than Mr Horsley being a bit of a scamp, or whatever—

Dr Horton—No, I would not call him a scamp.

Senator MACKAY—Obviously people assume some level of gravitas with respect to comments from the ACA, and I understand we all have our own personal proclivities—myself included—but it just seems to create a view or an impression that things were not as serious

as they may have been without proper investigation. Surely officials from the ACA ought to be more temperate in their language.

Dr Horton—I certainly agree with that, but I am in the difficult position right now of not knowing the time during the investigation at which Mr Horsley made those remarks, let alone whether they are accurate, but they certainly sound like the footprint of Mr Horsley.

Senator MACKAY—Maybe so. As I said, he might be great fun at a dinner party, but I will bet that the Canberra people whose house burnt down were not particularly impressed.

Dr Horton—Sorry?

Senator MACKAY—I said he might be great fun at a dinner party but I will bet that the people whose house burnt down were not particularly impressed with his jumping the gun and defending Telstra without proper investigation.

Dr Horton—It has just been pointed out to me that we believe that the expression ‘a once in 100 years event’ came from the Bureau of Meteorology.

Senator MACKAY—Was he quoting them directly?

Dr Horton—Apparently it was a quote from the Bureau of Meteorology, yes.

Senator MACKAY—So they said this and he has repeated what they said?

Dr Horton—I will look into that and find out.

Senator MACKAY—Okay; fair enough. I am advised that he made these comments well before the inquiry started.

Dr Horton—I will also investigate the timing of it.

Senator MACKAY—I think you will find it is the case. The report, as you indicated, effectively cleared Telstra by concluding, ‘The current emergency call centre arrangements are functioning well.’ Given that the family’s house was destroyed by fire whilst six Gilmore residents tried to call 000, how could it be concluded that Telstra’s current emergency call centre arrangements are working well?

Dr Horton—I am pretty sure we have had access to the call centre records of these calls and that was part of the investigation. We found that there was a problem of people not hanging on long enough to be answered.

Senator MACKAY—Let us go to that issue. Whilst analysing the calls made by the Gilmore residents, the ACA concluded that there was no evidence to substantiate reports being made by three callers that some of their calls to 000 on 3 December ‘rang out’ before being answered. The ACA also concluded that there was a satisfactory explanation. Is it true that in the report, when presented with conflicting accounts of that night’s events from Canberra residents and from Telstra’s call records, the ACA simply decided to agree with Telstra?

Dr Horton—I do not know the answer to that question but I will take it on notice, if you do not mind.

Senator MACKAY—Whom did the ACA interview with respect to this inquiry?

Dr Horton—I believe that the people who had claimed to ring the 000 service were interviewed.

Senator MACKAY—Who were they?

Dr Horton—I do not know who they were; I do not know their names.

Senator MACKAY—I am advised that one of the people who were interviewed was the Gilmore family's neighbour. Is that correct?

Dr Horton—I cannot confirm that but I will do.

Senator MACKAY—The neighbour, I am also advised, drove to the Chisholm fire station to alert fire fighters following problems getting through to triple 0. Is it the ACA's contention that his assertions were incorrect?

Dr Horton—Without consulting my colleague, that is the conclusion I would draw from what you say.

Senator MACKAY—We are getting nowhere fast here.

Dr Horton—The difficulty we have is that Mr Horsley is not here.

Senator MACKAY—Why isn't he here?

Dr Horton—We did not know that we would need him.

Senator MACKAY—On that assumption, how do you know who will turn up?

Dr Horton—We try to guess which issues will be raised, and there are a couple of issues that you left me with last time we spoke, which if you do not mind we will return to. Apart from that, bringing the whole crew up from Melbourne would be a very expensive proposition.

Senator MACKAY—But this is a major report that was brought down in February that was the subject of questions in parliament. You did not think that we might ask questions about this?

Dr Horton—We thought you may ask a question about it, but not to the extent that you have been. I do not know names of people involved.

Senator MACKAY—Does anybody else know? Is anybody else here who worked on this?

Dr Horton—I do not think so; otherwise I could have used them.

CHAIR—I suppose in a way it does raise the general issue of the purpose of estimates. Estimates are a parliamentary accountability and scrutiny process whereby any major issue that relates to the financial situation of any department or program can expect to be examined. Perhaps you should take that into account in deciding who should come here in future.

Dr Horton—Thank you for that advice. We will certainly take that into account.

Senator MACKAY—This is particularly so for the budget round where, effectively, we can ask anything that relates to expenditure. It is normal for agencies to provide everybody who can answer questions relating to the activities of a particular agency. We are not talking supplementary estimates here. This is the major budget round. You have taken on notice who

the ACA actually interviewed. Do you want to take on notice, if they did interview the Gilmore family's neighbour, whether they concluded that his assertions were incorrect? I have one other question. Putting aside the issue of the alleged ringing out of the triple 0 calls, in its report did the ACA establish at exactly what time the first triple 0 call was made by the Gilmore's residence regarding the house fire?

Dr Horton—I can only take these questions on notice. It is really the same answer.

CHAIR—It is okay to take them on notice, because they have to be answered in due course. Are you happy to put your questions on notice, Senator Mackay? It is really the only option you have.

Senator MACKAY—That is true. I suppose we could have the officer back here on Friday.

CHAIR—That raises the issue of spillover days, which we may or may not need.

Senator MACKAY—We might do that.

CHAIR—It is a possibility. If you would like to put your questions on notice in the first instance, we will then see where we are.

Senator MACKAY—If we have the answers prior to Friday, we might not need to bring the ACA back on Friday. I guess that is up to the ACA.

Dr Horton—We could attempt to bring those answers back by Friday.

Senator MACKAY—That would be good, because it may well be that there is no requirement. I will finish them.

Dr Horton—There are a couple of things you left me with.

Senator MACKAY—I have not finished. I want to know exactly what time any triple 0 calls concerning the fire were actually answered by a triple 0 operator. I notice from a cursory reading that this information is not readily available in the report. Is the ACA aware of allegations in Western Australia of the transfer of emergency calls being delayed—you might be able to answer this—from Telstra's Melbourne and Sydney call centres because staff in those centres are unfamiliar with Western Australian place names? Are you aware of that?

Dr Horton—I am not personally aware of that.

Senator MACKAY—No, but is anybody in the ACA aware of that?

Dr Horton—It is possible, yes. We can take that on notice as well.

Senator MACKAY—Are you aware that Telstra is downgrading access to special triple 0 ring times for emergency workers in Western Australia?

Dr Horton—No, I am not aware of that. That is a bit of a surprise. Thank you for informing us.

Senator MACKAY—So you will check that for us? They are all the questions I have on that, so if we can get some answers back in the next few days that would be good and we will decide where we go from there. Where is the ACA at with the various inquiries and

determinations regarding premium rates service and telecommunications credit? Have any rules actually been put into place protecting consumers over the two years that it has been dealt with by the ACA?

Dr Horton—I do not believe you were in the room when I was speaking to Senator Harradine about premium rates service.

Senator MACKAY—I probably was, but it does not stop me asking the question now, does it?

Dr Horton—Okay. We have just arrived at a service provider determination for 190 services. Those 190 services are used for international premium services. We have struck a service provider determination which will cause service providers to provide information in a number of categories to consumers. They must provide that information within three months of the determination, which means by 19 August 2004. That means that over 23 million customers will receive information from those CSPs on things like the risks of unexpected high bills, the kinds of premium services that are available, the financial risks of using these services, how services are charged for, how they are accessed and the role of relevant complaint-handling bodies. For services which will largely be mobile originated—that is, 191, 193, 194, 195, 196, 197 and 199 prefixes—they will also have a service provider determination which will be out for industry and consumer comment over the next three months, after which we expect to draw that up. They will have information requirements for consumers very similar to the 190 range. In addition, the 195 and 196 ranges, which will be set aside for adult services, are prohibited to be used until the service provider determination is determined in about three or four months.

In terms of credit management approaches by carriage service providers, we have been requested by the minister to perform an investigation over the next six months into what mechanisms are put in place by carriage service providers to approach and solve these circumstances. We will be reporting back to the minister in six months time and providing recommendations in that area—especially if we do not see solutions which meet the sorts of safeguards to the community which we think are appropriate. We have also made an amendment to the numbering plan to declare those number ranges for premium rate services. That is a summary of where we are at with premium rate services.

Senator HARRADINE—Could we get a copy of the determination that is now in force and that needs to be complied with by—

Dr Horton—Within three months; by 19 August. Yes, we will provide that.

Senator HARRADINE—You mentioned there were two other determinations in draft form. Could we also get copies of them? Have they been sent out for comment?

Dr Horton—They are being prepared. The service provider determination for the other number ranges beyond 190. We will provide you with that once we have it ready, and we can also provide you with the amendment to the numbering plan which prohibits the use of adult services.

Senator HARRADINE—We would like a copy of the draft determination that you have. Didn't you say that they had been circularised amongst the—

Dr Horton—Not at this stage. We have to incorporate the principles that the minister is imminently going to give us. Once we have all that information, we will be ready to circularise the draft service provider determination and we will provide you with a copy of it.

Senator HARRADINE—For comment?

Dr Horton—Yes, for comment. By law we have to consult for a period of at least 30 days.

Senator HARRADINE—It is for me to ask this of DCITA as it relates to the minister. I am asking about the principles that the minister will provide. I do not know whether you are able to answer that or whether DCITA—

Dr Horton—I think it is more appropriate for the department to answer that. The department is appearing later this evening—or the secretary may have a comment.

Senator HARRADINE—I did not think they were appearing later this evening.

CHAIR—They are. Senator Lundy is going to ask questions of the department after nine.

Senator HARRADINE—They are appearing tomorrow as well. I was advised to ask the questions on restructure tomorrow.

CHAIR—They are appearing under various headings. Since Senator Harradine has finished for now, do you wish to proceed, Senator Mackay?

Senator MACKAY—Yes. Let us go back to the press release that was issued on 8 April 2003, which was called 'New rules to protect consumers from high telephone bills'. What did that announce and what has happened since then?

Dr Horton—As I mentioned, industry is on notice to put in place mechanisms to protect against unexpected high bills.

Senator MACKAY—They are on notice but nothing has happened?

Dr Horton—We have six months to investigate this and, within that six months, we will be gauging the progress of industry in putting in place suitable mechanisms to assist with unexpected high bills.

Senator MACKAY—But you put out a press release on 8 April 2003 called 'New rules to protect consumers from high telephone bills'.

Dr Horton—2003, not 2004?

Senator MACKAY—Yes, 2003.

Dr Horton—That is a different story; let us go back a year. At the time we proposed to the minister that there should be a cap on unexpected high bills, and that was considered by the minister. The minister would prefer industry to find solutions, and that was part of the letter we got from him this year which asked us to investigate over the next six months what systems and processes have been put in place to assist with these sorts of unexpected high

bills and how they are handled—credit management techniques and so on. So the story has changed somewhat over that period of 12 months.

Senator MACKAY—So the ACA have provided a discussion paper to the minister, and the minister has said, ‘No, I would like a different process here’?

Dr Horton—Yes, we proposed a recommendation that there should be caps. That was a blunt instrument, if you like, but the minister would prefer to see what industry can do of its own accord before we get such a blunt instrument, if necessary. That is my reading of the situation.

Senator MACKAY—So, despite your best efforts, it was not really new rules to protect consumers from high telephone bills.

Dr Horton—They might not be our best efforts. Maybe our best efforts could be to engage with industry to see what it can do in terms of industry self-regulation—explore the flexibility and the boundaries of that envelope—and then come in a little bit more heavily in formal regulation if industry does not rise to the challenge of industry self-regulation.

Senator MACKAY—Are there any new rules?

Dr Horton—We will not decide on any new rules until towards the end of the six-month period. There may be some internal guidelines or codes that industry might arrive at, but we are waiting with huge anticipation that industry will do something positive.

Senator MACKAY—The ACA provided a report to the minister and a media release headed ‘New rules to protect consumers from high telephone bills’. The minister came back—which is a minister’s right—and said, ‘No, this is too heavy-handed. We would like industry to have a look at it.’ Is that a fair summation?

Dr Horton—That is my reading of it, yes.

Senator MACKAY—That is fair enough. Given the massive growth in telephone credit problems reported by the Telecommunications Industry Ombudsman, why does the ACA not simply recommend credit limits for all consumer phone accounts?

Dr Horton—That is essentially what we did last year.

Senator MACKAY—And the government said no?

Dr Horton—The government said that there may be better solutions. Rather than imposing solutions, industry may devise more appropriate solutions which in fact may be tailored to the particular company or to that sector of the industry instead of being a blunt, across-the-board instrument.

Senator MACKAY—So in April last year you effectively recommended credit limits, did you?

Dr Horton—Yes, we did. That was our approach.

Senator MACKAY—Have you contacted financial regulators regarding dealing with this issue?

Dr Horton—We have certainly studied other industries like the banking industry and what they do. I do not know the full details of what staff have learned from that, but it has certainly informed our approach last year and it will assist us this year as well.

Senator MACKAY—Broadly, are you happy within the organisation that a solution to this problem has not yet been implemented, given that effectively—using your terms—you recommended credit limits in April last year? It is not a happy solution.

Dr Horton—As a regulator you quite enjoy life when things are either black or white and there is not much movement in terms of interpretation. Sometimes that is difficult to achieve when we are trying to encourage an environment of industry self-regulation. We have to go with the way industry can perhaps move in a better way and experiment sometimes to get to the same goal. So we are happy to give industry the benefit of the doubt at the moment and put it on trust in a conditional tolerance way.

Senator HARRADINE—You are talking about the industry. Who is the industry?

Dr Horton—Generally, these are the mobile service providers, the fixed service providers—anywhere where there can be an unintended overspend by the user. Particularly in premium rate services is where we might anticipate that sort of thing.

Senator HARRADINE—Is there an organisation representing those particular providers?

Dr Horton—Yes, there is.

Senator HARRADINE—Which is that?

Dr Horton—We often approach the ACIF—the Australian Communications Industry Forum. If we want a voluntary code to be developed we can ask them to produce a code. This is an area in which we would expect that they would provide a forum for industry to talk over these issues over the next few months.

Senator HARRADINE—Isn't it in the industry's interest to have the least possible regulation?

Dr Horton—I would have thought so, and that is why I say that we are in a period of conditional tolerance where we hope that industry will make significant strides forward with industry self-regulation to make our challenge less mountainous.

Senator MACKAY—I guess all I can do is congratulate the ACA on making that recommendation. There is no minister here so I cannot ask why on earth it was not adopted by government—if the ACA actually recommended credit limits. However, we cannot pursue that any further. I turn to the issue of customer service exemptions by carriers. Do you have the right people here? You do not have Mr Horsley coming back from Tasmania, do you?

Dr Horton—No, we do not need Mr Horsley for this one, I do not think.

Senator MACKAY—Why did the ACA use KPMG to inquire and report on the use of customer service exemptions by carriers?

Dr Horton—This is in relation to mass service disruptions?

Senator MACKAY—Yes.

Dr Horton—Our role in mass service disruptions which carriers can declare is to monitor and report. As you know—we have spoken about this in the past—we are aware that you are uncomfortable with that. We do not have a role as a gatekeeper, where a carrier will come to us and say, ‘We have this situation which we think is a mass service disruption and you, the regulator, have to give us your assent before we can declare that.’ That is not the way it is. They can just declare it.

We share your concerns in this area so what we did with KPMG was to put them in to look at the processes and systems at least which Telstra has in place for dealing with mass service disruptions. We will also be investigating—and this is partly a follow-up to some suggestions that you made about two estimates ago—and homing in on some of those mass service disruptions which seem to be repetitive in terms of where they occur. Then we will be able to build up a picture of whether there is auxiliary information, for instance from the Bureau of Meteorology, which supports this, whether Telstra’s resource allocation and its systems are adequate for the task et cetera, so that we can look at how reasonable or genuine these mass service disruptions might be in those areas. I think that is about as far as we can go with the powers that we have in terms of monitoring and reporting. But it should be quite revealing if there are any concerns which we find.

Senator MACKAY—My point is: why did ACA contract KPMG? Why didn’t ACA undertake the exercise itself?

Dr Horton—Because of the skills involved in doing this sort of thing. We do not do such assessments of processes and systems ourselves. KPMG has the skills and resources to do it. We are only a small organisation, with appropriate skills but not the full range of skills. But we had some money that we could afford to do it with.

Senator MACKAY—Do you think it would be preferable for ACA to have the resources to be able to conduct those sorts of investigations itself, rather than contracting out?

Dr Horton—It is certainly a skill that we could build on and retain with the organisation. It would be useful for other purposes but I think we have to cut our cloth with the budget that we have.

Senator MACKAY—I understand that, but one could say that it is the ACA’s job to audit telco figures. You seem to be indicating that you do not have enough resources or sufficient budgetary capacity to do that.

Dr Horton—To isolate one particular thing that we monitor is probably not the correct thing, because we need to also consider the network reliability framework and also the CSG, which we monitor. That is our way of getting to the actual services which need remediation, particularly with the network reliability framework, which operates at three levels, as you know. First of all, it gives us the performance evaluation of the 44 regions associated with the Telstra network, then it goes down to the exchange level and then, finally, it goes to the individual service, where we can sort out the long tails, which are critical to many subscribers. It is the combination of those three things which allows us to get some sort of identification where remediation is required, and the network reliability framework allows us to request

remediation plans. In a roundabout sense, we have it covered, but we would not do that entirely from considering mass disruption statistics.

Senator MACKAY—Does the ACA agree with KPMG’s findings that, overall, Telstra and Optus have appropriate CSG exemption systems in place for CSG exemption provisions?

Dr Horton—I believe we do. I will ask Mr Neil to answer that.

Mr J. Neil—In the last quarterly bulletin we gave an outline of what was undertaken during the audit, indicated that we broadly accepted the findings and indicated some of the actions that we were going to take as a result.

Senator MACKAY—Did the ACA conduct any probity checks to ensure that KPMG did not have a conflict of interest regarding this report?

Mr J. Neil—The contracting arrangements provide for companies to give us declarations of the lack of any conflicts. We had some issues about KPMG because, in fact, they do internal auditing for the ACA. We gave that due consideration and, considering the purposes that we were seeking their assistance on, it did not cause us great concern.

Senator MACKAY—Did KPMG undertake any auditing or financial work for Optus or Telstra?

Mr J. Neil—Up until recently I think PricewaterhouseCoopers was the major auditor for Telstra, but it has changed and I am not sure who does it. It is not KPMG; it is one of the others. I am sure it does and at times has done work for other major companies, but we were given appropriate assurances.

Senator MACKAY—What about Optus? You said that you sought appropriate assurances. Did they give you assurances with respect to Optus?

Mr J. Neil—I cannot talk about the specifics of it. It is a standard contracting thing, and they were checked as part of the process.

Senator MACKAY—Do you want to take that on notice for us?

Mr J. Neil—I can check and see if there are any specifics.

Senator MACKAY—Was the ACA concerned that KPMG did not audit the accuracy of the data provided by Telstra with respect to Telstra’s analysis of mass service disruptions?

Mr J. Neil—Part of the issue with the KPMG audit was that, for the scope of the audit and the resources that we made available to them, they felt there was only so far they could go with the audit process. They did the audit of the systems, and they gave substantial assurance that the systems that were in place and operated by Telstra were appropriate, to the extent that Telstra were compliant insofar as they operated in accordance with those systems. In relation to the accuracy of data and CSG, we are about to undertake as a follow-up process a further audit-cum-investigation, where we are going to use another auditing company to do audit type functions. We will have people involved in the process to give a policy overview so we get what we want out of it. That will be basically directed at checking CSG data, so that issue that you have raised will get addressed in this forthcoming audit.

Senator MACKAY—Who is going to undertake that work? Presumably it will not be anybody within the ACA. Has the contract been awarded yet?

Mr J. Neil—It is in process, but I am sorry I just cannot bring it to mind.

Senator MACKAY—It is a long day. Do you want to take that on notice?

Mr J. Neil—Yes.

Senator MACKAY—Can you provide me with the time lines et cetera of what precisely will be undertaken by whichever company it is?

Mr J. Neil—Yes, and I can give you an outline of the scope of the audit and the time lines involved.

Senator MACKAY—Presumably, the ACA were concerned that what is a fairly pivotal issue—that is, the accuracy of the data itself—was not covered. So what have you done? Have you said, ‘Let’s have a look at that specifically.’

Mr J. Neil—Yes. We have decided, in part because there have been allegations about the quality of the data, that we ought to check it. That does not reflect that we have any specific concerns ourselves that the data is not accurate but, given that people have raised the issue, we have undertaken it for due diligence reasons.

Senator MACKAY—That is fine. Thank you for that.

CHAIR—We will take a short break.

Proceedings suspended from 9.05 p.m. to 9.18 p.m.

Senator MACKAY—On page 38 of the KPMG report—and you may want to take this on notice—data shows that 29 of Telstra’s 66 mass service disruptions in 2002-03 were in country New South Wales, a rate which far outstripped any other region and in fact quadrupled Queensland country. I wonder if the ACA has investigated any weather data from that period that would support Telstra’s seemingly high use of MSDs in this area over that period, 2002-03.

Mr J. Neil—We have not looked specifically at the data relating to the report. We have recently asked questions about at least one incident and about their claims in particular months. The monitoring that we do on a regular basis of the quarterly incidence of these things has shown an increasing trend, particularly in New South Wales. Queensland has caught up in the last quarter. I think it was a pretty even split—out of 51, 23 were in New South Wales and 23 were in Queensland.

Because of the increasing incidence of these issues, it raises the implication that, whilst overall the level of performance being provided by Telstra to the general population is fine, there may be particular areas that are not getting the same level of service and, in terms of the customer service guarantee, may not be getting what they might reasonably expect. Therefore, we are trying to find ways of looking more closely at these issues. We are engaging with the Bureau of Meteorology on how we might make better use of their weather data. Internally, we are developing some approaches to talking to Telstra about doing some case study work of particular regions, taking into account our NRF data which shows lower levels of

performance, say, in southern New South Wales. We are looking at the totality of our data and saying, ‘What does this mean? Does it reflect weather? Does it reflect problems with the way the network is configured? What does it show? How do we get at it?’ We are still developing our approach to getting at the issues, but those are the sorts of things we are looking at.

Senator MACKAY—Would this be something that you might get the new auditor, whoever that is, who is going to look at the data specifically, to look at?

Mr J. Neil—No, I do not think so. The skills we are using for the CSG are basically about checking that the systems that they have in place are appropriate and that the data that is coming out of those systems is accurate, by and large. So this is really looking at more of a sort of case study of what the issues are that are causing the level of performance, say, in a particular region such as southern New South Wales. What are the topographical network issues that they have to face? It would take a more expansive type of study; it is not simply an audit of systems and numbers. It is about what the real issues are and why the results are as they are. Are they good in the circumstances or could they do better?

Senator MACKAY—That is a much broader investigation than you are able to carry out.

Mr J. Neil—It might require us to use consultants of some form to look at different aspects of it but, as I said, we are still scoping out how we might approach that issue. We are talking to Telstra about how we might work with them on it and what other information they can provide us with to give us a better picture. As I said, what we are looking to do is to draw together our experience of 12 months of the NRF and what that shows us. The data that we are getting out of the monitoring of MSDs is just an indicator that there might be an issue. What the issue is, we need to investigate more closely.

Senator MACKAY—Fair enough.

Dr Horton—I would like to provide you with clarification on a couple of points. It is an advantage of having a coffee break.

Senator MACKAY—Sure.

Dr Horton—Firstly, I want to clarify the caps applying to services. We certainly went back to the minister with a proposal for what the caps should be at his request. It turns out that, at the time—and this is the reason for the change in emphasis—Telstra disabled the international diallers of Internet dumping and also Optus and Telstra began their own voluntary implementation of caps. The stage was then set for a different approach with industry self-regulation. It was not a fanciful change of mind at the time. That is just a little more information. Secondly, on the principles that go with the service provider rule, I mentioned that we were in dialogue with the minister’s office and expecting some guidelines. In fact, we will be left to our own abilities to come up with principles in consultation with industry. What we have as a direction from the minister is all we will get. So we will proceed on that basis.

Senator MACKAY—But Internet diallers are only part of the problem.

Dr Horton—Certainly I agree that they are only part of the problem. The voluntary undertakings by Telstra and Optus are also part of the problem. What we are looking for over

the next six months is a much more consummate solution from industry. We will be gauging that towards the end of the six months and going back to the minister.

Senator MACKAY—Thank you. Do I take it that ACA does not have as yet any independent verification of mass service disruption exemption claims in place at this point based on our previous interaction?

Mr J. Neil—No, the claims for exemption are a self-declaration. The arrangements provide for individual consumers who feel that they have been poorly treated by the outcome of that to raise the issue with the TIO. If they think they are not getting appropriate treatment, the TIO can look into the circumstances and make a determination about whether the individual consumers who complain should get their CSG compensation paid and so on. But there is no necessary retrospective action in relation to the CSG exemption claim itself.

Senator MACKAY—Do you think that independent verification of mass service disruption exemption claims might be a way to go?

Mr J. Neil—My personal view is that it is not an issue. But, based on experience of these things, it would be very difficult for an outside body to be able to easily come up with a decision. As the acting chairman suggested, it is nice for regulators when you have black-and-white decisions to make. In conceiving the process and allowing for carriers and service providers to exempt themselves in circumstances beyond their control, if legislators felt that they could define the circumstances beyond control sufficiently, they would have done it. They have chosen not to. Deferring that sort of discretion to a regulator or an independent body might leave them with the same problem of how you define a set of circumstances, which can be quite varied given that they are mostly weather related events. There are a few man-made ones but, by and large, they are weather related.

Senator MACKAY—I want to go back to the New South Wales situation again. New England residents had Telstra mass service disruptions for 103 days in 2002-03. You mentioned that you had mechanisms in place, including talking to the Bureau of Meteorology and whatever, during this period to ascertain whether the number of MSDs was justified.

Mr J. Neil—I am sorry if I misled you—

Senator MACKAY—No, I am a bit tired.

Senator Kemp—Time to go home.

Senator MACKAY—You have hardly been here.

Senator Kemp—I still think it is time to go home.

Senator MACKAY—Sorry, Mr Neil.

Mr J. Neil—I was trying to indicate that we have not gone back and investigated in detail the specifics of those periods that have been identified in the report. We have had a look at some other areas. The figures for December seemed high, so I got one of my people to do some checking to see whether we could independently relate Telstra claims to Bureau of Meteorology reports. We did that to the extent we could. Where we could not, we have asked Telstra to provide us with the information that they have. So we have done some of that, but

we are still short of doing a systematic assessment of those claims. I am not convinced that we would benefit greatly from going back and doing a historic examination. The question might be: do we choose a period and do some examination going forward? As I indicated before, we are still doing some work on how we best approach this issue.

Senator MACKAY—Therefore, you are basically not planning to have a look at this particular circumstance?

Mr J. Neil—I have not made any plans to go back and look at New England for some past period. That is not necessarily the approach I would take to it. We might, for example, take a much closer look at some forthcoming ones. As I said, we are still talking to the Bureau of Meteorology about what sort of information they can give us about weather, weather patterns and how predictable they are; whether they can give us some sort of assessment of whether it would be reasonable to expect Telstra to be able to plan more effectively for changes in the weather over the longer term or not; what data they can give us if we did want to independently investigate individual claims, for example; and how, if at all, we could relate that to effects on the network. There are all sorts of issues that would need to be addressed if you were going to do this seriously. The question then for us is: what resources can we afford to do this with on a continuing basis for what return in benefits to consumers?

Senator MACKAY—That is right. I refer to your recently released *Telecommunications performance monitoring bulletin* for the December quarter 2003. In that report, Telstra's mass service disruptions for the quarter nearly tripled from 19 in the previous year to 55 in December. Have you had a look at that discrepancy?

Mr J. Neil—As I said before, we have noted that there has been a significant increase over a period and that they have been steadily escalating for about a year. That is one of the reasons why we are taking a closer interest in the effects of mass service disruptions while they are only a handful—and they remain a handful in the western part of the country: Western Australia, South Australia and the Northern Territory. Tasmania, I think, have relatively few incidents. The biggest growth and the biggest numbers have been in the eastern states, particularly in New South Wales and, more recently, in the last six months, in Queensland. That is one of the factors as to why we are looking at it more closely. We are doing some assessment of the causes and those sorts of things and taking a much closer interest in them generally.

Senator MACKAY—I want to turn to the code for consumer contracts. Can ACA confirm that in April this year it extended the ACIF deadline for developing a code for consumer contracts by a further six months?

Dr Horton—We are anticipating that ACIF will come forward with a code by October. That is our expectation. They had come to us with a much later date, but we felt we had to draw the line at this and give them an accelerated time frame. The powers that we have are that we can draw up a standard if a code is not forthcoming. We would hesitate to use that power, because we need to give industry the full opportunity to develop codes by its own volition—industry self-regulation needs to be nurtured along. I am pleased to say that ACIF's new CEO has undertaken to personally catalyse that work so that ACIF meets that new

deadline or comes as close to it as possible. We have high hopes that ACIF will meet the new deadline for the consumer code. We are very pleased with the progress.

Senator MACKAY—What is the ACA saying to consumers that are currently being hit with unfair contracts—‘We’re hopeful that the matter will be resolved within six months’?

Dr Horton—Up until the end of last year, there was an ACIF guideline, as it was called, which had no formal stature—we could not enforce it, for instance. We examined the performance of carriage service providers against that guideline. Each one of them in some way is not meeting the guideline. So we individually went back to them and told them where we think they are falling behind or below the expectations of the guideline. We also had some work done by the Consumer Law Centre on a model contract, which will feed into the ACIF process to give some assistance with the development of the consumer contract code. We are doing all that we can to ensure that a good result comes out of this for consumers.

Senator MACKAY—What sort of time frame do you expect that the code will be developed in? Will it be some time in 2005 or 2006?

Dr Horton—We anticipate that it will be operational by the middle of 2005 and that by October a draft code will have been completed by ACIF. That needs to go through a proper, consultative process and then be presented to the ACA for registration. We need to evaluate that against our expectations and the requirements of the legislation. We hope to have all this packaged away and finished by the middle of 2005.

Senator MACKAY—Very good. One thing that is certain is that whatever happens with the election there will be a change in your area.

Dr Horton—I think so.

Senator MACKAY—With both parties announcing the merger of the ACA and the ABA. Good luck with that.

Dr Horton—Before you disappear, Senator—

Senator MACKAY—You wish!

Dr Horton—you asked me at our last meeting to do something about a table in our telecommunications performance monitoring board meeting of June. As you know, I have been acting since September, so I had to go back to my predecessor and remember who has a special interest in this area, plus staff, because the interpretation you put on the table on page 29 was to interpret a monthly average as an annual average. I said at the time I could see how you could do that, but it was not the right thing to do—it would be out of context. In fact that was true, and the figures still stand—they are accurate figures. Staff are a little bit dismayed at reading some of the parliamentary discussion calling these figures bodgie or painting Telstra with a rosy complexion. On behalf of staff, I need to bring to your attention that we have changed the label on that column—

Senator MACKAY—Yes, we did note that. Congratulations, seriously.

Dr Horton—so that it cannot be mistaken. The only bodgieness that comes out of it is an unfortunate interpretation of the table itself but, regarding the figures, I stand by the integrity

of the staff and the people involved in this. Although they feel a little dismayed and demoralised by some of the remarks which were made in parliament during the postal legislation debate, I can assure you that there is nothing biased or prejudiced about the way staff have presented these figures. So please do not kill the messenger.

Senator MACKAY—Now everybody is saying there has been a massive increase in faults!

Mr J. Neil—Thank the most recent figures. The monthly figures are improving, actually.

Senator MACKAY—No, that was actually a joke.

Senator Kemp—Dr Horton, the point is well made, in my view. I think it is appropriate that you brought this to the attention of the committee. I think it is unfortunate if figures are used in a way which perhaps goes beyond the normal vigour and robustness of parliament and parliamentary debate. People reflect on the quality of work which has been done. I do not know whether Senator Mackay would like to make some comment which would give some comfort to the staff. I think it would be appropriate if there were some comment, because I think that people do work hard and I can well appreciate that they do feel offended by what has happened. I just want to make the point that I think it was entirely appropriate that you brought your views to the attention of this committee.

Senator MACKAY—As the person who pointed it out in the first place, I congratulate the ACA for making those changes. I think that is much more accurately reflecting the circumstance and situation.

Senator Kemp—Have you got any comment for the staff, Senator?

Senator MACKAY—Minister, I would be very careful. You would not randomly have this interaction. I do not think you listened very closely to what Dr Horton said.

Senator Kemp—I am looking closely at what is said.

Senator MACKAY—Just quit while you are behind, as they say. Dr Horton, good luck. One thing which I can assure you of, I suspect, is that you have got a better chance of being ahead of the new super-regulator than one David Flint.

Dr Horton—No comment.

Senator MACKAY—With those comments, good luck to everybody at the ACA in the future.

CHAIR—Thank you. As that is the conclusion of questions for this group, thank you very much to the ACA.

Senator Kemp—Senator Mackay, I think it is still appropriate for you to make some comment.

Senator MACKAY—No.

CHAIR—I now call DCITA on output 3.1.

Senator Kemp—I think it is appropriate. I just want to make the point that—

Senator MACKAY—Oh, Kempie!

Senator Kemp—we have officers before this committee. Officers are often harassed and questioned. I must confess, Dr Horton, I admire the way you brought these views forward, and I am sorry that my colleagues are being so ungracious.

Senator MACKAY—It is a shame they are so shockingly underresourced by the government of the day—

Senator Kemp—You are very ungracious, Senator.

Senator MACKAY—shockingly underresourced.

Senator Kemp—When an error is pointed out and people have been offended by your comments, you are very ungracious not to make a comment. Have a good laugh and sneer and cheer—

Senator MACKAY—I am not laughing or sneering.

Senator Kemp—The video camera will show that, Senator. Very unfortunate.

Senator MACKAY—Just leave the room again. We were doing well with you gone.

Senator Kemp—Very unfortunate, Senator, and very ungracious.

[9.39 p.m.]

CHAIR—We will now move to output 3.1.

Senator LUNDY—Referring to the PBS, can you identify for me specifically the administered expenses for output 3.1 on page 67? You should know what the administered expenses are for output 3.1 off the top of your head, Senator Kemp.

Senator Kemp—I know off the top of my head that you are going to cause trouble.

Senator LUNDY—No.

Mr Cheah—On that table on page 67 they are: a large proportion of the Telstra social bonus 2 but not everything; international organisations contributions; the telecommunications service inquiry response; the grant to Australia Post—Australia's response to foot-and-mouth disease and other quarantine risks; the telecommunications action plan for remote Indigenous communities; untimed local call access; regional telecommunications inquiry response; and the National Relay Service—levy shortfall.

Senator LUNDY—And what are the special accounts administered under output 3.1?

Mr Cheah—The regional telecommunications infrastructure account, the National Relay Service and the universal service subsidy.

Senator LUNDY—Thank you for those. I will come to each of those through the course of my questions. There are no new expense measures in regional telecommunications funding in the budget so can you take on notice to provide a list of which regional telecommunications funding measures wind up in 2004-05 and over the forward estimates, how much money was spent on each measure and how much money was originally budgeted to be spent on each

measure? I will come back with some general questions about this budget's PBS, but I wanted to place that question on notice to get the full picture.

Mr Cheah—We should be able to do that I think.

Senator LUNDY—Thank you. Has the government given up on its plans to bring telecommunications in the bush up to scratch?

Mr Cheah—I am not entirely sure what you mean by the question, by 'the government's plan to bring services up to scratch in the bush'. The regional telecommunications inquiry, as you know, found that services were broadly adequate. There were some areas in relation to existing service provision where there was some room for some improvements pretty much at the edges and there were some areas where a forward looking response was required, particularly in the area of broadband in regional Australia. There are a number of programs in place to take those services forward.

Senator LUNDY—So you think the current programs that are in place will have the effect of bringing telecommunications services up to scratch and satisfying the government policy?

Mr Cheah—I do not think it is our place to give an opinion on a broadly based general question in the way you have put it there, Senator. I would simply fall back on what the regional telecommunications inquiry found, and that was that services are broadly adequate now but there are some challenges that are clearly coming up. The government has put in place some strategies for dealing with that. But I would not like to offer an opinion on the question the way you put it.

Senator LUNDY—I appreciate that; that is not your role, Mr Cheah. So I might bring that question across to the minister. Minister, in the 2004-05 budget statement there is no statement of risk with any qualification whatsoever about the need for more work to be done to bring Telstra up to scratch to facilitate the sale of Telstra. What I am trying to ascertain is whether or not the government has formed the field that no more needs to be done, hence the lack of new measures in this budget.

Senator Kemp—The government has put in place a range of programs which will certainly continue to improve the situation. There may be one or two officers at the table who may, if you are interested, deal with those particular programs.

Senator LUNDY—I will come to those programs. I just trying to get my head around a key point here, and that is that there are no more new measures, there are these residual programs that have already been put in place. Is that because the government believes that once these measures have reached their conclusion then services will be up to scratch, that nothing else needs to be done?

Senator Kemp—The advice I have received is that some of these, what you term, residual programs are still being rolled out.

Senator LUNDY—That is right.

Senator Kemp—We have put in place a range of programs to deal with the situation and I think we should wait to see how those perform, but I take it be early days in some cases.

Senator LUNDY—So where in the statement of risk in this year's budget is the qualification that, for example: 'Provided the government's current programs meet expectations, therefore telecommunications services in the push will be up to scratch'? There is no qualification of that nature in the budget. The budget does not say 'if all those program meet their objectives'; it just says—

Senator Kemp—I would seek advice whether that is a normal thing that you would put in a statement of risks. I would be rather surprised if that was in a statement of risks. Huge numbers of assumptions are made in budgetary papers.

Senator LUNDY—There has been a very big assumption made here, hasn't there, on behalf of the government?

Senator Kemp—I am not sure it is as telling a point as you would like to think, Senator. There are a range of programs which have been put in place. The expectation is that they will achieve the desired outcome. If they do not, I am sure that you will bring that to our attention. Have you got any reason to think that they will not achieve the desired outcome? In your policy have you got an additional range of programs that you think should be in place? It does not seem to me to be a very—if you will excuse the expression—profound question.

Senator LUNDY—Given there are no new measures, can the officers tell me how long the current measures in the budget relating to bringing telecommunications services up to scratch have yet to run?

Ms Williams—As you know, the RTI report found that the services were actually adequate except for in two areas, and I think they have been addressed.

Mr Cheah—Yes. The RTI's chief finding was that services were adequate apart from two things which needed to be done. Those were that we needed to make the Internet Assistance Program a licence condition and impose that on Telstra—that has been done—and that the ACA immediately apply its network reliability framework to the worst performing exchange services areas, and the ACA has also done that. I think the view would be that the basic adequacy findings have been met. From hereon in it is a matter of doing some enhancement of existing services and starting to tackle some of the emerging issues before they become pressing. The HiBIS program—the Higher Bandwidth Incentive Scheme—is a good example of one of those programs where the issue of trying to get metro equivalence pricing into regional broadband is being actively tackled.

Senator LUNDY—Now that this issue of basic adequacy that you describe—those two recommendations of the RTI—has been met, are you saying that the government is satisfied that the services are up to scratch in the bush? That is how I am interpreting what you are saying. You are linking those recommendations of the RTI with that policy statement saying that that technically satisfies that policy statement. Is that what you are telling the committee?

Ms Williams—The government set up the RTI to give it advice on that, so it is going on the advice that was given to it by this inquiry.

Senator LUNDY—I just need it to be said. You have not said it yet. You have not said, 'We think it's up to scratch because all of those commitments have been adhered to.' All I

have heard so far is, ‘Well, it will be up to scratch when all of our existing programs reach their culmination or achieve their goals.’ Which is it? Is it up to scratch or is it not?

Ms Williams—I have to go on the RTI, because that is what was set up to show us that. The RTI said that it was basically adequate but for those two things which have been addressed. But, Senator Lundy, as you know, this is an ongoing issue.

Senator LUNDY—But that is exactly my point.

Ms Williams—The government put those programs, as Mr Cheah said, into place to address any emerging issues that may occur.

Senator LUNDY—Technically the government believes services are up to scratch because those two recommendations in the RTI have been achieved?

Ms Williams—That is what the RTI said, and that was advice to government.

Senator LUNDY—So when the minister says, ‘It’ll only be up to scratch when the current programs reach their natural end,’ is he correct or incorrect?

Senator Kemp—I have a feeling I may have been verbally here by you, Senator. I have a feeling that you are back to your old verbal tricks—that is what I think you are doing.

Senator LUNDY—Here is your opportunity to explain yourself. The floor is yours.

Senator Kemp—No. Having consulted with my very eminent advisers here, we have come to the conclusion that you have grossly misinterpreted what I have said.

Senator LUNDY—Now is your opportunity to clarify your statements.

Senator Kemp—I have stated what I have said, and the *Hansard* record stands. Unlike your colleague, if I have to correct it on reflection, I will correct it—with a degree of grace which Labor senators rarely show, I might say.

Senator LUNDY—Surely you can’t mean that!

Senator Kemp—Secretary, do you have something you would like to add to Senator Lundy’s reflections?

Ms Williams—No. I think Senator Lundy understands my views. She was just wondering if you agreed with them, Minister.

Senator Kemp—I always agree with your views; you know that, Secretary. We have to be careful of being verbally by Senator Lundy. It has happened to me before.

Senator LUNDY—I think that is a very cryptic way of the minister deferring to the secretary.

Senator Kemp—Why wouldn’t I?

Senator LUNDY—Exactly.

Senator Kemp—I do not know what that point was meant to mean. Unlike me, the secretary does have some role in this area. I do not know whether that has become obvious to you. I know I am expected to have knowledge about everything, and I generally do, but there are some things where I have gaps.

Senator LUNDY—Now we know the conclusion of the broadband strategy programs do not form part of the government's test about whether or not the bush is up to scratch—am I interpreting that correctly? I am getting a quizzical look from the secretary.

Ms Williams—I did not think that was what I said.

Senator Kemp— Not another effort at verballing!

Senator LUNDY—It is quite an important point, but that is how I am interpreting your statement, Ms Williams. If I am interpreting it incorrectly, please take this opportunity to tell me so.

Ms Williams—I think what I said was that the government took advice from the RTI, which said that, but for those two things which have since been addressed, services in the bush are adequate, and that the government was also putting extra programs in place to address any issues that may occur.

Senator LUNDY—I think that is a restatement of what I just said but in different words, so I still think we are on the same page. Given that, what is the likely time frame for the broadband strategy programs—HiBIS, CCIF, the demand aggregation scheme and so forth—to reach their conclusion?

Mr Bryant—Perhaps I might speak to the HiBIS program.

Senator LUNDY—While you are doing that, can you give an overview on the impact that NOIE being absorbed into the department has had, because I think HiBIS was one of the programs that was affected by that.

Ms Williams—HiBIS was always run in the department.

Senator LUNDY—So it was CCIF?

Ms Williams—Yes.

Mr Bryant—The HiBIS program has funding until the end of calendar year 2006. We have the discretion to continue to allocate funds for the first half of 2007 if there are funds remaining at that time. But the budgeting is to the end of calendar year 2006—so 2½ years from now. I might ask Ms Lansdown to talk about CCIF.

Ms Lansdown—CCIF has funding through to the end of the financial year 2006-07. The demand aggregation broker program actually runs out the year before that, in 2005-06.

Mr Barr—I have a couple of RTI programs as well that run until 2006-07. They are the mobiles and the IT training.

Senator LUNDY—I was going to go to all of those existing administered expenses now and get a rundown on when they concluded. Would you like to go through all of those? What was the one you said?

Mr Barr—They are RTI programs. That was further money for mobile phones and IT training.

Senator LUNDY—What is the anticipated expenditure for the out years?

Mr Barr—They run until 2006-07 as well.

Senator LUNDY—I want to go back to the earlier point about whether the government is satisfied or not. Those two programs would seem not to have been achieved or to have reached their conclusion prior to the government forming its view that services are up to scratch.

Mr Bryant—I think we should go back to the terms of reference for the RTI. I will read from them. Point 1 of the terms of reference was to advise the minister on:

1. The extent to which the Government's response to the Telecommunications Service Inquiry (TSI), other Government initiatives and further commercial developments have so far addressed the community concerns identified in the TSI Report, particularly with regard to:

- the timely installation, repair and reliability of basic telephone services;
- adequate mobile phone coverage at affordable prices; and
- reliable access to the Internet, and whether ongoing delivery of the Government's response will meet the TSI concerns within a reasonable timeframe.

Point 2 of the terms of reference deals with the performance of Telstra. I think they were really about what the situation is now. Point 3 of the terms of reference was a specific point that asked what additional government action needs to be taken 'to remove impediments to the delivery of Internet services at 64 kilobits per second or better and wireless based technologies in regional, rural and remote Australia'. I think the government has interpreted that as being the next step.

Senator LUNDY—So I am correct in interpreting that as saying that the third term of reference relating to future services or Internet services does not constitute the government's definition of what is up to scratch?

Mr Bryant—I think the government has indicated that it is dealing with the broadband issues via this program and other programs—

Senator LUNDY—That is separate.

Mr Bryant—as part of the future-proofing strategy.

Senator LUNDY—But separate to—

Mr Bryant—The adequacy issue, which is the here and now.

Senator LUNDY—The up-to-scratchness. So your understanding is that the government thinks that services are up to scratch.

Mr Bryant—I think that is the government's stated position in response to the RTI—that once recommendation 2.9, which was the one relating to the worst performing ESAs, and recommendation 4.1, which was about licence conditions, were taken on board, services would be adequate at this point in time.

Senator LUNDY—Out of the RTI inquiry response, we have a mobile telephone program. How much is still left to be spent on that? We have \$63 million.

Dr Hart—It is a \$14.4 million program.

Senator LUNDY—What is the expenditure in the current budget year and in the following year?

Mr Barr—There are figures in the estimates for the forward years, but we are at this point in the middle of the tender process, so the actual expenditure that will occur will almost certainly be different from what is in the forward estimates. It will not be until we get to the end of the tender process and we actually have a contract in place that I would be able to give you a more accurate estimate of what the expenditure will be over the forward years.

Senator LUNDY—So out of that \$63.8 million, \$14.4 million has been allocated to the mobile program.

Mr Barr—No, \$7.2 million. That is the forecast expenditure for 2004-05 for that program.

Senator LUNDY—What about overall, though?

Mr Barr—Over the life of the program, \$14.4 million has been allocated.

Senator LUNDY—So \$7.2 million is the subset of the \$63 million figure?

Mr Barr—Correct. I should also mention that there is some additional funding for the satellite phone subsidy scheme. There is expenditure in the forward estimates for that as well. In 2004-05 that amounts to \$500,000.

Senator LUNDY—That \$0.5 million comes out of that \$63.8 million?

Mr Barr—Correct.

Senator LUNDY—What is the overall cost of that program?

Dr Hart—The satellite program? It is \$3 million over four years.

Senator LUNDY—You do not have forward estimates for these, do you?

Mr Barr—We have put figures in the forward estimates.

Senator LUNDY—Sorry, I thought you said you did not for the mobiles program.

Mr Barr—The actual figure will emerge from the contract negotiations we have with the successful tenderer. There are figures in there for the forward years.

Senator LUNDY—Do you have a notional allocation for each of the forward years? They are the numbers I want.

Mr Barr—It is \$1.8 million in the current financial year, 2003-04; \$7.2 million for 2004-05; \$3.6 million for 2005-06; and \$1.8 million for 2006-07.

Senator LUNDY—Can we have the same figures for the satellite program?

Mr Barr—It is \$0.5 million in 2004-05; \$1.5 million in 2005-06; and \$1 million in 2006-07.

Senator LUNDY—What about IT training?

Mr Barr—It is \$1.565 million in 2003-04, \$2.930 million in 2004-05, \$2.730 million in 2005-06, and \$1.565 million in 2006-07.

Senator LUNDY—What else is in the RTI response?

Ms Williams—That is all.

Senator LUNDY—Can we move over to HiBIS?

Mr Bryant—The original funding profile for 2003-04 was \$17.447 million and for 2004-05 it was \$34.894 million. We have rephased \$7.477 million into next year because of the delay in the start of the program.

Senator LUNDY—How much?

Mr Bryant—It was \$7.477 million. That leaves 2003-04 \$9.97 million and 2004-05 \$42.371 million. For 2005-06 it is \$34.894 million.

Senator LUNDY—What was it originally?

Mr Bryant—That has not changed. Nor has 2006-07, which is \$17.447 million. That gives a grand total of \$104.682 million.

Senator LUNDY—Are there any others?

Ms Lansdown—CCIF goes through from 2003-04 to 2006-07. For 2003-04 it is \$2 million, for 2004-05 it is \$8 million, for 2005-06 it is \$8 million, and for 2006-07 it is \$3.988 million. That gives a total of \$21.988 million. The demand aggregation broker program goes from 2003-04 to 2005-06 and the amounts are: in 2003-04 it is \$1.6, in 2004-05 it is \$2.8 million, and in 2005-06 it is \$2.8 million. That gives a total of \$7.2 million.

Senator LUNDY—Is there anything else? It still does not look like it is going to add up to \$63 million. Is that everything in that \$63.8 million?

Ms Lansdown—I think it also includes the funding for the National Broadband Strategy Implementation Group.

Senator LUNDY—How much is that?

Ms Lansdown—That also goes through from 2003-04 to 2006-07, so there is \$1.015 million in 2003-04; \$0.748 million in 2004-05; \$0.621 million in 2005-06 and \$0.519 million in 2006-07 to a total \$2.904 million.

Senator LUNDY—Anything else?

Mr Bryant—Not in respect of the RTI response but in terms of the TSI there is the TAPRIC program, which ends in 2004-05.

Senator LUNDY—Can you run through what is remaining there?

Mr Bryant—There is \$3.1 million in 2004-05.

Senator LUNDY—Is that all?

Mr Bryant—Yes.

Senator LUNDY—The program will conclude after that.

Mr Bryant—The program ends in 2005.

Senator LUNDY—There is still \$23 million in the telecommunications service inquiry response. Can you take me through the breakdown of that program, please?

Mr Cheah—The Regional Mobile Phone Program has got \$4.280 million, for Towns Over 500—

Senator LUNDY—Is that for 2004-05?

Mr Cheah—The number you are after is for 2004-05, wasn't it?

Senator LUNDY—No. If there is any forward years' expenditure I would like to know.

Mr Cheah—No, that program ends in 2004-05.

Senator LUNDY—What is it called?

Mr Cheah—It is called the Regional Mobile Phone Program. James, did you want to talk about that and the Towns Over 500?

Senator LUNDY—That is not broken down other than the TSI response in these documents. Is it?

Mr Cheah—These are components of the TSI response.

Senator LUNDY—So it is the Regional Mobile—

Mr Cheah—The Regional Mobile Phone Program was one of them.

Senator LUNDY—What was it?

Mr Cheah—In 2003-04, \$20.563 million and in 2004-05, \$4.280 million. The next component is the Towns Over 500—that is, once again, another mobile phone program. In 2003-04, it was \$6.232 million and in 2004-05, \$4.483 million.

Senator LUNDY—And that ends?

Mr Cheah—That ends in 2004-05 as well. The last component is the National Communications Fund, which also ends in 2004-05. That had \$25.6 million in 2003-04 and \$13.4 million in 2004-05.

Senator LUNDY—And that accounts for all of it? Or are there other things?

Mr Cheah—There is another very small one: there are consumer representations grants and that is \$0.862 million in 2003-04; \$0.858 million in 2004-05 and \$0.8 million in 2005-6. It ends in 2005-6. One last component is 2003-04—that was the Internet Assistance Program, the IAP; it was the last year of that—which was \$2.485 million. It ended in 2003-04.

Senator LUNDY—It was how much?

Mr Cheah—\$2.485 million

Senator LUNDY—But that would not be in the \$23 million figure; it would be in the \$55 million.

Mr Cheah—No, not for 2004-05; it was part of the 2003-04 figure. That should have added up to \$55.742 million.

Senator LUNDY—So the only component of that which extends beyond 2004-05 is that \$0.8 million for consumer representation.

Mr Cheah—The consumer representation grant, that is correct.

Senator LUNDY—TAPRIC is finishing. Was TAPRIC being managed by NOIE previously?

Mr Bryant—No. It has always been managed within RCP Branch.

Senator LUNDY—Can you give me a breakdown for the \$12.958 million in the budget year and any forward estimates attributed to programs arising out of Telstra social bonus 2?

Mr Cheah—There were three components in 2004-05: there is BARN, which is \$7.41; the Local Government Fund, which is \$4.059; and, Launceston broadband project, which is \$1.489. The Launceston broadband project goes out two more years and it is the only one of those elements. Our first two end in 2004-05, but in 2005-06, the Launceston broadband project has \$2.384 and in 2006-07, \$0.831.

Senator LUNDY—Can you explain the drop of \$1 million in the international organisations contribution?

Mr Cheah—The international organisations contribution is very dependent on exchange rates. That is the main thing which causes it to vary. The ITU contributions are set in Swiss francs and if you get a major appreciation in the Australian dollar, as we have had recently, that is the major factor which affects that contribution.

Senator LUNDY—And that is the full explanation for that drop?

Mr Cheah—I will ask Mr Oliver to give a more authoritative explanation.

Mr Oliver—The variation from 2003-04 to 2004-05 is \$1,005,000. As Mr Cheah said, it is due almost entirely to exchange rate variations. This has to do with the International Telecommunication Union where our commitment is calculated in Swiss francs, but there was an anomaly in the current year in that there was also a carryover of \$99,000 from 2002-03 in regard to some directed funding projects in the Asia-Pacific telecommunity. That will not happen in future years so the budget amount for 2004-05, subject to exchange rate variations, is simply the standard contribution.

Senator LUNDY—Thank you. And the National Relay Service levy shortfall: does that mean that there is no levy shortfall this year?

Mr Lyons—The shortfall was a supplementation to cover defaults from carriers and a final result of the default particularly of OneTel. So basically it is defaults in payments and particularly the liquidation of OneTel. The expense of the National Relay Service is taken from the carriers by way of a levy. That levy is then paid to the contractor for the National Relay Service which is the Australian Communication Exchange. The projected increase from actual expenditure of \$13.470, plus that \$0.03 shortfall to \$14 million is basically because of the expected increase in the usage of the National Relay Service—mainly because of that but also partly because we have just extended to the contract with ACE and, given the effluxion of time and labour costs et cetera for ACE, there is an increase in what they call their call minute rate or their rate of pay under their contract.

Senator LUNDY—Hence the National Relay Service being under the special accounts. Can you explain that item?

Mr Lyons—That is probably what I was explaining. It is a special account because the money is paid from the levy to a carrier into a special account. It is money which can only then be paid out of that account to ACE as the contractor for the service.

Senator LUNDY—Was the levy shortfall that is in the administered expenses rather than special accounts a bit of backfill because One.Tel went broke?

Mr Lyons—Yes.

Senator LUNDY—Can you explain how the regional telecommunications infrastructure account relates to other expenditure, if at all, or whether that too represents a series of programs concluding?

Mr Barr—The regional telecommunications infrastructure account relates to the expenditure under the Networking the Nation program and, specifically, the general fund of the NTN program. That comes to an end on 30 June 2004.

Senator LUNDY—Does that mean that all projects funded under NTN will have reached a conclusion by that date, or will there still be some grant moneys being expended?

Mr Barr—NTN also managed the BARN expenditure and the local government fund expenditure and, as we have discussed, that expenditure continues into 2004-05.

Senator LUNDY—Why isn't there any money in the 2004-05 column under that account?

Mr Barr—Because they are annual appropriations that go to those specific programs and then they are recorded under the Telstra social bonus.

Senator LUNDY—I think I understand. Whilst the NTN general fund will be concluded, the NTN program per se is still managing BARN and local government until the end of the next financial year?

Mr Barr—That is correct.

Senator LUNDY—Will there be continuing NTN projects that extend across the cut-off date of the termination of this program—that is, the end of June this year—that will still be administered by NTN?

Mr Barr—Yes.

Senator LUNDY—Until when?

Mr Barr—Until the projects conclude.

Senator LUNDY—But you would know when those projects are due to conclude.

Mr Barr—Yes.

Senator LUNDY—Can you tell me?

Mr Barr—There are many and varying dates over the course of the next two financial years.

Senator LUNDY—Would those projects have been funded by moneys in that column—the \$27 million in 2003-04—that will be expended over the next couple of years?

Mr Barr—In some cases, the projects actually received funding from BARN or the local government fund as well. A particular project could have drawn down funding initially from the general funds and then subsequently from BARN, so those ones naturally have a life into 2004-05 and some into 2005-06 because the funds might be provided late in the financial year, but the project would continue for a little bit longer, based on that funding.

Senator LUNDY—Can you take on notice to provide the committee with a list of all of the particular projects that have a relationship with BARN, local government and NTN funding or just a list of all the projects that will continue into the next two financial years under NTN?

Mr Barr—There will possibly be 150 of them.

Senator LUNDY—At the last estimates I asked about the evaluation process for those NTN projects. I note your response, which was a lengthy description of the evaluation process. Can you tell me what stage that evaluation process is at now, given a few months have passed, and how many NTN projects have been evaluated as a result of that process?

Dr Hart—I can tell you what the total is. I am not sure that it actually works in terms of the evaluation working systematically through them, but there were something like 762 projects over all being evaluated and something like 300 final reports. They are all being evaluated as part of the process. I cannot tell you where they have got to.

Mr Barr—The process does not look at the individual projects one by one but at the effect of the programs. It is not necessarily going to be focused on individual projects.

Senator LUNDY—But you still acquit and evaluate each project.

Mr Barr—There is a distinction between evaluating an individual project and evaluating the impact of a program. The evaluation is going to focus on the latter.

Dr Hart—I guess I gave the numbers as an indication of the size of the task. It was a big program that has been running for—

Senator LUNDY—So, we will not get a book that says ‘project 364 was a reasonable success but project 452 wasn’t so much’.

Mr Barr—No, you will not get a book in those terms.

Senator LUNDY—A document then.

Mr Barr—You will get an evaluation of some successful sorts of projects and some that were not. We are not saying that every single activity that we funded was an unquestionable success. We will look at those that were less successful and try to learn lessons from them.

Senator LUNDY—If I were looking to find the definitive record of each project funded under NTN—some sort of summary and assessment—where would I go to find that?

Mr Barr—Each project is required to submit a final report. That final report would be the record that you would be looking for.

Senator LUNDY—Are they on the public record?

Mr Barr—Yes.

Senator LUNDY—Where could I find them?

Mr Barr—On the files in the department.

Senator LUNDY—That's accessible! I better place on notice every single one of those reports that you have now and the ones you will get in the future to be provided to the committee.

Mr Barr—It will be a considerable volume, but I am happy to do so.

Senator LUNDY—It is either that or you can put them on the web site, but that tends to cost DCITA a lot of money. It is probably cheaper this way.

Mr Barr—Whatever you like. They are public documents and they were written by the funding recipients as public documents.

Senator LUNDY—Is it the department's intention to summarise those reports in any way as part of this overall evaluation?

Dr Hart—In effect, because it is a very comprehensive review of the program which has four main elements: the efficiency of the program, the tangible outcomes, the services that it provided—as Mr Barr said, what worked and what did not—and lessons for the future coming from the experience. It will be a very comprehensive report. It will also have a lot of statistical data on things like mobile Internet take-up and the tangible impact of the program across the country.

Senator LUNDY—I guess what I am interested in is how that relates back to the specific projects. When you say that, in the overall evaluation, Internet connectivity has increased by so many per cent, you can point to the acquitted projects that actually saw those increases occur as opposed to the general statistical increase.

Dr Hart—I think it will be more sophisticated—

Senator LUNDY—I guess what I am looking for is—

Dr Hart—It will not be as broad as you are suggesting. There will be a lot of spatial mapping data. It will look at how it affected particular locations and the interaction between the government funding and commercial initiatives to quite a sophisticated level.

Senator LUNDY—When will that be available—about a week before the election is called, perhaps?

Dr Hart—Shall I say that we are expecting them in August.

Senator LUNDY—In terms of that report relating to NTN, what is the equivalent process for assessing the outcomes of each of the TSI and RTI responses?

Mr Cheah—Each program will have its own evaluation strategy associated with it. They are all very different styles of program. For example, the TAPRIC program, which is a fairly holistic strategy with a number of subprogram elements to improve services in Indigenous communities, is going to be a very different program from something like HiBIS, for example, which is an incentives based scheme. So each of the program elements has built into it an evaluation strategy. We do that when we establish a new program. I suppose that,

because it is not a big umbrella program in the same way that NTN was, we do not have the umbrella kind of design. So each one of the program elements has its own evaluation strategy. We are quite happy to discuss, for example, TAPRIC or HiBIS if you want to get a feel for the kinds of evaluations we have in mind.

Senator LUNDY—That would be useful, but I want to know whether or not a document is being prepared in the foreseeable future to make an assessment on both RTI and TSI. Excuse my cynicism, but, perhaps at the request of the minister for the purposes of promoting their so-called commitment to broadband, are you working on anything like that?

Mr Bryant—Certainly we have an evaluation plan in place for HiBIS and we have one for TAPRIC. If you take TAPRIC, for example, as we indicated, that concludes at the end of the next financial year, in 2004-05. We are proposing to put in place a number of processes for evaluating that within a six-month time frame before the end of the program so that, at the end of the program, we will have a detailed evaluation of what worked and what did not work, with a view to how we go forward from there. With TAPRIC, as Mr Cheah indicated, there will be qualitative evaluation; feedback from stakeholders, particularly in remote and Indigenous communities; and a number of quantitative measures as well that we will be able to assess to see how effective we were in actually getting additional services out there. But we have a detailed plan in place for that.

Mr Cheah—In the PBS this year there are some quite detailed indicators as well, so you will get intermediate indicators. For example, under TAPRIC there are quite a few quantitative indicators there. Under HiBIS, some of the success indicators are increased broadband take-up in rural and remote areas, the number of HiBIS services provided and the number of providers. We are going to be reporting on trends over time. So we have actually put quite a bit of effort into getting those indicators nailed better in terms of the way we have started these programs off.

Senator LUNDY—So, for something like HiBIS, because that program effectively pays carriers to install services—and I suppose some would argue that they should be doing that out of their own revenues and profits—you will just get raw numbers coming in as you dole out that money.

Mr Bryant—We will get the number of HiBIS services, certainly, but that will be broken down. We will be able to assess how many were provided by various technologies and how many were provided in different parts of the regions in terms of regional, rural or remote. The number of HiBIS providers will be an important success measure, I would say. I think, beyond that, we would have to at least attempt to make some assessment of how the market has changed as a result of the HiBIS program over that period of time.

Senator LUNDY—Will you be recording which carrier receives the subsidy?

Mr Bryant—Yes.

Mr Cheah—We will have to do that, because they will now have to send in an invoice saying, ‘We’ve serviced this many customers at this level of subsidy.’

Senator LUNDY—I am just asking, because there are other programs where the carrier that the money went to was not recorded.

Mr Bryant—HiBIS will be quite simple to report on that basis.

Senator LUNDY—I would have thought so.

Mr Cheah—You might be referring there to some of the Networking the Nation programs. As you are aware, the way those operated is that the communities often applied for the grants and it was up to the communities to then conduct a competitive process with a tenderer, so they were genuinely at arm's length. However, something like HiBIS is going to be very much a direct relationship between the carriers and the department.

Ms Williams—We have put a lot of effort into upgrading our evaluation, particularly in view of some of the comments—even though they were generally favourable—that we have got back from the Auditor-General on previous ones. So we have put a lot of effort into setting out an evaluation strategy up-front and, as Mr Cheah said, setting out carefully what we are looking for in terms of indicators.

Senator LUNDY—In terms of resolving some of the earlier confusion and discrepancy about the definition of what geographic area is eligible for HiBIS funding, can you report back to the committee on how that was resolved?

Mr Bryant—I do not believe there has ever been any confusion about where HiBIS is eligible. I think right from the first draft that we put out in September-October last year at the regional forum, we indicated that those near metropolitan areas—Geelong, the Gold Coast, the Central Coast, Wollongong and Newcastle—would not be included in the scheme. The draft that we issued in January had the same definition, and the final guidelines that we issued on 8 April again had the same definition.

Senator LUNDY—So the Gold Coast is in or out?

Mr Bryant—Areas within the UCL boundaries—the urban centre and locality boundaries as defined by the ABS—are not included in the HiBIS scheme.

Senator LUNDY—Does that mean this strip along the west of the Gold Coast is in or out?

Mr Bryant—I would need to take that on notice. The maps are up on our HiBIS web site, and I can certainly provide those maps to you on notice.

Senator LUNDY—When Telstra put out their public statement not so long ago about their intention to halve their required number of registrants on their broadband demand register because HiBIS funding was available, what knowledge did the department have of that and did that statement concur with your understanding of how HiBIS would operate?

Mr Bryant—It is a part of what HiBIS is trying to do, which is trying to push out those kinds of services further into rural areas and into smaller exchanges. The very concept of an incentive payment means that it improves the business case to push out those services further. Yes, we had hoped and expected that there would be some reaction of that kind. We will have to wait until we see the full detail but, on the face of it, that would be a good result.

Senator LUNDY—Did Telstra discuss with you their intention to make the statement about how they would be using HiBIS to have their infrastructure subsidised?

Mr Bryant—It is not their intention. As I said, the rules for HiBIS had been set well in advance of that statement. I think that statement really is what impact that would have on their roll-out of ADSL services. They informed us that they were putting out a statement, but they did not discuss it with us.

Senator LUNDY—I know we have had this discussion before about Telstra's propensity to now claim a subsidy for every ADSL service they install in the qualifying regions, but are you comfortable and happy with the way in which HiBIS is going to be used by Telstra to subsidise the installation of services that perhaps otherwise would have had a commercial case around it anyway? We will never know now, will we?

Mr Bryant—I will not say whether I am happy or not happy; it is what we expected and what the intention is. Above all, an incentive scheme is intended to speed up the process of getting better and cheaper services out to consumers. One could argue that further down the track services at those prices will be available ubiquitously. I do not know, but what we are trying to do with the HiBIS program is to try to make that happen very quickly—not just through ADSL rollout but through supporting other services that people come up with.

Senator LUNDY—So it does not concern the department that Telstra may have reset their own bar in terms of what constituted commercial viability for installing ADSL in regional areas for the purposes of then accessing this subsidy scheme, which will offset in large part their capital costs for those installations anyway?

Mr Bryant—I do not think the bar was set at its original level with any regard to HiBIS. That was there before the HiBIS scheme came along.

Senator LUNDY—No, it was not, because a bar was never set. Originally the bar was set quite low, then it became ambiguous and then Telstra's evidence at the last round was that in fact they did not have a bar; they deserved the right to look at the numbers and assess commercial viability. So, effectively, Telstra set the bar so high that they had complete discretion as to whether or not they would install those services.

Mr Bryant—As far as we are concerned, the end point is that, if a whole lot more exchanges are enabled quickly as a result of HiBIS, that is a good result for consumers.

Senator LUNDY—So you do not mind intervening, I suppose, in the market in such a way that you let a company like Telstra, who arguably should have and would have made those investments anyway, do so with taxpayer subsidy—that is okay if it gets you a result?

Mr Bryant—I will go back to the core objective of HiBIS, which really is to get metro-comparable broadband services, high bandwidth services, across regional, rural and remote areas as quickly as possible.

Senator LUNDY—So you do not care.

Mr Bryant—It is not just through Telstra, of course. There are other providers.

Senator LUNDY—I appreciate that.

Mr Cheah—There is always going to be a boundary issue as you start to have any program like this. As Mr Bryant said earlier, particularly when you get technology change, that boundary will always be shifting a bit. If you adopt the view that we will never provide a subsidy scheme unless we can be absolutely sure that we would never have subsidised a service which potentially would have been commercially rolled out, you are going to run into all sorts of problems about time frames—

Senator LUNDY—If you have a monopoly out there, yes. Isn't that part of the problem—that Telstra is really the only one with the knowledge about the way those services and exchanges are structured, to know whether or not ADSL is going to go in there? They are the ones with the broadband register. Aren't you playing into their hands?

Mr Cheah—One interesting aspect to the HiBIS scheme which people do not pick up on is the fact that HiBIS will have its own demand register which will be carrier independent.

Senator LUNDY—Where is it?

Mr Cheah—It is up on the department's web site.

Senator LUNDY—Where? I have not seen any promotion of it.

Mr Bryant—Once we get providers registered, we will then promote it heavily to consumers to get their names on it.

Senator LUNDY—Were you happy with Telstra using their own broadband register and linking that with HiBIS, as they did a month ago? Is that what prompted you to put up your own web site—that you realised they were going to subvert your scheme?

Mr Bryant—No, we had intended to provide an independent demand register.

Senator LUNDY—Are you going to tell anyone about it?

Mr Bryant—We are telling people now. As I said, once we have providers registered and they are offering services to the public, we will promote it heavily.

Senator LUNDY—Can you tell me what the URL is?

Mr Cheah—You have to go in via the DCITA web site—that is probably the easiest.

Senator LUNDY—That will take ages. Let us have a go.

Mr Cheah—I think it is www.dcita.gov.au/hibis. Try that.

Senator LUNDY—When were you going to promote this demand register?

Mr Bryant—As I said, once we have providers registered. We expect that to happen within the next two or three weeks.

Senator LUNDY—It says, 'Customer demand register.' So what happens to the data you collect on this demand register?

Mr Bryant—It will be available to registered HiBIS providers.

Senator LUNDY—Minister, I am doing you a favour by promoting this.

Senator Kemp—I do wonder about this. We are all here—we have senior public servants and distinguished people from the Senate—and we are giving you an exercise on the Internet. I wonder if this is a sensible use of estimates time.

Senator LUNDY—That is up to me to decide.

Senator Kemp—It is up to you to decide, but others can judge you, Senator. That is the fact.

Senator LUNDY—I am interested in the privacy policy on this particular demand register.

Senator Kemp—Yes, but we do not have to sit here and listen to you while you go through that. You can do this in your own private time. We do not have to have an audience to watch you.

Senator LUNDY—So, Mr Bryant, what will you be doing with this data?

Mr Bryant—The data will be available to registered HiBIS providers by password access—they will be able to search for potential customers by region, by location or by postcode—but it will not be available to individuals; it will only be provided to HiBIS providers. In our standard agreement with HiBIS providers we are proposing to have requirements which cover privacy and so forth.

Senator LUNDY—We heard from Telstra earlier this evening that they had not actually been officially knighted, so to speak, as a HiBIS provider. Has anyone yet?

Mr Bryant—No. We are currently considering applications. There are a number of other ISPs who are interested in registering, and we are briefing them on Wednesday. We issued our standard agreement today, so that, very quickly, we think we will have applications from a number of other providers as well.

Senator LUNDY—So when will you know?

Mr Bryant—As I said, assuming we do not encounter any problems in the assessment process in terms of our assessment of the various issues we need to look at—technical capacity and so forth—it will be two or three weeks.

Senator LUNDY—How will you publicise who are the anointed ones under HiBIS?

Mr Bryant—That information will all be on the web site. What we are also going to do is invite anyone who registers on the demand register to indicate whether they would like to be kept updated of new HiBIS providers as they come on board, so that they can learn if there are new HiBIS providers who are serving their area and make contact. That will all be on the web site.

Senator LUNDY—But their personal information will be passed on to carriers per se, so they could get marketing material or anything like that?

Mr Cheah—Presumably, if you are interested in a broadband service in your area, by registering on the site you are saying, 'I am actually interested in broadband and if you are a provider please come and tell me what you have got to offer.' That is really the point of registering. That will be explained to them on the web site.

Senator LUNDY—Will the privacy policy include an assurance that their personal information will only be used for that purpose by carriers it is given to?

Mr Bryant—That is our intention. If you like, I will check on notice to make sure we have got it in there.

Senator LUNDY—Yes, if you would take that on notice.

Mr Bryant—Yes, I am happy to do that.

Senator LUNDY—In fact, could you provide the privacy principles for that particular service, given that you are doing the carriers' marketing job on their behalf.

Mr Bryant—Sure; that is certainly our intention.

Senator LUNDY—It is very kind of you and of taxpayers to do that. I am not sure of the motivation for it.

Mr Bryant—We are also planning to have on the HiBIS web site itself a consumer information page which will actually explain the scheme very much from a consumer angle and explain most of the issues from a consumer point of view. Obviously, the privacy issues will be addressed on that page as well.

Senator LUNDY—Are you going to talk about pair gains?

Mr Cheah—In terms of availability, yes. We will have to because that is the structure of the subsidies.

Senator LUNDY—That will put you a step ahead of Telstra.

Mr Bryant—It is in the guidelines at the moment. Consumers will be informed about their rights to a HiBIS service in that circumstance.

Senator LUNDY—Will you have information there about the constraints of the ADSL style service?

Mr Bryant—In terms of?

Senator LUNDY—Telstra have products in the market that relate to specifications for ADSL that they have created. It is possible that other ADSL services can be provided—faster services—that do not necessarily conform to Telstra's description. Will you cover the whole range of those services and the physical parameters that will make them possible?

Mr Bryant—There are two points to be made, I suppose. The first is that we are going to have performance requirements for all HiBIS services. We have got the concept of a threshold service. We will not register a service for provision under HiBIS below that threshold. Part of that threshold is that the provider must offer at least a 500 megabyte per month download limit. Any services that do not offer that limit will not be registered as HiBIS services. The second thing is that we will have in place performance requirements with regard to both average data speeds and service availability. We will have a performance monitoring regime in place. Providers will be required to report to us on their performance.

Senator LUNDY—For how long?

Mr Bryant—For the life of the program.

Senator LUNDY—But once they get the money to put the service in, that service could be there for 50 years.

Mr Bryant—We are certainly requiring them to provide a performance report to us over the life of the program.

Senator LUNDY—So forever—while that service is in operation.

Mr Bryant—They are required to provide services to customers—or at least offer the service to customers if they want them—at the required price and at that performance level for at least a three-year period.

Senator LUNDY—A three-year period? So you have capped it at three years. Trust me, it makes perfect sense. Otherwise you would be in a position of administering service quality on these specific services for the next 50 years.

Mr Cheah—You would also have difficulty trying to convince commercial providers that that is what they should sign up to as well.

Senator LUNDY—You are giving them money to do it. Why wouldn't they? They make money from it. They get paid the bills. You are just offsetting their infrastructure costs. Going back to the government's plans on its advertising campaign regarding Telstra's regional services in response to the RTI, how much money is budgeted to be spent on this advertising program and when?

Mr Bryant—The total budgeted amount is \$6 million.

Senator LUNDY—When is it going to be run?

Mr Bryant—It is being run at the moment.

Senator LUNDY—Oops. I must have missed it.

Mr Bryant—The advertising element of the information campaign has two broad themes. The first is basic consumer rights with regard to telephone services. That relates to CSG entitlements, the USO provisions, the role of the TIO, priority assistance and, to a lesser extent, interim services and other rights such as that. We have produced a booklet—if you have not seen it I am happy to provide a copy—which sets out people's rights in hopefully consumer-friendly language. That is being made available through newsagencies across regional Australia and in response to requests to a call centre we have established as part of the campaign. The second element of the campaign, which will kick in when HiBIS is ready to go, will be actually promoting the HiBIS service, including such things as the demand register and the core messages about HiBIS and what it is trying to achieve.

Senator LUNDY—So how much will be spent on the HiBIS component and what will the nature of that advertising campaign be?

Mr Bryant—I am not sure we have got the exact breakdown between the HiBIS element and the consumer rights element, but essentially it will be, again, mainstream advertising—TV, radio and the press—directing people to a call centre and then for specific inquiries to the

HiBIS team in DCITA. Also, we will produce, again hopefully, a consumer-friendly HiBIS brochure which we will provide to people as required. I am advised that approximately one-third of the spend is on HiBIS.

Senator LUNDY—Does that come out of the HiBIS money that we went through before or is that a separate allocation?

Mr Bryant—No, that is out of that \$6 million.

Senator LUNDY—Where is that in the portfolio budget statement?

Mr Bryant—That is not administered; that is all departmental.

Senator LUNDY—So it is under the departmental price of outputs 3.1?

Mr Bryant—Yes.

Senator LUNDY—Is that expenditure in this current financial year or next financial year?

Mr Bryant—The majority is this financial year and there is a small carryover into the next.

Senator LUNDY—Could you tell me what that is?

Mr Bryant—The total carryover is \$639,000. This financial year \$5,315,189 will be spent and there will be \$639,000 carried over to next financial year.

Senator LUNDY—With regard to the leaked Universal McCann advertising strategy and its plans to offer extra advertisements to newspapers in exchange for favourable articles, can you confirm that the government has abandoned this strategy once and for all?

Ms Williams—It was only a draft strategy; it was never a government strategy.

Senator LUNDY—Yes, that is what I am looking for confirmation of.

Ms Williams—It was only ever a draft; it was never accepted by the government as a strategy.

Senator LUNDY—Can you tell me, Ms Williams, whether or not this strategy was approved by the government's advertising committee?

Ms Williams—My understanding is that it was not.

Senator LUNDY—Had it been approved by this department?

Ms Williams—No, it was not approved. In case I make a mistake, I will hand over to Ms Ulrick.

Ms Ulrick—The Universal McCann draft strategy that was leaked was never actually approved by the department. We had discussions with Universal McCann about various strategies we might employ in terms of media placement, and this was one of the draft approaches put forward by Universal McCann, but it had not been considered by the government committee or in full detail by the department.

CHAIR—Senator Lundy, we are approaching our wind-up time—in 60 seconds.

Senator LUNDY—Minister, does the government have any policy regarding advertising strategies which attempt to buy favourable articles—which is not unlike the cash for comment approach used by Telstra?

Senator Kemp—I am not aware of anything and the answer is no. I have seen the extensive advertising campaigns by Labor governments in New South Wales and Victoria, and some of their advertising campaigns would require the closest of questioning if they ever had a sensible estimates process. I think you will find this government always behaves in an ethical fashion.

CHAIR—I think we will have to conclude there as we have run out of time.

Senator LUNDY—I have two more questions and it would save me putting them on notice.

Senator Kemp—We have been here since 9 o'clock and it is now eleven o'clock. I think it is time to draw stumps.

Senator LUNDY—I want to know—

Senator Kemp—I think it is unreasonable for you to ask. You have had a hell of good run today. You have more time tomorrow and Wednesday, and, frankly, I think we should just draw stumps.

Senator LUNDY—Thanks, Minister. The questions I will place on notice are: when did Ms Williams become aware of what the response was to the Universal McCann document; and does the department believe that the telecommunications environment in Australia is compliant with the requirements of the proposed free trade agreement?

Senator Kemp—Thank you for those questions, Senator. We will take those on notice.

Senator LUNDY—And I will be placing other questions on notice.

Committee adjourned at 11.00 p.m.