



The case for keeping it at home

By **Colin Cooper**, Divisional President,
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for privatisation than it had been three years ago.

Paul Keating told Kerry O'Brien on *Lateline* in June 1994 that it did not matter whether Telstra is privately or publicly owned. He said in an answer to a question as to whether it mattered that it (Telstra) is publicly owned or privately owned: 'Not of its essence, no.'

The Coalition has long announced Telstra as part of its privatisation program, but we give some very definite undertakings:

1. A commitment that community service obligations (CSOs) will remain in full;
2. No timed local telephone calls; and
3. Telstra will remain in Australian ownership.

The Prime Minister denies he will privatise Telstra just as he denied in the past that his Government would privatise the Commonwealth Bank, Qantas and the FAC. However, the realities are something altogether different.

On the Commonwealth Bank, Minister for Finance Ralph Willis stated in a letter to all investors: 'The Government has no intention whatever of further reducing its shareholding.'

On May 10, 1995, the Government announced it would sell its remaining share.

With Qantas, the then Transport & Aviation Minister, Peter Morris told Parliament on May 20, 1986: '...the Government's policy is that both Qantas and TAA will remain in full public ownership.'

The sale of Qantas was completed this year.

Draft legislation to privatise the FAC is already circulating.

Given this track record, it is patently clear that the privatisation of Telstra by Paul Keating is as inevitable as death and taxes. It has already begun. □

Why retain Telstra in public ownership? Ten years ago the answers would have appeared self evident to the large majority of Australians. It was the desire to achieve non-commercial goals such as: universal service; the recognition of the strategic importance of a country's communications base; the long-term perspectives required of industry investors; the ability for the nation as a whole to reap the rewards flowing from a successful enterprise. All these would have provided ample arguments against privatisation.

Most Australians still believe that Telstra should remain in public hands. Yet it is a sign of the distance we have travelled in recent years that the Federal Opposition has, to date, scarcely bothered to elaborate reasons for its policy, so confident is it of swimming with the historic tide. Perhaps, though, silence is golden, for an open debate would reveal how threadbare the privatisation lobby's case has become.

Privatisation may, as Senator Alston has suggested, provide the green light for rapid labour shedding, but this is substituting short-term industrial relations objectives for a long-term communications strategy. Moreover, the evidence from the UK utilities suggests that any resulting gains in labour productivity are as likely to be passed on to managers, in the form of higher salaries as they are to consumers, in the form of lower prices.

As election day draws nearer, we may expect a reappearance of the arguments for the intrinsically greater efficiency of the private sector. How-

ever, studies of the performance of privatised industries in the UK have shown that ownership, as a determinant of a firm's performance, ranks well behind technological change, presence of scale economies and market structure. Indeed, while all international comparisons are fraught with difficulty, it is the case that Telstra's rates of return are on a par with British Telecom's, despite the relative demographic advantages the latter enjoys and the massive lay-offs it has undertaken over the last decade.

This leaves the arguments that Government ownership constrains Telstra from achieving its full potential - either through the extraction of a damaging level of dividends, through political interference in business decisions or through the pursuit of policy objectives at odds with the goal of maximising shareholder value. While there is ample evidence that at least some of these are real dangers, private ownership guarantees neither the protections nor the disciplines so often claimed.

The wholly private US telecommunications industry has been the site of what is probably the most damaging and futile of all regulatory experiments - the structural separation of AT&T - while BT continues to be debarred from new markets and subjected to heavily intrusive regulation at all levels of its operations.

It cannot be denied that the liberalisation policies pursued during the 1980s and 1990s have created a tension between industry dynamics and government ownership. At the same time, however, the resulting changes in the Australian industry have added



new weight and urgency to the case for keeping Telstra in public hands. Liberalisation has already seen the rapid influx of off-shore capital into Australian telecommunications, with ownership in the service provider sector heavily skewed in this direction.

Despite the recent assurances of Bronwyn Bishop, there is no doubt that privatisation of Telstra would see the core of the industry pass out of Australian control. No-one knows this better than the present Federal Government which has been obliged to relax the foreign ownership limits on Optus's operations so that the company could proceed with its float. Yet Optus is only seeking some \$500 million, not the \$2.5-\$3 billion that even a 10 per cent tranche of Telstra should be expected to raise.

To see the likely balance of payments impacts, one need only look at the case of Telecom New Zealand. Over 90 per cent of its 1993-94 profits were paid out in dividends, the great majority of which were repatriated to the US.

Historically, support for Telstra as a public enterprise has reflected a conception of telecommunications as a set of services, rather than commodities - services which, as much as health and education, form part of the fabric of our society and to which all are entitled to have access.

Competition is already straining Telstra's capacity to act as a vehicle for an egalitarian communications policy, but privatisation would set us irrevocably on the path of full user pays. Whatever arguments may be offered for the sale of Telstra, the debate over ownership cannot finally be separated from the question as to role of communications in our future society. We await the Opposition's vision statement, as opposed to business plan, with interest. □

Telstra sings News' tune

By **Kevin Morgan**, Independent Communications Consultant

Somewhat curiously, Telstra stands as the last bastion of public ownership under a Labor Government that has offloaded everything else they found in the public sector cupboard.

This continued attachment to a telephone company is doubly curious given that its sale would dwarf the total receipts from the Government's privatisation program to date.

What then keeps the ALP attached to Telstra? Could it be ideology or a growing dependence on an ever increasing dividend stream? Or might there be other genuine reasons for keeping Australia's most profitable company in public hands?

Ideological underpinnings of the ALP's position can be readily dismissed and the dividend stream is not that attractive against the election winning windfalls that a privatising Government could expect as Telstra was gradually floated on the market.

The Government argues the public interest saying prices would rise under private ownership and battlers in rural and remote areas would lose the current cross subsidies. It also argues a privatised Telstra, with foreign ownership, would not be free to compete in expanding international markets.

If the Government had the genuine interests of the telephone user at heart, it would not be taxing each user \$100 a year through the Telstra dividend. It would not tolerate the fifth most profitable telephone company in the world having the fifth most expensive tariff within the OECD. Indeed, it would have driven prices down to the level found in markets such as Sweden where public ownership really is in the public interest.

Obviously there must be some other reason for public ownership and the recent tie-up between Telstra and News Ltd, in the Foxtel pay TV venture, suggests that on occasion it's useful to have control of public assets which can be used to back a media proprietor's ambitions.

With a tightly fought election in the offing, the Labor Government can take some comfort from having allowed News Ltd to have exclusive rights to use the \$4 billion Telstra cable investment.

Little is known about this deal and with Telstra under public ownership, we, the nominal owners, have no chance of finding out what agreement our phone company has reached with News Ltd.

Optus, which must at some time in the not too distant future, go to the capital market with a public float, will have to divulge quite what its commitment is to Optus Vision. At least then investors can make a reasonably informed decision on whether or not to take an indirect gamble on Optus's pay TV network.

We, the ordinary telephone users have no such choice. Currently, we are being taxed at the rate of \$1 billion a year to build the News Ltd version of the information superhighway. Whatever Telstra might argue, it is News that is calling the Foxtel tune.

It is News which is taking the network out as a hybrid analogue/digital network when Telstra foresaw an all digital superhighway. It is News providing set top boxes and the content. And most significantly, it is News, through Foxtel, which will be assessing and amending customer and billing information held in Telstra's computers.