

# **Kim Beazley's Plan for Telstra**

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## Overview

*Australians have invested more than a century of their economic and social capital in one of our great Australian companies, Telstra.*

*Telstra's central role is the delivery of communications services to the vast majority of Australians.*

*Telstra remains, and is likely to remain, the only carrier that either seeks to, or has the potential to, provide a comprehensive telecommunications service to all Australians irrespective of where they live.*

*In many parts of rural and regional Australia, Telstra is the only real provider of services. In outer metropolitan markets, Telstra's Customer Access Network remains the dominant network over which telecommunications services are provided.*

*Better telecommunications services are vital to Australia's economic and social future. New technology can help to break down the 'tyranny of distance', creating more opportunities for all Australians, as long as access is both universal and equitable.*

*If Australia is to succeed as a Knowledge Nation, it is vital that these new services are accessible by all Australians.*

*Australia's geography and spread of population imposes a necessity upon the Federal Government to act as a guardian of the nation's communications infrastructure, and as an intervening force where the market fails to deliver affordable and competitive services.*

*Universal access to telecommunications is especially important for outer metropolitan, rural and regional Australia.*

*Labor accepts that responsibility. A responsibility requiring that valuable public infrastructure, like Telstra, should not be fully privatised. A responsibility that requires the broad public interest, and not just profit and a market view, be the motivating force behind government action.*

*Labor believes that this important national role can only be adequately secured through retaining majority public ownership of Telstra.*

## The Howard Government's Failures

The Howard-Anderson Government will start selling the rest of Telstra: on 1 July 2003 at \$5.48 a share. (Source: Peter Costello, Media Release, 26 October 2001)

John Howard says that, if he is re-elected, he will have a 'mandate to implement our policy on Telstra'. (Source: ABC Radio Perth, 24 October 2001). Australians know now what this means.

If given the chance, the only question is whether the full privatisation of Telstra will be the last act of Prime Minister John Howard, or the first act of Prime Minister Peter Costello.

The Government repeatedly tells Australians that it will not privatise any more of Telstra 'until it (the Government) is satisfied arrangements exist to deliver adequate services'. (Source: Commonwealth Budget Papers.)

But John Howard now says that his own backbench will advise him when services in rural and regional Australia are adequate. (Source: ABC Radio Perth, 24 October 2001.)

John Howard has appointed himself judge, jury and auctioneer.

In the run up to the 1998 election, John Howard promised that:

*The Coalition will legislate to provide that unless and until the independent inquiry certifies that service levels are adequate, there will be no sale beyond 49 per cent.*

But after the election, John Howard:

- tried to pass the *Telstra (Transition to Full Private Ownership) Bill 1998*;
- never-ever legislated to establish an independent inquiry; and
- never-ever legislated to establish performance criteria, against which Telstra's service would be judged.

### THE GOVERNMENT BACK-BENCH WILL SELL THE REST OF TELSTRA

In 1998 and 1999, Coalition Members in the House of Representatives voted in favour of the *Telstra (Transition to Full Private Ownership) Bill 1998*.

And all Coalition Members and Senators voted to support this year's Budget, which expressly included the proceeds from the full privatisation of Telstra.

These proceeds were specifically included in the Mid-Year Economic and Fiscal Outlook, released by Treasurer Peter Costello during the course of the election campaign on 18 October 2001.

## THE GOVERNMENT NEVER-EVER LEGISLATED FOR AN INDEPENDENT INQUIRY

In March 2000, the Government established the Besley Inquiry.

Contrary to John Howard's express 1998 election promise, this Inquiry was not established by legislation.

Mr Besley, the Inquiry's Chairman, held up the banks as a model for service delivery in rural and regional Australia.

Even then, the Government's own Besley Inquiry certified that Telstra's service levels in rural and remote Australia were not adequate.

## THE GOVERNMENT NEVER-EVER LEGISLATED PERFORMANCE CRITERIA

Communications Minister Richard Alston has admitted that the Howard-Anderson Government broke one of its key promises on the full privatisation of Telstra.

On 12 October 2001, the *Courier Mail* reported that:

*Communications Minister Richard Alston admitted the Government had broken an election commitment to legislate service standards for Telstra for rural and regional areas of Australia.*

*Senator Alston said that this was because the company had never been fully privatised.*

*He told The Courier Mail that if the Government had "gone down the path" of full privatisation the 1998 election pledge would have been kept.*

But even in admitting his broken promise, Senator Alston failed to tell Australians the whole truth.

In the run up to the 1998 election, John Howard promised that the Government's legislative assessment of Telstra's service levels:

*... will occur against performance criteria, which the Coalition will specify in legislation.*

The Telstra service standards, which Senator Alston now admits the Government should have legislated, were promised to be put in place prior to any consideration of full privatisation, not after, as Senator Alston has claimed.

Now the Government consistently refuses to state the service standards that Telstra's must meet before the Government will consider the full privatisation of Telstra.

John Howard says it will be up to his back-bench to advise him. (*Source: ABC Radio Perth, 24 October 2001.*) Yet they've already voted for the *Telstra (Transition to Full Private Ownership) Bill 1998*.

Australians know that John Howard will be satisfied that Telstra's service levels are adequate on Sunday, 11 November 2001 - the day after the election.

## ANOTHER PROMISE – BUT JOHN HOWARD BROKE THAT ONE TOO!

The Government has also adopted another test to determine when Telstra will be fully privatised.

During the *Great Debate* on 14 October 2001, John Howard said:

*We're not going to proceed to further sales of the Government majority interest in Telstra until the recommendations of the Besley Inquiry about fixing communication facilities in the bush have been implemented. Now, there's no secret in that ...*

But John Howard's own Budget papers show, and Peter Costello has admitted, that the Government plans to start the full privatisation by 1 July 2003, before even half the money set aside for his response to the Besley Inquiry report will have been allocated, let alone spent (*Source: Commonwealth Budget Papers; Peter Costello, Media Release, 26 October 2001*).

### **PETER COSTELLO WILL ALSO SELL TELSTRA**

Australians also know that any promise that John Howard makes during this election campaign won't last.

If Peter Costello becomes Prime Minister, he won't be bound by any promises that John Howard makes. He's already made the full sale of Telstra free from any conditions in the Budget papers. (*Source: Mid Year Economic and Financial Outlook, October 2001.*)

Australians know that Peter Costello will fully privatise Telstra as soon as he gets the chance. (*Source: Peter Costello, Media Release, 26 October 2001*).

Peter Costello has voted for the full privatisation of Telstra and has repeatedly included the proceeds from the sale in his Budgets and other financial documents.

On 18 October 2001, Peter Costello told Radio 3AW in Melbourne that:

*We've said in relation to Telstra that the first thing is to fix up services. And if we can fix up the services then we believe that you can look at further equity for private shareholders.*

*... that's our aim, once we've fixed it up to offer further equity.*

*... I think it should either be, either be in private hands or Government hands. It ought to be nationalised or, once you've fixed it up, you could look at further equity. That's the better direction in my view.*

Clearly, a vote for John Howard is not just a vote for Peter Costello. It is also a vote for the full privatisation of Telstra.

### **TELSTRA'S SERVICE LEVELS ARE INADEQUATE**

The Government's own Besley Inquiry found that services in rural and remote Australia are not adequate.

Regular reports from the independent Australian Communications Authority support that finding, and consistently show that Telstra is failing to provide adequate levels of service in outer metropolitan, rural and regional Australia.

Despite this, the Government has budgeted to start fully privatising Telstra by 1 July 2003, before even half of the programs it claims are necessary to fix the current lack of access to mobile phone and Internet services will be in place.

The Howard-Anderson Government's plans to fully privatise Telstra also ignore the fact that the expectations of Australia's communications consumers will inevitably change over time.

Once, Australians were happy if just their phone worked.

Now, Australians expect adequate mobile phone and Internet access.

In the future, Australians are likely to expect adequate access to 3G mobile data and broadband Internet services.

But once Telstra is sold, it will be sold for good, reducing the ability for future Governments to ensure that all Australians can reasonably access developments in communications technology.

### FULLY PRIVATISING TELSTRA DOESN'T MAKE CENTS

Australian taxpayers are likely to lose on the full privatisation of Telstra.

The Commonwealth and Australian taxpayers will lose \$566 million in 2003-04 and 2004-05 if all of Telstra is sold. (*Source: Access Economics.*)

Even John Howard and Peter Costello admit that there is no benefit to the Budget. (*Source: ABC 7.30 Report, 29 October 2001; Media Release, 26 October 2001.*)

After three and a half years, the Commonwealth is now \$499 million worse off as a result of the sale of the first third of Telstra.

This is because, over the last 3 years, the cost of selling Telstra and the amount of dividend lost to the Government has been more than the interest the Government has saved by retiring debt.

In short, the Howard-Anderson Government has cost Australian taxpayers more than \$3.8 billion to save just \$3.3 billion!

	1997/98	1998/99	1999/00	2000/01	2001 (1H)	Total
<i>Debt retired (\$m)</i>	\$6,930	\$5,850				
Public Debt Interest saved (\$m)	\$343	\$741	\$895	\$895	\$448	\$3,322
<i>Actual Dividend (\$m)</i>	\$901	\$1,802	\$4,247	\$2,316	\$1,415	
33.3 percent of Dividend (\$m)	-\$300	-\$601	-\$1,416	-\$772	-\$472	-\$3,561
Sale Costs	-\$260					-\$260
<b>Net impact of sale</b>	<b>-\$303</b>	<b>\$140</b>	<b>-\$511</b>	<b>\$123</b>	<b>-\$24</b>	<b>-\$499</b>

This situation is only likely to get worse as Telstra's dividend continues to grow, but the interest savings remain static.

Since the partial privatisation of Telstra, the Howard-Anderson Government has committed just over \$1.1 billion over eight years to improve communications services in regional Australia, the vast majority of which has come from the proceeds of the partial privatisation of Telstra.

However, as a result of Telstra's record \$4.1 billion profit announced in August this year, Telstra has paid more than \$1.2 billion in dividends to the Commonwealth as a result of just one year's work.

In other words, Telstra has paid more to the Commonwealth in dividends for one-year's work than the Howard-Anderson Government has given back in improved regional communications services over the eight years it has budgeted for!

And if Telstra is fully privatised, Peter Costello has admitted that a further \$654 million will be paid to the lawyers and accountants at the big end of town just to sell it (*Source: Media Release, 26 October 2001*). That's more than four and a half times the \$140.5 million in new money that the Howard-Anderson Government has allocated over four years to improve mobile phone and Internet services in regional Australia.

Labor has continually argued that Australians are better off relying on the ongoing dividend stream from Telstra rather than a one-off flog-off. The figures for the sale of the first third of Telstra clearly show that.

The Government's ideological obsession with the privatisation of Telstra is not fiscally responsible and rewards the big end of town at the expense of Australians living in outer metropolitan, rural and regional Australia.



## Kim Beazley's Plan for Telstra

### **KIM BEAZLEY AND LABOR'S TELSTRA PLEDGE**

Kim Beazley and Labor have pledged to maintain Telstra in majority public ownership.

We will retain majority public ownership of Telstra for the benefit of all Australians, particularly those living in outer metropolitan, rural and regional Australia.

Australia's national interest is best served by the Government, as majority shareholder, working with Telstra to guarantee the delivery of a world-class telecommunications system to all Australians.

### **NETWORK DESIGN AND CONSTRUCTION LIMITED**

Unlike the Howard-Anderson Government which doesn't believe that Telstra should be in the business of '*building telephone networks*' (Source: *Hansard, Senate Estimates, 6 June 2001*), Labor does not support the privatisation of Network Design and Construction Limited ('NDC').

While NDC competes with other infrastructure providers to build networks for Telstra and other communications companies, Labor believes it is important that Telstra maintains a capacity to build networks itself.

Since Telstra announced its plans to privatise NDC, NDC has shed 650 staff. This is despite the fact that important work remains to be done to improve Telstra's networks.

By contrast, the Howard-Anderson Government has supported the privatisation of NDC and the company's job shedding agenda.

While NDC was withdrawn from the market earlier this year, Telstra has indicated that it remains committed to privatising NDC in the long-term. (Source: *Telstra Media Release, 13 July 2001.*)

Australians know that if John Howard and John Anderson are re-elected they will encourage Telstra to privatise NDC just as they want to fully privatise Telstra.

### **MAINTAINING GOOD CORPORATE GOVERNANCE**

Labor wants Telstra to be well managed.

Ensuring that Telstra continues to remain a profitable and effective company is essential. A profitable and effective Telstra will provide ongoing security for individual Telstra shareholders as well as ensuring that Telstra can continue in its vital 'nation-building' role.

Labor expects Telstra's directors to uphold their duties to the company, the company's shareholders and to the national interest.

Telstra's directors are obliged under the *Corporations Law* to act in the best interests of the company and to not oppress Telstra's minority shareholders.

For example, Telstra's directors have protected the company's and shareholder's interests in the past. Earlier this year, the Telstra Board rejected a request by the Howard-Anderson Government for the payment of a special dividend.

Labor has no intention of using the section 9 power of direction. However, Labor reserves the right to do so should Telstra flagrantly and deliberately fail to meet its Universal Service or Customer Service Guarantee obligations.

By contrast, the Howard-Anderson Government wants to fully privatise Telstra so that the company can focus on profits not people.

### **DECLINING INVESTMENT IN TELSTRA'S NETWORKS**

Telstra's continuing inadequate service performance is in part a product of Telstra's October 2000 decision to cut investment in its copper Customer Access Network (CAN).

The CAN is the connection between most Australians and their local telephone exchange.

Investment in Telstra's CAN fell from \$1,285 million in the 1999-2000 financial year to just \$971 million in 2000-2001 - a cut of almost 25 percent.

However, given that Telstra maintained its investment in the CAN until October 2000, just as the Besley Inquiry Report was released, Telstra has only invested an average of \$70 million a month since October 2000. This is down from \$113 million a month - a cut of about 38 per cent.

Labor first raised concerns that Telstra had front-end loaded its investment in the CAN in November 2000. Since then, and despite Labor raising the issue frequently, the Howard-Anderson Government has refused to take the issue seriously.

The Howard-Anderson Government has repeatedly claimed that Telstra's CAN investment cuts have not occurred, despite clear evidence to the contrary.

Labor will encourage Telstra to make the investments needed in its network.

### **TELSTRA'S INTERNATIONAL INVESTMENTS**

Both in Government and in Opposition, Labor has not opposed Telstra's decisions to invest in various overseas commercial enterprises, as long as they do not detract from Telstra's primary obligations to make its services available to all Australians.

Telstra hopes that these investments will provide additional opportunities for the company to grow and increase Telstra's capacity to compete in an increasingly international telecommunications market, while providing a strong basis for Telstra to invest in better communications services for Australians.

While the choice of international investments has, and will be, a matter for the independent discretion of the Telstra Board, Labor expects Telstra to make appropriate and prudent commercial decisions when investing overseas.

Labor also expects Telstra to ensure that the taxation arrangements surrounding these investments are appropriate and meet reasonable international standards and community expectations.

### **EMPLOYMENT LEVELS**

Labor will encourage Telstra to retain the staff needed to ensure Telstra meets all its obligations, including the Universal Service Obligation and the Customer Service Guarantee, while also ensuring that the company is run efficiently.

Labor recognises that Telstra's employment levels will inevitably fluctuate over time as changes in the market and in technology affect how Telstra works.

However, when the Howard-Anderson Government supported Telstra's March 2000 decision to sack 10,000 workers, little consideration went into where those job cuts would come from and what impact they would have on Telstra's service levels.

The market reacted negatively to Telstra's announcement, in part because it did not see that Telstra had a considered plan to address both its commercial interests and its public duties.

The Howard-Anderson Government's decision to support Telstra's 10,000 headline job cuts was neither in Telstra's nor the national interest.

Unlike the Howard-Anderson Government, Labor will encourage Telstra to consider the impact of any future decisions about employment levels on both efficiency and service grounds.

Because of the significant role that Telstra plays in many communities, Labor will also specifically encourage Telstra to consider any future decision on employment levels with regard to its effect on rural and regional economies.

### **TELSTRA'S EMPLOYMENT PRACTICES**

As one of Australia's largest employers, Telstra is often seen as setting employment standards by which other companies are judged.

Under Labor, Telstra will be encouraged to act as a model employer.

Labor will encourage Telstra to ensure that its employment practices and policies are consistent with the Government's industrial relations and employment policies.

### **TELSTRA AND INDUSTRY POLICY**

Telstra has a multi-billion dollar budget for capital works and ongoing operations.

As a result, Telstra's purchasing policies have a significant impact on boosting Australian industry, particularly Australia's manufacturing industry.

Telstra has provided the impetus for the development of a billion-dollar manufacturing export industry in Australia.

Under Labor, Telstra will be encouraged to act consistent with ***Labor's Better Plan for Strategic Government Purchasing*** and to provide leadership in

supporting the further expansion of an internationally competitive telecommunications manufacturing and service industry in Australia.

Labor will also examine the consequences for Telstra and other carriers of the Government's current review into Industry Development Plans.

### **TELSTRA AS A MODEL LITIGANT**

In recent years, there has been growing community concern about whether Telstra has at all times acted appropriately in litigation involving members of the public.

Under Labor, and similar to other Commonwealth Departments, agencies and enterprises, Telstra will be encouraged to adopt, as appropriate, the Commonwealth's model litigant guidelines.

The Commonwealth's model litigant guidelines do not prevent Commonwealth departments and agencies from appropriately protecting the Commonwealth's interests in corporate litigation.

However, the model litigant rules will encourage Telstra to act openly and honestly and to take into account the considerable disadvantage experienced by many Australians in pursuing their legal rights against large entities, like Telstra.

Labor hopes that through the adoption of model litigant practices, Telstra will act as a model for other Australian and overseas companies.

## Costing

	01-02	02-03	03-04	04-05	Total
Retaining Majority Public Ownership of Telstra	0	0	-230.6	-336.0	-566.6
<b>Total</b>	<b>0</b>	<b>0</b>	<b>-230.6</b>	<b>-336.0</b>	<b>-566.6</b>