



INQUIRY INTO THE IMPACT OF IMPOSING A CERTAIN CARRIER LICENCE CONDITION ON TELSTRA CORPORATION LIMITED

Introduction

The Australian Manufacturing Workers' Union (AMWU) is pleased to be able to make this submission to the Standing Committee addressing the question of:

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

Telstra is an organisation which has a special and historic place in Australian life. The organisation was built up over many years in public ownership. Its privatisation came with obligations and the AMWU sees this as incompatible with off-shoring production of directories.

Sensis, a wholly owned subsidiary of Telstra has announced that it intends to transfer production of *Yellow Pages* directories to India and The Philippines.

Matters Relevant

- “Keeping Telstra Australian” – Second Reading by Minister Warwick Smith, 2 May 1996, Telstra (Dilution of Ownership) Bill
- Risks associated with off shoring, risk of exposing private information on Australian citizens which Telstra holds, risk to intellectual property, risk of security breaches
- Telstra's and Sensis' profits
- National Interest Test as condition for carrier licence
- Effects on Employment
- Effects on Quality of Product

Keeping Telstra Australian

In the second reading of the Telstra (Dilution of Ownership) Bill, the Minister referred to the amendment to the Telstra Corporation Act 1992 (the Act) to, *inter alia*,

“Ensure that the Telstra’s head office, base of operations and incorporation remains in Australia and that its chairman and the majority of its directors are Australian citizens”

The proposal of Sensis to have the work of producing directories in India and the Philippines is incompatible with the amendments made to the Act in 1996 to privatise Telstra. The intent of keeping Telstra’s operations and governance in Australian hands was recognition that Telstra, the service it provides and the information it holds was too important to be in foreign hands and that the historic national position should be maintained.

Risks associated with off-shoring; risk of exposing private information on Australian citizens which Telstra holds, risk to intellectual property, risk of security breaches and data theft, political and environmental risks

AMWU Delegates at Sensis have requested that management advise how it intends to safeguard Telstra customers’ private details. They have not been given a response. Further, the company intended for the work in India, *Wipro*, has had an incident of fraud by an employee and a major scam involving 60 employees who had access to US citizens banking details. Further, Telstra and Sensis should not expose its data and intellectual property to such a company.

Political stability in Australia is always going to be able to deliver a more sound and secure business environment than in India and the Philippines. Also, Mumbai in India has recently had torrential rain disrupting everyday life. Australia’s infrastructure is far better placed to deal with environmental and weather events.

Telstra and Sensis Profits

In discussions with the AMWU, Sensis has not cited cost as a reason to offshore work. However, its nominated reasons of the need for 24/7 operations and availability of software being only through an overseas provider do not stand up to scrutiny. Operations of 24/7 can be negotiated through industrial instruments applying to Sensis and the software is *Igen* which is currently used by Sensis in Australia.

The conclusion to draw then is that the off-shoring of work **is** about cost and maximising profit. With respect to profit, Sensis made \$690M in the 2011/2012 FY, and Telstra made \$1.6B. Telstra remains on track to meet its full year earnings target. Sensis revenue was down 12.6% for the half year; however, this was

foreseen by Telstra management and attributed to the change in the Sensis business model to digital.

Rick Ellis, Sensis CEO in a media briefing in July 2012 said:

"I'm very pleased with where we're at with the Sensis business," said Rick. "Our predicted decline in print revenues is mapping to plan; our growth in digital revenues is actually exceeding the plan. We are looking at this thing hollowing out in 2014 and moving to a growth trajectory."

Despite this decline which is a reflection of the transition of the business from a print to digital business, Sensis is still trading profitability with an EBITDA margin on sales of 23 per cent.

In any case, Telstra/Sensis has not, to our knowledge, made a business case factoring in risks. To only look at labour costs and not develop a full business model with risk strategies will lead to flawed decision making.

National Interest Test

Telstra is the major telecommunications company in Australia. Its Universal Service Obligation (USO) stipulates that it must produce directories. The AMWU's view is that there should be a national interest test which has as a pillar, the requirement to produce both printed and on-line directories within Australia. There are various matters which would feed into such a test, such as risk factors as outlined above in this submission, as well as the need for the production of high quality directories and direct interface with the directories customer base.

Effects on Employment

Sensis has nominated a loss of around 600 jobs to off shoring. Around 400 of those involve highly skilled graphic arts work. These jobs are on line jobs for the future and the loss of such employment will have a devastating impact on young highly trained and skilled graphic arts workers. The AWMU has already seen the loss of similar work in regional and rural newspaper as a result of off-shoring by Fairfax and News Limited. The leakage of such skills is unacceptable. Graphic Design students will clearly have a smaller pool of jobs available and any jobs left will have been de skilled. The AWMU is the view that there will be further rounds of offshoring.

Effects on Quality of Product

The work performed by graphic artists is of very high quality with high customer satisfaction. We are aware of anecdotal information showing that language and cultural barriers have contributed to mistakes in copy and advertisements and notices published with mistakes which sit for the life of the directory. The notion that a customer has a direct interface to linguistic and cultural similarities and that the

service provider is better able to understand messages and nuances should be a strong incentive to Telstra/Sensis to retain the work in Australia.

Conclusion

The AMWU, for reasons outlined above, believes that a carrier licence condition be imposed on Telstra that it produce printed and on line directories within Australia. The arguments put forward by Sensis to support its desire to have the directories work performed in India to not stand up to scrutiny. The changing business model from print to digital is cited by Sensis as a managed change with growth forecast in 2014. The highly skilled digital jobs needed within the business should be retained in Australia which would deliver confidence to the Australian community which relies on Telstra to deliver accuracy and service excellence in directories.