

# Australia: Renewed drive to sell Telstra sharpens divisions in government ranks

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Under growing pressure from corporate circles, the conservative Liberal-National coalition government has decided to push forward with the controversial sale of the remaining 50.1 percent of the national communications carrier Telstra.

On August 21, legislation authorising the full privatisation of Telstra at a time of the government's choosing passed through the Lower House of parliament where Prime Minister John Howard commands a majority. Government ministers are already lobbying the minor Senate parties and independents to try to pull in the extra four votes needed to ensure the bill's passage through the upper house in October.

But in the likely event that they fail and the Senate blocks the sale, Howard will add the bill to other rejected legislation, providing him with yet another trigger to dissolve both houses of parliament and call an early election. If he goes to the polls and wins, Howard would be able to put all the failed legislation before a joint sitting of both the Lower House and the Senate, where he would hope to get it through.

Since the last federal election in 2001, major investors have become increasingly frustrated with Howard's accommodation to opposition within the government's own ranks to the sale of Telstra.

Late last year, an editorial in Rupert Murdoch's *Australian* complained that "the Prime Minister and his government have taken their eye off the domestic ball" despite being "buoyed by high approval ratings". "The Senate is vowing obstructionism and the Government appears to have put Telstra privatisation on the backburner," the editorial warned.

Nine months later, with the media promoting him as an unassailable colossus and the Labor opposition in total disarray, Howard has decided to seize the moment to try to ram through the deeply unpopular sale.

There is a great deal riding on the exercise. The privatisation of Telstra and the complete deregulation of the communication market in Australia has long been a key demand of powerful domestic and overseas investors. They are far from pleased that the issue has dragged on for seven years since the first parcel of shares was sold off immediately after Howard won government in 1996. They regard the carrier's current part government-owned status as untenable. Multi-million dollar financial

benefits would flow from owning and controlling a company that not only enjoys an unchallenged monopoly over all aspects of domestic communications, but also consistently returns massive profits.

As long as Telstra remains only partly privatised, its operations continue to be subject to a range of regulatory restrictions that conflict with investor demands. Moreover, the present status makes it impossible for the company to issue new shares and raise the necessary capital to fund expansion, mergers and takeovers. Extremely lucrative investment opportunities in both the Asian region and internationally, therefore, are being missed.

Every move to sell off the remainder of Telstra, however, has sparked bitter opposition not only from opposition parties within the Senate, but also within the ranks of the National Party—Howard's coalition partner. In the vast and isolated rural areas that form the National Party's traditional heartland, the provision of modern telecommunications—indispensable for every aspect of life, from farming and rural-based businesses to general social intercourse—has become an explosive issue.

The full privatisation of Telstra would see the end of the present system of cross-subsidisation, under which the telecommunications carrier channels funds from its more profitable operations in urban areas to support the provision of services in rural and regional areas. Even now, many people in rural areas are still without mobile phone access, rapid Internet connection or even reliable phone services. But with the sale of the remaining 50.1 percent, the current situation would drastically worsen.

Following the initial sale of Telstra shares, opposition to any further privatisation deepened within the National Party's ranks. This was exacerbated when the party lost 11 seats in the 1998 Queensland state elections to the extreme rightwing One Nation Party.

While offering no solution to the problems facing rural people, One Nation campaigned on a populist and protectionist program, tapping into the deep-going hostility in rural electorates to the government's free market agenda, including the sale of Telstra.

Deregulation has spelt disaster for many rural-based industries and sections of small farming that have traditionally

relied on a series of regulatory boards and subsidies to survive. It has also seen the closure of hundreds of rural branches by the major banks and the collapse of regional postal, airline and other services. In the process, thousands of jobs have been axed.

Despite One Nation's subsequent demise, National MPs are still haunted by the spectre of new rural-based electoral challengers.

In an effort to placate National Party opposition, Howard commissioned two inquiries into the standard of communications in rural and regional Australia and promised not to proceed further with the Telstra sale until rural services were "brought up to scratch." But this did little to dissipate the underlying discontent.

The results of the latest inquiry headed by cotton farmer Dick Estens were brought down over six months ago. Yet the government continued to stall. The markets reacted by hammering the price of Telstra shares well below the level required for the government to realise the \$34 billion it wants from the sale in order to retire public debt. The message was clear and Howard acted accordingly.

Notwithstanding the media's promotion of Howard's government as stable, unified and all-powerful, the renewed push to sell off Telstra has once again brought to the surface the deep-going divisions in the ranks of the National party that could lead to a split and eventually to the collapse of the ruling coalition itself.

At the end of June, the federal National party leadership finally succumbed to pressure from Howard and backed the sale—but only after a process of bribes and bullying that has left many National MPs bruised and bitter. On the eve of the Telstra bill being introduced before Parliament, Howard called an urgent joint party room meeting where he promised a \$181 million cash injection to upgrade rural telecommunications services.

Howard also pledged to implement all 39 recommendations of the Estens report that confirmed the urgent need for extensive upgrading to provide basic services such as mobile phone access and broadband Internet. Communications Minister Senator Richard Alston attempted to calm the gathering by promising not to implement the sale "until rural and regional services are judged to be adequate".

That the promise was groundless, as the assembled MPs were well aware, was revealed when National Party leader John Andersen later admitted, "the test of if we got this right will be in five, ten or twenty years time".

Despite Alston's assurances, at least one National Party MP reserved the right to cross the floor and vote against the Bill, while others claimed the cash injection was the "minimal amount needed". The opposition was only finally quelled when the gathering was informed that the sale was "inevitable" and that a "future proofing" fund, supposedly to ensure high-speed digital services were widely available in rural areas, was tied to

full privatisation.

Communications Minister Richard Alston attempted to downplay the depth of the divisions claiming: "Whilst I'm sure there will continue to be pockets of resistance, I think the overwhelming sentiment in the joint party room...was that the service levels (in rural areas) have increased out of sight."

This was not the sentiment, however, in the party's ranks. The decision to support the sale of Telstra quickly re-ignited a furor that had been simmering just below the surface. July saw a flood of public condemnations by National state branches and leading state party figures, including accusations that the national leadership and federal MPs had "sold out" the party's rural based supporters.

On July 12, despite attempts by National Party federal president Helen Dickie to appease delegates, the party's South Australian (SA) branch conference overwhelmingly voted against the Telstra sale, putting the state organisation in direct conflict with its federal counterpart. The SA president Robin Dixon-Thompson warned, "If they (the federal leadership) think it is going to be a smooth ride, they are in for a big shock."

Queensland branch leader Lawrence Springborg threatened a similar outcome at the Queensland conference, warning that opposition in that state "was stronger than ever". "The mood I've picked up around Queensland has actually reinforced my opposition to the sale," he said.

On July 22, president of the 13,500-member Australian NSW Farmers Association Mal Peters slammed the sale saying, "probably 80 to 85 percent of people at most meetings I go to are opposed to it. A lot of people have still got lousy services". He pointed out that the opportunity to "expand the value of Australian farming" depended on the provision of up-to-date technology and warned that the sale of Telstra "could destroy our ability to bring back capital, productivity and people to agriculture".

Despite the sops presently being handed out, and government "guarantees" that services will be maintained and upgraded by a fully privatised Telstra, these will rapidly evaporate once the sale is finally pushed through. Under the new conditions, the provision of communications, like all other services, will be determined solely on the basis of their potential to return ever-greater profits and fuel increasing dividends for a handful of large investors.



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