Telstra sale—a political minefield for the Australian government

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6 September 2005

The mooted sale of the government's stake in Australian telecommunications giant Telstra has exposed sharp divisions within Prime Minister John Howard's Liberal-National coalition.

Since the first public floats of Telstra shares in 1997 and 1999 (T1 and T2), attempts by the Howard government to sell off its remaining 51.8 percent Telstra holding (T3) have been blocked by Labor and minor parties in the upper house (Senate).

The government has been lashed in corporate circles over its failure to complete the Telstra sale and its "stalling" on other market "reforms". With control of the Senate officially passing to the ruling Liberal-National Party Coalition on July 1, the Telstra sale should have been plain sailing. The process, however, has proven a political minefield.

Over recent weeks, longstanding tensions have erupted within the Coalition, with newly-elected Queensland Senator Barnaby Joyce threatening to cross the floor on the Telstra vote. Joyce's decision reflected broader opposition within the National Party, and in particular its Queensland branch, which voted overwhelmingly against the Telstra sale at its conference last year.

The Telstra sale has always been deeply unpopular in the National Party's rural and regional-based electorates where communications services are patchy and unreliable. People in these areas know that a privatised Telstra—concerned only with the bottom line—would not invest in the less profitable rural districts.

While the Telstra legislation was blocked by the Senate, National Party MPs could avoid taking a definitive stance on the issue. With its passage now directly dependent on their support—and fearing an electoral backlash—some threatened to derail the government's plans unless it offered concessions to make the sale more palatable to rural voters.

Howard finally contained the opposition through a mixture of browbeating and bribery. He lectured a tense joint meeting of Liberal and National Party MPs last month to think "about value and commitment to the Coalition party room and not to other affiliations". While mainly directed at the Nationals, the rebuke was also a warning to several Liberal MPs who sought provisions to mollify voters in their outer metropolitan electorates.

Opposition to the Telstra sale is by no means confined to rural areas. A recent Newspoll found 70 percent of respondents were firmly opposed to the sale, reflecting fears that Telstra's destruction of thousands of jobs, price gouging of household customers and running down of basic telephone services will accelerate.

The reputation of Telstra's newly-appointed CEO, Solomon Trujillo, has only fuelled concerns. As head of the phone company US West for five years to 2000, he divided its customers into three categories —gold, silver and bronze—with less profitable rural and low-income users falling last. According to a report in the *Australian Financial Review* "rural and regional services were so poor that the market regulator had to intervene to restore them".

To secure the Nationals' support, the Howard government had to promise $3.1 billion, including $1.1 billion for the "immediate" upgrade of telecommunications services in rural and regional areas. A further $2 billion is earmarked for a "communications trust" that will supposedly fund future technical improvements in country regions.

Joyce accepted the outcome as a "pretty good deal" that he was prepared to "put to supporters". He was joined by Queensland Nationals president Bruce Scott who declared: "I believe we have delivered in spades on behalf of the Queensland party." Deep discontent and mistrust continues in rural areas, however. The National Farmers Federation slammed Joyce as "backdown Barnaby" and said the deal offered no long-term guarantees for equitable telecommunications services in rural Australia.

Joyce earlier warned that the Nationals would follow the Australian Democrats into political oblivion if the party supported the Telstra sale. Support for the Democrats collapsed after the party backed the Howard government's introduction of the Goods and Services Tax in 1999. The Nationals could now suffer the same fate.

Despite securing the National Party's support, Howard government has been sharply criticised by sections of big business and investors, impatient with the continuing delays and the payoffs to the National Party.

An editorial in the *Australian Financial Review* on August 18 branded the Telstra deal as "a shabby process" and warned: "The horsetrading set a new benchmark—$3 billion—in political blackmail of a government by special interests, in this case the expert highwaymen of the Nationals and Queensland Senator Barnaby Joyce."

In a further editorial on August 26 entitled "After Telstra, sell the rest," the newspaper made clear that the underlying program of privatisation had to be greatly accelerated. Complaining that "federal and state governments still have $174 billion invested in trading business", the editorial demanded they "come to the privatisation party" and sell off a range of enterprises, including

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Australia Post, transport, energy and water supply.

It is by no means certain, however, that the present Telstra privatisation will proceed. In recent weeks, Trujillo and his executive team have been waging open warfare over the conditions of the sale.

Trujillo certainly wants Telstra fully privatised. Its present status—half-government, half-private ownership—has hamstrung its ability to raise capital and take new commercial initiatives. But the Telstra CEO wants to both maintain the corporation's monopoly over the country's communications system and abolish the government regulations that impede corporate profits.

Trujillo has publicly criticised the government's proposal to split Telstra's wholesale division, which provides competitors with access to Telstra's physical infrastructure, from its retail arm. He branded "as toxic" the current telco-specific provisions in the Trade Practices Act which specify the prices that Telstra can charge competitors for access to its network.

Any concessions by Howard on the present regulatory regime—designed to open-up Australia's telecommunications industry to competition—would see the government branded as "anti-competitive" by powerful sections of business anxious to get a bigger slice of the communications market. A group of nine leading communication providers have already combined to serve a list of demands on the government calling for a "strengthening of competition prior to T3".

Trujillo is also keen to dispense with Telstra subsidies, including the Universal Service Obligation (USO). The USO—effectively a tax on all phone companies (including Telstra) to underwrite Telstra's delivery of basic phone services—is one of three mechanisms for equalising communication services between the city and the country.

Aggressive public statements by Telstra management have sent the corporation's shares plummetting. Last week Trujillo's deputy, Phil Burgess, declared that the company was so tied down by government regulations that he would not recommend its shares to his mother. Yesterday, Trujillo claimed that the regulatory measures would cost Telstra $850 million in lost revenue this year. The comments sent Telstra shares plummetting by 5.2 percent to $4.34—well below the government's required minimum price of $5.25 for the sale to proceed.

While legislation authorising the T3 sale is due to be introduced shortly, Finance Minister Nick Minchin has acknowledged that a large portion of, or even all, Telstra shares may have to be transferred to the government's Future Fund for sale at a later date, if and when the share price improves. The Future Fund has been established to pay for a range of government liabilities, including substantial projected superannuation payouts.

Trujillo's rather crude efforts to blackmail the government into abandoning its regulatory framework simply demonstrates that the logic of the market stands diametrically opposed to the interests of ordinary working people. Having opened up telecommunications to investors, the market dictates that the government remove all impediments to profit—including regulations designed to provide even limited guarantees of elementary communications services in all areas.

While it nominally opposes the Telstra sale, the Labor Party has made clear that it has no intention of waging a public campaign against the plan. Labor leader Kim Beazley told Macquarie Radio recently that "he still hoped that Senator Joyce would change his mind" and again oppose the sale.

In reality, Beazley is calculating that government control of the Senate will result in the Telstra sale, along with other economic restructuring "reforms," being pushed through and thus removed from the agenda. This would allow Labor to drop its "opposition" and appease big business, which has accused it of "obstructionism".

Labor has drawn the conclusion from last year's election loss that it has to accommodate even more closely to the demands of big business. Beazley has deliberately refrained from pledging to reverse the Telstra privatisation if Labor gains office. He has been at pains to remind corporate circles that it was a Labor government that pioneered the free market agenda—including the privatisation of major enterprises, such as Qantas and the Commonwealth Bank. Labor laid the basis for the current sell-off of Telstra by initiating its transformation into a profit-making company.

Similarly, the CEPU—the main communications union—has accommodated itself to the sale of Telstra and abandoned even the pretence of an industrial and political campaign to oppose it. The union now restricts itself to little more than sending impotent protest letters to the media. Even Telstra's recent threat to axe 1,000 jobs once privatised, failed to move it to threaten industrial action.

The Telstra sale is just one of many market "reforms" that were held up in the Senate. Now that the government has control of both houses of parliament, big business is insisting that it get on with the job of pushing through everything, from changes to industrial relations laws to amendments to media ownership regulations. As the dispute over the sale of Telstra demonstrates, Howard's very "success" at the last election could rapidly turn into its opposite as the festering divisions between and within the Coalition partners come to the surface of political life.

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