



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF
REPRESENTATIVES**

STANDING COMMITTEE ON PRIMARY INDUSTRIES
AND REGIONAL SERVICES

**Reference: Infrastructure and the development of Australia's
regional areas**

MONDAY, 27 SEPTEMBER 1999

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**HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON PRIMARY INDUSTRIES AND REGIONAL
SERVICES**

Monday, 27 September 1999

Members: Fran Bailey (*Chair*), Mr Adams, Mr Andren, Mr Horne, Mr Katter, Mr Ian Macfarlane, Mr Leo McLeay, Mr Nairn, Mr Secker, Mr Sidebottom and Mr Cameron Thompson

Members in attendance: Mr Adams, Mr Andren, Fran Bailey, Mr Lawler, Mr Nairn and Mr Secker

Terms of reference for the inquiry:

The House of Representatives Standing Committee on Primary Industries and Regional Services will inquire into and report on the role of infrastructure in assisting the economically sustainable development of Australia's regional areas. The committee will, among other matters, consider and make recommendations about:

- . deficiencies in infrastructure which currently impede development in Australia's regional areas;
- . factors that would enhance development in these areas, including the provision of infrastructure such as energy, transport, telecommunications, water supplies, and facilities that deliver educational, health and financial services;
- . the potential for development in regional areas;
- . the extent to which infrastructure development would generate employment in regional Australia;
- . the role of the different levels of government and the private sector in providing infrastructure in regional areas;
- . planning, coordination and cooperation in the provision of infrastructure in regional areas; and
- . the benefit to the national economy of developing regional infrastructure.

WITNESSES

**BADGER, Dr Rod, Acting Executive Director, Information Technology,
Telecommunications and Broadcasting, Department of Communications,
Information Technology and the Arts 158**

BUNDROCK, Mr Tony, General Manager, Customer Strategy, Telstra	199
BUTTERWORTH, Mr Perce, Executive Director, New South Wales Department of State and Regional Development	184
CAMERON, Mr James David Alan, General Manager, Telecommunications Competition and Consumer Branch, Department of Communications, Information Technology and the Arts	158
EVANS, Mr Phil, National General Manager, Regional and Remote, Telstra	199
HIGGINBOTTOM, Mr David, Manager, Federal Government Liaison, Telstra . . .	199
HINRICHS, Mr Robert, Manager, Satellite Strategy, Telstra	199
LYONS, Mr Colin Fraser, General Manager, Public Broadcasting Branch, Broadcasting and Film Division, Department of Communications, Information Technology and the Arts	158
NEIL, Mr John, General Manager, Enterprise and Radiocommunications Branch, Department of Communications, Information Technology and the Arts	158
ORCHISON, Mr Keith William, Managing Director, Electricity Supply Association of Australia Ltd	174
RICHTER, Mr Warren Edwin, Chief General Manager, Government Online Strategy and Implementation, Office for Government Online	158
ROAKE, Mr Jim, Manager, Core Products Planning, Telstra	199
WILLIAMSON, Dr David, General Manager, Networking the Nation, Department of Communication, Information Technology and the Arts	158

Committee met at 9.04 a.m.

CHAIR—I declare open this public hearing of the inquiry by the Standing Committee on Primary Industries and Regional Services into infrastructure and the development of Australia's regional areas. This is the sixth hearing of our inquiry. I advise the witnesses that the public committee hearings are recognised as proceedings of the parliament and warrant the same respect that proceedings in the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. Witnesses will not be asked to take an oath or to make an affirmation; however, they are reminded that false evidence given to a parliamentary committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public, but should any witnesses at any stage wish to give evidence in private they may ask to do so and the committee will give consideration to the request.

[9.04 a.m.]

BADGER, Dr Rod, Acting Executive Director, Information Technology, Telecommunications and Broadcasting, Department of Communications, Information Technology and the Arts

CAMERON, Mr James David Alan, General Manager, Telecommunications Competition and Consumer Branch, Department of Communications, Information Technology and the Arts

LYONS, Mr Colin Fraser, General Manager, Public Broadcasting Branch, Broadcasting and Film Division, Department of Communications, Information Technology and the Arts

NEIL, Mr John, General Manager, Enterprise and Radiocommunications Branch, Department of Communications, Information Technology and the Arts

RICHTER, Mr Warren Edwin, Chief General Manager, Government Online Strategy and Implementation, Office for Government Online

WILLIAMSON, Dr David, General Manager, Networking the Nation, Department of Communication, Information Technology and the Arts

CHAIR—Welcome. I invite you to make a short opening statement but, in light of the fact that you presented us with a very late addition to your submission, you will have to appreciate that none of the committee members have had the opportunity to read that submission—we received it late on Friday. Perhaps in your opening statement you could briefly refer to what it is that you are covering in that additional submission.

Dr Badger—Madam Chair, our original submission was put in, as you know, earlier this year. The additional submission was basically to pick up the bulk of activity that has happened since then, predominantly driven by the announcements the government made of the social bonus activity following the sale of the second tranche of Telstra. In the earlier submission there was an outline of some of the activity from the social bonus which had already been contained in the legislation. There were a number of announcements towards the end of June which related to the second tranche and they are the material that predominantly is in our supplementary submission.

Just to briefly run over those activities that were announced then, there was a range of spending proposals which are related to the Regional Telecommunications Infrastructure Fund, or Networking the Nation. The first of these was \$70 million for a program called Building Additional Rural Networks, which is basically to extend the time and range of the core Networking the Nation that has been under way since the sale of the first tranche of Telstra. There was also established a particular local government fund which will focus on providing opportunities for local governments to put forward projects under the Networking the Nation program.

In addition to that there was a \$3 million program for extending mobile phone coverage, which is in addition to mobile phone coverage support that had already been announced. There was the announcement of something termed TIGERS, Trials in Innovative Government Electronic Regional Services, which is a program of \$10 million to trial the electronic delivery of government services. Those trials are predominantly happening in Tasmania.

There was \$15 million for a Connecting Tasmanian Schools program which is essentially money to be linked with money from the Tasmanian government, I think money from Telstra, and some money from the existing Networking the Nation program, to enable electronic connectivity to take place in Tasmanian schools. There was also the announcement of the Commonwealth's \$15 million contribution to a Launceston broadband project which the Commonwealth will do in conjunction with Telstra. There was the announcement of a program called Intelligent Island, which is \$40 million to improve the efficiency and development of the information industries in Tasmania.

There is a \$120 million Television Fund. This fund will focus on a number of things to do with television reception and also extend SBS reception. It will fix 200 identified black spots in television reception around the country and will provide \$10 million for funding to broadcast self-help communities in remote areas. There will also be assistance to SBS to establish a new media unit.

That would be the bulk of the material that was included in the submission on the social bonus from the second tranche of Telstra. As well as that we have included in our supplementary submission details of a number of projects that have been funded under the Federation Cultural and Heritage Projects Program.

CHAIR—Thank you very much. As you are aware, the whole emphasis of this inquiry is on regional infrastructure and I am sure you will not be surprised if I say to you that as we travelled into regional areas the two issues which have been put to us as being of most concern are access and cost. Could you firstly tell us about the National Bandwidth Inquiry. We have received a number of submissions and evidence from people that they simply do not have access to the bandwidth, so can you bring us up to date with where that inquiry is and what is happening there?

Dr Badger—The National Bandwidth Inquiry has been conducted under the auspices of the Australian Information Economy Advisory Council and the National Office of the Information Economy has been providing support for that. In recent times we have moved the responsibility for the secretariat into the telecommunication division of the department. Mr Cameron might be able to help me here, but I think we are very close to having papers available from the bandwidth inquiry. I think the members of the inquiry have agreed upon a series of papers to be released for public comment.

Mr Cameron—The inquiry so far has conducted a number of consultancy investigations looking at issues associated with the extent of the supply and existing and predicted demand for bandwidth—

CHAIR—Where have the investigations taken place? I am particularly interested if they have actually been out into the regional areas themselves.

Mr Cameron—The investigations are looking at bandwidth supply, demand and pricing across all of Australia and also in relation to connections between Australia and other countries.

CHAIR—Yes, but my question to you specifically is: has the inquiry been out in regional areas looking at those problems that so many people have identified to us? If you want to get back to me on that, that is fine.

Dr Badger—I think the best thing we could do would be to have a look at the work of the consultants commissioned by the bandwidth inquiry, talk with the actual members of the advisory council on the work that they have done, and we will come back to you with details of the activities they have undertaken.

CHAIR—All right then, thank you. Can you tell us what has been the involvement of the private sector in relation to Networking the Nation? Can you give us an update of where we are at with that?

Dr Williamson—The Networking the Nation program does not directly fund private sector organisations but—

CHAIR—No, and my question is: what sort of involvement has there been with the private sector?

Dr Williamson—In most of the projects that are funded there would be some private sector involvement through the provision of goods and services into the projects. I do not know that we have kept track precisely of what the level of involvement is in each project because it is generally transactions between the funded project and the private sector participant. I would think there has been, and there is generally, a strong private sector involvement in most of the projects, particularly ones which are aimed at putting infrastructure into place.

CHAIR—Can you get back to us on that also and provide us with that information?

Dr Williamson—We will provide what we can. As I say, I do not know that we have detailed information on the exact level of private sector input to each project.

Mr NAIRN—Can I just ask something on that? I would have thought that one of the criteria within Networking the Nation would have been to look at what private money would be coming into a project. The government generally tries to leverage its money in the best possible way and, if in assessing projects somebody comes along with a proposal which includes substantial private money if they can get some sort of matching or other funds out of Networking the Nation, I would have thought that that would have had a higher priority from a funding point of view than somebody who always has their hand out to government with nothing to add to it.

Dr Williamson—The way the program has gone is an evolutionary thing. There have been a lot of projects funded which are aimed at leveraging private sector investment in a particular region. They have generally started at the point of studying what the region's

current infrastructure is, what the demands are—or are likely to be in the near future—and therefore what sort of a business case can be made for the private sector investment. As this program has now been running two years, we are getting to the point where those sorts of things are starting to emerge but it was not something that happened from day one; it had these precursor steps of looking at the demand that is in a particular region and therefore the investment potential. We are just now commencing an evaluation process, which will be ongoing from now until the end of the program, which will bring out those sorts of results. But I think right at the moment it is early days in regard to those sorts of results coming through, and the evaluation process will bring that out in the future.

CHAIR—We would be particularly interested if you could give us an update on that evaluation process because the model has had a fair degree of success in other areas where there has been an initial government seeding, if you like, that is used as leverage, and then you can get the private sector involved. So we would be particularly interested in that.

Dr Williamson—We can certainly let you know what the evaluation process is. The first report from that process is due out early next year.

Mr ADAMS—Who can tell me about the industry input into the new universal service levy arrangements?

Mr Cameron—That would be me.

Mr ADAMS—Okay. There have been some amendments. What is the cost of equipment for the special digital data service? How is this going to work? Are industries putting in 50 per cent?

Mr Cameron—The amendments that were recently made to the universal service obligation incorporate an additional digital data service which must be made available across Australia. That service has two components: for 96 per cent of the Australian population they must have available to them an ISDN comparable service which provides for a 64-kilobit two-way data capability; for the remainder of the population who are unable to access an ISDN service, they will have available to them a satellite digital data service which provides a one-way download 64-kilobit capability. In addition to that they will have available to them a rebate of up to 50 per cent of the cost associated with the customer equipment necessary to receive that service, such as a satellite dish, associated cabling and PC cards which go in their computer. The remainder of the cost associated with that customer equipment would be borne by the customer. The costs associated with the rebate would initially be borne by the digital data service provider but they would be able to recover that cost through the universal service funding arrangements in similar ways to the recovery of the costs associated with the remainder of the universal service arrangements that we currently have.

Mr SECKER—Could someone give a comparison of the present digital system and the CDMA system?

Mr Cameron—The present digital system, or GSM, has a number of data and value added service capabilities which are not available on the analog AMPS network. The CDMA

network will, over a period of time, be capable of having the same sorts of value added services, including data transmission capabilities. The main difference between CDMA and GSM is that the CDMA technology has a greater capability in terms of breadth of coverage from inter-digital base stations than the existing digital network. In terms of the specifics of those, I would have to get back to you on those details, or perhaps Telstra would be in a better place to answer some of those questions.

Mr SECKER—Are there any minuses for CDMA versus GSM?

Mr Cameron—I would have to get back to you on the details. Both digital networks are capable of similar sorts of value added services. Some of the data capabilities which are currently available on the GSM network will not be available initially on the CDMA network that Telstra is providing, although I understand that they plan on establishing a data capability next year. Some of the other networks which will be CDMA, proposed to be launched by Hutchison and AOPT, have different capabilities again depending on their particular business strategies.

Dr Badger—I think on the technology the best thing might be for us to talk to our colleagues in Telstra and get some briefing material to the committee on the comparisons of the two technologies and the services available.

Mr SECKER—I have had a couple of briefings with Telstra and it just seems to me that the CDMA system is a far superior one and I wonder whether that will actually take over and digital will fade out in time. Is anyone prepared to give a view on that?

Mr Neil—I will give you a view: GSM is so widespread around the world that I doubt it is going to die in a big hurry.

Mr SECKER—But CDMA phones are useable over in North America, are they not?

Mr Neil—I would not give you a guarantee on what is useable in North America, but, yes, in parts. I think. They would be useable in Korea, but in Europe it is predominantly GSM, China is GSM, and the rest of the world. I think you are looking at third generation to get a changeover.

Mr ADAMS—A digital switch may—

Mr Neil—Both technologies may coexist for a while but I do not think GSM is going to die in a big hurry.

Mr SECKER—The CDMA phones will be able to switch to analog, depending on the strength. Does anyone have the knowledge to say whether they can actually have a phone that can be both GSM and CDMA?

Dr Williamson—The advice from Telstra is no, because we are one of the very few markets in the world that does have that and therefore there is not the volume in manufacture to make it worthwhile to manufacture that combination in a handset.

CHAIR—Can you see a day where people in regional Australia can use mobile phones and have confidence that they are not going to drop out and that it is not going to cost them a fortune? Does anyone want to comment on that?

Dr Williamson—Mobile phones drop out in the city.

Dr Badger—I think the answer is that the technology is improving, the coverage is improving. There are other technologies coming down the track and I think the carriers, no matter who they are, are confident that the range of services that are going to be available throughout the nation are going to improve.

Mr ADAMS—Maybe if the consumers get organised they might start saying, ‘We want some service obligations here,’ and go that way. I just wanted to ask you about ISDN—

Mr NAIRN—I was just going to ask a question on CDMA while we were on it—sorry to jump in. What role has the department had in relation to this transfer to CDMA? We can ask technical questions and other things of Telstra later on, but on the phase-out from analog with CDMA, what is the department’s role in it?

Mr Cameron—The Telecommunications Act contains provisions which require the phase-out of the analog AMPS network and provided that the analog AMPS network should be phased out by the end of this year, unless arrangements were agreed between the then three mobile carriers, Telstra, Optus and Vodafone, and the government, or the government took a view that it would not unduly erode the rights of those carriers.

Mr NAIRN—Yes, I understand that, but subsequent to all of that Telstra said, ‘We’re going to bring in CDMA which will effectively cover the analog areas.’ Has the department had any regulatory role in how that actually occurs? I will get to the point I am trying to make. One of the problems out in rural Australia is that they always feel that they are left out. When CDMA came along people thought, ‘Oh, terrific, somebody’s finally thought of us and hasn’t just chopped out analog and left us floating in the wind. CDMA’s going to cover it.’ But somebody said to me the other day, ‘They couldn’t even turn on CDMA in the country before they put it on in the city’—and we will ask this question of Telstra later on—‘They couldn’t even give it to us first, they had to go and turn it on in the city first. Typical, we’re always forgotten.’ That is why I asked the question as to what was the department’s role in approving the roll-out of that, or is there a role?

Mr Cameron—The department’s role is primarily in providing advice to the government in terms of the agreement between the three carriers and the government about mechanisms to be put in place to ensure that a reasonably equivalent mobile service is available in areas where AMPS is phased out and that that service is available before the analog AMPS network is phased out. So the department was involved in the processes of negotiation between the three carriers and the agreed arrangement which, as you are aware, provides for an initial phase-out of analog AMPS, and therefore provision of CDMA, in major cities.

CHAIR—But given that the most users of analog are actually out in the regional areas, is there not some sense of responsibility there, the point that Mr Nairn is making that it

should be switched on in a regional area before it is switched on in the city? Who takes the responsibility for that decision? Someone has to.

Dr Badger—The decision about the introduction of a new technology is taken within the constraints laid down by the government policy, which, as much as anything, were about trying to get the best transition from one environment to the other. The responsibility for individual decisions about commercial products or technologies rests with the carrier within that environment.

CHAIR—And there are no guidelines set down for those carriers, given that most analog users are in regional areas?

Dr Badger—I understand the point you are making. There is the general regulatory and policy environment that is set down by the Telecommunications Act. There is the government policy about the phase-out of analog, and that involved a range of agreements between carriers, but, as far as I understand it, beyond that the responsibility for the commercial decisions about the introduction of the technologies rest with the carriers. A decision to introduce a particular technology or trial a particular technology in a city area, as opposed to in a country area, would appear to be part of the commercial decision making process.

CHAIR—Do you think that there might be scope for the department in the future to actually set those guidelines down, to make sure that, if the technology is promoted as being of great benefit to users in regional and rural areas, there is an emphasis for those users?

Dr Badger—The government's overall policy environment certainly takes into account the needs of users in regional and rural Australia and within that policy objective the regulatory environment assists to ensure that these services are met. But beyond that I do not believe a department or the government would wish to make decisions about individual technologies which would attempt to second-guess the commercial marketplace. The objective of the government would be to set down the framework and the guidelines which would say, 'We want these various levels of services to be met,' and within that for the commercial players to, if you like, introduce the technologies that they see as being most able to meet those requirements.

CHAIR—We will not get bogged down on that; we will move on.

Mr ADAMS—ISDN is supposed to help us get to 96 per cent but we have received evidence as a committee that that technology is not going to be able to deliver that. What would your view be on that?

Mr Cameron—Telstra is currently subject to a licence condition which requires it to be in a position to provide ISDN on demand—that is, within 90 days of a request—to at least 96 per cent of the population. That was a requirement before the end of 1998 and Telstra has indicated that it is in compliance with that obligation. The recent amendments to the universal service obligation provisions provide for the minister to actually determine those areas of the country which cover at least 96 per cent of the population that should have an ISDN service available to them. One of the benefits of incorporating this ISDN service into

the universal service obligations is that there will be a clearer and more objective definition of those parts of the country that will have available to them an ISDN service and that would cover at least 96 per cent of the population.

Mr SECKER—We have heard for quite a few years now about satellite technology and the suggestion that it is going to come down in price and get better in capabilities, but it seems to be very slow at doing that. At the moment it is virtually not a viable proposition for probably 99 per cent of Australians, if not more, because of the cost of the hardware, the cost of the access and the cost of the telephone calls themselves. Can anyone see a time when we can actually see that satellite technology become more feasible for country users, who are the ones who are going to need it?

Dr Badger—The first thing to say is that there are a number of commercial products coming onto the marketplace involving satellite technology, whether they are pay TV operators talking about delivering an Internet service, or even telephony, off their satellites. Telstra and the other carriers are talking about Internet services off the satellite and the ability to deliver telephony using the satellite, and certainly as part of the digital data requirement there is an involvement of satellite delivery there. If you look at the amount of investment that a large number of international companies are putting into satellites—and some of them admittedly at the moment are having some difficulties, but that does not seem to stop some of the very large players willing to put a lot of money into satellite. If you look at the sort of coverage that is envisaged from those satellites then you have to be at least reasonably optimistic that over time we are going to get the same sort of impact in terms of price reductions and coverage of services that we have had in a range of other services in this general information technology area.

Mr SECKER—So it is going to be a while?

Dr Badger—Probably the people that deal with the technology every day are the best ones to ask about actual time frames, but one can only look at what is happening in the marketplace. A lot of things happen very quickly in this game and in the last three or four years with the development of the Internet we have a range of services available that we would not have thought were possible four or five years ago. While you cannot put your finger on an actual, 'Something will happen by such a date,' I suppose there is a reasonable amount of confidence about the ability of these technologies to deliver cost effective services over time.

Mr SECKER—On a different matter dealing with SBS, what criteria were used to come up with a 10,000 population figure and over what area is that based on?

Dr Badger—Mr Lyons may be best placed to help you with that question.

Mr Lyons—I think the criterion of 10,000 was a government decision in terms of the costings of trying to get SBS out to as many people as possible—the more people you try to get out to in regional areas, the more individual transmitters you need to establish. I think it was just general costing in terms of having a \$120 million fund and what you could do with it, and also having regard to the fact that the government also wanted to improve black spots for television reception through that fund.

Mr SECKER—For most rural areas SBS is a complete black spot.

Mr Lyons—Yes. The designation of the particular areas was based upon the concept that the ABC already has much larger terrestrial transmission coverage than SBS and it was really a matter of determining that, if you assumed you were going to use common infrastructure and common sites to deliver SBS to people who currently have the ABC, you would use those sites based upon transmission areas that had more than 10,000 people within the primary coverage of those transmitters.

Mr SECKER—What area were you looking for, because SBS will not travel as far as the normal ABC reception, will it?

Mr Lyons—I think in cities like Sydney there is a question of SBS transmission covering as far as the ABC, but that is because the ABC is on a particular site on VHF whereas SBS is on a particular site on UHF. That does not apply when you are extending SBS terrestrially; it is really a different set of technical questions at each particular site. Certainly the planning objective is to match the ABC coverage at those nominated sites.

Mr SECKER—What is the actual coverage of an SBS aerial then?

Mr Lyons—It depends on the power and the radiation pattern of the particular—

Mr SECKER—In the normal flat earthed area?

Mr Lyons—I really could not give you an answer on that because I think they design the transmitters in particular areas to serve clusters of population.

Mr SECKER—The only reason I ask is that the 10,000 cuts out quite a few of my electorate whereas 7,000 or 8,000 would bring in just about everyone in the electorate.

CHAIR—I think that is a matter to be taken up on another occasion, Patrick.

Mr LAWLER—Following on from a couple of things that Patrick mentioned, with the various funds, for example Networking the Nation and the Regional Telecommunications Infrastructure Fund, it appears to me that money spent out of those funds seems to be funding a little patch here and a little patch there and basically not pleasing very many people at all. Has there been any work done on pooling that money together and using it as a big chunk of money, to try and look at how it can be best spent on an overall thing—for example, to bring down the price of satellite phones, either hardware or delivery service—rather than just finish up with a patchwork? It is a lot of money we are talking about.

Dr Badger—The original RTIF fund that came from Networking the Nation was very heavily based on a community application process. Certainly there has been a range of successes there and the reviews that have been done of the program certainly—

CHAIR—We actually do not know about those successes because we do not have the evaluation process.

Dr Badger—We will give you that information. But just to move to the point of your question, the latest additions to the Networking the Nation fund are in ways which allow greater flexibility in the use of funds involving much more participation by local government, regional areas and state governments in coming up with what the priorities for the funds should be. In addition to that, one of our major policy objectives is to look at the way in which the money that is available through the Networking the Nation activity is linked with other commitments that the government has made, whether it is a commitment on extending local call zones, the mobile phone coverage, some of the funds for the internet coverage that were announced from the first part of the second social bonus package, and linking those with the developments that are taking place in the USO processes, both the funding and the tendering policy commitments the government has made.

There are a whole range of activities there which, if you like, go to the issue of improved communications infrastructure in regional Australia. We are certainly well aware that what we have to do is to look at the way those pieces of the jigsaw fit together so we do not end up with a whole series of little activities that are not linked. Behind everything I think you could probably describe a major policy desire to try and get more players out there in regional Australia and to use all these various elements to introduce more competition in regional Australia so that we come up with some carriers, or encourage the existing carriers, to see regional Australia as, if you like, a significant market opportunity for them. As you would have seen here, there is a wide range of people across the department working on regional communications issues. What we have done in response to this last lot of money is to put together a special group in the centre of our telecommunications division whose job is primarily to look at the big strategy, how these things fit together, and they have a series of coordination responsibilities across the place.

That is a very longwinded way of saying that we are very sensitive to the idea that we are dealing with a lot of bits and we want to make sure that the bits come into a very big whole.

Mr LAWLER—Just following on from that, with regard to the next tranche of Telstra you talk about local call access to the internet. It was my understanding that we have said that would be to 100 per cent of the population; is that correct?

Dr Williamson—I think that is the objective, yes.

Mr LAWLER—Do we have an estimated time frame for that to occur?

Dr Williamson—I think part of what Dr Badger has just spoken of is looking at how that element might fit with some of the other elements of the social bonus package.

Mr LAWLER—So we made the announcement before we really knew how we were going to do it?

Dr Badger—I think there are a couple of things. Firstly, the government's commitments will be met, but there has been a development in a series of technological avenues in delivering the service and what we are looking at now is to ensure that it is done in the most

efficient way possible. What we do not want to do is, if you like, have governments spending money where there are people out there who would provide the service anyhow.

Mr ADAMS—Does the SBS signal come down from a satellite in some areas?

Mr Lyons—Yes, that is actually available for every person in Australia directly from a satellite. I am not sure of the cost, but it is about \$2,500 for the reception equipment. But the SBS Extensions Program announced in the Television Fund is about terrestrial extension of the SBS so that they only need to have a television—

Mr ADAMS—So anybody in eastern Australia can get SBS?

Mr Lyons—As I understand it, yes.

Mr SECKER—If they are prepared to pay for it.

Mr Lyons—There is that special cost.

Mr ADAMS—What I was interested in was the commercial cost of getting that out of the satellite with a dish et cetera—

Mr Lyons—With a what, sorry?

Mr ADAMS—With a dish. I think they bring it down with a dish. There seems to be some difference in the cost of this. Has the department had any queries on that, how expensive that is?

CHAIR—Does it depend on the geographic area?

Mr Lyons—I am not sure I can answer that question. It would depend on the size of the dish. You may need a different size dish in different areas depending on the signal strength from satellites.

Mr ADAMS—But do you not have to unscramble the message and there is a cost in buying that unscrambler?

Mr Lyons—I think there is a decoder and a dish.

Mr ADAMS—A decoder, right. Who has regulatory control of that?

Mr Lyons—I do not think there is any direct regulatory control of that.

Mr ADAMS—It has been put to me that this cost is much too much, that consumers are not getting what they should be getting and that it is costing them too much to get the signal down.

CHAIR—The cost of the dish is distributed amongst a number of people too, is it not, in a rural area?

Mr ADAMS—It can be.

Dr Badger—There are a series of issues involved. People can get the satellite delivered to the home individually, but then there is a satellite that services the self-help groups. It really depends on just what people are talking about.

Mr Lyons—But through the self-help groups they require a larger dish and retransmission equipment to transmit it over the air, so that is a separate set of circumstances.

Dr Badger—There is another issue to do with the coverage of the high performance beam and if you are outside of that you need a larger dish.

Mr ADAMS—That is just the market that is running that costing, is it; it is just the market that is setting the price?

Mr NAIRN—Just on that, Dick, is there not a government scheme for people in remote areas—

Dr Badger—Yes, there has been a—

Mr NAIRN—Separate to the self-help scheme where individuals can get a rebate on part of that cost.

Mr Lyons—It is one component of the Television Fund announced by the government that, where people in remote areas at one stage were only getting one remote commercial television service, with aggregation of areas they are now within the area of two remote or satellite delivered commercial television services and the government would subsidise two-thirds of their capital cost for self-help groups operating retransmission facilities to access that signal and retransmit it.

CHAIR—How do we get this information out to people? We have a degree of confusion amongst a group of people here who are actually reasonably well informed, so how do you get this information out to members of a community?

Mr Lyons—Our department has recently written to all the people who we understand to be eligible for that particular rebate—

CHAIR—But that would be cutting out a number of people. Do you write, for example, to local government shires or use some means of disseminating this information?

Mr Lyons—I think the first step was just to identify those that we were aware of on existing lists and then we go through other procedures to make sure we have identified in these public advertisements those—

CHAIR—But there might be some other communities that would have liked to access this particular means but they do not know anything about it.

Mr Lyons—I suppose what I should say is that the government's policy was based upon existing self-help community groups who were operating transmission facilities, who were already retransmitting one commercial television service, being given two-thirds of the capital cost of the equipment to access a second one. So we are talking about existing groups already operating retransmission facilities who are eligible for that rebate.

Mr NAIRN—But I was talking about individuals—

Mr Lyons—There is a second element to it.

Mr ADAMS—It is the Television Fund, is it, that relates to individuals?

Mr Williamson—As a television fund. There was a subsidy, which has now almost run its course, for people—and I am not the expert in this element of it—who were converting from an analog to a digital satellite signal direct to home. There was a government subsidy of \$750 for the decoder necessary to change from the analog to the digital, provided partly through the Networking the Nation and partly through a direct subsidy.

Dr Badger—Perhaps if we gave you a briefing paper on the interaction of these various elements to SBS.

CHAIR—And included in that briefing paper is how you get this information out to communities as well. I would like to briefly touch on a couple of issues that have not been raised—we are out of time but we will just take a little bit of extra time. Could you tell me exactly about the strength and the requirements of the data provision in the USO and is this going to meet the needs of businesses in particular in the regional areas?

Mr Cameron—As I mentioned before, the amendments to the USO establish an additional service requirement under those obligations which for 96 per cent of the population means an ISDN comparable service providing a two-way 64-kilobit capability and for people in those parts of the country that are not able to get the ISDN service means a download capability, probably supplied via satellite, which will provide a 64-kilobit capability. What that service will do is provide people who wish to download information, for example over the Net, with a significantly higher capability than they currently have. Whether that capability meets the needs of all businesses in regional areas really depends on their particular data requirements. The USO is a safety net mechanism which up until now provided a safety net service of a voice telephony capability and also reasonable access to pay phones. What this does is raises the data requirement, or establishes a new data requirement, which provides a safety net capability of high speed Internet access and in most parts of the country high speed two-way data capabilities.

CHAIR—How do you check that this is actually working? I know this is early days, but what checks do you put in to actually see that it is delivering what you say it will deliver?

Mr Cameron—As the regulator, the Australian Communication Authority is responsible for monitoring universal service providers' compliance with their obligations. They have requirements annually to report to the government on a carrier's compliance with their licence conditions, which in the case of the universal service provider includes their

compliance with the universal service obligation. In addition, carriers who are universal service providers—and this would include the new declared digital data providers—must prepare universal service, or digital data, plans which document how they propose to comply with their obligations and those plans must go through a process of public consultation.

CHAIR—We might get back to you on that because there are other questions that I think will follow when I have a think about exactly what you have just said. The other question that I wanted to ask was about the Information Technology Online program. Could you tell us something about that and what projects have actually developed as a result of that?

Dr Badger—The Information Technology Online program is a program that was previously in the industry department when the change in administrative arrangements occurred after the last election. It is a relatively small program that basically is being handled by the National Office of the Information Economy and is, as you said, essentially about getting small businesses greater use of online activity. A small grant is given under the program. In our original submission there is a list of projects that have been funded under that program. I will check whether there have been other projects funded under that and get you a paper on the way the program has operated. I think it is basically finished.

Dr Williamson—It must be getting near its end. From memory it was something like a three-year program and I would be surprised if this was not the third year.

CHAIR—Could you tell us the degree of success of the program? If it has been very successful, would it be your recommendation to continue it?

Dr Badger—I would have to have a look at the work that has been done. It has only been going a relatively short time and I do not have with me the assessments that have been done. We will get you the information.

CHAIR—Does anybody have another quick question?

Mr NAIRN—I have a question on Australia Post and I do not know who is responsible there—I will ask the question and you can see who to give it to. I know that the government has recently approved a service charter for Australia Post and competition is a key issue that comes up in these things. My concern is that Australia Post seems to almost restrict competition in the way in which they allow certain licensed post offices to provide particular services but not other services even though the actual licensed operator is very happy to provide a broader range of services—Australia Post is actually limiting that LPO to provide them. It is often in a situation where there is a more major Australia Post outlet, which Australia Post perceives to be within the same sort of region, but customers do not particularly see it that way and are looking for those services at the LPO where they want to operate. What control do we have that could have some impact on that sort of circumstance?

Mr Neil—From the nature of your question I assume what you are talking about is Australia Post constraining their own licensees in relation to Australia Post provided services, rather than, say, providing a counter for TNT.

Mr NAIRN—Yes, exactly that.

Mr Neil—Basically, the licensing arrangements between Australia Post and their licensees are matters for Australia Post. Australia Post is a government business enterprise and the government does not get involved at a detailed level in the nature of those relationships.

Mr NAIRN—But if it is restricting competition, as a government we would be concerned about it, would we not?

Mr Neil—Theoretically, yes, we could be, and there could be some issues there—I am not denying that there might be; I do not know enough about them to make a firm judgment. Then again, you might look at in the same sort of way as you look at McDonald's: they decide what they are going to provide at one outlet as against another. That might not be a good choice because they provide a pretty ubiquitous type of service, but you cannot get a cappuccino at some outlets and you can at others.

Mr NAIRN—But there are plenty of other restaurants where you can get one.

Mr Neil—Exactly. As I am saying, there might be some issues there but there might be some marketing issues from Australia Post's point of view. They are questions that in the first instance you could quite sensibly direct to Australia Post to get some detail and their justification a lot better than going through me. There may well be some issues there about how they do it, but these issues do come out about the range of services they provide in particular areas. People say, 'We should have a postbox on this corner,' and Australia Post says, 'It only gets 20 articles a day, it's not worth us keeping it. It costs us more than it is worth to keep it.' They are the sorts of issues.

They are making commercial judgments about their retail network, and they have turned their retail network around from a total loss-maker three or four years ago to one that is turning a slight profit. So they have not done a bad job overall in turning something into a fairly useful commercial service. I would have to say that we do not get a lot of complaints about it from the post office operators directly, but whether that is because they figure they are not going to get a lot of help if they complain about the people they have a contract with, I do not know.

Mr NAIRN—They complain to their local member instead.

Dr Badger—We will have a look at the issue.

Mr SECKER—Just on that, Madam Chair, in Murray Bridge in my own electorate the commercial side of the post office has become so large—you know, with almost newsagency-type stuff—that they actually now have moved their mail sorting room to another building about a mile away, which to me does not seem very efficient. I wonder whether that was actually very good planning?

Mr Neil—I am afraid I am not involved in the management of Australia Post at a level where I could comment.

Mr ADAMS—Australia Post has one of the best mail delivery services in the world.

Dr Badger—It sounds like the opposite problem to Mr Nairn.

Mr SECKER—Just very quickly with the rural transaction centres, a lot of LPOs in smaller towns have been on my back saying they would like to be involved in it but part of their contract is we are going to stop them from being involved as a rural transaction centre.

Dr Badger—Their contracts with Australia Post?

Mr SECKER—Yes.

Dr Badger—We will have a talk to our friends in Transport and Regional Services.

Mr NAIRN—There is a way around it. All you have to do is do it in conjunction with a community group.

Mr SECKER—That is what I thought.

CHAIR—There being no further questions at this stage, I thank you very much for bringing the team along. If we have any follow-up questions we will contact you. Thank you.

[9.56 a.m.]

ORCHISON, Mr Keith William, Managing Director, Electricity Supply Association of Australia Ltd

CHAIR—Welcome. We have received a submission from you. Would you like to make a brief opening statement to us before we ask our questions?

Mr Orchison—Madam Chair, may I have your indulgence and suggest that I have prepared some brief notes and in the interests of the time of the committee perhaps if I was to table them and then just speak to them quickly that might save a great deal of everybody's time. I will hand those over and then I will very briefly touch on the content. Basically, what we have done, as we did in our original submission, is firstly refer to the efforts that the industry is making in development in rural and regional Australia, which is very large, and, secondly, address some of the customer issues that have been raised in submissions to you. There are greater difficulties in supplying to rural and regional Australia than to the urban areas. Thirdly, I will address specifically some of the issues that were raised with regard to the concerns of the dairying industry in Victoria. There has been, as I note—

CHAIR—Could we have one meeting without the dairy industry being mentioned?

Mr Orchison—I am entirely in your hands. However, if I may say so, the positive side of it is that there has been some cooperative work going on in Victoria in that regard and I believe there are some lessons to be drawn from that more widely. Lastly, I have touched on the issue of cost reflective network charges which is something that frequently comes up in discussions in relation to rural electricity supply. The point that I have made there is that as full contestability emerges in Australia, so governments are going to have to grapple with how they manage that issue. It is not an argument against keeping the costs down in rural areas; it is an argument as to how the subsidies are provided. That is the gist of those notes and I am more than happy to take any questions that the committee may have.

CHAIR—As we have moved around the regional areas, and also in evidence in submissions that have been made to us, one of the concerns of people living in rural areas is the impact of the national competition policy. Concerns of people living in rural areas are, for example, that their electricity costs are going to increase. Would you like to comment on that?

Mr Orchison—All the evidence that is available at present is that electricity costs have been declining across Australia as competition policy has taken effect. For example, commercial and industrial electricity prices have very nearly halved in areas like Victoria and New South Wales and they have come down considerably across Australia. Of course, that is as important in regional Australia as it is in urban Australia.

The other aspect of it that perhaps is not always very well understood is that we have practised in Australia for decades a process of subsidising residential customers through adding charges onto business. Under competition policy, of course, that has been washed out of the system so the reductions in tariffs for residential customers have not followed the

same trend line as they have for business, but they are coming down. So there is quite a reasonable amount of evidence—and we publish an annual review of electricity prices, which is about to come out this month—that prices are on the decline. We have one of the cheapest pricing regimes in the developed world.

Mr ADAMS—Can I just take a little issue with the subsidy to the retail sector. A substantial amount of industry has also received tariffs at a reduced rate, as compared to what retailers would receive. So there has been a quite substantial amount of subsidisation of large industry with agreements by government, I guess, to encourage those industries to their state by giving them a very low tariff in electricity supply. So I think your comment is a little bit out of kilter in the sense that it was only a one-way thing.

Mr Orchison—With regard to major energy intensive projects, whether they are in Tasmania or any other state, it has been the practice of government in Australia for decades to negotiate arrangements that provide very low prices. Now, whether those are truly a subsidy depends on how you factor in all the elements. I have worked in Tasmania and there are many areas of northern Tasmania who would see them as a necessity for their economic development and not a subsidy. I think it depends on how government views overall the pursuit of large scale industrial development. What I was referring to was that broadly in terms of commercial and manufacturing tariffs governments of all natures have tended to use the one to subsidise quite low residential prices.

Mr ADAMS—Can I ask you about two items. Firstly, part of competition policy was to assist in bringing down power prices, but if you live in the Latrobe Valley you cannot buy power cheaper there than you can in Melbourne. The other one is that there seems to be some evidence now emerging, and some commentators have been writing, that in a commercial sense too much was paid for these power stations that have been privatised. Do you have any comments on that?

Mr Orchison—As to the latter point about the prices paid for generation, Senator Collins once said in this place that in a competitive market it is the right of everyone to go broke, and I think—

Mr ADAMS—Well, he was right.

Mr Orchison—The judgments as to the investments that have been made in most power stations is entirely a matter for the shareholders who are involved in them. The wholesale electricity markets in New South Wales and Victoria are operating at exceedingly low levels, but of course those are investments over decades and judgments should not be made over what has happened in 18 months to two years. On the other point about locational charges for electricity prices, if they are franchise customers they are being charged on a uniform basis under government law. If you are a contestable customer operating in the Latrobe Valley—or anywhere for that matter—the price you pay depends on the negotiations you make with your supplier, and they vary enormously. There have been reports of customers achieving savings of up to 50 to 60 per cent on their previous franchise tariffs.

Mr ADAMS—Is that the dairy industry?

Mr Orchison—I do not recollect if it was the dairy industry or not. Clearly the dairy industry has had an impact on this committee, Madam Chair.

CHAIR—On this entire establishment might I say.

Mr LAWLER—Please say if you have no idea what I am talking about here, because I basically do not. I had a guy who is involved in the electricity industry talking to me the other day and he was telling me that there are two adjustment factors that are calculated on the charges for rural and regional customers—and I presume city as well: the first is based on the distance from the source of the power and relates to the amount of power that is lost somewhere along the line, and there was another adjustment factor he was talking about as well. He believes that in the next four or five years the reduction in price that we have seen recently will actually be more than compensated for by these adjustments which will in fact push up the price of electricity in rural and regional areas by the order of 15 to 25 per cent.

Mr Orchison—I think the latter point, Mr Lawler, is probably pure speculation. If I knew what the electricity price was going to do in a competitive market I would be much better placed financially than I am today.

Mr LAWLER—He is purely talking about the way these two adjustment figures—

Mr Orchison—Yes, but the point I think that you are referring to is that transmission use of service charges do relate to a number of factors, one of which is the amount of energy that is lost over lines. Of course, the further you are from the source of supply, inevitably the larger the loss, and so that does tend to be taken into account—in the jargon, TUOS, transmission use of service charge. So the point about how the charges are calculated is correct. The suggestion as to what might happen to those prices is speculation. Apart from anything else, transmission and distribution charges are regulated and no supplier gets to make a decision arbitrarily as to what the charges are. They are subject in each state to regulation and transmission charges are also subject to regulation by the ACCC.

Mr LAWLER—I realise one of the adjustments is distance from the source; this second adjustment factor, do you know what that relates to?

Mr Orchison—Would you mind just repeating the—

Mr LAWLER—What I might do, Madam Chair, is get this guy to put something down on paper because it was a bit technical for me.

Mr Orchison—We would be happy to respond to you. It is a pretty technical area and I am certainly not equipped technically to be able to answer detailed questions. I am very happy to take it up for you.

Mr LAWLER—I appreciate that, thanks.

Mr NAIRN—You mentioned that you are going to publish electricity prices and you do that every year.

Mr Orchison—Yes.

Mr NAIRN—Once a year?

Mr Orchison—Yes.

Mr NAIRN—And it covers a fair range of city and country and all sorts of things like that, does it?

Mr Orchison—I have a copy of the document that we publish with me and I would be happy to leave a copy with the committee. It is called *Electricity Prices in Australia* and this particular copy relates to 1998-99. It covers all aspects of electricity prices across the board.

Mr NAIRN—What is the distribution of it?

Mr Orchison—We sell it. We also make the basic information that is published in it available to the media, to members of parliament, to governments and so on. The information is quite readily available on request to us—some of it in synthesis is published on our web site which receives quite a large number of visits.

Mr NAIRN—The reason I ask is that one of the ongoing problems that we always have in regional areas is often perceptions rather than reality, and it is usually because of a lack of information, a lack of communication of what really is happening in that respect. I think if you went around rural Australia and asked people what was happening with their electricity prices they would probably say that they were getting dearer, but you tell us they are getting cheaper as competition takes effect. I am just interested, you represent a lot of private firms and government, but possibly it is more the role of government to be getting this sort of information out.

Mr Orchison—The information is very readily available. It is available through regulatory entities like the Office of the Regulator-General in Victoria, it is available through publications of our sort, it is available from government. Any member of parliament in the state and territory arena would have very ready access to the details for a particular state. We are quite active in publicising the trends because they are consistently downward and we are very keen to demonstrate the gains that have been made from competition policy since the middle 1990s.

Mr NAIRN—Another question I wanted to ask is in relation to investment in infrastructure. A few years ago I worked on a project whereby a private company that was not involved in the electricity industry at all negotiated with government to buy power, build a transmission line, transport that power and then sell it back effectively to government at the other end. That sort of trend has continued in certain circumstances. Where do you see that going in the future and are there things that you think government could be doing to better facilitate those sorts of circumstances where you can see this private investment coming in just to build a piece of infrastructure in that sense?

Mr Orchison—Under competition policy, anyone who can demonstrate to the regulatory authorities their bona fides in these areas is able to compete. For example, we have entities

like Telstra owning a retail licence. We have entities like TransEnergie which is a Canadian company, a subsidiary of Hydro Quebec of Montreal, building, along with North Power, an entrepreneurial transmission line from northern New South Wales into Queensland. TransEnergie is engaged in another exercise looking at building a transmission line from Victoria into South Australia, again on the same entrepreneurial basis.

Competition policy is opening up this field of supply to anyone who has the capacity to manage in it. Now, inevitably there will be rationalisation. There are at present some 28 retail licence holders in Australia. My members would argue, and I believe it personally, that that number will fall significantly over the next decade, and it is all, of course, about risk. It is about the capacity of people to be able to operate in these areas. There is much speculation internationally that we will see some of the major oil companies become involved around the world in the supply of electricity.

I think the very considerable achievement of competition policy is that, whereas before this was a closed shop and there were many quite inefficient practices engaged in in electricity supply, over the past decade under governments of all persuasions we have seen this being swept away. We are not finished yet, but we are a long way down the road of competition, and competition drives concepts that perhaps would not even have been thought about in previous times. So we will see a great many changes still take place in the products that are provided, the way in which they are provided and who the providers are.

Mr NAIRN—Is competition policy enough?

Mr Orchison—So long as one understands that competition policy in a country like ours includes a significant commitment to regulation. The licence to operate in energy supply in this country involves being willing to submit to regulation, and, of course, our argument is that that regulation always has to be efficient and incentive based, but so long as it is understood that competition policy does include regulation, as well as the freedom to move.

I think the other thing that it is important to say is that under competition policy governments have created electricity ombudsman's offices that are now enabling smaller customers who feel unhappy about treatment, for whatever reason, to be represented in a way perhaps more potent than they themselves could provide. In Victoria and New South Wales in particular, the office of the ombudsman is working quite effectively.

CHAIR—It has been put to us on a number of occasions throughout this inquiry that there is a need for a national audit of infrastructure, and in fact for a national plan. What would be your view on that and what role would you see industry playing?

Mr Orchison—I think the point we made in our initial submission to you was that there needed to be greater coordination between state and federal governments at the regional level. There are all sorts of problems that are encountered—

CHAIR—Can you give us some examples of them?

Mr Orchison—I think trying to build a high voltage transmission system across state boundaries requires an enormous amount of work with two, sometimes three, lots of

government which can lead to quite considerable cost and quite considerable delay. At the retail end, suppliers have to have a licence to operate in each state of the national electricity market, so customers who want to aggregate their purchasers—for example, customers who are involved in franchise operations across the country, who might have 200 or 300 franchise sites—are having to deal with retailers who have to get four lots of licences in order to deal with them. So there are a range of things of that sort.

I think the other aspect of it is that, more broadly, where we are going to be called upon in terms of greenhouse policy to develop, for example, wind farms, most of these will be in regional areas, and getting local approval to build a wind farm is not as easy as it sounds. In the United Kingdom, out of the last 18 wind farms that have been approved for subsidy, 16 have failed to be built because the department of the environment there has been unable to get community approval. Recently in western Victoria we had our first example of where a wind farm project has run into considerable difficulties because of local government and local community unhappiness about where it was due to be sited.

We have argued to the federal government and we have argued to state governments that there needs to be an integrated approach to all of these areas of economic and environmental policy, given the commitment that the government has made to at least four per cent per annum GDP growth over the next decade and given the commitment that government has made to greenhouse abatement under the Kyoto arrangements. The problem we run into is very often what we have chosen to describe as ‘silo policy management’, that these things tend to be operated within themselves. At its silliest extrapolation locally of course is the problem of people coming in one after the other to dig up the roads. The roads get dug up for one purpose and then they come back for another and they come back for the third. I am sure we have all experienced the irritation of that.

There certainly is a case to be made for looking at how we can manage ourselves better at government and industry level, given the challenge that we have set ourselves in terms of international competitiveness in the next decade. The problem with these things is that they very often tend to be debated in isolation rather than in that broad context—and, while we can understand why, in terms of certainty of investment it gets harder by the day rather than easier.

CHAIR—Just looking at that broad context, do you think that industry has any responsibility in this case, for example, in providing power to a community where there may not be the critical mass present at that time but there is the potential perhaps for cluster development or extension of a particular industry? I have in mind in particular South Australia where there are areas that simply do not have access to three-phase power.

Mr Orchison—I think there is a very important issue involved here and that is that in the past under the monopoly system of government owned electricity supply government and the utility were one and therefore government frequently used the utility as an arm of policy. When we opted—and every government signed up for it—for competition policy, part of the requirement on government is to address that issue because no longer are competitive, entrepreneurial, cross-border competing utilities an arm of government policy.

If government—and please understand that I am not trying to talk them down; I think it is an important part of community acceptance of competition policy—opts for social policy reasons to pursue a particular route, whatever it may be, then the onus is on government to provide subsidies to meet the costs above normal costs, and, we argue, to meet those out of general revenue rather than imposing them across the users of electricity in the way that has been done in the past.

CHAIR—What about in the case, for example, in South Australia where an industry already exists but there are intermittent power outages—I think that is the term. So there is an industry, this is not just for a social reason, but if that particular area had access to three-phase power the potential for further industry development becomes very real. So that is almost a halfway situation, is it not, that it is not perhaps strictly a government responsibility for the social reasons that you outlined but industry is going to play a part in this because if there is further development of industry, of course industry is going to make a lot of money out of this.

Mr Orchison—You are not going to thank me for raising the dairy farmers, Madam Chair, but that is precisely the issue that was raised with south-western Victoria. That has been resolved through an independent review—and I refer to it in the paper that I have tabled this morning—in which it was agreed that parties should pay towards the cost of such development in terms of how they benefit from it. So if there is a benefit to the utility supplier in terms of being able to save maintenance costs or down the road perhaps being able to make more income, then the utility supplier should be meeting a portion of that cost; if it is for a social reason then government should be meeting the cost. If it is another industry that is going to benefit, then it should be meeting a proportion of the cost in terms of how it benefits. This is the only way to proceed in this area.

There are examples around the country of local government, state government and the utility sector pursuing this line of approach in terms of undergrounding. Western Australia is a prominent example of it, where the municipality of Subiaco and Western Power Corporation have paid for undergrounding in that suburban area on a one-third basis each. So there are ways of dealing with these issues that ensure that the beneficiaries meet the appropriate level of cost and I think that is the only way of going forward in the kind of business environment that we have now created.

CHAIR—Can you give us some more details on the plans to create the energy parks in the Latrobe Valley and where you see the benefits flowing in the future?

Mr Orchison—I think in the Latrobe Valley and elsewhere there are genuine opportunities to build a collection of industrial and commercial enterprises, based on the fact that the power station complexes can provide not only energy, but also water for various industrial uses, perhaps compressed air, and certainly engineering services. This is not a unique concept; it is being pursued in the United States and in some parts of Europe.

In areas like the Latrobe Valley where without a doubt the impact of electricity restructuring and reform has hit very hard in terms of employment, there is a strong interest amongst the electricity companies that are based there, amongst the local community, and, I think even with the state government, in being involved in promoting energy parks. Again it

comes down to the fact that it needs to be done in a competitive environment; there need to be good commercial reasons for the companies investing there, whether they be mine members or industrial developers or whatever they are.

An example is the work that is being done at Churchill in Gippsland in Victoria on developing fuel cells. Down the track should that become commercial—and we at ESAA believe it has a very strong chance of being commercial—there will be manufacturing opportunities and they will be related to the fact that there is an ample supply of very cheap power, some of the world's cheapest power, available right at hand. So there are some very good opportunities for cooperative ventures under that heading of 'energy parks' in the Latrobe Valley and elsewhere in Australia.

CHAIR—What sorts of incentives for investment is industry looking to for the future?

Mr Orchison—The electricity industry?

CHAIR—Yes.

Mr Orchison—Under competition policy the days of handouts from government are well and truly over. The incentives we are looking for are those relating to certainty of policy, to providing us with a competitive edge so that people who wish to invest in electricity supply are encouraged to do it here and not somewhere else in the world, and for the whole gamut of industrial relations policies and so on that enable us to be truly competitive in terms of what we supply, but we are not looking for handouts.

The one area where subsidies are going to find their way into electricity supply relates to the approach to renewable power. At the end of the day wind power and a number of other renewable applications are clearly much more expensive than coal power but, for broader policy reasons, government wishes to pursue them and there is going to have to be a means of subsidising that form of power. At the end of the day that subsidy is going to be met by the consumer: the cost of that subsidy will flow through to the users of electricity.

But the major thing that my members are looking for is integrated policy, certainty of policy, and an ability to operate across state boundaries with the minimum of hindrance and a regulatory system that is incentive-based and highly efficient. We are not nearly at the point of having any of those but it would be churlish of me not to acknowledge that some very considerable strides have been made down those roads in the last three or four years.

CHAIR—Could I take it from that that your members are all very happy with the Ralph committee's recommendations and are satisfied that taxation changes for the future for business will aid investment opportunities?

Mr Orchison—I think, Madam Chair, that the industry was a strong supporter of the need for taxation reform. We very clearly understand why it is in the national interest to do that and we will benefit from the growth of the economic pie along with everyone else. The areas of concern that we have relate first of all to accelerated depreciation. We are a capital intensive industry, along with the mining sector and others, and we have concerns about the removal of accelerated depreciation.

CHAIR—But you are also an industry, as you have said, that is looking to the long-term future.

Mr Orchison—Indeed, and I understand the point which the government has made in this regard. But we are in the competitive environment a very high risk business. Accelerated depreciation was an area that did provide at least potential assistance for new development. Now, at the end of the day government, my industry and every other industry will have to work through the environment we have. What has come out of the Ralph report is essentially positive and essentially encouraging in terms of investment. I guess the other area that is difficult for us, as it is for a number of other industry sectors, is that in a competitive environment where margins are very low in terms of sales, finding money to fund long term investment in research and development is difficult and we were unhappy in the past with some of the changes in research support.

We have only really had a very brief opportunity to look at the government's recent announcement but it has in fact essentially lowered the level of support for research again. We, and also government, are going to have to get our minds around identifying the areas of strategic research that are needed, in particular to address greenhouse matters, and how we are going to together be able to pursue them, because the costs involved in that kind of research are very high and, as we all know from experience over some considerable length of time, the chances of getting companies to invest in that area are not good. It is an area that needs some very specific focus by government and we are, of course, talking to ministers as to how that might be pursued.

Mr NAIRN—Further on in taxation, what about the infrastructure bond scheme that was there, and the tax offset one?

Mr Orchison—I think the point that needs to be made in regard to that is that my industry is not only engaged in very massive infrastructure development; it is now engaged across the spectrum, and some of the developments will actually be, relatively speaking, low cost. The smaller they are, the more difficult they may find it, paradoxically, to get financial support. As an industry we understand very well that the government is faced in this area with a considerable amount of difficulty.

Broadly speaking, what the government is doing is the right thing. Value judgments will be made by government in terms of investment support. My members, who are now entrepreneurially focused, will make their own value judgments. There may come a time when government and industry need to sit down and review all of that, but as an organisation we are supportive, in the broad, of the drive the government has undertaken to rationalise and improve the tax system.

I would make one other point, if I may, that we are an industry where the GST is an important factor. One of the concerns we have is being able to work with the regulators to ensure that there is full pass-through of the incidence of GST on this industry. We are at odds at the moment with the federal Treasury as to what the modelling shows. The Treasury argues that when you net it all out the additional cost is about 6.6 per cent; the work that has been done for us by Arthur Andersen would suggest that in fact the impact is about eight per cent.

It is of concern to us to ensure that we and the regulators do come to a proper landing in that area because a higher impact on my members—in other words, if they are not able to pass through all the costs of the GST—is, of course, going to flow back into their capacity to invest. It is a matter at the moment that we and the relevant parts of government are discussing. With the industry in its new form, all the aspects of a national economic policy fall on us in one form or another and are now washed through in one form or another to cost impact on business and on residential customers.

There is very little scope for governments at state and territory level to divert or disguise impacts of that sort. As Mr Nairn referred to earlier, in terms of community perceptions we and government at all levels have the job in front of us in making sure that the public really understands what is happening and why it is happening and what the genuine benefits are of what is happening.

CHAIR—There being no further questions—and we are right out of time—I thank you very much for coming before us. If there are other matters that we wish to pursue, we will contact you and, similarly, if you feel some of these matters that you are doing evaluations on would be of value to the committee we would appreciate receiving them.

Mr Orchison—I thank you, Madam Chair, and I will make a copy available to the secretary of our pricing report so that you will have it as part of your reference material.

CHAIR—Thank you very much.

Proceedings suspended from 10.39 a.m. to 10.48 a.m.

BUTTERWORTH, Mr Perce, Executive Director, New South Wales Department of State and Regional Development

CHAIR—Welcome. We have received a submission from the New South Wales government. Before we ask our questions, would you like to make a brief opening statement?

Mr Butterworth—How brief? Could you give me an idea of the times that we are running with?

CHAIR—You have three-quarters of an hour. There is no need to go over the submission in detail because members all have that submission, but you can introduce it and make a brief statement outlining the main points that you want to cover.

Mr Butterworth—Fine, thanks. To kick off, the New South Wales government is welcoming the opportunity to make this submission. It is a very important issue for us, as I imagine it is for most state governments. We note that there has been a particular emphasis on deficiencies in infrastructure and also on the Commonwealth's role. The definitions that we have applied for our own submission relate largely to the area beyond Sydney, Newcastle and Wollongong; we have said that that is regional. We know in some circumstances the Commonwealth has different ideas of what regional means and so we have been specific about that.

Firstly, I just wanted to say a few things about what the New South Wales government is doing, and this is by no means covering the whole range of stuff. One of the interesting issues is that we have been very much conscious of the fact that you cannot adopt a one size fits all approach to regional development. We are coming more and more to the situation where we recognise that each individual community in an area requires its own solution, its own planning, and indeed its own sorts of infrastructure that will support its development. We are planning on that and we have a range of regional and subregional plans that support that approach.

Some of the things we have been doing to assist with that, of course, have been placing regional coordinators in a wide variety of areas in regional locations. We also operate a widespread network of offices and also sponsor a range of regional development boards. We also offer a range of programs on regional development, both community development and structural adjustment and investment attraction and support. I suppose one of the major issues about this is that we have also been working hard trying to reverse the perception of regions as being dying places in which to locate et cetera and to try and correct that misconception has been a major thrust.

Part of the NSW government's initiatives has been the establishment of a ministry for regional development. That has been a major development for the regions from the Carr government perspective. We have also been quite successful working with the ISO, Industrial Supplies Office, to gain a lot more local content for regions. Indeed, we are looking to the period beyond the Olympics in infrastructure developments throughout the state with an eye to ensuring that as much local content—and that means regional content as well—is

generated, and that is the same sort of policy we adopted during the Olympic Games. So that is an important issue for us.

We also made a submission to the Ralph review on taxation in which we raised a number of regional development issues, section 51A(d) being one of them—

CHAIR—We were not involved in that.

Mr Butterworth—As you would be aware, we did not score on that one, unfortunately, but it may get further revision down the track and we will keep our fingers crossed that that may happen.

CHAIR—It is actually my understanding that that has happened. I think it comes under the section of higher reforms.

Mr Butterworth—It was a bit unclear exactly the impact there is going to be for regions; we have still been making some estimates on that.

CHAIR—The reason I am so confident in saying that is because I actually asked the Treasurer a question on that myself and was assured that that was being picked up.

Mr Butterworth—I think it is in one of the forward sorts of things. I am not too sure if that occurred—

CHAIR—I am sorry, I did not mean to interrupt you, but, as I said, you are not the only representative who has raised that issue with us.

Mr Butterworth—It has a major retarding effect on development, and especially for investment in regional areas. Finally, just by way of general things I would like to say that the New South Wales government recognises there is a very clear role for the Commonwealth to play but we feel that at the moment there seems to be some gulf between the Commonwealth's attitude to regional development and basically that of the states in what they are trying to achieve. We welcome this review at the moment because we feel that one of the major things that should be occurring is that the Commonwealth ought to be getting more concerned about what it is doing for regional Australia and what its role ought to be.

I suppose the major issues that we wanted to highlight in our submission are the aspects of leadership, planning and coordination that seem to be the big issues for us as is the role of the Commonwealth. Can I say a few words about some of the terms of reference?

CHAIR—By all means.

Mr Butterworth—We have taken a pretty wide view of what we mean by infrastructure, and basically it covers not only physical infrastructure—I am not too sure how much focus has been on that, but it would be a lot, I imagine. But there is physical infrastructure, telecommunications and other infrastructure, which is quite critical in the communications side of things. There is a service provision infrastructure and a social infrastructure and most of the programs that the New South Wales government is operating try to address them in

some form or another, although telecommunications is obviously a big problem for us. So we have defined the actual idea of infrastructure as being more than just physical infrastructure.

I suppose the immediate requirements in New South Wales are IT&T, and there are a whole variety of cost penalties associated with the current situation, especially for people in the far western part of the state. There are cost penalties, there is the quality of the system, the impacts on industry by not having appropriate internet linkages. Just to sort of illustrate that, quite a number of regional firms are sitting probably reasonably close to the Sydney market where there are three and a half million people. It is a big market; there are plenty of opportunities in, say, IT et cetera from locating in regional areas and, if you can have the appropriate technology, accessing the Sydney market.

However, a lot of them have voiced their concerns to us that they just do not have that opportunity; they just cannot make it happen to the same level of competition as their counterparts do in metropolitan Sydney, so that is their competition. They have cost advantages in some of the other labour areas but the IT side is a major barrier for them.

I suppose the things that we need, and coming out of the IT&T area, are basically adequate, reliable and economically viable mobile phone services, removal of policies in relation to size and local zoning for calls, provision of sufficient cabling and other physical infrastructure, especially for some of the internet access, and, with the growth in e-commerce we want to give the same opportunities to regional businesses as they have in metropolitan Sydney and Newcastle. We see also advances in IT and telecommunications and they should be used to enhance and draw people into regional areas, not be seen as substituting to enable withdrawal of services, which has been one of the ways both the private sector and government have perceived it in the past—that you can substitute IT for withdrawing services.

I think we are also looking towards encouragement through better local and regional coordination of IT and I think we feel that governments should be assisting regional areas to establish local intranets and other mechanisms to promote local services. So they are some of the IT issues but I could go on. There are whole issues about IT and education, and one of the issues that we are very concerned with is the fact that some of our major competitors, especially for investment attraction, like Singapore and some of the American states, have moved towards a special pricing regime for educational services using IT, to get your distance education if you like. But the mechanisms are there, and we feel that there ought to be some consideration given to the same sorts of educational provisions that we are trying to achieve at secondary school levels, TAFE system and university levels. That is just one of the other areas that we are quite interested in.

Perhaps one of the other major issues is the issue of water. Water quality, access to water, and the quantum of water is a particularly critical issue for ongoing development in the inland region, especially in dryland areas that have a major issue with new crops coming on, olives, aquaculture, irrigated grapes for wine production, this sort of thing—also herbs and Asian vegetables. One of the issues about it is that a lot of these are aimed at either import replacement or export markets and a lot of it hopefully will end up on the tables of Asia as it continues to grow, and also as our own population expands.

So we see a situation at the moment where we have a number of dams, we have an issue about the environment, we are trying to pull all this together into an actual strategy, for which we hope to be able to have the draft completed by the end of this year, but it is taking place in the context of there being no overall national policy. What we are trying to do with water and what is going to be the long term—

CHAIR—This is your TAMP plan, is it?

Mr Butterworth—Yes, this will be the long-term development for water and for the industries that are water dependent, and future industries that are going to be water dependent. At the moment you can only do so much with this. You can increase the productivity of the crops with respect to water, the existing crops; you can look to making more efficient usage, decreasing wastage, those sorts of things which the TAMP plan seems to address, or set out to address; but the longer term issue about this basically is that there has to be more water if we are going to stay supermarket to Asia from an effective base. You really have to look at 20 years out what it is going to be like.

Asia's food production capacity is pretty limited for expansion and basically where are they going to look? Australia has the land but the water is a critical issue. So, looking at it from our perspective, we can do something at the state level but there is no national plan, there is no national coordination, there is no national strategy of what we should be trying to do.

CHAIR—You can continue on those points but you have mentioned this now in relation to the overall regional development, as well as specifically water, and also you mentioned IT. This point about the need for a national audit and a national plan has come before this committee on a number of occasions now. As you are representing a state government, what role would you see them playing in developing a national plan?

Mr Butterworth—We have the expertise; we have the knowledge that relates to our own state—down to almost the megalitre of what is available, how much we use every year and all that—but it is more than—

CHAIR—Can I just ask you: is that really available? I understand that you are developing the TAMP, but it has been put to us on a number of occasions, and the regional workshops that AusCID did for example, that one of the obstacles to achieving regional development projects was that there was a lack of leadership at the local regional level, and sometimes at the local government level, there was a lack of information in actually getting projects to that investor-ready status.

Mr Butterworth—Yes, we are aware of that. As I said, we have regional coordinators out there to pool an all of government approach to these things, and they work pretty successfully. I suppose what I am trying to say is that in the national scheme of things, which is where the Commonwealth is, there is no overall strategy; there is no guide or direction that you can take. Water is a very intensely competed for resource and this is one of the reasons why you do you get a fair bit of slowness in what happens, apart from the environmental side of things.

There are quite a number of environmental constraints that are imposed on projects and they have to be met, but on the one side we have people who want to grow olives, on the other side we have people who want to invest in aquaculture, another side who wants to invest in some fruit growing—and Menindee is a good example of that. The issue that we face here is that there are always these trade-offs and there is always the issue about offsetting one against the other and we have no overall strategic direction in any of these product areas.

CHAIR—But do I understand you correctly that you are actually looking for a lead, a direction from the Commonwealth level of government to actually set guidelines in place that say, ‘This is the formula that should be followed.’?

Mr Butterworth—I am not just thinking of guidelines; it is an overall ‘What do we want to do with Australia’s water, where do we want to take it, what are the sorts of products we should be using or developing and moving into?’—and at the moment it is uncoordinated across states. Each state has its own development agency, often a regional development agency, which is following its own drift, and there is no way of pulling that together. Take supermarket to Asia. If we are going to sell to Asia and we want to grow additional vegetables and foodstuffs et cetera, then what are the ones that we ought to be looking at and should they then receive the priority for water? What is going to be the role for the state, and let us take New South Wales within that context, and how much water does it need to look towards attaining those national objectives? There are no guidelines at all for that; there is no overall strategy or plan.

CHAIR—Yes, I am hearing what you are saying but, operating in a federal system as we do, if the Commonwealth were to produce a plan, given that you also said in your opening comments that no one size fits all, it would have to be flexible enough to take in the needs of New South Wales, Victoria et cetera. I accept that you and others have said that there is a need for both an audit firstly and a national plan, but what I am really asking you is: what role can the states have in developing this plan and ensuring that the plan has a chance of succeeding?

Mr Butterworth—I think our submission makes it pretty plain that we do not see this as a Commonwealth plan, nor do we see it as a state plan, nor do we see it as a local government plan; we see this as something that has to take place across the tiers of government and has to be joint if we are going to make it happen. We are looking to the Commonwealth to show the leadership here, to actually take the opportunity and run with it and start pulling the states together. The states are quite keen to do this; they are quite keen to see something come out of a broader approach across Australia, but at the moment it is not there.

CHAIR—And you would be confident that the states would in fact cooperate in developing a plan flexible enough to cater for the needs of everyone?

Mr Butterworth—I imagine so. That is what we have said in our submission basically. We sort of feel that we are in the circumstances at the moment where we would like to see the leadership shown and we would like to participate in the development of that plan. It is not something that I am saying, ‘The Commonwealth must do it,’ and the states sit back and

do nothing; it is something that has to be done jointly so that we all have a level of commitment to it.

CHAIR—Do you want to continue?

Mr Butterworth—We have talked about water and, as I said, TAMP is almost like what you are talking about with your audit because we are looking at what is there, what the future maintenance requirements are going to be, what future usage levels are going to be, what sort of estimates there are from future efficiencies, that sort of thing, so that we can actually get a bit of an idea down the track of what requirements are going to be made on our water supplies and our water availability.

But it is a critical issue for us and, as I said, it is linking that to the actual sort of industries that we need to develop, especially the newer ones where often it is very difficult to shift existing water out. If you take the cotton growers, for instance, you cannot go along to them and say, 'You are only going to get two-thirds of your last allocation because we want to give it now to winegrowing,' et cetera. This has to take place in some sort of systematic, planned way. Also, another critical thing is the volume of water and this needs to be looked at to see how we are going to get greater access to it and more of it.

CHAIR—And as part of that are you looking, for example, at the age of irrigation systems and what needs to be done about that?

Mr Butterworth—That is right, the evaporation and loss of the irrigation channels. The one at Menindee is a really good example where a proposal has just come forward—or has been there for a couple of years now and we have been working on it. It is problematic because it is caught up with the three-state agreement on water so it takes a fair time to sort these matters out, but essentially it is a good example of the proposal to increase the depth of one of the lakes without increasing the surface area. The surface area is basically where the evaporation takes place so they figure that they can make quite a substantial increase—and I cannot remember the exact figures now—in the volume of water available, and this is a private development. They are prepared to pay for it and they want a large slab of the water available so they can extend their irrigation. That is another example of trying to make better use and reduce the evaporative losses that we have been experiencing.

It is interesting to note on the water front that I think the last dam we put in was an enhancement—it is in the submission and I cannot recollect the exact name of it, but one of the major dams—and that was eight years ago. There is certainly nothing really planned at that level at the moment. Once again it is an issue about offsetting the impacts of rising salinity and algal blooms in inland rivers and so on, but there has to be some way through this, and this is part of the issue about which we are saying, 'We can do some of it but why shouldn't the Commonwealth be a partner in this as well?' It is a similar sort of problem that the Queensland government faces with its inland rivers and so on. So I think from our perspective we would welcome some national approach from the Commonwealth on water and on the use of water and planning for future developments in that area. We would like to participate very much in the development of some national strategies with respect to that.

The other major issue that we wanted to raise was largely that of transport. I would imagine you have heard a fair bit about road transport, and development of ports is another one for us, and I suppose rail transport as well. There is a fair bit of evidence in our submission to you that we feel that the rail system is inadequate and has been allowed to run down, or certainly it cannot go as fast as it should go and there are various restrictions et cetera. So the rail system definitely needs an enhancement. We are looking at around the Tumut area for instance at the moment where this pulp mill is going in and we want to make sure we improve the road access to that so that the whole operation can function more efficiently. Similarly, we find ourselves with a number of one-off road systems or improvements we have had to take with respect to some of the developments that have taken place in specific locations—we have had some down around the Murrumbidgee area and we have had to put in additional roads et cetera.

So transport is a big issue for us. We feel that ports are really critical in the way they feed into the hinterland and the impact that can have on export opportunities and the developments that once again come with us having ready access to markets, so ports are another area where we feel there is a call for some looking at. I think I need to say here that the government feels—and I have made this point before in other locations—that there needs to be a national transport plan or some national strategy on transport as well. So we are talking similarly with water and transport; a similar sort of approach needs to be adopted so that we have some idea of what developments are going to happen. I do not know about you, but I get all the press releases and almost every day there is some new rail line going from one place to another, the next day it is somewhere else; it is either that or a new airport. A lot of these proposals are taking place within virtually a vacuum—

CHAIR—So you are looking for an integrated approach?

Mr Butterworth—That is right, which covers rail, air and road. So our feeling about this is that once again it needs Commonwealth leadership. We are working with Queensland at the moment, and the Commonwealth is a partner in this as well, across the north there, up around Goondawindi, Moree, that area, and over the border, looking at what is happening with respect to trying to make sure that all the roads line up and that we do not strengthen the bridges in the wrong roads and they do not do the same, that sort of thing. We are doing a fair bit of work there and that seems to be working reasonably well. That is an example of a two-government initiative to try and overcome the lack of some overall idea of which are going to be designated the major through routes and which are not, that sort of thing.

CHAIR—So you would be certainly supportive of the submissions that have been made to us about firstly having a national audit before you move to this national plan, whether it be looking at transport, water, telecommunications, or whatever. You actually have an audit of what is there and what is needed before you move into an overall plan?

Mr Butterworth—On the proviso that the audit does not take a couple of years. The issue about this is that we really need to act reasonably quickly on some of these proposals. You just cannot sit back and watch the competitors—and I am talking about other countries—move forward while we are still examining the lie of the land. There probably needs to be some time constraint placed on any audits that are there, and I imagine most of

the state governments et cetera would have a fairly good handle on what is available within their areas.

CHAIR—One of the concerns that has been put to us now on a number of occasions is that the amount of funding from state governments into regional infrastructure has been decreasing and, as well as state governments looking at more innovative ways, it sometimes involves privatisation and corporatisation. We visited that 22 kilometre section of the Pacific Highway that is being now funded under the design, construction and maintenance program. Are these the sorts of things that the New South Wales government is looking to and would you like to comment on the level of funding that the New South Wales government has been making into regional infrastructure?

Mr Butterworth—As we say in our submission, we feel that the Commonwealth's funding into regional infrastructure is declining. I have brought a copy of a reported entitled Private Sector Participation in the Provision of Public Infrastructure, and I will table that if you like. That is a document which actually outlines the processes that the New South Wales government is using to attract and also to obtain private sector investment in public infrastructure. These guidelines are on our web site and we get a fair number of inquiries. We have just established a new construction web site in New South Wales and this will be on that as well.

So from our perspective the government is very much conscious of a need to get private sector involvement and it does not really matter whether it is the coalition or Labor because both of them have actually been very supportive of this type of approach. And, as you know, we have a number of expressways which are paid for by the toll system et cetera, we have a private gaol, private hospital—which are all funded by the private sector.

CHAIR—Do you have anything more to add?

Mr Butterworth—On the issue of the role of the Commonwealth, and I think this is quite important, I just want to reiterate that we would like to see it as a partnership between the states and the Commonwealth if there is going to be some overall approach to strategies for transport and water, and perhaps also something for IT. We see that there is almost a leadership vacuum at the national level so we need somebody there to drive it along and give it an overarching approach for all of Australia, as opposed to individual states, so we see that there should be some national leadership there, and, as I said, the development of national strategies. Obviously, somewhere along the line here, there should be some reconsideration of the level of Commonwealth government support for regional communities and regional development overall. As I said, we have defined infrastructure here more widely than merely physical infrastructure.

CHAIR—Just on that issue of funding, within your own department have you looked at where there has been some seed government funding, whether it be at the state or the Commonwealth level, and how that has been able to be leveraged to attract private investment? Do you have any evidence to tell us about that?

Mr Butterworth—Not in greatly specific terms, except those ones I have spoken about, the gaol and so on where there has been this private investment. We have had a number of

inquiries and we anticipate that will increase with the changes to the taxation recently announced where there will be an inflow of greater capital for investment and some of that can go towards this. We are hoping we will be able to skew some of that into public infrastructure as well, and obviously on a commercial basis where people have to pay.

Once again we have just gone through this document. This is the latest version and we are just going through this document to make sure it is going to enable us to capture that and steer that. At the moment we have our eye on the future and saying, 'If the new tax regimes enable more investment funds to come here and more venture capital, then we would have an opportunity to steer some of it this way.' That is what we are looking at at the moment.

CHAIR—Okay, thank you.

Mr SECKER—I have a couple of questions. You made the statement, Mr Butterworth, that you thought Commonwealth government investment in infrastructure had been reducing, but this committee actually received some information a bit earlier that state government funding for roads infrastructure has actually more than halved in the last 10 years, whereas the federal funding at the time had been about the same percentage of GDP. Would you care to comment on that?

Mr Butterworth—I do not see this as an issue about states versus federal; this is about what the federal government's role should be. As I said, we are looking more towards some sign of leadership. I have not actually stressed here a lot more funding support; I have not walked through this door and said, 'We want another \$20 billion,' or something like that. We have not approached it that way at all. We are looking more from the perspective of some leadership, some cooperation and partnership. Obviously there will need to be some funding, because some of these projects like your audit et cetera are going to take resources, but I do not think it is a forum to sit down and have a slanging match over how much we put in and how much you put in. I do not think that is going to lead us anywhere anyhow.

Mr SECKER—And you saw the need for private investment. There is a problem in many states, and I am not pointing to any particular one, that their planning laws put impediments in front of private enterprise. As an example, I spoke to the developer of a quarry in New South Wales and by the time he went through EISs and inquiries and things like that, it took him four years from the start to get the final plan approvals. It seems to me in some states especially that there are state planning law impediments to getting private sector investment up and running. Is there something that you think the states could look at there with the planning laws, as they do control them?

Mr Butterworth—Some of the major areas of the planning—the state Environment Protection Act basically and its relationship to the section on planning—are just being overhauled and one of the things that my department has been pushing has been this whole issue of speeding up the planning processes, and we have been adopting some new processes. For instance, we have a couple of big industrial sites that are being developed out in western Sydney by the private sector and what we are trying to do with those is, as far as possible, get a blanket coverage on EISs and that should then able us to develop it without each site having to go through the same process. That is something that we are pushing very much. We have also done a similar sort of activity out in the Steel River area in Newcastle

and we are also piloting it down in the Illawarra with the Department of Urban Affairs and Planning.

Mr SECKER—And this is only in the early days. Do you have any evidence that it is actually working?

Mr Butterworth—That we are cutting down on time?

Mr SECKER—Yes.

Mr Butterworth—Yes, I think we could indicate quite a number of circumstances where our role, and my own agency's role, has led to quite significant cuts in the time frame. In fact, one of our major roles is not in providing financial assistance to industry but really to facilitate investment, and in that facilitation process it is basically about ensuring that we can get the job up and running ASAP. Especially on the investment side of things, once again you must remember that we are competing against other states for whether it stays within New South Wales or goes elsewhere, or comes from another state to New South Wales or to another state, and also competing against Singapore, Malaysia and so on. So it is not just a matter of saying how much you can put on the dotted line; it is also saying what you can produce and how quickly.

CHAIR—We had one example this morning on the question of renewable energy and the example that was given to us was wind power and the amount of time that was taken by both the local government authority and the state government. These are the sorts of problems that are very time consuming and in the end some of these fall over simply because of that timing. That was also one of the examples that came out of those regional workshops. It was said that because of the length of time it took for the planning process, if it was not all happening the investors were going to walk away and head off in another direction and look at another project.

Mr LAWLER—Where to start? You mentioned there the project out at Tandow. My understanding is that all they wanted to do was to move water from a lake of large surface area and low depth to one of high depth.

Mr Butterworth—That is right.

Mr LAWLER—Why has it taken two years to consider that?

Mr Butterworth—Why has it taken two years? I am not in charge of the project but I can probably give you a string of reasons. There are a whole lot of environmental constraints, there are Aboriginal heritage areas involved with it, and there is a tri-state agreement on water that is related to it as well. You have to keep all of those up in the air at any one time, and then there is also that assessments have to be made of the impact downstream, because this affects what finally ends up in the Murray and into South Australia. It is not an easy one.

From the development side of things we would like to see some processes to speed that up. Indeed, I was involved with that project in its early days and what we did do was try, as

far as possible, to make the projects run concurrently so that we did not end up with a whole string of projects that were going to take four or five years. We sort of said, 'That can run with that at the same time, and we will cut the overall proposal down in the time it should take significantly.' However, I do acknowledge that we have quite substantial concerns about the wildlife and the Aboriginal heritage. Our environmental protection arrangements in New South Wales are pretty stringent and it just takes a long time. Unfortunately, at the moment that is just one of many projects where there is a fine balance between the environmental side of things and the overall getting on with the job.

Mr LAWLER—We could talk a lot about that, and many other things. I totally agree with you about the federal government really needing to take a leadership role in getting overall plans, especially in transport, and I guess it does not matter where you look, probably the same thing could be said. Would the states lend their cooperation largely to an overall strategy if one was produced? On a smaller scale, there was a report commissioned by the Commonwealth, I understand, into what would have to change along the Newell Highway to allow greater roadtrain access.

My understanding is, and correct me if I am wrong, that that report was finished before Christmas last year and it has gone before the RTA and it is actually sitting in the minister's office at the moment. That work had been finished before Christmas last year but no-one knows what is happening or what can be done with it. That is on a smaller scale, an issue where we have looked at planning something and then, as far as I can tell, it has run into a brick wall.

Mr Butterworth—There are two responses I can make there. As I said earlier on, we do not see the Commonwealth's role as merely going around making plans for all the communities and then just walking away from it. The plan would have to cover how those things are going to be run, what is the state contribution and the Commonwealth contribution to be et cetera so there actually is some sort of funding surety that is attached to it. So there is that element about it. The other part about it—and I cannot be 100 per cent sure, I am probably more surmising—is that we did undertake quite a substantial study. We had a study of the urban infrastructure in the metropolitan area and we are actually at the stage of pulling together a lot of information on the infrastructure in regional New South Wales.

That has not seen the light of day yet but I imagine one of the reasons why there is not too much action on this one is that it will be looked at in relation to what this broader, almost like an audit if you like, approach is going to be. I have brought a copy of our report, Action for Transport 2010. We want to do a similar thing to this for regional New South Wales. By and large it is really the major metropolitan areas—it talks about the ringroads and the expressway developments and so on. We were also looking at the regional side of things. At this point in time I cannot be 100 per cent sure exactly where it is because after the last election it moved its location from one agency to another.

Mr ANDREN—Can you keep these answers fairly brief because I know the other committee members want to ask some questions too. We have talked about the need for an infrastructure blueprint, and it has been suggested there should be some sort of national committee oversight and so on, but has the state contemplated its own blueprint—and I do not know what you said in your introductory remarks; forgive me for coming late—and to

what degree do parochial town-town, area-area and political imperatives impede infrastructure development at a state level?

Mr Butterworth—Are you talking blueprint for transport?

Mr ANDREN—Well, in totality. You have spoken about transport, but has there been any attempt to, if you like, prioritise regional infrastructure, both social and concrete?

Mr Butterworth—We do have a regional development strategy which the government issued about mid last year and it has been the driver of a lot of the development, and it is mentioned in our submission. We do not at this stage embark on the role of picking winners by saying, ‘This town is going to die and this one is going to survive,’ although there is the natural movement towards the growth of quite substantial regional centres in New South Wales. That is naturally happening and that is drawing with it quite a substantial amount of resource reallocation, if you like, to ensure that those needs are addressed. No, we do not have an overall plan to say, ‘Wellington’s going to decline and Dubbo’s going to be allowed to grow at its expense.’ As you can appreciate, that is politically a very hot sort of approach to adopt.

Mr ANDREN—In an area like competitive tendering, can you give us any view you may have on the impact of a national competition policy on regional areas, particularly say if we can use the example of competitive tendering for roadworks and a concern that it may squeeze out council participation in that? Do you believe there are any dangers in that process for maintaining regional cohesion infrastructure and population bases and so on?

Mr Butterworth—We have actually raised this with the government itself, across our Department of Public Works and Services who actually oversight all those competitive tendering arrangements, and we have suggested that a lot of the smaller projects be rolled together and be sub-let at the local level as an approach, because at the moment there is the opposite where there is a lot of fragmentation and those sorts of fragments cannot be put together when you come along with a larger project. The aim would be that we can actually get at the local level—

CHAIR—Is that being followed through?

Mr Butterworth—At the moment it is on the table for discussion and, as I said, we have made this point quite a number of times. We would like to see it piloted but that is the next step. It is one of those areas where we will have to wait for the right time.

Mr ANDREN—Are you talking about regional organisations of councils tendering for the work, that sort of thing?

Mr Butterworth—Yes. What I am saying is that if you have a large project then unless it is broken up the locals are too small to tender for it. What we are saying is we can put some of these together and then we can break it up separately into the sizes that are necessary for them to actually have the local access to the job, rather than leave it to whoever wins the overall tender. That way they can readily sub-let that at the local level and it keeps the local content flowing.

CHAIR—Because practice has shown, whether it is New South Wales or any other state, that the tender usually goes to someone in one of the large provincial centres or the capital city.

Mr Butterworth—Or even overseas sometimes.

CHAIR—Yes.

Mr NAIRN—Because of the time I will just ask one question, but before I do can I just make a comment. I was pleased you said that at these sorts of inquiries we should not end up in a slanging match between the Commonwealth and states on funding and things like that, but can I say that a couple of the throwaway lines in your submission do not help that process, and I understand why Patrick asked the question he did. There are lines like:

. . . the Commonwealth Government deserves criticism for its past neglect of rural and country New South Wales—

without any sort of facts to back that up. But I am pleased that you are saying that we should not be getting into that sort of slanging match, so we will ignore those sorts of things. You talk about roles of various governments and one of the roles that many people see a state can have quite an impact on in rural and regional areas is in relation to the decentralisation of the parts of state government. I know that a number of parts of departments are out of city areas. What is the New South Wales government's current policy in that respect? Do you have any future developments in that area, because to put public servants and that sort of set-up into a rural area you have to have the infrastructure and then often other private investors will grow out of that infrastructure.

Mr Butterworth—That is a point that we have made in our submission, the private sector feeding off public infrastructure. We have been quite vigorous in the way that we have been pushing various government agencies into regional New South Wales. We have just announced the move of the Department for Local Government to Nowra, I think State Superannuation is going to the Illawarra, probably Wollongong, another one is going to the central coast, and the police firearms unit, is going further north than that. There are a couple of other smaller units, and I cannot remember the whole lot of those—if I had known you were going to ask the question I could have given you the whole list. There is quite a comprehensive list of functions that have been pushed into regional New South Wales since the last election in New South Wales.

CHAIR—Perhaps you could send us that because that is good information for us to have.

Mr Butterworth—I could probably send you the minister's briefing on it because he has used it in parliament.

Mr ANDREN—But it seems that that is public money chasing public money. If you want to create new wealth, new opportunity, new jobs and such, we really should be looking at private infrastructure investment, as well as public, shouldn't we?

CHAIR—But the point Mr Butterworth has made is that the private sector has actually fed off some of this public—

Mr Butterworth—I was just going to say, you run on multipliers really of between two and three on some of these and I cannot remember the exact number but I would say it is in the order of 75 to 80 staff that are moving to Nowra. You can sort of anticipate that that is 75 to 80 jobs that Nowra did not have and then on top of that with a multiplier of two you add another 160 to it et cetera, so Nowra's economy is going up maybe 300 or something like that.

Mr ANDREN—Did you do any modelling on the agriculture department in Orange, what the impact has been over the last 10 years of that?

Mr Butterworth—No, but anecdotally it has been quite substantial.

Mr ADAMS—As opposed to that comment about the federal government, because federal government offices have been closed in regional Australia.

Mr NAIRN—I asked the question against Queensland as an example and it is not—

CHAIR—There is no point toing-and-froing because—

Mr Butterworth—I can provide you with the list. As I said, there has been a substantial number of them. We have not done the full multipliers on them but we know exactly how many and it is well over a thousand odd jobs, something of that order, 1,200 or something like that have been moved since the election.

CHAIR—Can I ask you—and it will have to be the final question because we are way over time: have you done an assessment as to how your regional boards have actually been performing? We have met with a number of representatives and on one group I think we had 15 different—I am not quite sure now whether it was different councils but certainly when we were in the Newcastle region there were 15 different representatives that formed part of that regional board. If we are talking about developing a strategy and forward planning, it had done an excellent job.

That is an example of one that is really obviously working very well. There are other examples where they do not work as well as that, but I am wondering if within your offices you have actually done an assessment of the ones that are working well and have identified why they are working well.

Mr Butterworth—You have caught us at a difficult time because we are just about to renew our boards—expressions of interest to act on boards will be advertised in the next week or so. It makes it difficult to say exactly how good some are and how good some are not.

CHAIR—If you would rather leave a response to that until you have made these announcements and appointments, that is fine, but I would be very interested to hear that

because there are obviously some that work exceptionally well and others that do not and you obviously have looked at those—

Mr Butterworth—We know which ones have worked well and which have not.

CHAIR—I am not looking for a list where I can tick off who has worked well and who has not, but what I am really interested in is why a particular model—

Mr ADAMS—Any models.

CHAIR—Is it the sort of people; is it their expertise? What are the different ingredients that make a particular model that works well? That is what I am interested in.

Mr Butterworth—As you say, I think with some of them it is the age of the personnel on them. The regions—some of them are a very hard ticket to push because, you know, if you duck out to Wentworth, that sort of thing, the opportunities for development at a reasonable board level are much more restricted than they are, say, out at Newcastle where you have new industries coming on and tourism et cetera, you have funding being pumped in—

CHAIR—But those new industries did not just happen; they were actually driven—

Mr Butterworth—Yes, they were driven, but a lot of them were driven by our own department as well. You have a fair bit of money being pushed into Newcastle as a result of the closure of BHP, so there is a fund there and both the state and the Commonwealth contributed substantial amounts there.

CHAIR—But if we are talking leadership, we met a man who I think was a gastroenterologist who was convinced to return from England and come home and head up a particular unit within the local hospital, and in turn that was linked in with information technology. It was an excellent, excellent outcome.

Mr Butterworth—I would have to say to you that we feel that probably the Hunter Regional Development Council is one of our leading ones. There are a couple of other good ones—

CHAIR—The biggest problems that they had were to do with communications, and we will raise that with our next witnesses. We have mentioned a number of points that we would appreciate you providing us with the information on when you are able to. For the moment, can I thank you for a very detailed submission and thank you for coming here and fitting in with the change of the timetable.

Mr Butterworth—Just before I leave, I mentioned the regional strategy that the government is running. There is a copy of that there and I table that for you. I have indicated the Action for Transport 2010 and, as I said, it is predominantly focused on the metropolitan because we are running a regional development one as well, and I table that. This one is the guidelines for the private participation in public infrastructure.

CHAIR—Thanks very much indeed, Mr Butterworth.

[11.44 a.m.]

BUNDROCK, Mr Tony, General Manager, Customer Strategy, Telstra

EVANS, Mr Phil, National General Manager, Regional and Remote, Telstra

HIGGINBOTTOM, Mr David, Manager, Federal Government Liaison, Telstra

HINRICHS, Mr Robert, Manager, Satellite Strategy, Telstra

ROAKE, Mr Jim, Manager, Core Products Planning, Telstra

CHAIR—Welcome. We have a fair range of expertise here in front of us. Before we begin our questions, we have received a submission from you; would you like to make a brief opening statement to us?

Mr Higginbottom—There is not much more that I want to add, other than to reiterate some of the main points covered in that submission. Telstra is committed to providing new and improved services to rural and remote Australia. Our investment per customer in areas outside capital cities is nearly 50 per cent more than for metropolitan customers. Telephone ownership levels have been increasing over time with the gap between city and regional users' ownership levels narrowing. We are introducing new and improved services to provide additional improved services to regional areas, including using satellite services to deliver remote telephony and high speed data access, and we are investing—and in fact I will update the figure there—something like \$600 million on the CDMA network which will progressively replace the analog service from 1 January this year.

I would just like to update a couple of points on CDMA since we did that submission. We started the build of a network this year and in that six months we have done what possibly took nine year or 10 years with GSM and with analog, a very, very rapid roll-out, a major engineering exercise, around a thousand base stations. We did the initial launch at the end of August and we have now opened the network in Sydney, Melbourne, Brisbane, Adelaide and Perth, and are progressively rolling it out from there to the other remaining areas of Australia. That will occur and finalise before the end of the year 2000.

In terms of the other major developments in the submission, there was the launch of our BigPond satellite service, which I assume you will have some questions on. That service provides an ISDN reasonably equivalent data download capability to remote and regional customers, but, as importantly, it is actually aimed as being complementary to our cable service and is designed to provide a service to metropolitan users as well as regional and remote users. It would be one of the first times, if not the first time, that a service has been available simultaneously across Australia, and it is the same price, same service, for metropolitan users as for country users. Thank you for being able to change our appearance time before the committee. We lost a couple of people on a plane this morning.

Mr ADAMS—Not physically, I hope.

CHAIR—That is okay. We want to make sure that we get the opportunity of asking questions. I would like to begin by giving credit where it is due. I receive numerous complaints from my constituents about Telstra, as do most members of this committee I am quite sure. I recently had what I would describe as the most difficult and the worst case that Telstra was responsible for, but a case manager from Telstra was appointed—unfortunately I cannot remember his name because I would put it on the public record as well—and within just a few days the problems were identified, sorted out, and Telstra accepted the responsibility for it. I am hoping that that is a change of culture and that that is going to be the level of service that people in rural and regional areas can expect from now on. I for one was very, very pleasantly surprised. I believe in giving credit where it is due, and I will put that on the record.

Mr Higginbottom—Thank you.

CHAIR—You were present when we were listening to Mr Butterworth from the New South Wales government and I gave as an example a regional area around Newcastle in New South Wales, but this is not an isolated example. If we are looking at providing accessible, affordable, and efficient telecommunications infrastructure into regional areas in order to promote industry and develop employment, one of the areas that is a big growth industry in regional Australia is that of call centres. A complaint that we hear from people in regional centres is that, while they even get overseas companies who want to establish call centres in regional areas, they are prevented from doing so because they cannot access the technology that will enable them to establish the business. What does Telstra have to say about that? Don't all speak at once.

Mr Evans—It is not my field of expertise but I will do my best. We have actually had some rearrangements in call centres between Tasmania and Victoria in recent times—

CHAIR—Tasmania seems to have done very well in telecommunications; the rest of Australia perhaps needs to do equally as well.

Mr ADAMS—That is a very biased statement.

Mr Evans—I do not think I want to get involved in this. In the short term, I am surprised firstly that they cannot get access to the technology, but perhaps Jim has—

CHAIR—We have had more than one example of this, I can assure you.

Mr Roake—I expect a lot of it is tied up into how the call centres would like to operate. There are a variety of facilities or products that are out there that we are able to supply to customers, some of which are virtually stand-alone type call centres where the whole infrastructure is a Telstra product and the end provider is virtually providing the management of a call centre et cetera. Some of those total packages are more limited in how they can be deployed because of the technology.

It is not the fact that we are trying to restrict anything; it is just the fact that you cannot get it out there. Others are more like, if you wish to set up a call centre with a proper PABX management information system et cetera to manage this call centre, there are a raft of wider

band communication products that are able to deliver services to many of these areas. There is more to the question in terms of when people are saying, 'I can't make a call centre,' as to what are they actually trying to provide or how are they looking to provide it. It is not a simple answer. The network has many options for delivering the services; it is how the end person wants to make use of those products. So, as I said, without further information it is difficult because we have a number of ways of getting services there.

CHAIR—If we are looking at a particular region and we have a regional development council who has identified this as a problem, how do they contact Telstra? What is the process by which they can actually come to someone and say, 'This is what we want to establish; how do we best do it?' Firstly, does that exist and how do people get to know about it if it does exist?

Mr Roake—I am not fully versed in how we are front of house communicating these, but I know in my dealings with many of the business customer focus groups we have a number of account executives and communication consultants who usually work very closely with the interested parties to identify the best and optimal—

CHAIR—No, no, hang on a minute. We are not talking about a metropolitan area that has access to all these consultants; we are talking about sometimes very small regional communities. They get approached, as I have said in some cases by overseas companies, who say, 'Look, we can set up a call centre here. We can provide employment for 60 people.' The regional development council, or whatever the body is called, starts to investigate this and says, 'Hey, this is a fantastic idea, but we can't pursue this because we simply don't have the means to do it.' How do they contact you to be able to say, 'This is what we have to do in order to achieve this project.'?

Mr Evans—Jim started off on the right track; we do have these account executives, but regional development organisations, councils—they go under various guises—can make contact with Telstra through their account executives for local government. They should have direct contact with the person who is deeply involved with providing their infrastructure and capability within their local government framework. In fact, some have come back through me and asked me to attend Parkes, Orange, Dubbo, asked me to attend those forums as an adviser. They simply held their hand up, they found the right person, and I went there when they had a consultant looking at the widest possible range of telecommunications infrastructure issues and I sat on the side of the table with the customers. So you can find the right people by going via that REDO link to their account executive to find the right person in Telstra that can give them the best possible advice. Now, whether I did or not, that is in the eyes of the beholder, but I have had some very favourable responses from those groups.

Mr NAIRN—Perhaps I should give Telstra the opportunity to comment on my comment to the department this morning on CDMA, and David has obviously confirmed in his introduction that CDMA was switched on first in those city areas. I guess the point I was trying to make is that we constantly battle in rural areas, a lot of the time from a perception problem which can then flow into the way in which investors perceive areas, all sorts of things. In my electorate mobile phones have been quite a problem because of the geography of it, but we are solving it bit by bit, and there was this feeling that CDMA is a rural thing;

it is replacing our analog—which we love dearly and did not want to see go, but that was somebody else's fault—but it was going to go and here is this thing to replace it which is great, and then they say, 'Oh, it started in the city. Couldn't they at least give it to us first?'

Mr Higginbottom—I will hand over to Tony, but before I do, in the process of actually going through this we had lots of representations from country people saying, 'We want you to hold on to analog as long as possible,' so at that point in time we got a lot of pressure to actually keep it going—

Mr ADAMS—I put petitions in.

Mr Higginbottom—It was your fault.

Mr Bundrock—Telstra negotiated with the other operators the extension of AMPS and the framework that we are rolling out CDMA in. There were a number of constraints there and one of the obvious ones was that AMPS had to shut in the five major metropolitan areas on 31 December basically, and, without going into too much detail, that was pretty non-negotiable. We had to close AMPS. Then to provide the national coverage that anybody who would buy a mobile service in Australia would want, if we provide CDMA to a regional area we need to have the national footprint for them. We had AMPS shutting in the city so we really had to get CDMA in.

Of those thousand base stations that David mentioned, we have probably 700 of those in those five major metropolitan areas, so we really had to give the priority to them to make sure they are in place and working properly by 31 December. We also had a target of a three-month overlap when CDMA was there and analog AMPS still continued to give people time to make their choice and get hold of a CDMA phone et cetera. So 30 September is just about on us. We have all the five major cities now commercially launched and there is a big swing now to start this roll-out into rural Australia.

We have received many comments such as you referred to, but that was the constraint that we were working with, to get these cities closed down by 31 December. We negotiated then a more phased withdrawal in rural Australia. We have 130 analog AMPS sites to be shut also outside these areas by 31 December, so the current roll-out of CDMA—and Canberra is one of these—is to get these sites next priority, and that is well under way. We then have the remaining around about 270 sites, perhaps a few more, to pick up throughout the year 2000. That is not the position that we would have liked, but that is just the way we had to work with what we had and that is the way it has come out.

Mr NAIRN—While we have Paul, you are responsible for satellite areas; where do you see that going in, say, the next five years? What are Telstra's predictions for mobile phones by satellite? If you go back a couple of years there was great expectation of where that technology was going price-wise and all those sorts of things, and then there has been nervousness I guess over the last six months with Iridium seemingly going through a difficult time. Telstra as an organisation, what is your five-year expectation, because that is the only thing that is going to satisfy many parts of rural and regional Australia, and particularly some of the difficult geographic areas that I have in my electorate?

Mr Bundrock—Certainly our footprint, and I am not saying what it is today is going to stay constant for the next five years—there may well be opportunities to push it out—but you are right, that is still going to leave large areas of Australia uncovered by cellular. Telstra's view is these satellite-based technologies have a very valuable role to play for the remainder of Australia. Telstra does not really have any major investments into these companies, such as Iridium and Global Star—a small investment into this ICO system.

However, what we have done is negotiate what they call roaming arrangements with Iridium, which is the one that is commercially available today, so that these companies market a phone that can work firstly on the terrestrial cellular network and then when it loses that signal will switch to the satellite system. We would like to negotiate such roaming arrangements with other companies when they become available. Whether we take a higher role in the sales and marketing and what have you for these satellite technologies is something that we keep under review.

These systems have, as I said, a very valuable role for Australia, but they are very global in nature and extremely expensive systems to get up and make work. The problems that they have at the moment is to get a total worldwide market that would make their financial bottom line add up. If Telstra cannot fly that, Australia cannot fly that, because when you look at the totality of what they are looking for for revenues, we are only a very, very small part of that. There are other alternatives, not perfect, but using the geostationary based systems, and both Optus and Telstra are using satellites and providing a degree of service with these technologies as well. But as I said, it is just a bit difficult with these other systems, such as Iridium, whether they can get total global markets to make them financially viable.

Mr ANDREN—I have another question on CDMA. Telstra has consistently claimed that the CDMA system will equal, and probably exceed, the analog coverage area. Your testing appears to have been concentrated across flat country, Swan Hill, Narrabri and so on, despite my challenge to prove your claims from Mt Canobolas in the central west. Why has there apparently been no testing across undulating country before the switch-on, and can you give assurances that where black holes persist with CDMA where analog coverage now exists steps will be taken to provide that cover? I am talking about official analog cover, and perhaps that fortuitous cover.

Mr Bundrock—The issue of black hole and undulating country is, of course: do you lose radio signal strength? What we were chasing with the initial trials at Swan Hill is just to see radio signal strength-wise what was the limit of CDMA as compared to our paper based calculations, and they were basically validated, and also to get a benchmark relative to what analog AMPS was producing. The engineers can then take this basic information and feed it into their prediction models they use for any particular site—and undulations are part of that prediction model—and that is what is currently happening for those—

CHAIR—But how do you work out a formula to predict undulations, because they are all so different?

Mr Bundrock—We have topographical information and the degree to which we have that is a function of where you are in Australia—some areas of Australia have been done by

aeronautical means and are quite detailed topographic. We have all that in a big massive database and it will tell us as you go out from particular base stations just—

CHAIR—I need you to check to make sure you have the undulations from Mansfield down to Yea because I do not think you have.

Mr Bundrock—I do not know whether we have or we have not, to be honest with you, but the geography question of what I am saying is comparing AMPS and CDMA, because you will find AMPS also going through its black holes as you drive in particular areas and undulating country. Referring to your other particular question about a black hole which was not there with AMPS, we are looking now at what are called repeaters, and next week a couple of Telstra engineers will be in Korea, which is the leading CDMA country, looking specifically at this issue. The great advantage of repeaters for us is that it is not a fully fledged base station which costs money; it is a much cheaper alternative and it boosts the radio signal both directions and will fill in black holes.

Mr ANDREN—So if Trunkey Creek Bushfire Brigade Station knock on my door on 7 January and said, ‘We can’t hear a bloody thing,’ you can do something about it?

Mr ADAMS—Who do we ring?

Mr Bundrock—Well, you could ring David Higginbottom. I am not too sure if they are on the list to be closed by 31 December, but, sure, if AMPS is being phased out we will have this overlap period so everyone is going to have a good chance to ‘suck it and see’ and see whether they—

Mr ANDREN—They may well be fortuitous, but they are very strong fortuitous coverage and they and others rely on it for their communication needs.

Mr Bundrock—I imagine there will be a number of isolated case-by-case analyses and we just have to take them and have a good look at that. We certainly understand the expectation that people in rural communities have; we understand that quite clearly and we will look at each instance.

CHAIR—You say that—and forgive me, but it is very easy to say that you have an understanding of the needs of these rural communities—but do you really, because the evidence would suggest otherwise? I can tell you that everywhere in every state that we have gone to with this inquiry the problems of accessing the services, whether they be mobile phones, whether they be bandwidth, whatever they be, the need is greatest in rural Australia. So while you sit there and say that you understand these needs, what is being done to correct the problems that arise that currently are there now?

Mr Bundrock—I certainly understand these needs with the mobile phone—

CHAIR—Everyone says they understand them but not a lot is done.

Mr Higginbottom—In terms of mobile phones, which is where Tony was coming from there, we have had a huge representation and we are very, very aware of the concerns that

exist in rural Australia in terms of the analog closure. So from that perspective we are very, very conscious of the need to deliver a solution which meets the needs of the rural community. We have had lots of representation in that area so from that perspective we certainly are very conscious of the needs from the point of view of representations that have been made to us, as they have to you and to parliamentarians in general.

Just one thing on the analog side which I think is a positive and it really has not had as much coverage as it should have, we made a decision earlier this year to extend CDMA coverage to those sites which were purely GSM sites. So, there are something like 111 GSM sites throughout Australia which did not have analog coverage—and these are Telstra sites of course—to which we are extending CDMA, and that will give a major improvement to a lot of the coverage in the area. Some of the more outlying areas in particular will have quite a boost in the coverage from what their original analog was.

Mr ADAMS—ISDN has been held up to give to this 96 per cent coverage across the country. We have had evidence to the committee that that technology is not going to be able to deliver.

Mr Roake—When you say ‘deliver’, there are a variety of reasons why an ISDN service cannot be delivered.

Mr ADAMS—What does ISDN stand for?

Mr Roake—Integrated service digital network. I should make sure people are aware that it is a standard, not a service as such. It is the number of standards below that the ETSI community has set up which we abide by and is delivered on various platforms.

CHAIR—It is a speed and a—

Mr Roake—It is speed, and ISDN is not just speed; it is a number of facilities in terms of the way you dial up and communicate with the exchange—

Mr ADAMS—But can I just cut in. You have your network; let us deal with your network and then we will go from the network out to the customer, because we are interested, as regional people—and we are all regional people and are doing reports on regional Australia—that those people in our towns and our provincial cities and whatever can operate their business from that area and they can get bandwidth. Then we come into price and your BigPond stuff and the price of getting that down there and the speed that they can operate. They are the two issues, aren't they? We have received evidence to say—and leave the price out for a minute and just go with actual delivery—

Mr Higginbottom—In terms of that commitment that we made to deliver ISDN—or to have ISDN available on demand within 90 days to more than 96 per cent, that is a standard which we are very, very happy that we have met, and in fact we have confirmed that many times over—to 96 per cent of the population, we have made that commitment and if there is an issue we will go to fairly extreme lengths to make sure that we actually do deliver that.

In terms of the satellite service and whether the satellite service is delivering what people want, I think—

Mr ADAMS—That is the four per cent, though, isn't it?

Mr Higginbottom—Yes, the four per cent.

Mr ADAMS—I am not overly worried about that. Is there any commitment about getting it at the speed that that is going to arrive?

Mr Higginbottom—It does deliver. Jim, can you answer that?

Mr Roake—An ISDN basic rate service, by nature of its definition, always provides two 64-kilobit channels from the customer to the actual exchange. As to the other end of the service, wherever the customer is dialling to, that will depend on that equipment, for example. But as far as we are concerned, if you buy an ISDN service that is what you get; you get that capability on voice data and the facilities that ISDN provides with it.

Mr ADAMS—On voice data. When you link up to the Net, is that the same terminology or is that just telephone?

Mr Roake—In today's environment, most ISPs' connection at the other end is now via an ISDN service. The ISDN service in that case is generally the larger scale 30-channel ISDN services, which means that there are two products in ISDN; there is the basic service and there is the primary service. The basic is the two 64-kilobit channels, the primary service is the 30-channel service, and this is generally used by call centres, as was mentioned earlier, as well as the ISPs as their main interconnection between their network and our network.

On that basis, if an ISP is connected in that fashion and you also elect to connect up as an ISDN connection—because ISPs offer a variance of levels of connectivity; some offer a rate for just normal modems, the type of things you go into Dick Smith's to buy, versus the ISDN connectivity; there are usually different rates involved and that is the ISPs' choice but the interconnectivity end to end if they have ISDN, both the ISP and the customer, is in the region of 64 kilobits and can be aggregated upwards.

Mr ADAMS—So that means that everybody in my electorate in Tasmania can get that at the same speed as Melbourne or Sydney?

Mr Roake—There is no difference between the technology which is delivering in the middle of Canberra, the middle of Melbourne; it is exactly the same as what is being delivered into any of the rural communities, and all other facilities provided there.

Mr ADAMS—What about the connection between the exchange—your network—and the outer network; how does that slow it down?

Mr Roake—You are talking about between the customer and that exchange?

Mr ADAMS—That is right.

Mr Roake—In the ISDN sense there is no slowing down. What you do have though is a simple: it works or it doesn't work. Once it is working, you have 64 kilobit—

Mr ADAMS—Right, so in your network, wherever that is, there is a switch there that turns it off to the customer; is that right?

Mr Roake—Yes.

Mr ADAMS—The speed that that goes out, and I am presuming that that person has copper wire running out to wherever, there is no difference between that speed and anywhere else?

Mr Roake—If you are talking about dial-up analog connections to the network, the rate at which a dial-up modem will operate over the network is dependent on the electrical characteristics of the cable, the types of equipment that are being used in the access network to provide the customer service. When you talk about the ISDN, when this customer has been supplied with an ISDN service, that loss or noise et cetera characteristics which are there for the analog network no longer exist.

Once the service has been installed and commissioned, as long as that person is within the parameters of providing the service—which is the distance typically of four kilometres, five kilometres, depending on various lengths out from the exchange—once it is in and working he has 64-kilobit channels up and running, so he will never get into the lack of service unless somebody cuts the cable.

Mr ADAMS—Okay, can we just do the cost, because that can be considerably more, of course, for somebody in a regional area as opposed to someone in a city area. What is the future of that?

Mr Higginbottom—ISDN, I think, is the same Australia-wide.

Mr NAIRN—If Dick has finished, can I just ask about costs. How long do you think it will be before there will be one price for telephone calls Australia-wide, for example? When will distance stop being a factor in the pricing, because it technically is not a factor in delivering the service, is it?

Mr Higginbottom—At the moment that question is—I was going to say not quite a leading question; it is more of a—

Mr NAIRN—Commercial in confidence maybe?

Mr Higginbottom—That is not part of our current business models and the way we do our pricing models. There are a lot of reasons, historical and also network reasons, why that sort of model we use has been developed. Whether that changes over time, I would not be able to say.

Mr NAIRN—There are changes happening all the time with reductions in STD at certain times and so you presumably have a fair amount of good modelling in that respect. I do not

know what the break-up is as far as Telstra's income is concerned—actually, that is a good starting point. What is the break-up between local call income as opposed to STD income?

Mr Higginbottom—I do not have that with me at the moment. We would have to get back to you.

Mr NAIRN—You can take it on notice.

Mr Evans—I might just add a comment if I can though about our thinking on that. I do not know whether you can get hold of the Financial Review of about 5 May or something. There was some breaking news in there that gave an indication of Telstra's thinking on local calls, particularly for data access. We are working towards having that sort of ubiquitous untimed local call for data access. We are working towards the end of this year—I think it is a little later than that now because of some technology issues.

We are also conscious of the government's commitment, before the last election I think it was, for extended zones and for pastoral rates and community call-up to actually improve the lot of those customers that live in that area. We are actually working very actively right now with the department and others to put some cases as to what we think it is likely to cost us. It is not insignificant, I can tell you, and at the moment the numbers are really commercial in confidence. We are working actively right now with them to do that, and the intention is to improve, if you like, the lot—my words and not terribly articulate—of those customers that live in that area, to give them service that more closely resembles that of their city cousins.

Mr NAIRN—I guess that is the reason for the question. It is still one of the most leading aspects that people raise with you about development in rural and regional areas, the cost of setting up business elsewhere et cetera. Often I find that it is more perception than reality to some extent, particularly as we have seen the price of calls come down substantially—mind you, you have to keep reminding people that that has actually occurred: I tell them to pull out one of their phone bills from a couple of years ago and have a look. But, yes, it is a basic infrastructure aspect which has had a limiting effect and I guess the progress to making it more equitable is of great interest.

Mr Evans—And certainly the \$150 million that I think the government said they would be making available out of the next tranche, the T2 sale, will go towards making that more equitable for those customers.

Mr ANDREN—To what extent do you think Telstra is unfairly picked on? It may sound strange coming from me but—

Mr NAIRN—This is a dorothy dixer.

CHAIR—You are only allowed two minutes to answer that question.

Mr Higginbottom—Is this a personal question?

Mr ANDREN—In the area of universal service obligation, to what extent do you think your competitors are avoiding their USO responsibilities? Do you think that the price of accessing 90 per cent of the market and cherry picking it to their advantage should be a far greater financial commitment to that other 10 per cent, and by what amount? I am talking about the cap. You are saying one thing, the ACA is saying this; where is it and to what degree should your competitors be in there? I am thinking of pay phones, all these sorts of things which should be, I believe, part of their responsibility too.

Mr Higginbottom—Publicly we have stated that we welcome increased competition, increased commitment by competitors to providing services within rural Australia. In terms of the USO cap, irrespective of the claims and the various stages, the ACA came out with an assessment of some \$506 million to \$508 million, which is about double the cap set by the government. That obviously is of concern to us and we feel that irrespective of whether it is that or whether it is a higher amount our competitors should be contributing to it.

CHAIR—No more dorothy dixer questions, please.

Mr ANDREN—But surely if they want to be part of this market they have to share the cost of it as well as the rewards from cherry picking?

Mr Higginbottom—There is a concern that it is very easy to do exactly that and we are obviously the carrier of last resort and the services we provide rurally are usually at a fair cross-subsidy.

Mr ADAMS—I have two points. A totally separate issue is the loss of technicians. I see you have it down as about five per cent in regional areas but you are offering a hundred traineeships or something as a square-off. Is this going to continue to take technicians out of these areas? I know in my areas we do not have them out there any more; they all come out of the cities, drive out to do the business and all drive back in. Is that a continuing situation where you are going to centralise? The other question is regarding our connections inter-Australia and the world. How are our connections there? I guess it is cable and satellite links; how are they compared to anywhere else in the world?

Mr Evans—I will take the first side of it. The intention under current business arrangements is that we do not have to downsize net from rural Australia—there will be ups and downs from places depending on the need and on how we are servicing the USO and the CSGs. That is something that has got our attention and that is why we put back in some very specific focused locations where we need extra technicians and the specific focus of putting people back into regional Australia will continue.

We are also looking at the opportunities where we might be able to use spot contacts with licensed practitioners to do the first step of, say, a simple restoration or install. That is happening in a trial way in Queensland and to a lesser extent in South Australia. So we are looking to put jobs back into rural and regional Australia. Whether they are Telstra depends on commercial balance, whether it is opportune for us to have those staff there or not. The intention is not to downsize in a significant way in rural Australia.

Mr ADAMS—It is pretty good PR for Telstra because they are usually quite involved in the community.

Mr Evans—We get some terrific feedback from regional groups about how good our staff are.

CHAIR—And I just gave you a wrap at the opening.

Mr ADAMS—But being involved in their community, and when they are not there you lose this resource, because these guys have a lot of skills. And the other question? Is the cable big enough?

Mr Roake—I think I hear day after day the negotiations of getting more and more, I will put the word ‘bandwidth’, because it is not so much about getting voice circuits across the nation now; it is getting bandwidth. Most of you are aware that we are always wanting a bigger and bigger pot to America because we really want to get services from them as far as the data work is concerned, but the things that are in tow are negotiation of additional bandwidth with existing actual cables.

There is a lot of work going on in new cable planning at the moment to actually allow us to increase those bandwidths, not just to take a small nibble in terms of bandwidth but take quantum leaps. That is an important thrust that is in the company at the moment. There is a bit of commercial in confidence going on at the moment as far as the overall plot, but the message is the jump of bandwidth from what was traditionally voiced—and I think we exceeded the voice bandwidth requirements by data back at the start of last year, about two years ago. So, we have more data, and predominantly from the use of ISPs and internet type of use. The amount of voice traffic being carried, just more IDD calls, is exceeded now by the need to actually get data channels across the network. So we are growing major links into all the dominant data and voice networks, as well as trying to offer a hubbing, if you like, for the Asian type of communities. So we are trying to be there not only for our own local work but also to look at a regional interest. There is major growth there.

Mr ADAMS—Are we going to have any links across to South America or across to South Africa? We go into the northern hemisphere, I guess?

Mr Roake—It is almost like using superhighways: the fastest highway you have is to go north first and then scoot straight across. The band of international linkages and cables and just the sheer geography of getting a cable does not necessarily preempt an economic stance of cabling straight across, but the bandwidth or the cabling capacity in that northern hub across is huge. So as long as we have a big enough connection as what is being worked on at the moment, is get a very big connection between us and up to the north, we will have—

Mr ADAMS—We can sell bits of it then, can we not?

Mr Roake—Yes.

Mr ADAMS—The pipe is big enough to send packages down it.

Mr Roake—Yes, because the rise in the ICM network required a lot of bandwidth to get them there, videoconferencing type activities, the internet activity; they are all driving for more and more data—

Mr ADAMS—I should imagine China would need to get some linkages in that picture.

Mr Roake—Yes. There is considerable investment being put into it.

Mr Higginbottom—Telstra is also not the only organisation now with the links overseas and there are major investments being made by Southern Cross Cable, which is a consortium. A lot of other people are developing proposals to go and put cable through, so it is not just Telstra.

Mr Roake—The ocean could get a bit busy shortly.

CHAIR—Unfortunately, time has got the better of us although I think we have hundreds and hundreds of questions. We thank you very much for your detailed submission and for appearing before us today. If we have any other matters we will certainly contact you, and likewise if we have not raised issues that you think perhaps should have been raised, please make them known to us. Thank you very much indeed.

Resolved (on motion by **Mr Nairn**):

That pursuant to the power conferred by section A of standing order 346, this committee authorises publication of the evidence given before it at public hearing this day.

Committee adjourned at 12.30 p.m.

