Telstra share values boosted by job destruction

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21 October 1999

The next stage of the Howard government's plan to privatise Telstra, Australia's main communications carrier, was launched this week with the sale of another 16.6 percent of the company to investors. Once the latest share float is completed, 49.9 percent of Telstra will be in private hands.

Major investors were no doubt hoping to reap huge profits as they did from the first share float in 1997. But the timing of the Telstra share release came as Wall Street plummetted last week sending tremours in stock exchanges around the world, and dampening the prospects of immediate windfall profits.

In August, Telstra recorded a $3.5 billion profit—the largest in Australian corporate history—and announced that the total amount would be paid out in dividends. The Federal Government, which at that time still retained 66.7 percent of the shares, received $2.2 billion. A hefty $1.3 billion in dividends was paid to private investors.

Naturally, the government was quick to herald the profit and dividends as a "gain for first time small investors”. However, a large slice of the windfall went to big investment houses, the banks, insurance companies and the rich individuals from the upper end of town.

The big players—including the Myer family, worth $840 million; John and Timothy Fairfax, joint owners of a $860 million media business; and the Baillieu family worth $160 million—own nearly 18 million shares and received dividends worth over $4.6 million. In addition to the dividend, the total value of the shares has increased by $77.4 million compared to the purchase price just two years ago.

At that time, Telstra shares sold at a discounted $3.95, at least 40 cents below the market value. Within 12 months the share value had doubled to over eight dollars, with another 26 cents per share added during 1999. In other words, an investment of $10,000 in November 1997, is now worth approximately $21,500—a rise of 111.5 percent.

Stockbrokers also gained handsomely from the previous float, receiving $160 million in fees. It is little wonder that the latest $16 billion sell-off attracted over 17 stockbroking firms bidding for the right to handle the sale.

Key selling mandates were eventually awarded to Ord Minnett, Salomon Smith Barney and Warburg Dillon Read. They joined the three global coordinators, JB Were & Son, ABN-Amro Rothchild and Credit Suisse First Boston, who had already been appointed to "advisory roles". Their total fees will come to over $100 million.

Telstra's top executives have also done well for themselves. Frank Blount, the company's former chief executive, retired in February with a $2 million payout, on top of last year's $1.7 million salary package. The man who replaced him, Dr. Ziggy Switkowski, signed on for a $1.17 million annual salary package.

Paul Rizzo, Telstra's chief financial officer, and Doug Campbell, its wholesale managing director, also receive more than $1 million each in annual salaries, while Telstra's five non-executive directors receive a combined fee of $750,000 per annum. A proposal is now under discussion to increase the non-executive directors' payment by $400,000 from January next year.

By contrast, the conditions of Telstra workers have plummeted dramatically. The profits, dividends and salary packages have been realised directly at their expense, through the elimination of thousands of jobs and the wholesale destruction of working conditions.

Telstra is estimated to save $80 million in labour costs for every 2,500 jobs it abolishes. Since 1996, over

25,000 jobs have been axed through Project Mercury, the company's job shedding plan, with another 4,500 jobs eliminated in the last year. Today, labour costs absorb only 17 percent of Telstra's revenue, compared to 27 percent in 1975.

Further cuts are being demanded. Last month the *Australian Financial Review* stated: “Despite the job cuts Telstra performs badly on staff numbers compared with its international peers. It has about 185 access lines (phone and data connections) per employee while the global weighted average is 278.” The article called for another 18,000 jobs to be eliminated so that Telstra would meet the international benchmark.

Telstra CEO, Ziggy Switkowski responded to the newspaper's demands by announcing the formation of a 14-member razor gang to oversee a “second generation" of cost cutting to axe another 9,000 jobs and a projected $2 billion in savings over the next five years.

Institutional investors, with their eye on even greater windfalls, welcomed the move. David McDonald, a portfolio manager with ANZ Funds Management, praised Switkowski's plan as "good news" and suggested that Telstra should further reduce its workforce through “a program of increased outsourcing”.