Australian government's crisis deepens as markets demand full privatisation of Telstra

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In the midst of a growing rift in its own ranks, the Australian government is coming under increasing pressure from big business and financial investors to override all opposition and press ahead with the full privatisation of Telstra, the country's major telecommunications carrier.

Communications Minister Senator Richard Alston last Sunday announced a three-person inquiry, headed by former Commonwealth Bank chairman Tim Besley, to decide whether service levels provided by Telstra match up to the government's Customer Service Guarantee and the company's policy commitment to continuously improve its service levels.

During the 1998 election campaign Prime Minister John Howard promised to hold such an inquiry before selling the government's remaining 50.1 percent share of Telstra. Howard and Alston are hoping that the inquiry, to be completed within six months, will enable them to meet the demands of the financial markets, while placating the government's diminishing electoral base, especially in rural and regional areas, and to quell dissension within the ruling Liberal-National Party Coalition.

The announcement came after uproar in the Coalition's ranks over the issue. Leading National Party members, including government ministers, threatened to withdraw their support for Telstra's full privatisation unless the government and the company could guarantee to maintain services to users in rural and regional areas.

The public rupture was sparked by the half-yearly report delivered on March 8 by Telstra chief executive Ziggy Switkowski. While declaring a record $2.09 billion after-tax profit for the six months to December, Switkowski also revealed that Telstra would slash another 10,000 jobs from the company's 51,000-strong workforce over the next two years. Another 6,500 jobs are due to go when Telstra completes the sell-off of its entire Network Design and Construction Division later this year.

The National Party MPs feared that the announcement of a new swathe of job cuts would provoke a further electoral backlash in their rural-based constituencies. These areas are already suffering the effects of government budgetary cuts and deregulatory measures, resulting in the deterioration of basic services, such as communications, banking, health and education.

Since 1996-97 the government has allowed Telstra to axe 26,000 jobs, undermining services in both rural and urban regions. Maintenance, installation and service have suffered. Service divisions in many country centres have been reduced or withdrawn, significantly increasing waiting times for breakdowns or connections. According to the March 9 *Australian Financial Review,* “mobile phone connection in many places in the bush (rural areas) is average to poor, reliable internet connections in many areas are a rarity and repair times continue to lag behind city areas”.

Widespread popular disenchantment in country regions produced a major swing away from the Nationals towards the ultra-rightwing One Nation party, culminating in the loss of 11 regional seats in the Queensland state parliament in 1998. While One Nation has since all but collapsed, discontent with the government parties has deepened.

Howard's dilemma—how to carry out the dictates of big business on one hand, and retain voter support on the other—was summed up by Alston. He told the *Age* newspaper: “In many ways, part of the problem here is that you have this irreconcilable conflict of interests. We've got something like two million people as direct shareholders in Telstra, therefore they are entitled to look at us and say, ‘Well, you make sure that Telstra's able to properly compete in a difficult marketplace'. On the other hand, you've got every customer saying, ‘Now your obligation is to ensure quality of service outcome'.”

Sophisticated telecommunications have become a basic necessity of everyday life. But the provision of such services to large areas of the population is, as Alston admitted, not compatible with the corporate bottom line.

The government's inquiry, whatever its findings, will not overcome this contradiction. Indeed, it is already threatening to become an arena for deepening conflicts. Key National Party figures have condemned the government for not allowing public hearings. They have called on Telstra customers nationally to “flood” the inquiry with complaints and “war stories” about Telstra's level of service. Labor leaders have accused Besley of having a conflict of interest because he is an adviser to the Credit Suisse First Boston bank, which was a coordinator of Telstra's earlier share sales.

At the same time corporate Australia has made it abundantly clear it will not tolerate further pandering to “electoral concerns”. An editorial on Monday in the *Australian,* Rupert Murdoch's national flagship, proclaimed: “In any objective sense it would seem unlikely that Tim Besley and his inquiry colleagues would find evidence that Telstra is not trying to improve its service. But that is not the real point. The sensitive issue is whether it should be Telstra that carries out the Government's commitment to provide adequate service to the bush...

“In some rural and all remote areas the number of consumers is small and the cost of providing services high. Telstra says that in a deregulated telecommunications environment many of these people would not even be provided with a standard telephone service because it would not be profitable for any company to provide the service. It is hard to see Mr Besley and his colleagues not accepting those facts.”

In other words, the profit concerns of the market must be satisfied at the expense of rural people. And while rural areas are most severely affected, services to ordinary household users in urban centres are also threatened as Telstra continues to downsize.

If working class opposition to the latest job cuts has been more muted than in rural areas it is primarily because the Labor and trade union leadership continues to stifle all resistance. For example, the Communications Electrical and Plumbing Union (CEPU) has not mounted any serious campaign to oppose job cuts. In the name of making Telstra “competitive,” the union has participated in the destruction of thousands of jobs.

As far as the financial markets are concerned, Telstra's half-privatised status is untenable. There has been an ongoing drop in the company's share price. Just prior to its half-yearly report its shares tumbled by 6 percent, shaving more than $6.4 billion from the company's market value.

Despite record profit margins and considerable assets, Telstra is being left behind by a series of mega-mergers in the global telecommunications industry. Regardless of its attempts to expand into new fields—such as the Internet—it remains essentially a national-based provider.

Moreover, being partly government-owned, it cannot issue new shares to fund expansion, mergers and takeovers. A recent *Financial Review* editorial noted: “Government ownership poses a continuing problem. Telstra can't buy new assets with scrip because the Government won't contribute more cash to maintain that share.”

Attempts by Telstra to side-step the problem, by funding expansion from the large profits generated from the traditional areas where it once held a monopoly—such as the provision of local and long-distance phone calls—have also run into acute problems.

At the beginning of the year, Telstra controlled more than 95 percent of the local call market and anticipated that it would lose between 3 to 5 percent of market share a year to competitors such as One.Tel and Cable & Wireless Optus. The company is losing ground significantly faster, however.

Attempts to win back local phone customers by lowering the cost of its calls only cuts the company's profits and further intensifies the crisis. Telstra estimates that every time it reduces the price of local calls by 1 cent it loses $100,000 in annual revenue.

This situation is reflected in Telstra's latest profit figures. The *Age* on March 9 commented that if the one-off gains from asset sales were stripped out, Telstra's actual profit figure was closer to $1.9 billion. If the next half-yearly profit were the same “it would be difficult for Telstra to operate”.

“Investors were disappointed” that the company in its half-yearly report had not committed itself to “structural change,” including an expected “spin-off” of its Internet-related and mobile international telephony assets, worth a combined $67 billion, into a separately listed company. Investors had hoped that the “spin-off” would have “focused market attention on the value of the Telstra's assets” and created affiliates that “could offer high-value scrip as consideration for takeovers”.

This “disappointment” was underscored when Moody's credit ratings agency downgraded Telstra, forcing it to pay higher interest rates to borrow funds. In the coming weeks and months there could be a more aggressive reaction if the government fails to deliver on corporate demands.