



**Private and Confidential**

23 September 2003

The Secretary, Senate Environment, Communications,  
Information Technology and the Arts Legislation Committee  
Parliament House  
CANBERRA ACT 2600

By e-mail: [ecita.sen@aph.gov.au](mailto:ecita.sen@aph.gov.au)

Dear Sir/Madam

**Inquiry into the Telstra (Transition to Full Private Ownership) Bill 2003**

Given the broad scope of the inquiry into the Telstra (Transition to Full Private Ownership) Bill 2003 (“the Inquiry”), our equity capital markets joint venture between ABN AMRO Bank NV and N M Rothschild & Sons, ABN AMRO Rothschild, is responding to this invitation. We have pleasure in attaching to this letter our submission to the Inquiry.

**Scope of Our Submission**

In preparing our submission, we have focused our attention on:

- i) policy arguments for the full sale of Telstra;
- ii) the effectiveness of regulation without ownership; and
- iii) whether the Telstra (Transition to Full Private Ownership) Bill 2003 (the “Bill”) provides for use of the mechanisms needed to successfully complete the sale.

**Our View**

The combination of the full privatisation, a rigorous and transparent regulatory regime and a competitive market place will provide maximum benefits to Australia and its citizens. Australia has the latter two elements: a leading regulatory regime and a highly competitive market by world standards. However the final element is lacking. The effectiveness of regulation and competition will be enhanced by the full privatisation of Telstra for the benefit of consumers, business and the economy in general.

Privatisation will eliminate any actual or perceived conflict in the roles of the Commonwealth, for example, by:

- removing any potential conflict of interest between being the regulator and determining such matters as the approach to access, competition and regulated prices, while being the majority owner of Telstra;
- sending an unambiguous message to industry participant, consumers and investors that there is a separation between (i) government and social policy, and (ii) Commonwealth ownership of the largest company in the sector. This is important for domestic and international credibility

Improved competition and regulation will assist in ensuring that, on the whole, enhanced products and services are provided to consumers nationwide at competitive prices.

In addition, privatisation will also enhance Telstra's performance, for example, by:

- Improving Telstra's access to capital markets and its ability to manage its capital, thereby reducing its cost of capital. Telstra currently can not raise additional equity capital unless the Commonwealth invests more in Telstra. Telstra need therefore to rely on debt markets and cashflow from operations principally to fund its business. Such restricted access to capital likely means that Telstra has to maintain a higher credit rating and retain a higher percentage of cashflow than it otherwise would. This does not permit Telstra to manage its capital efficiently; and
- Increasing the influence and interest of major institutional and strategic investors.

Failure to privatise is likely to send the opposite, negative signals to industry and the community.

### **Legislative Framework**

The legislation under which the previous Telstra sell-downs were conducted contained restrictions on how the sale could be structured. In order to provide the Commonwealth with maximum flexibility to implement offer features to maximise proceeds, provisions to enable the use of hybrid instruments should be made. The use of hybrid instruments, through being able to access capital unavailable for the main offer, should have the benefit of reducing the size of the main equity offering, providing offer flexibility, creating the potential to sell shares at a price higher than otherwise would be possible and enabling a sell down to be initiated in one major step.

### **Clarifications**

If you have any questions on our submission, please contact either of us directly.

Yours sincerely,



Peter Young  
Chairman, Investment Banking  
ABN AMRO (Australia) Limited



Tony Ferguson  
Managing Director, Investment Banking  
N M Rothschild & Sons (Australia) Limited