# Australian prime minister lashed for stalling on Telstra privatisation

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**15 September 2006**

Following a series of political setbacks over the past weeks, Prime Minister John Howard is again facing another damaging crisis. In mid-August, Howard was forced by opposition from within his own ruling Liberal-National Party Coalition to back away from legislation to process asylum seekers offshore on the remote Pacific island of Nauru. He also had to drop his previous strident opposition to allowing a "conscience" vote by government MPs on stem cell research.

Now, he is being lashed by corporate and financial circles over his continued bungling of the full privatisation of Telstra, Australia's largest communications carrier. At the end of last month, Howard announced the government would sell off a further $8 billion, or one third of its remaining 51.8 percent. The remainder will be placed in the government's own "Future Fund" for an undetermined time.

The announcement was greeted with howls of derision. Typical was an editorial in Rupert Murdoch's national flagship the *Australian* declaring: "Fiasco is the only label to apply to T3 [the latest Telstra float] ... No matter how you look at it, this weak proposal amounts to a job half done. It also underscores John Howard's increasing tendency to sacrifice genuine reform to political expedience...."

The editorial went on to slam Howard for "defending his half pregnant" proposal pointing out that it did not resolve the "irreconcilable conflict" that was "inherent in the government being both Telstra's major shareholder and its regulator" It declared: "After the sale, the Government will still be Telstra's regulator and its biggest shareholder through its Future Fund, in effect a government instrumentality. Moving the bulk of its shares to the fund amounts to little more than changing pockets and makes nonsense of the idea that T3 will ease the conflict of interest issue."

It concluded: "Given that the three tranche policy (T1, T2 and T3 share floats) has failed to deliver either full privatisatation or full competition, the time was ripe for Mr Howard to revisit the privatisation from the ground up and split Telstra in two."

Spitting Telstra would see its lucrative distribution assets being placed in a separate private company, leaving another entity with its retail assets to compete with other providers for market share. The distribution company, which could generate massive profits from charging competitors huge fees for access to its extensive network, would be a prime catch for large investors.

The full sale of Telstra, a key component of the government's pro-market reform agenda, has proven, however, to be a political minefield. The prime minister again finds himself stuck in a cleft stick. On the one hand he is desperate to fulfil the demands of big business and retain the backing of media magnets such as Rupert Murdoch. On the other he has to cater to National Party electoral concerns to maintain increasingly fragile coalition relations.

National Party MPs have continually stalled on the Telstra privatisation because they fear an electoral backlash in their rural and regional-based seats where the move remains deeply unpopular. Many people in these regions rightly believe a fully-privatised Telstra, with an eye only to the bottom line, would be reluctant to provide communication services in the less profitable and isolated country areas.

To head off a threat by National Party senators last year to vote against the full sale in the Senate, Howard promised $5.1 billion from the proceeds to upgrade rural and regional communication services and supposedly fund future technical improvement in country regions. He was also forced to maintain a raft of regulatory restrictions on Telstra to maintain certain levels of rural and regional service provision and a degree of regulation over the price the communications company could charge

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competitors to access its network.

Despite securing National Party support for Telstra's full-privatisation, Howard was still unable to proceed. Maintaining regulatory restrictions produced months of public attacks on the government from Telstra's new CEO Solomon Trujillo. While urging privatisation, Trujillo wanted to maintain the corporation's monopoly over the country's communications system and be rid of government regulations that impeded corporate profits.

The ensuing open warfare—during which Trujillo claimed that regulatory measures would cost Telstra millions of dollars in lost revenue, while his deputy Phil Burgess declared he would not recommend its shares to his mother—saw the company's share price plummet well below the government's stated required minimum of $5.25 for the sale to proceed.

If Howard was hoping that last month's decision to float a further chunk of Telstra shares would rally the company's stock value, he badly miscalculated. The market responded by driving down share values to a nine-year low of $3.43 on the first day of trading following the T3 announcement, recovering at the end of the day to just $3.50.

The market reaction will also raise the hackles of those who invested in the first two Telstra floats (T1 in 1997 and T2 in 1999). They have seen stocks decline 50 percent since they first bought them. Many have slammed Howard's T3 as "a fire sale".

Sections of big business are also highly critical of Howard for having failed to use the period the government had majority control of Telstra to drive through further investment in advanced communications technology. This would have enhanced, at public expense, the position of a fully-privatised Telstra to compete in new fields and pursue an even bigger market share.

This was the main theme of a comment in the *Bulletin* on September 5 by leading journalist, and erstwhile Howard supporter, Laurie Oakes. Oakes declared: "The government's focus has been on flogging off the telco, not on ensuring Australia has the kind of superfast broadband infrastructure a modern nation needs. Australia has been sliding down the OECD tables dealing with the cost and speed of broadband services, and the T3 sale will do nothing to change that."

He went on to warn: "The failure to give Australia the kind of broadband infrastructure available in most other developed countries also has the potential to hurt Howard electorally. Voters in the bush were the ones most worried by Telstra privatisation, but urban professionals make up the constituency particularly concerned about the lack of superfast broadband."

Oakes's comment is a barely veiled warning to Howard that his continuing tendency to prevaricate on unpopular "economic reform"—especially his catering to what big business considers to be the petty concerns of the National Party's electoral base—is wearing thin with powerful sections of the more globally-oriented financial and corporate elite.

To ram the message home, Oakes praised Federal Opposition Labor leader Kim Beazley's reply to the government's May budget declaring: "The Labor leader promised that if he becomes prime minister, he'll build a broadband super-highway—in cooperation with the telecommunications industry over five years. The Howard government, Beazley said, had failed to deliver on nation-building projects to secure a prosperous future".

With a federal election looming next year Beazley's speech was a calculated attempt to appeal to the shifting sentiment against Howard in corporate circles. He is hoping that given Labor's record of sweeping pro-market reform—including a raft of privatisations—during its 13 years in office from 1983 to 1996, media and business heavyweights may well consider throwing their weight behind Labor in the federal elections due next year.

Even if a shift to Labor by big business is not yet on the agenda, the biting editorials and commentary of recent months indicate that there are those within the ruling elite who are becoming convinced that the aging prime minister is past his political used-by date and must go. Any new political crisis could easily see the scales tipped and demands emerge for his rapid departure.

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