



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

**S**omewhat 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.



Telstra, the bit carrier, has seemingly been relegated to a bit part at the dawn of the information superhighway. Paradoxically, it is public ownership that has largely relegated it to this role.

This is not to suggest that a privately-owned Telstra might not have cut a less than optimal deal with News or any other media giant but the accountability that comes with floatation would be a far better safeguard than any offered under the current public ownership regime.

Obviously, Telstra must enter the broadband age but it would have been better had they stayed with their long standing and far more modest \$800 million program to reach a million homes. That sort of market coverage obviously wasn't good enough for News which knows that in the marginal world of cable TV, it's a simple case of first up, best dressed.

This perversion of long standing and rational plans to develop the core of the information superhighway confirms that Telstra has outgrown public ownership. The current version of public ownership encourages partnerships with News but denies Telstra the freedom and capital to seriously bid for licences in markets such as India. It siphons value from the core telephony network and puts it at the disposal of a privately-owned company.

It is a situation that the Australian public cannot tolerate if they wish to see Telstra grow as Australia's information age flagship. Telstra needs freedoms and it needs access to risk capital that can be used for its own growth.

That capital could be readily found from the rapidly accumulating superannuation tax collected by various institutions which could readily invest workers' money in Telstra under a form of widespread public ownership that would have far more meaning and accountability than the one we see now. □

# The case for 'equitisation'

From **Warwick Smith**, former Telecommunications Industry Ombudsman

**Excerpts from The Charles Todd Memorial Oration, 22 August, 1995 - Perspectives on Australian Telecommunications**

I do not renege from my personal belief that Telstra requires 'equitisation' that will make it compatible with other listed telco's in the global market place. It should not be 'split' in advance of such 'equitisation'.

By 'equitisation' I mean the progressive substitution of government capital for other private capital, and for the company to be listed immediately on the stock exchange.

We should be mindful that the growth of this industry, the value of the entity if not maximised to community advantage, may in time in combination with other economic failings, such as persistent current account problems and excessive debt levels, lead to the recent Nigeria example where the World Bank has ordered the divestiture from government of its Telecom, as it had become but a defacto branch of its taxation office.

Our community does not deserve this fate. By 1997/98 revenue for Telstra is estimated at \$16 billion, with estimated earnings (EBIT) at \$3.8 billion.

In my view, the greatest impediment to the growth of the whole telecommunications industry is government ownership which has engendered a short term and domestic focus.

The continued improved performance of Telstra is vital if Australia is to remain at the forefront of advance in telecommunications. The greatest benefits of continued deregulation,

liberalisation and competition, will derive not just from other carriers, which will secure a moderate share of the domestic market, but from the improved performance of Telstra.

It can do better. Securing these gains requires the freedom to respond to competition on the domestic front and to the opportunities emerging in our region.

I am an unashamed 'Pacificologist' **"...the greatest impediment to the growth of the whole telecommunications industry is government ownership which has engendered a short term and domestic focus."**

and 'Asianist' - Telstra needs to be there and soon.

This industry is global with the fastest growth in our region - ideological 'isms' have passed - now it must be time for 'ists' - trade and investment will secure our future and to constrain Telstra, one of the most prominent companies with great potential, is sheer folly.

Jingoist statements about Telstra may be the temptation of those who seek the status quo, or those who know reality, yet change their views to meet expedient and temporary pressures do the company, the industry and the nation a disservice.

The successive 'equitisation' or 'privatisation' of Telstra, with generous ESOP's (Employee Share Ownership Plans) and a wide spread of domestic investors is required. □