

TO: Committee Secretary
CITA (REPS)

Thankyou for your acknowledgement (below) of my submission sent 10 January. I realise now that there are errors in that submission and I would be grateful if you would now accept the following corrected version as my formal submission.

Ian Bowie

TELSTRA INQUIRY
Submission No.16.....

The Secretary
House of Representatives
Committee on Communications, Information, Technology and the Arts
R1, Suite 116,
Parliament House
Canberra ACT

Dear Sir

Inquiry into the Structure of Testra

I make the following submission as both a direct shareholder in Telstra (through purchase of share on the ASX) and an indirect shareholder (as a citizen, through the Australian Government's shareholding)

The present Inquiry is stated to be concerned with the possibilities of 'structurally separating Testra's core network from its other businesses and reducing the Commonwealth's current shareholding in Telstra's non-network businesses'. As I understand it this separation might be more precisely described as a separation of *infrastructure provision* from *service delivery* and it is this possibility that I wish to address.

While the present Inquiry is not directly concerned with the Commonwealth Government's ambition to sell its remaining shareholding in Telstra I cannot help but comment that it seems extraordinary that any Government should wish to sell our common shareholding when there is no imperative to do so. Most fund managers sell the holdings registered in their name either when the capital can do better in some other investment or when liabilities exceed assets. The Commonwealth Government appears to be in neither need.

When it is all Australians whose asset has been built up over time (by their Government as Manager) and when our asset is of the most fundamental importance to the functioning of our community it does seem quite extraordinary that our Government - which is the Government that cited 'the national interest' in requiring that Woodside Petroleum should remain majority-owned by 'Australians' - should wish to divest us of ownership of the part of that assets that we no longer own.

However that may be, I acknowledge that some \$29 billion worth of our Telstra shares (at current market value) has already been off-loaded by our Government (onto mainly Australian-domiciled and often superannuation-focussed funds managers). Political and financial realities will most probably prevent the return of this \$29 billion worth assets to full Australian ownership. As an Australian citizen I have still a vested interest in the remaining shares (a majority) that are still owned indirectly by the Australian community.

It seems to me that Telstra in comparison with all other telecommunications corporates operating in Australia is unusual in that

- it has a vastly larger customer base: notwithstanding our Government's concern to promote competition Telstra has retained most of its pre-competition customers for

reasons that must include: customer inertia, customer loyalty ('we are Aussalians' and, perhaps, 'we own Telstra') and even competitiveness

- it has a vastly larger network of communications infrastructure including notably its copper wire network and exchanges as well as communication towers, satellites and so on, most of which has to be used by the communication services offered by other providers

The first is unlikely to change, no matter what Telstra's management may do to undermine the confidence of its customers. The second should not be allowed to change, at least to any extent that it would lead to further duplication. Duplication of telecommunication infrastructure (such as parallel sets of copper wires and of transmission towers) cannot be any more economically inefficient than duplicating road or rail networks in a place and carries environmental risks including the visual intrusions of copper wires and communication towers.

The fact that Telstra is responsible for most of Australia's telecommunication infrastructure while also being Australia's largest communication service provider puts Telstra in a curious situation. Telstra's near-monopoly in service delivery is out of line with the Government's wishes to promote competition. Its almost total responsibility for maintaining and upgrading communication infrastructure limits the ability of Governments to control vital infrastructure and it may allow Telstra to exert unfair pressure over its competitors who have to use this infrastructure.

It seems irrational for both infrastructure provision and service delivery functions to remain with the one company. I submit that if our Government is serious about promoting competition in the telecommunication industry it should level the playing field by reducing Telstra to being a company that delivers essentially the same telecommunications services as does its competitors. To ensure that our Government is in control, telecommunication infrastructure should be in public ownership in the same ways as road and rail networks are.

It would appear to be a fairly simple matter for our Government to resume full responsibility for maintaining and upgrading Telstra's infrastructure control while ensuring that the service delivery functions of Telstra take place in an environment of real competition. As the majority owner of Telstra it should restructure the company so that Telstra becomes a company responsible for the present service delivery functions and in which our Government has no shareholding, while Telstra's telecommunication infrastructure returns to full public ownership.

I appreciate that Telstra's 2002 annual report is general in the information it contains but it is interesting to observe that \$22 billion of Telstra's \$38 billion gross assets were in 'communications assets' rather than 'general purpose' plant, property and equipment. Obviously, the liabilities side of the balance sheet may be more complex but, allowing for the probability that some communications assets pertain to service delivery rather than to infrastructure it would appear reasonable to suggest that about half each of Telstra's assets lie with service delivery and infrastructure.

This suggests that it could seem to be quite simple for our Government to transfer Australia's shares in Telstra to the minority shareholders in exchange for the company transferring its infrastructure functions back into public ownership. No doubt the matter would be more complex than this but the end result would resolve, simultaneously and without a 'T3' sell-off, problems that are perceived to stem from Telstra's current near monopoly, from the Government's current lack of control of Telstra and from the Government's part-ownership of Telstra.

Yours sincerely

I J S Bowie