Collapse of Australia's fourth largest telco adds to growing list of corporate failures

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The Australian corporate world has been shaken by the demise of another major company, the third such collapse in a matter of weeks. One.Tel, the country's fourth largest telecommunications company (telco), ceased trading on the Australian stockmarket on May 28 and was put into the hands of an administrator after an investigation of the company's financial situation showed it to be insolvent.

On June 5, administrator Steve Sherman ended all speculation that the stricken company could be revived, announcing a wind-down of One.Tel over the next seven to 14 days and the sale of all its assets. Sherman told a creditors' meeting that the company owed more than $600 million to more than 3,000 creditors and was losing over $12 million a week. One.Tel's 1,400 workers, who are owed a total of $19 million in accrued entitlements, will be progressively laid off starting this Friday.

The company had connections in the highest corporate circles. The Packer and Murdoch families, which respectively control the media conglomerates Publishing and Broadcasting Ltd (PBL) and News Corporation, owned 41 percent of One.Tel.

Among One.Tel's major creditors are Cable & Wireless Optus group and Telstra, owed almost $100 million for providing access to their communication networks. On Thursday the US company Lucent Technologies, which is owed over $500 million for constructing the first stage of One.Tel' s communications network, lodged a $1.2 billion claim with the administrator.

Dominant telcos Optus and Telstra are now aggressively bidding for the company's 220,000 mobile customer base and negotiations are also underway to find buyers for One.Tel's landline and Internet businesses. The company's Hong Kong, United Kingdom and mainland European businesses are up for sale with expressions of interest will be lodged this week.

The Industrial Relations Commission has eventually granted One.Tel employees a redundancy package of four weeks pay for the first year of service and a week's pay for every subsequent year. But the maximum payout will be no more than eight weeks pay and there is no guarantee that the workers will receive any severance pay. One.Tel's administrators admitted after Monday's meeting of creditors that there were not enough funds on hand at the time of the dismissals to meet any of the workers' entitlements.

The One.Tel collapse is also sharply impacting on a host of small creditors owed thousands of dollars for goods and services. Many face bankruptcy and, according to the most recent reports, will receive nothing from the company windup.

The One.Tel crash, which follows the recent collapse of HIH Insurance and Impulse Airlines, is another blow to the Federal Liberal government which is facing national elections later this year and is already staggering under a series of electoral setbacks and poor economic outcomes.

The fact that workers' entitlements are again under threat while the major creditors and company executives are protected is a further embarrassment to the government which is trying to overcome the hostility engendered by its big business policies over the last five years.

On Monday Prime Minister John Howard, in an attempt to contain the political fallout, called on recently resigned directors Jodee Rich and Brad Keeling to return $14 million in performance bonuses so that sacked workers' entitlements could be funded.

In parliament Howard foreshadowed future legislation obliging the executives of failed companies to return bonuses. He also reversed an earlier statement by Workplace Relations Minister Tony Abbott who had indicated that the government would not support an application by the Community and Public Sector Union in the Australian Industrial Relations Commission for a redundancy agreement to cover One.Tel workers.

The reaction of the Australian media was scathing. Howard, who in the 1980s was regarded in big business circles as the foremost advocate of free market policies, has increasingly come under attack for his populist attempts to shore up the government's electoral prospects. A series of comments and editorials branded the proposal to force the return of bonuses as an intolerable restriction on the prerogatives of corporate boardrooms.

The Murdoch-owned *Australian* newspaper published a front-page “sketch” lampooning Howard. “John Howard didn't turn up to parliament wearing a cloth cap and clutching a dog-eared copy of *Das Kapital*... Don't be deceived, though. Howard is the Battler's Prince. The Worker's Friend. A resident of The Small End of Town... Comrade John now thinks no one should get a bonus unless they a) deserve it; or b) are fellow federal parliamentarians,” the newspaper observed sarcastically.

The rest of the press followed suit. One of the *Australian Financial Review* commentators branded Howard's announcement as “an example of craven populism in an election year when politicians seek to outbid each other in pandering to demands for blood”. Its editorial reminded Howard “that in a market economy these matters should be driven by market forces rather than government decisions”.

To drive the point home, the newspaper's “Chanticleer” column declared that the One.Tel collapse had “let the loonies out of the bin in the form of politicians from the Prime Minister down, who are trying to win political points...” Legislation to force the return of bonuses was “plain dumb,” the column said. “These issues should be left to the courts and to the recovery experts, but please save us from politicians like the Prime Minister who is clearly jumping at any shadow that may be perceived as saving his tenuous grip on power.”

Howard is not the only person in damage control mode. The Murdoch and Packer business empires are also seeking to distance themselves from the failed company. Any examination of the record, however, reveals that James Packer, son of Kerry Packer, Australia's richest individual, and Lachlan Murdoch, Rupert Murdoch's son, were intimately involved.

One.Tel was launched by Jodee Rich and Brad Keeling in 1995. James Packer was persuaded to invest in the company by a mutual acquaintance, Rodney Adler, director of the recently failed HIH Insurance group. Packer in turn brought in Lachlan Murdoch in 1999, at the height of the telco and hi-tech stock market frenzy taking place internationally.

Without the involvement of Packer's Publishing and Broadcasting Ltd (PBL) and Murdoch's News Corporation, which invested a total of $955 million into the company, One.Tel would probably not even have got off the ground. PBL and News Corp's support gave the fledgling company credibility and a substantial cash-base to fund its rapid expansion both domestically and overseas.

Rich was able to negotiate a $1.1 billion deal with Lucent Technologies to construct One.Tel's mobile network with no interest payments until 2003 and no capital repayments due until 2005. Heavy advertising, much of it provided by the Murdoch and Packer media outlets, and aggressive marketing pushed up the company's subscriber base and share values.

Like other new telcos, the company sought to gain a foothold in the deregulated communications market by reselling excess phone capacity purchased from Telstra and Optus and offering cheaper packages for both mobile phone connections and other communication services. But the business strategy left One.Tel vulnerable as Optus and Telstra determined access rentals and had far lower operating costs. The provision of mobile phone services, for example, cost Optus an average $265 per customer as compared to $416 per customer for One.Tel.

The company's high risk, low yield strategy, with generous incentives for new customers could not be sustained in the small Australian market which had six mobile phone providers—the second largest number of any country in the world. The US, with a population more than 10 times larger than Australia, has seven mobile network providers. The UK and Germany have only three.

Moreover, the company was specifically geared to making money through stockmarket speculation. Recent reports indicate that the bonuses paid to Rich and Keeling were specifically tied to the rise of the company's shares rather than to profit or any other indicator of the overall viability of the company.

Some made large profits including Steven Gilbert, a former associate of international speculator George Soros, who made about $85 million from One.Tel. Gilbert lent the company $60 million in 1998 then converted his stake into 135.9 million shares at 35 cents, well below the then price of $2.40. He began selling his shares in 1999 and continued throughout 2000 before quitting One.Tel's board of directors in November last year.

To expand its operations One.Tel undertook outlays now shown to be way beyond its financial capacity. The company recently paid $523.1 million to procure mobile phone licenses—a price that even One.Tel admitted was $200 million over budget. The company was also badly hit by recent changes by European network providers which, because of their own cash-flow problems, cut credit terms from 120 to 30 days.

More generally, however, One.Tel was caught up in the international collapse of dotcom ventures. The *Australian Financial Review* noted that the company's “demise mirrors trends which have seen the US telecom sector default on $US6.2 billion ($A12 billion) in debt in the first quarter of this year alone.

“The euphoric mood on the stockmarkets until last year combined with the overly bullish views about the take-up of new technology made it too easy to raise money for telecom investments. As a result these companies have been hit by a double whammy of having investors with unrealistic expectations about returns, who are now panic selling, and to much capacity, which is placing pressure on their ability to service debt.”

When the One.Tel disaster was first announced James Packer and Lachlan Murdoch claimed to have been “profoundly misled”—a line that was dutifully reported in the media owned by their respective families. But to anyone in the financial world who had followed the fortunes of One.Tel, it was obvious that the company was in trouble.

The signs began to emerge with a sharp fall in One.Tel's share price throughout last year, dropping below $1 in September down from a $2.50 high in 1999. According to recent investigations, One.Tel was trading on the edge of insolvency as far back as December last year.

Despite all of the factors eating away at One.Tel, company executives continued to put a positive spin on its financial situation. On January 25, Rich and Keeling presented briefing papers to a One.Tel board meeting, claiming that the company would post an operating profit of $41 million for the six months to the end of June. The board even discussed the possibility of a $50 million acquisition of rival phone group Comvergent.

Seven days later Rich reported to a meeting of investors that the operating profit would be only $10 million. Whatever the reason for the differing figures, both estimates proved to be a gross falsification of the real financial state of the company. Nevertheless, as recently as April 4, Rich and Keeling issued glowing reports on One.Tel's financial status, saying it had a cash reserves of over $75 million.

The first public indication that the company was in trouble emerged at a board meeting on May 17 at which Rich and Keeling suddenly “resigned”. News Corporation and PBL initiated an investigation into the company's books and at the same time promised a $132 million cash injection aimed at reassuring the markets. A joint statement expressed their faith in One.Tel claiming that “the initiative positions the company well as they arise in the changing telecommunications landscape.”

Just 10 days later, however, the investigation found that the company needed at least $400 million to remain viable, the offer was withdrawn and One.Tel placed in the hands of the administrator. A number of small investors were taken in by the hype surrounding the offer and badly burnt. But the temporary breathing space allowed enough time for major shareholders to recoup at least some of their money. Company director Rodney Adler is known to have sold off six million One.Tel shares raising $2.2 million dollars, the day after the fateful May 17 directors meeting.

Subsequent media coverage has highlighted the large sums of money earned by Rich and Keeling, who personally accumulated $65 million between them. The press has featured a number of stories providing details on their luxury homes and other assets.

However, as far as James Murdoch and Lachlan Murdoch are concerned, there has been a virtual media blackout. All that has been featured is their disingenuous statement claiming to have been misled. Predictably, however, there have been no exposés of the lifestyles led by these two scions of the corporate establishment or any probing questioning of how much they gained in the whole affair.

The company is presently under investigation by the Australian Securities and Investments Commission (ASIC). Last week ASIC raided One.Tel's Sydney offices and the luxury home of Jodee Rich carrying off hundreds of documents, including the minutes of the company's board meetings.

ASIC agents were armed with warrants allowing them to gather evidence to determine if either Rich or Keeling had engaged in activity in breach of corporate law. The agents were also seeking any information to show if Mark Silbermann, another company director, had falsified company books and accounts.

The trio could face a range of charges including trading when insolvent, insider trading and other matters relating to market disclosure issues. According to press reports, Packer, Murdoch and Packer's associate Rodney Adler are not cited in the warrants.

There is little doubt that One.Tel is only the tip of the iceberg. The recent string of corporate collapses and faltering companies goes beyond the dotcom companies and points all too clearly the fragility of the Australian economy under conditions of a gathering international economic recession.

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