Australia:

Telstra's rural split-off—a new vehicle for privatisation

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In March this year the Howard government, shaken by opposition in rural areas and divisions within its own ranks, was forced to back away from plans to sell off the remaining 50.1 percent government interest in Telstra, Australia's largest communications carrier.

Divisions erupted within the ruling Liberal-National Party coalition when Telstra announced a $2.1 billion half-yearly profit, accompanied by plans to axe a further 10,000 jobs, 30 percent of them in rural areas, as part of a $650 million cost-cutting exercise.

National Party MPs, under fire in their rural constituencies, threatened to vote against any further privatisation unless the government gave assurances that telecommunication services and jobs would be enhanced in regional and rural areas.

Since then the government has been attempting to find the means to placate rural discontent, yet still clear the way for the full privatisation of Telstra that the markets and major investors are demanding.

One such scheme was announced on June 1 by Telstra's CEO Ziggy Switkowski—the creation of a stand-alone business unit called Telstra Country Wide (TCW) to service three million rural customers. "The new business will mean regional customers will have faster local response from Telstra for all communications needs—from fixing faults to quicker and better access to the Internet," Switkowski claimed.

Closer scrutiny of the proposal reveals a different picture. To begin with, the plan to eliminate 10,000 jobs remains intact. When asked if Telstra still intended shedding 2,000 to 3,000 jobs in rural areas, Switkowski replied: "The overall figures [10,000 jobs] are still the same, it is just the balance between the cities and the country that is moving. In the aggregate, jobs in the bush will be steady ... plus or minus a few hundred perhaps."

The projected job levels in rural areas have nothing to do with providing quality service or creating decent employment. Instead, 3,000 jobs will be eliminated from Telstra's urban call centres and relocated in country regions.

The move will allow Telstra to take advantage of the high unemployment and lower pay scales in country areas. Many of the call centre jobs will be casual or part-time, and all will be poorly paid. As part of its $650 million a year cost-cutting, Telstra had already asked its managers to identify opportunities where it could introduce lower regional rates of pay.

At the same time, the creation of TCW will provide the conditions for shedding thousands of full-time technical staff who are essential for decent communication services in rural areas. They will be replaced by local trades people employed on a "needs basis" to do basic installation and maintenance.

The more complex work will be carried out by the remaining handful of qualified staff stationed in larger regional centres. They will be forced to travel long distances before servicing customers in smaller towns or remote regions.

Already technical staff cutbacks and rural depot closures have caused a sharp deterioration in services. Country residents and small business complain of ever-longer waiting times for installation and breakdown calls.

A typical example is Charleville, a country town in central Queensland. A few years ago the town had a Telstra depot with 18 technicians and breakdowns would be fixed within 24 hours. With only three technicians remaining, residents say that it can be days before repairs are attended to. They also complain that they are no longer allowed to contact the local depot direct and are forced to wait long periods on the phone before speaking to a call centre, which may be situated in another state.

Finally, the creation of a stand-alone company will enable Telstra to more easily sell it off as a separate entity at a latter date and end the system of cross-subsidisation, which currently commits Telstra to redirect revenue generated in the profitable urban areas to sustain services in rural and regional areas. Cross-subsidisation and the Customer Service Guarantee (CSG)—requiring Telstra, as the sole provider, to ensure adequate services to all country users—cost the company between $1.5 and $1.8 billion a year.

Under these obligations other telcos have not been interested in setting up rural services. However, the ending of cross subsidisation and CSG would change that. One company looking to enter the field is Neighborhood Cable, whose backers include financier Rodney Adler, media magnate Kerry Packer's confidant Robert Whyte, entrepreneur Ian Murray, director-at-large Trevor Kennedy, merchant banker Andrew Kroger, millionaire John Kahlbetzer and stockbroker Rene Rivkin.

The only concern of such companies will be to generate ever-greater returns on their investments. Decent communication services will be available in rural areas only to those who can afford them, mainly large corporations and wealthy individuals.

Despite the government's efforts to clear away opposition to privatisation, the markets are becoming impatient with the slow progress being made. On August 31, Telstra announced a yearly profit of $3.68 billion, one of the largest in Australian corporate history. Yet Telstra's share values have since plunged $1.24 to $5.65, the lowest level since the first partial privatisation in 1988. The shares are worth only a little more than half their $9.16 high in November 1999.

Following the profit announcement, the *Australian* newspaper, in an editorial, insisted: “Full sell-off must stay Telstra's goal”. It stated: “Investors are concerned about Telstra's capacity to perform in the future. They are worried that Telstra's awkward ownership structure—in which 50.1 percent remains government-owned—is limiting its ability to raise equity for acquisitions and expansion.” Politicians who continued to oppose full privatisation “must be convinced to abandon their restrictive views”.