



Inquiry into the impact of imposing a certain carrier licence condition on Telstra Corporation Limited

4 July 2013

Introduction

The Printing Industries Association of Australia (*Printing Industries*) is the peak advocate and support organisation for companies operating in the paper, print, packaging and visual communication industry in Australia.

The Association is an independent member based organisation, representing large, medium and small businesses.

The Association has a diverse membership representing printers, desktop publishers, graphic designers, prepress houses, publishers, mail houses, software and hardware manufacturers and distributors, paper and paper board manufacturers, paper merchants, ink manufacturers, manufacturers and suppliers of printing equipment and consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

It has a direct interest into this Senate Standing Committee inquiry as the matter subject of the inquiry ***the production of printed directories*** is undertaken by industry members subject to the coverage and representation of the Association.

The Association notes that on the 27 June 2013, the Senate referred the following matter to the Environment and Communications References Committee for inquiry and report by 19 July 2013:

a. all matters relevant to the impacts of imposing on Telstra Corporation Limited a carrier licence condition that would require it to produce printed and online national number directories within Australia.

We understand that this Senate inquiry is in response to the recent decision taken by Sensis, a wholly owned subsidiary of Telstra that it is transferring production of the **Yellow Pages** to the Philippines and India.

Printing Industries is naturally concerned about moving production and associated jobs offshore and welcomes the opportunity to make comments on the above mentioned terms of reference and highlights the following areas it wishes to comment on:

- ❖ Keeping Telstra operations Australian
- ❖ Risks associated with off shoring production
- ❖ Telstra and Sensis profits
- ❖ Telstra's universal service obligation
- ❖ Effects on Employment and the supply chain
- ❖ Effects on Quality of Product
- ❖ Environmental benefits of printed matter generally and local production

Keeping Telstra operations Australian

Telstra continues to be subject to certain ownership restrictions covering both total foreign ownership and individual foreign ownership. Telstra's head office, base of operations and place of incorporation need to remain in Australia and Telstra's Chairperson, and a majority of its directors, must be Australian citizens.

During the Second Reading Speech of the Telstra ((Dilution of Public Ownership) Bill 1996) Howard Government Minister Warwick Smith stated the following:

"Telstra has a vital continuing strategic role in the national economy. Australia's long term national interest therefore demands that it not simply be sold off to the highest bidder but that it remains an Australian owned and Australian controlled Corporation".

The decision of Sensis to move its directory production processes offshore is in direct conflict with the intentions of Australian policy makers when they were initiating the phased privatisation of the national carrier.

Risks associated with off shoring production

The transfer of Testra's directory operations also understandably raises concerns and issues about offshore production. These include the risk of exposing private information on Australian citizens which Telstra holds, risk to intellectual property, risk of security breaches and data theft. Both offshore locations have high levels of poverty which could tempt the data handlers to engage in data theft and thus compromise the security and privacy aspects of the data.

To these concerns we could also add political risk as the Philippines has been fighting a Muslim insurgency for decades, and the Indian political system is vulnerable to terrorist and external threats.

Telstra's and Sensis' profits

According to the most recent profit data results Telstra remains on track to meet its full-year earnings targets after lifting its first-half profit by nearly nine per cent. Net profits rose to \$1.597 billion in the six months to December 31, from \$1.468 billion in the previous corresponding period.

The profit rise came on the back of strong growth in customer numbers which helped push revenue up 1.5 per cent to \$12.6 billion.

Sensis revenue performance for the half year was down 12.6 per cent to \$479 million.

Its print revenues declined from \$280 million to \$202 million – a decline of 27.9 per cent. Individual revenue declines include eight per cent for the White Pages and 22 per cent for the Yellow Pages. Despite this decline, which is a reflection of the transition of the business from a print to digital business, the Sensis division is still trading profitability with an EBITDA margin on sales of 23 per cent.

Telstra's universal service obligation

Telstra has certain universal obligations with the standard telephone service providing for voice telephony or an equivalent service to meet the requirements of the Telecommunications (Consumer Protection and Service Standards) Act 1999 and the Disability Discrimination Act 1992.

Amongst the conditions for the delivery of a standard telephone service is the requirement of:

- a unique telephone number, allocated in accordance with the Telecommunications Numbering Plan 1997 and **an appropriate directory listing**, except where the customer requests otherwise, for that number.

Printing Industries remains of the view that an appropriate directory listing should be provided in both print and digital formats with the production of both formats taking place in Australia.

Effects on Employment and supply chain

Up to 400 skilled positions will be lost by the decision of Sensis to move its graphic arts operations offshore to the Philippines and India. These skilled jobs cover processes such as ordering, processing and design which are critical components of the printing/graphic arts industry supply chain.

Last week more than 120 jobs were lost when PMP decommissioned its directory printing operations at Chullora in Sydney. These printing jobs have now moved to China.

The direct job losses could amount to more than 500 and could easily double if all associated and supporting jobs in the industry supply chain are also taken into account.

Printing Industries remains concerned that skilled jobs associated with the local production and printing of national directories will be lost forever unless Sensis reverses its decision to send these skilled jobs offshore. The decommissioning of Chullora means only regional directories will now be printed in Australia as the national directories work is going offshore.

Effects on Quality of Product

The work and output produced by the graphic arts print community in Australia is exemplary resulting in high customer satisfaction. Australian produced printed matter participates and wins international printing awards.

Language and cultural barriers remain contributing factors to mistakes in copy and advertisements and notices published with mistakes in hard copy directories endure for the life of the directory. The main advantage associated with onshore/local work as opposed to offshore work is that Telstra/Sensis has a direct interface with the supplier, shares similar linguistics and is able as a result to culturally comprehend messages and nuances which should be strong considerations for retaining work in Australia.

Environmental benefits of printed matter generally and local production

Printing Industries supports the imposition on Telstra of a carrier licence condition requiring it to produce national printed number directories within Australia. Printed directories offer environmental benefits over other competing mediums. Printed matter is associated with a one off environmental footprint as it can be repeatedly used without generating any more environmental impacts. This is not true with electronic media as each use is associated with an environmental footprint/impact.

Also there are distinct advantages to produce national printed directories locally as opposed to have them printed offshore. Directories printed offshore and then shipped to Australia are associated with a far larger environment impact/footprint than locally printed directories.

Another issue to contemplate involves the use of sustainable resources. Australian directory printers use a mixture of recycled paper manufactured in Albury New South Wales and paper from sustainable managed plantation forests in Tasmania, Victoria and New South Wales ensuring that sustainable practices extend through the supply-chain. Responsible and sustainable supply chain practices may be compromised and local economies severely affected if national printed directories are produced offshore.

Concluding comments

While the print directory business has been impacted by changes in technology and consumer behaviour, *Printing Industries* believes locally produced and nationally printed directories should continue to be provided by Telstra through its directory division the Sensis and this should become a carrier licence conditions. By offering the national directories in both printed and electronic formats Telstra will be able to guarantee universal service delivery.

Based on preliminary industry inquiries, the Association remains confident that the capacity to produce national printed directories in Australia remains. However some new investments may be required and hence the importance of providing the local printing business community with some policy certainty is necessary for a given period of time to enable it to invest in the required technology, processes and facilities to replace the decommissioned printing directory facility at the Sydney suburb of Chullora.

Policy certainty might also facilitate cooperation between certain existing printing operations to help maintain the work in Australia.

From *Printing Industries* perspective it is disappointing that the directory printing operations at Chullora had to be decommissioned. This issue should have been addressed 18-24 months ago as part of a broader printing industry transformation plan that the Association has been advocating for some time for the Federal Government to develop and support.

The 400 graphic arts jobs in Australia now under a serious threat can be saved by maintaining local production of national directories in Australia. If printing in Australia of the national number directories is also made a carrier licence condition, then most of the jobs lost at Chullora last week could also be restored/offset.

Recommendations

The Association advances the following recommendations:

- Support making the local production and printing of national number directories a carrier licence condition
- Give confidence and certainty to the local business community to invest in the necessary technology and be able to realise a satisfactory rate of return on the investment by guaranteeing that there will be no policy change for a period of 15 years
- Up to 1,000 direct and indirect jobs could be saved/created by producing and printing national directories locally

- Realisation of superior environmental outcomes by printing national directories locally rather than having them printed offshore and then shipped to Australia
- Local production will help keep skills and intellectual property in Australia and safeguard important aspects such as privacy and data security.