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17 October 2003

Mr Michael McLean  
Secretary  
Senate Environment, Communications, Information Technology  
& the Arts References Committee  
Parliament House  
CANBERRA ACT 2600

Dear Mr McLean

#### **COMPETITION AND REGULATION – FURTHER EXPLANATION**

Thank you for the opportunity to appear at the Committee public hearings into the Telstra (Transition to Full Private Ownership) Bill 2003.

As a result of the questions asked during the hearings we are concerned that some Committee members may misunderstand Telstra's position. In particular, views were expressed that Telstra's submission contained "a profound contradiction" (ECITA 65) and that Telstra seeks "a divestiture of regulation" (ECITA 66) which suggest value in providing further explanation of Telstra's submission and the operation of the regulatory regime in the competitive market.

Telstra is not seeking the elimination of all Telstra specific regulations. Moreover, Telstra has made clear in many forums over many years its commitment to an access regime, universal service obligations and regulations that set minimum standards for the protection of consumers. These regulations include the provision of services that are generally most efficiently provided by the incumbent Telstra network. Examples include '000', directories assistance and the management of the Integrated Public Number Database (IPND).

The key issue is not the provision of regulated service, but rather, that the costs of providing regulated services are funded in a competitively neutral way that does not require Telstra to subsidise its competitors.

Consequently, where regulators seek to impose new service standards or requirements on the Telstra network the costs of these regulations must also be recognised in access pricing or the

Universal Service Obligation to ensure all competitors contribute proportionately. Alternatively, non-commercial services could be funded by direct subsidy such as in the case of the Networking the Nation program.

Under the current regulatory regime, minimum standards of service or market behaviour are imposed by regulations that can be either general to the industry or specific to Telstra. Compare, for example: (i) the telecommunications access regime; with (ii) the Universal Service regime. In the case of the access regime, the relevant access obligations apply to all suppliers of declared services, regardless of their size or share. The regime is designed to be competitively neutral: all firms should be able to recover from access seekers the costs of providing access to declared services. In contrast, concerning the Universal Service regime, Telstra alone is the Universal Service Provider. The regime is designed to be competitively neutral by competitors contributing a fair proportion of Telstra's costs. Failure to require this contribution would mean Telstra subsidising competitors. Failure to share these regulatory costs would be unfair to Telstra and Telstra shareholders. Potentially, it would make Telstra less competitive and less able to maintain and develop new services in the future.

The need for regulatory neutrality covering both general and Telstra specific regulations is necessary for economic efficiency and, like the regulatory regime itself, applies whether or not the Commonwealth's retains ownership of Telstra shares.

Yours sincerely

A handwritten signature in blue ink that reads "Bill Scales". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

**Bill Scales**  
**Group Managing Director**  
**Regulatory, Corporate and Human Relations and Chief of Staff**