

# Government Members' Dissenting Report

## *Introduction*

The Government members of the Committee strongly reject the approach taken in examining the Australian telecommunications network in this Report and the conclusions and recommendations made by the non-government majority of the Committee. Instead of being an objective examination of the state of the network, the Report is a thinly veiled, politically motivated, attack on one participant in the industry, Telstra.

The Opposition's motives for referring this inquiry to the Committee were made clear in its media statements at the time. Senator Mackay set the tone with a media release entitled 'Senate set to examine Telstra'. After losing the 2001 election, the Opposition had declared that all its policies were up for review, except one: opposition to the further privatisation of Telstra. The inquiry was simply a fishing expedition to find something about which to criticise Telstra. Senator Mackay's media statement went on to say:

At the moment it is difficult to get all the information from Telstra to consider this issue in detail, but that material can be fully ascertained through a Senate Inquiry. This process will provide a far more accurate picture of service levels than the Government's current plan to proceed with T3 after canvassing opinions amongst its own backbench.

Labor remains implacably opposed to the full privatisation of Telstra – but now is the time to put Coalition claims to the test before there is any further attempted dilution of Telstra's remaining public ownership.<sup>1</sup>

In light of the above it was no surprise to find that the Committee's report concluded that 'the evidence presented to the Committee strongly suggests that full privatisation of Telstra should not proceed until a more competitive market for telecommunications is established'.<sup>2</sup>

Senator Allison from the Australian Democrats, the then Committee chair, thought the inquiry was for a different purpose and issued a press release emphasising that the inquiry would examine the prospects for universal broadband access. It is, therefore, a little difficult to understand why the Democrats subsequently supported a separate inquiry into broadband while this inquiry was still underway. She also suggested that

---

1 Senator Sue Mackay, *Senate set to examine Telstra*, Media Statement, 25 June 2002.

2 Report, paragraph 5.64

the inquiry would look at the regulatory and other measures that might be necessary to ensure appropriate investment in the network.<sup>3</sup>

The intent of the Senators who supported the proposal to refer this inquiry to the Committee is reflected in its Terms of Reference. They clearly implied in items (c) and (d) of the terms of reference that services were inadequate and needed to be improved before they had taken the trouble to examine any evidence. Although the terms of reference referred to the *Australian* telecommunications network, the Committee's report and its recommendations focus almost exclusively on Telstra's operations and the alleged flaws in its network.

Over recent years the Government has focused heavily on the development of a modern, efficient, competitive telecommunications industry which will provide Australians with the services they need. To this end the Government has initiated a series of independent inquiries into telecommunications. Both the Besley and Estens inquiries were focussed on examining the adequacy of telecommunications services. The Government has acted on the recommendations of those inquiries to ensure that service levels are adequate. The Government tasked the Productivity Commission with the role of examining the effectiveness of competition regulation in the industry and again acted on its recommendations to ensure that the regulatory framework supported the development of competition.

Regrettably the Committee's report, rather than seeking to genuinely assess the state of the network, is focussed on a union driven agenda of turning the clock back to the days when a bloated public service bureaucracy ran telecommunications. The members of the Committee who support this report are seeking to once again burden this country with one of the world's most expensive and outdated telecommunications networks.

### ***Network faults and maintenance***

The terms of reference called on the Committee to examine the capacity and adequacy of the Australian telecommunications network. Instead the Committee spent an inordinate amount of time discussing air bottles and gel as the Labor members of the Committee searched for grounds on which to find real or imaginary faults with the Telstra network and to promote the union's campaign to expand the size of Telstra's workforce.

At one hearing after another witnesses from the Communications, Electrical and Plumbing Union were brought before the Committee to tell us how much better things were in the good old days when Telecom/Telstra employed more of their members. We heard from past and present CEPU officials and members in Wollongong, in Melbourne, at two separate hearings in Sydney, in Launceston, in Cairns and in

---

3 Senator Lyn Allison, *Broadband key issue for Senate inquiry*, Media Release 02/329, 25 June 2002.

Bunbury. However, these witnesses were never able to produce any substantial evidence that the Telstra network had become unserviceable and fault ridden as a result of the efficiencies introduced over recent years which they vociferously condemned.

Unfortunately the evidence given by union representatives was not always reliable. During the Committee's hearing in Cairns Mr Paul White from the CEPU told the Committee that 'there are massive service disruptions throughout north Queensland in monsoon season'<sup>4</sup>. When the Committee questioned Telstra about these disruptions Telstra was able to advise the Committee that it 'has no record of any CSG Exemption Public Notices of MSD's in the area of Far North Queensland during 2002/03.'<sup>5</sup>

Similarly the Committee spent an extraordinary amount of time discussing the use of gel to seal main cables and the maintenance of air pressure in cables. Reading the Hansard transcripts and the Committee's report might lead an uninformed person to the conclusion that the main cables in Telstra's network were on the verge of collapse. But once again when the evidence was tested it was found to be sadly wanting. When Telstra was questioned about the impact on its network of a series of six severe storms in Queensland over a seven day period it was able to advise the Committee that:

Over that period of time – and we have spoken in this forum and many forums about main cables and air pressure and the CPAS network – there was no evidence of main cable failure. That means that one major component of our network, which was under contention through the network inquiry and through this, stood up the whole time.<sup>6</sup>

While the Opposition and Democrat Committee members were obsessively pursuing their mission of finding something about which to criticise Telstra, they ignored the remainder of the industry. The Australian Communications Authority's Performance Monitoring Bulletin shows that while Telstra's call centre responds to 93% of operator-assisted international and long distance calls within 10 seconds, the Optus call centre is only able to respond to 86% of calls in the same time frame.<sup>7</sup> However, in the Committee's report you will not find any evidence of the Committee seeking to examine the performance of other carriers. The Committee was focussed on Telstra to the exclusion of everyone else.

---

4 Mr Paul White, Branch Secretary, Postal and Telecommunications Branch, Communications, Electrical and Plumbing Union, Official Committee Hansard, 28 April 2003, p 471.

5 Telstra, Submission 107f.

6 Mr Anthony Rix, Head of Service Advantage, Senate Environment, Communications, Information Technology and the Arts Legislation Committee, Additional Budget Estimates, Proof Committee Hansard 16 February 2004, p 112.

7 Australian Communications Authority, *Telecommunications Performance Monitoring Bulletin*, Issue 27 – December 2003 Quarter, p 13.

During the inquiry the Committee received submissions from a number of witnesses who were experiencing difficulties with services provided by Telstra. Telstra responded by contacting some of those people so that it could rectify any problems with their services. An Opposition member of the Committee then made an unsubstantiated claim that Telstra was harassing witnesses with the result that Telstra agreed to cease contact with those submitters in order to remove any possibility that its actions would be misunderstood. This may have suited the Opposition's political agenda by ensuring that the level of dissatisfaction with Telstra's services was sustained, but it left those customers with unresolved complaints about their services. In the Opposition's view it seems that Telstra is equally at fault when services are inadequate and when it seeks to improve them.

It is interesting to compare the figures for the performance of Telstra in 2003 with those for 1996, the last under the previous Government. While comparable figures are not available for many measures the following are illustrative.

Comparison of Telstra Performance 1996 and 2003

	1996 <sup>8</sup>	2003 <sup>9</sup>
<b>Call Centre Performance</b>		
% of directory assistance calls answered within 10 seconds	33	94
% of directory assistance calls leaving without being answered	18	2
% of calls to Telstra's service difficulties answered within 15 seconds	66	73
% of calls to Telstra's service difficulties queue leaving without being answered	13	6
<b>Payphones</b>		
Average hours to clear a payphone fault	24	12
% of public payphones operating at any one time	96	98.8
<b>New Connections</b>		
% of in place new connection completed within the specified timeframe	86	97
% of customers connected to new services within the specified timeframe	83	92
<b>Fault Rectification</b>		
% of faults in metropolitan/urban areas cleared within one working day	Metro-business	79
	Metro-residential	51
	Urban	90
% of faults in country/rural areas cleared within two working days	Country	84
	Rural	93

8 Australian Telecommunications Authority, *Quality of Service Bulletin*, Issue 9, March Quarter 1996.

9 Australian Communications Authority, *Telecommunications Performance Monitoring Bulletin*, Issue 27, December 2003 Quarter.

The above comparisons clearly show that despite all of the criticism of Telstra during this inquiry, its performance has significantly improved since this Government came to office and opened up the telecommunications industry to full competition. The Government Senators believe that there is still room for further improvement in Telstra's services. However, the suggestions in the Committee's report that services have drastically deteriorated and that the network is in danger of collapse are clearly not borne out by the evidence.

When this inquiry was set up the then Minister for Communications, Senator the Hon Richard Alston, said that:

Labor has already totally made up its mind on Telstra's service levels before it has seen the evidence. Because of its unsustainable opposition to any further sale of Telstra, Labor has no political choice but to conclude that services are deficient regardless of the facts presented.<sup>10</sup>

His misgivings at the time that the inquiry was established have been completely vindicated over two years later.

### ***Internet Access***

In its report the Committee has recommended that carriers be required to increase the dial-up speed supported by their networks to at least 40 kbps over the next two years. While the aim of this proposal is unobjectionable in principle, it fails to address the issue that dial-up Internet access is an ageing technology and that the cost of such an upgrade would be difficult to justify. The Committee's report correctly identified the fact that the number of dial-up subscriptions was already in decline last year. This trend can be expected to accelerate rapidly now that broadband prices have fallen to the point where the cost of broadband is comparable to the cost of dial-up access. In light of this, it is difficult to see how the Opposition can justify a massive investment in increasing the speed of dial-up access for a declining number of users.

The Committee has also failed to clearly address the issue of how this upgrade is to be funded. The estimated cost of such an upgrade is at least \$5 billion dollars.<sup>11</sup> It would have been helpful if the Opposition and the Democrats had clearly stated whether they wanted to take this money out of the pockets of Telstra's shareholders, or to fund the project by blowing a \$5 billion hole in the Federal budget.

---

10 Melissa Stevens, *Senate sets up telco inquiry*, West Australian, 26 June 2002.

11 Mr John Stanhope, Chief Finance Officer and Group Managing Director, Finance and Administration, Telstra Corporations Ltd, Official Committee Hansard, Senate Environment, Communications, Information Technology and the Arts Legislation Committee, Inquiry into the Telstra (Transition to Full Private Ownership) Bill 2003, 2 October 2003, p 78.

The Government has already acted to ensure that all Australians have access to a minimum dial-up speed of 19.2 kbps. This speed has been criticised as being too slow for some purposes but the Government's intention was not to identify an ideal speed or to try and dictate to industry what products to offer consumers. The Government mandated a minimum requirement that provided all Australians with basic access at a speed which was achievable both in light of the existing telecommunications infrastructure and the cost of upgrading.

The majority report has also made some equally dubious recommendations about higher speed Internet access. The Committee recommends that a licence condition be placed on the Universal Service Provider requiring that a minimum data speed be made available to all Australians within twelve months. The Digital Data Service Obligation (DDSO) already does that. Once again the Government has not attempted to tell the industry what its customers want, but has specified an achievable minimum speed that all Australians can access. The Government has also introduced programs such as the extended zones program and HiBIS to bring even faster speeds within the reach of all Australians.

### ***Pair Gain Systems***

The majority report recommends that Telstra remove from its network all pair gain systems which restrict dial-up connection speeds. We have already discussed the possible cost of this type of upgrade above but it is worth noting the measures which Telstra has already undertaken on this issue in response to the finding of the Regional Telecommunications Inquiry. Telstra states that it has:

- introduced processes to ensure that pair gain systems operate to their design level of performance;
- undertaken additional network activities in some instances where Internet Assistance Program (IAP) customers may not be able to achieve 19.2 kbps minimum equivalent throughput due to causes within Telstra's fixed network; and
- assisted customers who are accessing data speeds in excess of the IAP minimum equivalent throughput but who are not achieving the maximum data speed possible using their existing modem or computer configuration.<sup>12</sup>

The majority report recommends that Telstra be required to remove from its network all pair gain systems which do not support broadband services. In evidence to the Committee, Telstra has already outlined a range of approaches it is taking to address this issue. If Telstra's solutions do not effectively address the problem then it might

---

12 Telstra, *Telstra update on its Response to the Regional Telecommunications Inquiry (Estens Inquiry)*, February 2004.

---

be appropriate for a Government to act after a reasonable interval. However, broadband equipment and technologies are evolving rapidly and it would be premature for any Government to assume that there is a long term problem which industry is unable to address. The worst possible outcome would be to have politicians trying to dictate to telecommunications companies how they should design their networks.

Once again the Opposition and Democrat members of the Committee have avoided specifying who is to pay for their proposals.

The Committee also recommended that the USO be revised to incorporate a guarantee that customers will always be able to obtain a dial tone. This recommendation is apparently aimed at concerns that Telstra customers connected through 6/16 and similar pair gains systems may be affected by congestion problems. This issue has already been addressed by the Government.

The Deed of Undertaking signed by the Government and Telstra requires that the company progressively improve the standard of service on those systems until they reach a specified system grade of service target. That target is that during the fifty busiest half-hour periods of the week there will be not more than five chances in a thousand that a call on a particular system will not be able to be completed. This is a very demanding standard which will ensure that consumers connected via those systems have reasonable access to the network at all times.

In evidence to the Committee Telstra advised the Committee that old pair gain systems which do not support modern services are no longer being purchased by Telstra and in some cases are being removed or phased out. The new systems now being acquired and installed by Telstra, such as the CMUX-AU, support the full range of voice and data services. Given that some of these systems are pre-war, one would expect Telstra's efforts to phase them out would be applauded, not criticised.

### *Access programs*

In its majority report the Committee has criticised the Government for introducing programs to improve access to telecommunications services and allowing Telstra to participate in those programs. Of the programs mentioned in the report only the Internet Assistance Program was specifically conducted in conjunction with Telstra. That program was part funded by Telstra and aimed directly at improving dial-up speeds available on Telstra's PSTN network. At no stage did any of Telstra's competitors complain to the Committee that they were being excluded from these programs.

All of the other programs were, and are, open to the whole industry. A variety of other telecommunications companies have tendered for or participated in Government programs. In Chapter 4 of its report the Committee cites Telstra's intention to use funding under the HiBIS program to improve the availability of ADSL services as an example of a Government program being used to consolidate Telstra's market dominance. The claim is contradicted by the fact that Telstra was not one of the

providers of services under the scheme named when the Minister for Communications, Information Technology and the Arts announced the first two Internet Service Providers approved under the scheme.<sup>13</sup>

The Government Senators consider that the focus in any Government program aimed at expanding the services available to consumers should be on delivering services to Australians in need at the lowest cost to the Government. In the view of the Government Senators, placing restrictions on Telstra's participation in these programs will not only disadvantage Telstra and its shareholders, but may also entrench the disadvantages faced by users of telecommunications services in rural, regional and remote areas of Australia.

### ***Competition***

In its report the Committee claims that the current regulatory regime has failed to deliver a competitive environment. While this view was strongly expressed during the Committee's hearings by Telstra's rivals and some commentators, it is not sustainable in the light of any objective examination of the industry. Competition may be developing more slowly in some areas than Telstra's rivals would like, but the history of telecommunications since the introduction of the current regime has been one in which Telstra's market share has been slowly but steadily eroded. Strong competition already exists in mobile telephony, the provision of long distance voice services, the reselling of local call and broadband services, and across the full range of services in capital city CBDs.

When Telstra and Optus were rolling out their rival HFC networks, they did not make that installation available in regional Victoria or in the Australian Capital Territory. Their failure to provide service to those markets created an opportunity for two new companies, Neighborhood Cable and TransACT, to establish their own infrastructure-based networks in those markets. In the past consumers in those markets would have had no other option than to rely on whatever services Telstra offered them, but because this Government opened up the industry to competition they now have choice. This is another concrete example of the positive effects of competition.

There is evidence that infrastructure based competition in other areas will grow over coming years. As an example, the Committee's Report notes Optus is already considering rolling-out its own broadband network. Recently iiNet announced its intentions to roll-out a national broadband network in competition with Telstra.<sup>14</sup>

---

13 The Hon Daryl Williams MP, Minister for Communications Information Technology and the Arts, *First providers approved to supply affordable broadband services to regional Australia*, News Release 89/04, 18 June 2004.

14 Kate Mackenzie, *ISP goes it alone on fast net*, *The Australian*, [HTTP://theaustralian.news.com.au/printpage/0,5942,9865349,00.html](http://theaustralian.news.com.au/printpage/0,5942,9865349,00.html), 17 June 2004.

---

In 2000 the Government referred the issue of Telecommunications Competition Regulation to the Productivity Commission. In response to that reference the Productivity Commission provided the Government with a comprehensive 580 page report on the state of competition in the telecommunications industry and on ways in which competition regulation could be enhanced.<sup>15</sup> The Government Senators commend the Government for its diligence in addressing this issue and acting on the major recommendations of that report. In our view the recommendations of the non-government majority on the Committee make no significant contribution on this issue.

### ***Benefits from telecommunications reforms***

In the majority report the Opposition and the Democrats have set out to portray an industry in which there is little competition and therefore little pressure on the incumbent, Telstra, to lower prices. In fact the prices paid for telecommunications services have fallen dramatically since the introduction of the current competition regulatory regime. The Australian Competition and Consumer Commission (ACCC) recently reported on changes in the prices paid for telecommunications services in the five year period between 1997-98 and 2002-03.<sup>16</sup> The ACCC found that:

- local call prices for residential customers fell by 34.8%;
- national long distance call prices for residential customers fell by 26.4%;
- international call prices for residential customers fell by 58.9%;
- fixed to mobile call charges for residential customers fell by 13.3%; and
- overall the price of PSTN services for all customers fell by 18.1%.

These figures show that the regulatory reforms introduced by this Government are delivering real savings to Australian consumers and businesses. The benefits from a more efficient telecommunications industry have also flowed through to the wider economy. In 2003 the Allen Consulting Group was asked to look at the benefits which have accrued to consumers and small business following the passage of the *Telecommunications Act 1997* and Part XIB and Part XIC of the *Trade Practices Act 1974*.<sup>17</sup> That report found that:

- The efficiency gains brought by the telecommunications reforms have increased both aggregate employment and real wages. In 2002-03 national employment had been increased by about 54,000 jobs. In addition, real

---

15 Productivity Commission, *Telecommunications Competition Regulation*, Report No 16, 21 September 2001.

16 Australian Competition and Consumer Commission, *Changes in the prices paid for telecommunications services in Australia 1997-98 to 2002-03*, 31 May 2004, p 63.

17 The Allen Consulting Group, *Benefits Resulting from Changes in Telecommunications Services*, 30 October 2003.

wages are estimated to be 3.07 per cent higher than they would have been in the absence of the telecommunications reforms.<sup>18</sup>

- The benefit per household is estimated to be worth between \$330 and \$1,028 (in 2002-03 dollars) by 2002-03. These per household benefits can be aggregated and were worth between \$2,482 million and \$7,721 million by 2002-03 to the Australian economy at large.<sup>19</sup>
- This analysis reveals that in 2002-03 small business was 2.78 per cent better off than it would have been in the absence of the telecommunications reforms. The telecommunications reforms since 1997 have resulted in a benefit of \$1790 million per annum.<sup>20</sup>
- Not surprisingly, the telecommunications industry is the biggest beneficiary of the telecommunications reforms, with output being around 97 per cent higher in 2002-03 than would have been the case in the absence of the reforms.<sup>21</sup>

In addition to the financial and economic benefits outlined above, the Government's telecommunications reforms have facilitated the introduction of a greatly enhanced range of services. Ten years ago mobile phones were a new technology available mainly to the business sector while broadband access to the Internet was unknown to most Australians. Today services like these are available to all Australians through a range of terrestrial and satellite services. While the availability and cost of some services may not satisfy all consumers, every month sees the reach of these new services extended to more Australians while prices remain stable or fall.

### ***Conclusion***

The Government's telecommunications reforms have brought enormous benefits to all Australians. A wider range of telecommunications services are available than ever before. The cost of those services has fallen as a result of the Government's actions in opening up the industry to competition and this process has brought significant economic benefits to the Australian economy, and it will continue to do so. To ensure that all Australians share in these benefits, the Government has embarked on a series of reviews of the telecommunications industry and has acted on the recommendations of those reviews. Several of these have only recently been introduced and it is ludicrous for the majority Report to condemn them at this early stage.

---

18 *ibid.*, p v.

19 *ibid.*

20 *ibid.*

21 *ibid.*, p vi.

---

Contrary to the assertions contained in the majority report, the Australian telecommunications network is now providing all Australians with reasonable, reliable and equitable access to the full range of telecommunications services. During the Committee's inquiry a great deal of evidence was given which suggested that the network was in a parlous state and in imminent danger of collapse. An objective examination of all of the evidence simply does not support that conclusion. While fault levels fluctuate from month to month and from year to year there is no evidence of gross deterioration in the condition of the network.

To ensure that the network continues to operate reliably the Government introduced the system of Customer Service Guarantees and the Network Reliability Framework. These mechanisms ensure that any failings in the network are identified and acted upon and give consumers automatic relief if service standards fall to an unacceptable level. This is a far better approach than to hand the design and management of the network over to politicians and bureaucrats, as the Opposition and the Democrats apparently want to do.

The only area in which the majority Report makes a positive contribution is in its recommendations on the provision of telecommunications services for people with disabilities. The Government members of the Committee will be encouraging the Minister to carefully consider those recommendations.

As the evidence we have outlined above shows, the network is more reliable than it was under the previous Government, it supports a wider range of services than ever before, and the cost of those services has fallen. There is naturally room for further improvement in all of these areas, as one would expect, and Telstra has programs in place to progressively address all such issues. However, in the view of the Government members of the Committee the remaining recommendations contained in the Report do not make a useful contribution to the development of the Australian telecommunications network and we do not support them.

Senator John Tierney  
Senator for NSW

Senator Tsebin Tchen  
Senator for Victoria

