



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ENVIRONMENT, COMMUNICATION, INFORMATION
TECHNOLOGY AND THE ARTS LEGISLATION COMMITTEE

ESTIMATES

(Consideration of Budget Estimates)

MONDAY, 26 MAY 2003

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SENATE

**ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS LEGISLATION COMMITTEE**

Monday, 26 May 2003

Members: Senator Eggleston (*Chair*), Senator Mackay (*Deputy Chair*), Senators Bartlett, Lundy, Tchen and Tierney

Senators in attendance: Senators Cherry, Conroy, Eggleston, Harradine, Lundy, Mackay, Murphy, Santoro and Tchen

Committee met at 9.14 a.m.

**COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS
PORTFOLIO**

In Attendance

Senator Alston, Minister for Communications, Information Technology and the Arts

Department of Communications, Information Technology and the Arts

Executive

Ms Helen Williams AO, Secretary

Dr Alan Stretton, Executive Director, Arts and Sport Division

Ms Fay Holthuyzen, Executive Director, Communications Division

Corporate

Mr Craddock Morton, Chief General Manager

Mr Frank Nicholas, General Manager, Knowledge & Information Services

Legal

Mr Don Markus, General Manager

Financial and Business Services

Ms Jennifer Gale, Chief Financial Officer

Telecommunications

Mr Chris Cheah, Chief General Manager, Telecommunications

Mr Colin Lyons, General Manager, Telecommunications Competition & Consumer Branch

Mr Brenton Thomas, General Manager, Enterprise, Infrastructure Branch

Mr Simon Bryant, General Manager, Regional Communications Policy Branch

Mr James Barr, General Manager, Networking the Nation Branch

Mr Colin Oliver, A/g General Manager, International Branch

Ms Jane Hanna, Manager, Postal Policy Section

Broadcasting

Mr James Cameron, Chief General Manager, Broadcasting

Mr Gordon Neil, General Manager, Licensed Broadcasting

Mr Rohan Buettel, General Manager, Public Broadcasting

Mr Simon Pelling, General Manager, Digital Broadcasting & Spectrum Management

ICT IIP

Ms Beverly Hart, Chief General Manager, ICT Industry Division
Mr Philip Allnutt, General Manager, ICT Industry Development Branch
Mr Michael Sutton, General Manager, ICT Innovation Branch
Ms Kylie Browne, General Manager, Intellectual Property

Arts and Sport Division

Ms Karen Gosling, A/g Special Adviser, Arts and Sports Division
Mr Peter Young, General Manager, Film and Digital Content Branch
Ms Megan Morris, General Manager, Arts and Regional Branch
Ms Sally Bassar, General Manager, Sport and Private Sector Support Branch
Mr Kevin Isaacs, General Manager, M2006 Taskforce
Mr Peter Rush, A/g General Manager, Collections and Governance Branch

Old Parliament House (OPH) / National Portrait Gallery (NPG)

Mr Mike Perryman, Manager, Property
Mr Michael Richards, A/g Manager, Public Programs
Mr Andrew Sayers, Director, National Portrait Gallery
Mr Simon Elliot, Assistant Director, National Portrait Gallery

ScreenSound Australia

Mr Ron Brent, Director
Ms Mary Durkin, Deputy Director, Corporate Services and Public Programs

National Science and Technology Centre—Questacon (NSTC)

Professor Graham Darrant, Director

Australian Communications Authority (ACA)

Mr Tony Shaw, Chair
Dr Bob Horton, Deputy Chairman
Mr Allan Horsley, Member
Dr Ros Kelleher, Senior Executive Manager, Telecommunications
Mr John Haydon, Executive Manager, Universal Services Obligations Group
Mr John Grant, Executive Manager, Spectrum Marketing Group
Mr John Neil, Executive Manager, Telecommunications Analysis
Ms Maureen Cahill, Executive Manager, Customer Services Group
Ms Gill Kempton, Manager, Customer Services Coordination
Mr Darren Hooper, Manager Finance, Corporate Management Group

Telstra

Mr Bill Scales AO, Group Managing Director, Regulatory, Corporate & Human Relations
Mr John Stanhope, Director Finance
Mr Darian Stirzaker, Chief, Consumer Sales and Service
Dr Paul Paterson, Director Regulatory
Mr Don Pinel, Regional Managing Director, Telstra Country Wide, Queensland
Mr Anthony Rix, Executive General Manager, Service Advantage
Mr Dennis Mullane, Manager, Big Pond Network Capability

Australia Post

Mr Michael McCloskey, Corporate Secretary
Mr Peter Meehan, Chief Finance Officer
Mr Mark Howard, General Manager, Corporate Infrastructure Services
Mr Gary Lee, Group Manager, Letters
Mr Mel Jackson, Group Manager, Retail
Mr Stephen Walter, Group Manager, Corporate Public Affairs
Mr Terry Sinclair, Manager, National Logistics

Australian Broadcasting Corporation (ABC)

Mr Russell Balding, Managing Director
Ms Sue Howard, Director ABC Radio
Ms Sandra Levy, Director ABC Television
Mr Colin Knowles, Director Technology & Distribution
Mr David Pendleton, Director Finance & Support Services
Ms Lynley Marshall, Director New Media & Digital Services

Australian Broadcasting Authority (ABA)

Professor David Flint, Chairman
Mr Giles Tanner, General Manager
Ms Andree Wright, Director, Industry Performance & Review
Ms Jonquil Ritter, General Counsel
Mr Fred Gengaroli, A/g Director Planning
Mr Richard Fraser, Content Assessment, Assistant

Special Broadcasting Service Corporation (SBS)

Mr Nigel Milan, Managing Director
Mr Phillip Williams, A/g Head of Policy
Mr Jon Torpy, Manager, Finance
Mr Will Berryman, Head of New Media
Mr Tuong Quang Luu, Head of Radio

National Office for the Information Economy (NOIE)

Mr John Rimmer, Chief Executive Officer
Dr Rod Badger, Director/Chief Executive Officer
Mr Patrick Callioni, Chief General Manager, Strategy & Programs Group
Mr Keith Besgrove, Chief General Manager, Regulatory & Analysis Group
Mr John Grant, General Manager, Govt Services & Info Econ Group
Mr James Shaw, General Manager, Channel Development Branch
Ms Michelle Kinnane, General Manager, Business Strategies Branch
Mrs Anne-Marie Lansdown, General Manager, Access Branch
Mr David Kennedy, General Manager, Analysis Branch
Mr Ashley Cross, General Manager, eBusiness Branch
Mr Tom Dale, General Manager, Regulatory Branch
Ms Robyn Fleming, General Manager, Information Framework Branch

Mr Steve Alford, General Manager, IMSC/CIOC
Mr Tim Field, General Manager, Corporate & Governance Branch
Ms Kylie Carrett, Manager Finance
Mr Tony Judge, Manager Budget & Performance

National Library of Australia (NLA)

Ms Jan Fullerton, Director-General
Mr David Toll, Deputy Director-General
Mr Gerry Linehan, Assistant Director-General, Corporate Services

National Archives of Australia (NAA)

Mr Ross Gibbs, Director General
Mr Steve Stuckey, Assistant Director-General, Collection Management
Mr Peter Meadley, A/g Assistant Director-General, Corporate

National Gallery of Australia (NGA)

Dr Brian Kennedy, Director
Mr Alan Froud, Deputy Director

National Museum of Australia (NMA)

Ms Dawn Casey, Director
Mr Adrian Brocklehurst, Manager, Finance, Business Planning and Commercial Development

Australian National Maritime Museum (ANMM)

Mr Quentin Howarth, Assistant Director, Corporate Services
Ms Joan Miller, Finance Manager

Film Finance Corporation (FFC)

Mr Brian Rosen, Chief Executive Officer

Film Australia Limited (FAL)

Ms Sharon Connolly, General Manager

Australian Film Commission (AFC)

Mr Kim Dalton, Chief Executive Officer

Australian Film, Television and Radio School (AFTRS)

Ms Annabelle Sheehan, A/g Director (Head of Film and TV)

Australia Council

Dr Catherine Brown-Watt, A/g Chief Executive Officer
Mr Ben Strout, Executive Director, Arts Development
Mr John Wicks, Executive Director, Finance and Services

Australian Sports Commission (ASC)

Mr Mark Peters, Chief Executive Officer
Mr Michael Scott, Director, Australian Institute of Sport
Mr Brent Espeland, General Manager, Sport Performance and Development
Ms Lois Fordham, General Manager, Business Operations

Australian Sports Drug Agency (ASDA)

Mr John Mendoza, Chief Executive Officer

CHAIR—Welcome Minister. I declare open this public hearing of the Senate Environment, Communication, Information Technology and the Arts Legislation Committee considering the budget estimates for 2003-04. By resolutions of 11 December 2002 and 14 May 2003, the Senate has referred to the committee the particulars of proposed expenditure for the year ending on 30 June 2004 for the two portfolios of Communications, Information Technology and the Arts, and Environment and Heritage. We plan to examine the Communications, Information Technology and the Arts portfolio over the next three days and the Environment and Heritage portfolio on Thursday. The committee is required to report to the Senate on 19 June 2003. It has not yet set a deadline for answers to questions to be placed on notice which, if not announced beforehand, will be notified in the committee's report.

I welcome the Minister for Communications, Information Technology and the Arts, Senator Richard Alston, and I also welcome the secretary of the department, Helen Williams, and other officers. Minister, would you like to make an opening statement?

Senator Alston—No, thank you.

CHAIR—Before we move to questions I remind officers that the Senate has resolved that there are no areas in connection with the expenditure of public funds where any person has a discretion to withhold details or explanations from the parliament or its committees unless the parliament has expressly provided otherwise. I also remind officers that they will not be asked to express an opinion on matters of policy and that they shall be given reasonable opportunity to refer questions asked of them to superior officers or to a minister. Witnesses are reminded that the evidence given to the committee is protected by parliamentary privilege. I also remind you that the giving of false or misleading evidence to the committee may constitute a contempt of the Senate. I will call agencies in accordance with the agenda and we begin today's hearings with the ABC. I just remind officers—although I know most of you have been here before more than once—that, for the benefit of Hansard, when you first speak could you please identify yourself and the capacity in which you are appearing today. We will begin the questions with Senator Conroy.

[9.16 a.m.]

Australian Broadcasting Corporation

Senator CONROY—My question is to Mr Balding. I refer to your briefing note on ABC funding dated 17 January 2003 where you say that, simply put, if there is no increase in funding for content this will result in a cut in current program services—that is what is at stake. With regard to those comments, could you now advise the committee what are the implications for the ABC's programs and services, given that the government rejected your funding bid.

Mr Balding—Senator, as stated publicly on a number of occasions, including the February estimates hearings, as well as in our triennial funding submission—and in the document you referred to, which is a summary of our triennial funding submission—without additional funding for content we are unable to sustain our current level of output. On budget night I said that the government had decided to reject our funding request in the full knowledge that it would have a negative effect on ABC programming and that the ABC must now assess its position. I said that hard decisions now had to be made, having regard to the funding made

available to us. We have now made the first of those difficult decisions. This morning the ABC will be issuing a media statement advising that we have decided to close our digital multichannels—that is Fly TV and ABC Kids. Senator, we regret having to make this decision but we were left with basically no other option. As we speak, consultation is taking place with affected staff over their future employment and ABC staff and management are also being advised of the decision. The consultation process with the unions will also commence today. Furthermore, this will not be the only implication of the rejection of our bid for additional funding. We will have to make other difficult decisions over the next two months so as to ensure that the ABC continues to operate within the funding levels provided to it by government.

Senator CONROY—How many staff will lose their jobs in the closing of the digital?

Mr Balding—There are about 35 or 38 staff that are impacted by this decision. As to the precise numbers that may lose their jobs, I am not in a position to say precisely at the moment. You will understand we have yet to go through the full consultation process with the unions, so I am not in a position to say precisely at this stage until that consultation process has been completed.

Senator CONROY—Now this was the brave new world: digital. You are withdrawing from it completely?

Mr Balding—In respect of the multichannels, yes. We have no further option other than to withdraw from it. We do not have the source of funding to keep those channels going.

Senator CONROY—Are you in a position to give us a broad outline of the areas which are likely to be affected by the other cuts you have flagged?

Mr Balding—Not at this stage. I am still working through with my executive and will be working through those decisions with the board over the next two months. These decisions are very difficult—you cannot make them overnight—and we have a long way to go in assessing the priorities of our programs and services, obviously taking into account our charter obligations.

Senator CONROY—What sort of money are you looking to save now?

Mr Balding—Closing the multichannels will save us approximately \$7 million, but there are still areas in which we need to save. We are working our way through those.

Senator CONROY—Do you have a target of the savings you have to make in other areas?

Mr Balding—I have no precise target at this stage. It will depend on the programs or the services that may be affected.

Senator CONROY—You must have a dollar target, roughly?

Mr Balding—We could be talking in the order of \$20 million to \$25 million plus. We are still assessing our various other sources of funds—that is, our other external revenue—but the implication is in respect of any downsizing that may result in staff losses. That carries a cost with it as well which you need to factor into your budget strategies.

Senator CONROY—Minister, do you think this is a reasonable outcome?

Senator Alston—We have only very recently been made aware of this decision, which I understand was made by the board last Thursday. I am not aware whether the board examined any other options, but it would seem to us that, given that funding is available until the end of June, the board had an opportunity to have a close look at any other areas which they felt they might need to explore—if they do find it necessary to seek other sources of funding. As far as the government is concerned, we have maintained funding in real terms. Over the next three years, the ABC will receive over \$2.1 billion. As the ABC constantly remind us, we do not, in normal circumstances, earmark funding. In fact, when we gave the ABC funds for the national interest initiative, as they call it, we did that on the basis that it would be available for regional programming and funding. Having received the money, the ABC made it clear that it was entirely a matter for its discretion but ultimately agreed that most of the funds would be committed to regional areas.

The ABC clearly has discretion as to how it spends its funds. That means that, if it has a serious commitment to digital television, it has the option to pursue that further, as have the BBC, for example. The BBC have taken the view that the world is going digital, that that is an area in which they need to get heavily involved and they have made it a top priority. As I understand it, when the ABC first embarked on Fly and Kids back in the second half of 2001, it did that off its own bat—in other words, the ABC did not consult us about the decision, it did not seek funding from us and it did not seek commitments at that time or make it clear whether that commitment was only temporary, if that were the case at the time. What seems to have happened is that it has decided that this is an area for which it would like more funding and, funding levels having been maintained, the ABC has taken the opportunity to cut this back. That is the ABC's decision. As I say, if it has not examined other options, it would seem strange that there is no other area in which the ABC could have sought additional funding if digital is in fact a priority.

Senator CONROY—Perhaps, given you were in the next room, you did not hear Mr Balding's earlier answer. He indicated that they are still looking for possibly as much as \$25 million in a whole range of other areas.

Senator MACKAY—How does that represent no funding change in real terms?

Senator CONROY—I was just about to make that very point. Minister, you have indicated that you have maintained their real level of funding, but if you want them to expand into a new area the only way they can do that is by cutting something else, unless you increase their funding on a real basis.

Senator Alston—When you say that we have wanted them to expand into a new area—

Senator CONROY—You are the champion of digital TV. You have had one yourself.

Senator Alston—The parliament permitted the ABC and SBS to multichannel, and the ABC took a unilateral decision that they would do that. They did not come to us at that time and say, 'We'd like to do it but we can't afford to do it,' or 'We'll only do it for a short term, on the condition that you give us extra funding.' They did it off their own bat. Presumably, they regarded it as a high priority. That is what having \$700-odd million a year enables you to do, and in fact should require you to do—decide how you spend a very considerable sum of taxpayers' money. You do it by determining your own priorities. Having determined their own

priorities, one would have thought that they would have had an ongoing ability to do that. They have indicated to us in recent times that these channels were funded from a series of one-off cuts. But, as I understand it, the department has sought additional information from the ABC in relation to those matters in order to assess them but that information has not yet been provided.

So the starting point is that, if the ABC have a very significant sum of taxpayers' funds over which they have entire discretion, it is a matter for them as to how they allocate those funds. If they regard digital as very important then, by definition, that means that other things may be less important. I think we are all used to the ABC saying that they do not have a spare cent, that they are pared to the bone, that there is never any opportunity for efficiency savings, but if the ABC think that they do need to source more funds from somewhere then you would have thought the appropriate approach would be for the board to have—

Senator CONROY—You keep raising this question of 'other sources of funding'. Where would they be? What suggestions do you have?

Senator Alston—What they have said is they sourced the original channels from a number of areas which were on a one-off basis. If they now believe that they need to find more funds from somewhere in order to maintain digital channelling, multichannelling, then I would have thought the appropriate course would have been for the board to have embarked upon an examination of their options, rather than simply deciding to cut these channels.

Senator CONROY—You are the champion of multichannelling and digital. This has a high priority that you have given it personally.

Senator Alston—It is not a manner of me personally—

Senator CONROY—You are the minister in charge of it.

Senator Alston—The government have a view on the future of digital television, and as a result we have provided very significant additional funding to the ABC, enabling them to get into a digital environment. That, combined with the legislative capacity to multichannel, presumably led to the ABC making their own decision to go down this path. They did that when they had effectively the same level of funds that they have now. So to turn around now and say, 'We no longer have the funds,' is saying, 'We have chosen to put other things as higher priorities than digital television,' which is not the position they took when they went down this path in the first instance.

Senator CONROY—But surely you cannot seriously imagine that if they are going to launch into this entire new spectrum it is not going to require long-term extra real levels of funding on top of the existing programming and activities that they undertake.

Senator Alston—What I am saying to you is, when the ABC—

Senator CONROY—That is just not realistic, Minister.

Senator Alston—You might as well say that at the beginning. You might as well have said, back in August 2001, that the ABC would like to embark on Fly and Kids but they do not have the money for content. But they did not say that. They made their own decision to launch those channels with funds that they were able to find internally. They still have the same

amount of money, but it seems that they have not looked at any other options and have simply cut these channels, which a couple of years ago they thought were a high priority.

Senator CONROY—When the ABC decided to go down this path, did they communicate to you that in the short term it was being done by cuts from other areas that were not recurrent, that were sort of one-off cuts? Did they indicate that to you?

Senator Alston—That is not my understanding. They did not, for example come to us and say—

Senator CONROY—You are the minister. You have been the minister for seven years.

Senator Alston—You are asking me what the situation was back in late 2001. I have made inquiries and those inquiries do not indicate that there was any consultation with us prior to the commencement of multichannelling services, which means the ABC examined their own funding envelope, they decided they had the ability by one means or another to embark on the launch of two new digital channels and they went ahead. Subsequently they have said that, in order to keep it going, they need extra funding and that it is being funded by means of one-offs. By definition, if you are embarking on a new service—as they were in 2001—and you have a triennial funding agreement, then you have to make internal decisions and you will rebalance or you will shuffle the funds around one way or another. Mr Balding is a very well-trained and highly qualified accountant. You will find moneys, as they did for Radio Australia.

Senator CONROY—Wasn't Mr Shier in charge at this point?

Senator Alston—If there is a need for additional funding, the board says to the bean counters, 'Go away and see if there is a way in which we can do this.' That is no doubt what happened. In August 2001 they said: 'We think digital television is very important. It's a high priority. Tell us how we can fund it.' Back came the answer from the accounting department: 'You can do it in the following manner.' All I am saying is that, this time around, if they still have the view that digital is a high priority, you would think they would have given the same instructions: 'Go away and see if there are other ways in which we can rebalance and maintain what we regarded, less than two years ago, as a high priority.' Instead, it would seem that they have simply made a decision to cut these channels, without examining the other options.

Senator CONROY—But Mr Shier was in charge back when it was introduced—is that right? He was your hand-picked appointment.

Senator Alston—It is a matter of record who the general manager was and what position Mr Balding occupied at that time.

Senator CONROY—So it is Mr Balding's fault—is that what you are saying?

Senator Alston—No, I am just saying that Mr Balding was intimately involved in these decisions. He knows where the moneys came from.

Senator CONROY—We will go to Mr Balding in just a second.

Senator Alston—I am saying that from the government's point of view we were not approached back in 2001 on the basis that 'We would like to launch these channels but we haven't got the money.' We were not asked: 'If we do launch them, will you give us a commitment now or later?' They simply did it. I can understand them doing it and I commend

them for doing it, because they presumably took the view, which we take, that the world is inevitably going digital and the sooner you get in there, the better. If this is an opportunity for the ABC to differentiate their product from the commercials, who are not allowed to multichannel, then good luck to them. The SBS took the same view. In other words, they have taken a first-mover advantage. They saw this as a high priority and they were prepared, without even discussing it with the government, to find the money to fund it. But they have not done this this time around.

Senator CONROY—They probably had faith that Senator Richard Alston, a seven-year minister and Deputy Leader of the Government in the Senate, could get something through cabinet.

Senator Alston—I do not think the ABC lies awake at night thinking about those sorts of things.

Senator CONROY—Obviously their confidence was misplaced. Mr Balding, did the ABC communicate with the government at the time of introducing multichannelling? Did you not tell them that it was on the basis of one-offs?

Mr Balding—I do not know about the actual specifics from the board perspective, because obviously I was not privy to board deliberations at that time. But in the ABC's 2000-03 triennial funding submission to government we did seek extra funding for digital content and that was to provide content for the multichannels. Obviously it is a matter for the record that that funding was rejected. When we launched the digital channel—Kids was the first one, launched in August 2001—there was a reference in the media statement put out by the ABC:

To be successful in the digital environment the ABC needs the support of the Federal Parliament. We need regulatory support to ensure that we are mandated on to all delivery platforms, particularly in the pay TV environment. We also need the right funding formula so that we can make the Australian programs children want to see ...

That is a quote from the previous managing director.

Senator CONROY—What date was that again?

Mr Balding—It was 7 August 2001.

Senator CONROY—Senator Alston, that sounds like a plea for more money to make it a sustainable program—from your old Young Liberal mate.

Senator Alston—I am not sure about that. That strikes me as a fairly equivocal form of words. The phrase 'right funding formula' could just as easily mean that the ABC themselves have to decide how they balance their priorities. It is not an explicit statement that they must have more government funding. Indeed, what I think Mr Balding is now confirming is that, at the time the ABC took that decision to launch a first and then a second multichannel, they did not say it was conditional on government funding. They might have had a request in the pipeline—

Senator CONROY—So you had no conversation with Mr Shier about this at all?

Senator Alston—With Mr Shier, no—but, as with any submission for funds, they had no basis for believing they were going to get additional funding. Despite that, they took a decision to go ahead. We think that is commendable, as I said, because it is an indication that

they saw this as a market opportunity—they saw it as a high priority and an area in which they could inevitably offer things that people would want. And they did that off their own bat. All we are saying is that if you are getting \$700-odd million a year, \$2.1 billion over three years, you do have the capacity to do just that. That is what they did, and I am saying—

Senator CONROY—What do you think they should have done?

Senator Alston—that they have an ongoing capacity to do that.

Senator CONROY—What services or programs do you think they should have dumped to fund multichannelling?

Senator Alston—As I have said, they took a decision in August—

Senator CONROY—You obviously have a view.

Senator Alston—No, I do not have a view.

Senator CONROY—You are saying that they should not have done this; therefore, they should have done something else.

Senator Alston—No, what I am saying to you is that around 18 months ago they had the ability to do that, and they did. They went away and they said, ‘We want to do this—we want to launch two channels. Find a way of doing it.’ Mr Balding now says, ‘We found a series of one-off cuts in order to fund it.’ That is perfectly appropriate. That is what we say you have the capacity to do when you have a very significant budget over which you claim you have total discretion. I am saying that, if you had the ability to do that then, you have the ability to do that now.

Senator CONROY—You think the future of the most—

Senator Alston—If you had the ability to go away and examine all of the options then, you have got the ability to go away and examine all of the options now. But it looks as though the board did not do that. They simply said, ‘We’re going to cut two channels.’

Senator CONROY—Do you think that the future of the most important change in television in 30 years should be funded by one-off cuts on an ongoing basis?

Senator Alston—I am saying to you that, 18 months ago, the ABC themselves did not say to us, ‘Look, we would love to do this on an ongoing basis, but we can only do it in the short term—as a series of one-off cuts.’ They simply did it. We did not know about one-off cuts until later in the piece. We are now told that that occurred, but that demonstrates the capacity to find money. And the ABC have found money in the past for other things—Radio Australia is one that comes to mind. If you have to, you rebalance your priorities. That is what every business does. Business cannot just conjure up extra revenue—

Senator CONROY—Should they dump *Play School*?

Senator Alston—Hang on—business say, ‘This is what we’ve got available. We have to decide what we do: do we go offshore, do we stay domestic, do we expand, do we outsource?’ There is a whole raft of decisions that have to be made when you are operating in a commercial environment.

Senator CONROY—What should they cut then? Nominate something.

Senator Alston—The ABC have a fixed level of funding too—it just happens to be fixed by government and not by the sale of products to consumers. Having got that fixed sum of money, they then have to decide how they spend it—and that is what they did in August 2001. They said, ‘We’ve got an amount of money and we would like to spend some money on digital channels. We will therefore find a means of funding that.’ They could do the same thing now if they chose.

Senator MACKAY—Minister, are you seriously saying that you are abrogating all responsibility for this—that, firstly, you were not aware of the initial foray—which, I have to say, was under Jonathan Shier; secondly, you were not aware that it was a one-off cut situation; and, thirdly, you are now abrogating all responsibility for the ABC in terms of funding? You are saying that it is all their fault—is that right?

Senator Alston—I am not talking in terms of fault at all. I am saying that the parliament provides a sum of funds. We gave a commitment prior to—

Senator MACKAY—So you have no knowledge of how that money is being spent, is that right?

Senator Alston—That is a separate question. To complete my answer to your first question, we gave a commitment prior to the last election to maintain funding in real terms, and we have. If you go back to the original time 18 months ago, I have asked for advice as to what was said at the time—and I think Mr Balding has made an attempt to go back and look at it as well—and it seems to be the position that the ABC took a decision to launch two multichannels. They took that decision without approaching us for funding. They did not say to us at the time that this was only a temporary arrangement or that it was funded by a series of one-off cuts; they simply did it. In the course of demonstrating why they would like additional funding—and I am not sure how much later it was—they said to us that there were a series of one-off cuts. As I have said to you, we, through the department, have sought further advice on that and it has not been forthcoming to date. My information is that we have asked for additional information from the ABC on those one-off cuts in order to assess them, but it has not yet been provided. My point is that the ABC made that decision on their own. They could have said, ‘Look, we would love to multichannel but we cannot afford it.’

Senator MACKAY—But you are the minister. Surely you would have made sure that you were apprised of what was going on at the ABC.

Senator Alston—I do not respond to non-requests. If the ABC had come to us and said, ‘We cannot multichannel without additional funding,’ then we would have had a request in front of us, which would have meant that we would have had to decide, effectively, whether they got into the business. They did not do that. No doubt they said to themselves: ‘We are allowed to multichannel. The commercials aren’t. This is a big opportunity for us; this is a high priority. We will therefore find a way of making it happen,’ and they sent someone away to find a way of doing it. We are now told that this was through a series of one-off cuts. All right?

Senator MACKAY—No, it is not all right.

Senator Alston—That is how the evidence emerges. They were not asking us at the time, they were not seeking our permission, they were not seeking commitment; they simply did it.

They made their own internal rebalancing decisions. Of course that is always open to them, and they could have done it this time as well.

Senator MACKAY—You are saying, ‘Don’t blame me, I’m only the minister.’

Senator Alston—I am just explaining the facts to you. You can put your political spin on it.

Senator MACKAY—It is not political spin; it is accurate.

Senator Alston—I am telling what happened.

Senator LUNDY—Minister, at the time of the debate around the digital television act and so forth I recall you holding up the prospect of the ABC multichannelling as a significant positive element of that particular bill. So I would have thought, on the basis of that, that you would have a strong interest in ensuring that the ABC could persist in providing that service. I recall it was of particular interest to our Democrat colleagues in the Senate and others that the ABC be allowed to proceed down this path. I guess, highlighted by the fact that the commercials were not able to multichannel, you were creating a significant opportunity for the ABC and SBS to do it. Why the change of heart? Why are you prepared to just let this go and, as Senator Mackay said, seemingly take no interest in it? Surely you do have a political interest in this because you sold the package on the back of the ABC being able to multichannel.

Senator Alston—That is a gratuitous insult; I will ignore that. I have taken a keen interest in this from the outset. My recollection is, for example, that—I think it was going back to Brian Johns’s time—when the ABC first put in a request for digital funding, they did it on the basis that they said it would not involve any significant additional cost. In other words, they were arguing for the ability to get into digital but they believed that they had sufficient content from their archives and elsewhere to be able to run it at minimal cost, let us say. My point now is that if they had said to us after the passage of the legislation, ‘We have got the ability to do it—we would love to do it—but we have not got a cracker,’ we would have, no doubt, sat down with them, gone through their books and looked at whether we could find a series of one-off cuts. There would then have been a decision taken. But that is not what happened. The ABC decided for themselves that, having been given the ability, they would jump in. They did not say, ‘We cannot afford to do it.’ They said, ‘We can afford to do it because we have found the means to finance it.’ That is what they did. Having done that, you can then come along and say, ‘We would like more money.’

Senator MACKAY—Mr Balding, what is your attitude towards what the minister is saying?

Mr Balding—I would like to clarify a couple of matters for the record. I did allude to our 2000-03 triennial funding request to government, which did ask for digital content that was for the multichannels. Back as early as September last year, when I addressed the Melbourne Press Club, I think I made it fairly clear that the continuation of ABC programs and services was under threat, notwithstanding the multichannels being one of those initiatives, as the senator has outlined. Furthermore, in response to a question from Senator Lundy at the November supplementary estimates hearing, I made it very clear then that the multichannels had been provided from one-off sources of funding and that there was no currently identified

ongoing source of funding to maintain those channels beyond the end of the financial year. On page 4 of the summary of our triennial funding submission, which was made public, I made it very clear that if we did not receive funding for multichannels they would be under threat. I quote from the summary:

The ABC multichannels, *ABC Kids* and *FLY*, were established in 2001 to demonstrate the new programming and delivery models made possible by the transition to digital television. In demonstrating the concept, the multichannels reflected ABC commitment to leadership and innovation in the emerging digital environment. However, they have also been funded on a non-recurrent basis and cannot be sustained without a new on-going source of funds.

Senator MACKAY—That is pretty clear, Minister Alston. Did you read it?

Senator Alston—It is very clear because this is all after the event. That is 2003, Mr Balding's address to the Press Club was in 2002, and we are talking about what happened in 2001. Mr Balding is correct in saying that they put in a submission asking for funding, but my point is that they had no reason—and it would have been presumptuous for them to have assumed—to expect that a positive response would be forthcoming.

Senator CONROY—He really was hopeless, wasn't he?

Senator Alston—Call him 'Shier' and we will probably know whom you are talking about.

Senator CONROY—Mr Shier. You would know from your uni days with him that he really was hopeless, wasn't he? He did not come and have a chat with you at all.

Senator Alston—I am explaining to you what happened.

Senator CONROY—He was in charge.

Senator Alston—You can put your own spin on it if you like. The board makes these decisions, and the board made last Thursday's decision. The board, presumably all nine of them, took the decision that they wanted to get into multichannelling. They did not have any commitment from government. They did not have funding available from us for that purpose, and they did not seek funding from us for that purpose. They simply decided that they would get into the game and they gave instructions down the line to go away and find the wherewithal. I presume Mr Balding was involved in that search for funds and, as a result, they found a series of one-offs.

After that happens, it is understandable in the way these things happen that you would say, 'Unless we get more funding, we might have to close this down.' But that is not the basis on which it was established. It is not the basis on which they got into the game. You would have thought that, if you were in the business of prudent financial planning, you would not launch something that may have to be defunded a short time later. You would not go ahead unless you had a confidence that you would be able to sustain that programming. If you think of it from the viewers' point of view, why would you want to go out there—

Senator CONROY—That must be why the board sacked him. It just was not a prudent plan, and that must be why the board sacked him.

Senator Alston—I am talking about the board. The board makes these decisions; it is not a unilateral decision by the managing director. Mr Balding did not make this decision to defund Fly and Kids.

Senator CONROY—Should Donald McDonald resign because of a lack of prudence?

Senator Alston—The board makes the decision. If that is the case now, it was the case then. So one is entitled to proceed on the basis that the board decided to go down this path. My point is that viewers are entitled to expect that, if a program is launched with great fanfare, it will continue to operate. They would be rather surprised—and if this were a commercial organisation I think shareholders would be somewhat surprised—to learn that, having launched it—

Senator CONROY—You Victorian Liberals like to carry a grudge, don't you.

Senator Alston—you are out there on a high wire without a safety net. That is what that amounts to.

Senator CONROY—So the board was engaged in a lack of prudent financial management; is that what you are saying?

Senator Alston—I am simply making the point that at the time the board decided they would embark on digital multichanneling. I do not know, but the board may well have said at that time, 'We see this as a permanent ongoing top priority.' That is a perfectly understandable position for them to have taken. I am not saying that they deliberately took a short-term decision and just hoped that down the track they might get some funding. It is more consistent with their responsibility that they decided that, by one means or another, they would find the capacity to fund it on a permanent ongoing basis, and that is why they did not come to us, they did not let us know in advance; they simply did it and they found the funds to do it. If you can find the funds on a one-off basis, you can find them on a two-off basis. That is the essence of having total discretion over a budget of \$740-odd million a year. In any organisation you have a capacity to move funds around. The ABC were able to do it 18 months ago; the ABC could have, therefore, one presumes, done it this time around. I am simply saying that the board had an opportunity last Thursday to have said, 'We need to go and have a good, hard look at our options, to see whether there are any other sources of funds and to decide whether we still regard this as a top priority.' It would seem that they have not done that. They have simply taken a decision to cut, and of course to cut ahead of the estimates committee and in such a way that it is the first item on the agenda.

Senator CONROY—Have you raised this with Mr McDonald?

Senator Alston—Have I raised what?

Senator CONROY—Raised this issue.

Senator Alston—We were only made aware of this at the eleventh hour. The decision was taken last Thursday.

Senator CONROY—I thought you might have known in advance.

Senator Alston—No. Other than last night, I did not know in advance.

Senator CONROY—Did you say that you knew about it last night?

Senator Alston—Yes.

Senator CONROY—Have you raised it with Mr McDonald yet or do you intend to raise it?

Senator Alston—No, I have not raised it with Mr McDonald.

Senator CONROY—Do you intend to raise it?

Senator Alston—We are still digesting the implications of the decision. No doubt we will be happy to assist the ABC in identifying further sources of funds if that is what they think is necessary. Again, it is always open to them to reschedule their priorities. If you are running an organisation with a budget of \$740-odd million a year, by definition you have the capacity to decide priorities. If you embark on new online services, if you embark in new areas and want to close down other areas, that is understood—that is the nature of technology and communications. You close down your teletext and you open up your online services—these things are always a moving feast.

Senator CONROY—I will move on. Mr Balding, the ABC made a bid for enhanced regional radio broadcasting of radio services like NewsRadio, Triple J and Classic FM in around 60 regional communities from Cairns to Burnie, Port Lincoln to Lithgow, Ballarat to Bairnsdale, and Alice Springs to Kalgoorlie and Broome. Given that the government rejected this bid, what chances do those regional centres now have of getting these additional radio services which are enjoyed by Australians in major cities?

Mr Balding—Our triennial funding submission was all about opportunities. It was an opportunity to accelerate the take-up of digital, and we have discussed that foregone opportunity. It was also an opportunity to increase Australian content on television and to assist the Australian television industry. That opportunity has been foregone. It was also an opportunity to extend the reach of NewsRadio and Triple J to population centres greater than 10,000 and address what I believe is the current inequity of access to ABC programs and services. I believe this initiative was supported by this committee. Unfortunately, the ABC will not be in a position to implement those initiatives. We will have to shelve plans to extend those services to regional Australia—and that is covering some 59 regional communities for NewsRadio and 16 regional communities for Triple J.

I would like to say I don't give up. I have already commenced preparation of a budget submission for the next financial year. I view the triennial funding outcome as a minimum level of funding for the ABC over the next three years. If cabinet decide to look at other issues in respect of the ABC prior to next year's budget, the ABC will be in a position to respond and will be able to provide any required information to cabinet along those lines.

Senator MACKAY—Minister, as you know, the issue of cross-media ownership legislation is still kicking around, and I understand you are still having ongoing negotiations. A cynical person would say this could well be a campaign, if you like, or a potential cut by the government to then, presumably in the next financial year, provide additional funds for the ABC—

Senator Alston—What do you mean by cut?

Senator MACKAY—In terms of Mr Balding's \$20 million to \$25 million—

Senator Alston—Delivering on election commitments to maintain funding in real terms is a cut, is it?

Senator MACKAY—Let me finish. We can come back to that, because you are disagreeing with Mr Balding with respect to that. Is there any likelihood of an increase of ABC funding in the next financial year and is that predicated on any arrangement with the crossbenches with respect to cross-media ownership?

Senator Alston—I do not think cross-media is relevant in this context. What we are talking about here—and I should just say this for the record—is that since 1996 we have funded an additional 160 new services for the ABC. That has meant additional services for NewsRadio, Triple J, local radio, analog TV and digital television. The national interest commitment that the ABC continue to receive this year of \$17.2 million for new programming is part of a four-year commitment that we made. As I understand it, it is the first time in about 20 years that a government has provided mid-term funding in addition to triennial funding. So the ABC, apart from getting additional funding through Foreign Affairs in relation to Asian TV, has also received something like \$72 million over and above their triennial funding and that has enabled in part a whole series of new services. So we have continually assisted the ABC to roll out new services to new areas across Australia—and that is something that did not happen under the previous administration.

Senator MACKAY—Are you prepared to countenance revisiting the ABC's budget over the course of the next financial year?

Senator Alston—Triennial funding is given on the basis that that is the amount of funding the ABC needs to continue to maintain its activities.

Senator MACKAY—Is the answer no?

Senator Alston—If it decides that it has other priorities, it has an ability during that triennial period to reallocate resources to some areas and to cut them back from other areas. They have always had the ability to do that. They continue to do that.

Senator MACKAY—From the government's perspective, are you ruling out revisiting the issue of ABC funding during the triennium?

Senator Alston—I have said to you for the record that on a one-off basis we have given them \$72 odd-million.

Senator MACKAY—So you could revisit it? Is that right?

Senator Alston—That demonstrates that where there are resources it is possible. You can smirk and scorn as much as you like, but the fact is that there are a lot of very serious additional commitments in this budget that made it very difficult—and the ABC knew that. The ABC knew that it was whistling in the wind from the outset because you had commitments to Iraq, ongoing commitments to East Timor, the drought—all sorts of areas—that made life very difficult for people seeking additional funds. Like a number of other claimants, the ABC put in a wish list, but it knew that it was not the best of years. Given that we have a good track record of enabling the roll-out of new services, I think it understood that very well.

Senator CONROY—I refer to the national interest initiative program which loses funding in the last year of the triennium 2005-06. What are the implications for the 10,000 hours of

regional programming and 50 or more regional jobs that are associated with that programming? Will this programming and these jobs have to be axed?

Mr Balding—You are right, the funding for that runs out in the last year of the triennium. We are disappointed the government has chosen not to renew the national interest initiative funding as part of this year's budget. In the event that that funding is not renewed, all those initiatives provided from the program would be under extreme pressure. Those initiatives include 50 new full-time equivalent positions producing 10,000 additional hours per year of radio programs in regional Australia; two new regional radio stations about to be opened up—one in Ballarat in Victoria and one in Wagin in Western Australia; a regional radio production fund, which was set up to showcase regional talent, the strength of and external content from regional Australia; and also the reintroduction of weekend television news services in the ACT and in the Northern Territory. We have two years left of that funding source. Until we revisit that, those programs and issues will continue.

Senator CONROY—You made a bid for local television services in North Queensland, to be based in Townsville?

Mr Balding—Correct.

Senator CONROY—What chance does this service have of proceeding now that the government has rejected the funding?

Mr Balding—This is another opportunity that has been put aside. We would not be in position to proceed with that. We were looking to use that as the basis for the initial roll-out of a greater regional television presence throughout Australia. We saw Far North Queensland as an opportunity due to a number of factors. First of all, we have television studio facilities there that have not been used for quite some time—effectively, that studio up in Townsville was put in mothballs. We saw it as an opportunity to upgrade that facility and use it to roll out a regional television news service. Secondly, it was due to the withdrawal of the commercial television news service from regional Australia.

Senator Alston—Can I make a point about the national interest initiative. That funding was for programming, and that is in addition to the 160 news services that we have facilitated by way of additional transmission funding. As I understand it—and I think it is my recollection—the national interest initiative does not run out in the last year of the triennium; it runs out at the end of the second year of the triennium.

Mr Balding—It runs out at the end of June of the second year.

Senator Alston—Yes. So, obviously, the appropriate time to be looking at a continuation of that program is at that time, not in this budget. The ABC has the security of knowing that it has ongoing funding commitments in real terms and the benefit of that previous four-year commitment to the national interest initiative. I do not think one should be in any way confusing the issue of multichannelling here and now by casting any shadow over the continuation of the national interest program. The time to look at that is when you are getting close to the expiration—when you can make sensible judgments about its effectiveness and the ABC's ongoing desire, presumably, to continue it.

Senator CONROY—Are you prepared to give a guarantee?

Senator Alston—A blank cheque?

Senator CONROY—Are you prepared to guarantee the funding for this after 2005-06?

Senator Alston—Why would you do that? Let us say it is a disaster. You do not—that is not how you do business. You make decisions when you are getting to the end of a program. You first of all look at—

Senator CONROY—You want to put your reputation on the line as a go-getting minister for them?

Senator Alston—If you are aspiring to this portfolio—

Senator CONROY—I know you would like to be in London, Paris or New York by then.

Senator Alston—If you are aspiring to this portfolio down the track, Senator Conroy, about the worst possible thing you can do is give blind, open-ended commitments. You give commitments if it is demonstrated that there is a need. If it is a continuation of an ongoing program, you do it on the basis of whether you think it has been effective, not because someone wants it. In fact, I saw a very good slogan the other day: ‘Lord, protect me from what I want’.

Senator MACKAY—You will never get to New Zealand.

Senator CONROY—I was just going to say I am not aspiring to be in New Zealand or London.

Senator ALSTON—You do not seem to have legitimate aspirations in this business—

Senator CONROY—Unlike some!

Senator Alston—if you are prepared to stay here but do not have any aspirations to be the minister.

Senator CONROY—I do not have any aspirations to a posting.

Senator Alston—It could be indicative of a deep state of depression. I can understand you being particularly grateful if you can hold onto your seat. It does not look as though Senator Jacinta Collins will. At least if you can do a deal there you will have achieved something. But, if you do manage to stay around, I strongly advise you to make judgments on the basis of proven cases, not people’s requests.

Senator CONROY—Can the managing director provide an update on the progress of negotiations with Foxtel regarding the retransmission of ABC services on Foxtel’s digital platform? I know we have talked about this before—I am interested in an update. Are you making any progress?

Mr Balding—Those negotiations are still in progress. I think ultimately, though, the outcome of those discussions and negotiations will be that the ABC will have to incur costs if we wish to be carried on Foxtel’s satellite service.

Senator CONROY—Minister, Mr Balding was just indicating that he seemed to believe that the ABC was going to be unsuccessful in getting zero costs for retransmission of ABC services on Foxtel’s digital platform. Do you think that is a satisfactory outcome?

Senator Alston—I would rather wait to see what the end result will be. As we all know, with negotiations people often—

Senator CONROY—But you have the power to make it zero cost to the ABC.

Senator Alston—Senator Conroy, just understand that we are talking here about letting negotiations take their course. People often adopt hardline positions in order to persuade their opponents that they should concede a particular point. It would only be at the expiration of those negotiations that, presumably, the ABC would want to approach us for assistance, and then we would have a look at what the outcome is. But we are not going to be jumping in—

Senator CONROY—This is not about assistance in dollar terms; this is about you having the power to tell Foxtel—

Senator Alston—But the ABC have not sought our assistance to date. In other words, they have been prepared to embark—

Senator CONROY—Would you like to assist?

Senator Alston—We will always stand—

Senator CONROY—Minister, would you like to intervene? I am inviting you on their behalf.

Senator Alston—But they do not need your help. They are perfectly capable of making their own commercial negotiations.

Senator CONROY—They are certainly not capable of getting any help from you.

Senator Alston—They have not sought it. So it is quite understandable in those circumstances that they are not getting it.

Senator CONROY—But you are the minister. You can step in any time you like.

Senator Alston—Do you think I should be unilaterally offering my services or imposing my services?

Senator CONROY—I think you should be convincing Foxtel that this is a public service and that they should oblige.

Senator Alston—I would have thought that in most instances parties involved in commercial negotiations would say to you, ‘The last possible thing we want is some minister wandering in at the eleventh hour and imposing his view of the world.’ If the ABC comes to us—

Senator CONROY—This has only reached the eleventh hour because you have sat on your hands and done nothing. You could have solved this on day 1, in the first minute of the first hour. You could have just told Foxtel that they had to cop it.

Senator Alston—That is a very good indication of how you would propose to run the country. But it is not the way we would do it.

Senator CONROY—Looking after the public interest? That would be a tragedy, wouldn’t it!

Senator ALSTON—That is exactly my point—whatever you think to be the public interest at the time. That is a frightening thought for anyone contemplating voting Labor in the

future—that whatever you think is in the national interest you will do. If there are marginal seats to be looked after, it is in the public interest!

Senator CONROY—Oh, please! I have just listed about 27—

Senator Alston—If there are interest groups you want to appease, it is in the public interest!

Senator CONROY—Every program you run is about a marginal seat.

Senator Alston—That is not a smart way of operating, I can assure you. You are much better off to wait until you are asked for help, rather than gratuitously offering.

Senator CONROY—Mr Balding, would you like the minister's help in this matter?

Mr Balding—I would prefer that negotiations conclude first. If it requires additional funding from the ABC for incurred costs, then rest assured that the ABC would be making representations to the government.

Senator CONROY—Minister, do you believe that you have the power to deliver an outcome with Foxtel of zero cost for the ABC? Is it within your power to achieve?

Senator Alston—I am not deciding what power I have and whether I have life-and-death ability to deliver what you might think is the perfect outcome. That is not the way—

Senator CONROY—No; I am asking whether you have the constitutional power to intervene in this dispute.

Senator Alston—Do I have a constitutional power to intervene?

Senator CONROY—Do you have the political muscle?

Senator Alston—I don't know. There you go again. Whatever you think somehow makes sense at the time, you will impose, irrespective of the fact that you have got parties—one of which is wholly commercial and the other of which is required to operate in a businesslike manner and who are quite content to engage in commercial discussions—and want to blunder in and somehow impose your view of the world on them. That is not the right way to do business. It is very ominous, I would thought. You seem to have learnt nothing in seven years.

Senator CONROY—When you have intervened to try to increase the amount of free-to-air cricket coverage, has that been you 'blundering in', Minister?

Senator Alston—As I have said to you, if you reach a point where you think that the parties have exhausted commercial negotiations and there is a legitimate need for further involvement then there is no reason why the government should not insert itself into the equation. But the idea of suddenly saying, 'Look, you blokes might be trying to achieve an outcome, but I've got another outcome in mind, I'm going to come in and impose it,' is not a good way of operating. It is certainly not calculated to make the parties feel comfortable, because they will be terrified that whenever the whim takes you—

Senator CONROY—I promise you that they are not terrified of you.

Senator Alston—That may be the case—I do not think they ever have been.

Senator CONROY—They are certainly not terrified of you.

Senator Alston—Mr Balding has not shown too many signs of being terrified. I would much rather that they operated in a sensible businesslike manner—

Senator CONROY—I was talking about Channel 9 and Murdoch. They are certainly not terrified of you.

Senator Alston—I am pleased to hear it.

Senator CONROY—I refer you, Minister, to the appointment of Dr Ron Brunton to the ABC board. Could you outline Dr Brunton's broadcasting experience?

Senator Alston—I think the starting point is that very few people who have been appointed to the ABC board over the last 20 years have had what you might regard as broadcasting experience.

Senator CONROY—I don't know; I am asking you.

Senator Alston—Dr Brunton has experience of communications in that he has written a number of articles—

Senator CONROY—He has written a number of articles?

Senator Alston—You might like to define communications narrowly, but in fact he has been a very regular interviewee—

Senator CONROY—I have written a number of articles. Did you consider me?

Senator Alston—in both electronic and print media.

Senator CONROY—I have been interviewed and I have written articles.

Senator Alston—You may well have, in the same way that John Bannon may have been regarded as having broadcasting experience because he had been involved in the business of running government. The fact remains that very few appointees—and I do not think there were more than a couple during your 13 years in office—have had what you would call mainline employment with broadcasting firms. That is not what the act says. The act simply talks about having had broadcasting experience—having had experience in connection with the provision of broadcasting services or in communications or management. It is deliberately vague. You put it in place.

Senator CONROY—Deliberately vague?

Senator Alston—You put it in place. No-one has sought to amend it since. I notice that, even in Mr Tanner's last little escapade, he was not proposing that the terms of the act be changed. What he had in mind was to follow the Nolan committee. I think it is very instructive that the Nolan rules in the UK resulted in a long-time Labour Party member and long-time ministerial adviser to Labour governments being appointed chairman of the BBC. That is your alternative approach; that is the outcome you would get. We prefer to continue to act in accordance with the provisions of the act, which I think provides, quite understandably, very broad parameters under which appointments should be made. When you have someone with the experience in the community that Dr Brunton has, I think he stacks up very well against virtually everyone who has been appointed over the last 20 years.

Senator CONROY—So he stacks up because his qualifications meet the deliberately vague—

Senator Alston—I am saying that you chose these provisions and you presumably thought that expressing it in those terms was sufficient, and we do too. We have continued to operate on them since that time. I do not recall any public criticism of the terms of the act since that time. We have simply applied it in the way that our predecessors of both persuasions have. I do not have the chart in front of me, but I think that, if you go back over the Fraser years and our years in government and compare them to the Labor years, you will find that there are more people with direct broadcasting experience—for example, Donald Macdonald was on the Channel 7 board at one stage and John Gallagher from Queensland was very much involved in a family owned and operated television business in Mackay. I think you will find that there were only a couple of people in the 13 years of Labor government who had that sort of experience.

Senator CONROY—You met Dr Brunton, I presume, prior to his appointment?

Senator Alston—Not for some years.

Senator CONROY—You had not met Mr Shier for some years, but that did not stop him being a Young Liberal with you. Was Dr Brunton a Young Liberal with you?

Senator Alston—It is very flattering that you suggest that someone who is 10 years younger than me would be a Young Liberal with me. It is not the fact. I do not think I was ever a young liberal!

Senator CONROY—I understood that in the Victorian Liberals ‘young’ was still defined as under 35.

Senator Alston—It was 30 in those days.

Senator CONROY—It is very flattering for you to be able to run around in it for so long.

Senator Alston—It may have been changed, but I do not think that I was anywhere near the Young Liberals when Jonathan Shier was running the show.

Senator CONROY—Was Mr Brunton ever in a political party?

Senator Alston—As I understand it from what he said, he was involved in Young Labor—it might have been something even more extreme—when he was at university. He was subsequently a member of the Liberal Party. I came across him back in the late seventies, maybe the early eighties. I have probably seen him once, maybe twice, since that time. I have read that he resigned from the Liberal Party quite a number of years ago—more than 10, I think, but maybe not. That is the extent of my knowledge of it. I am aware of articles that he has written over the years.

Senator CONROY—If the current ABC board were to appear as a specialist panel on public broadcasting on an ABC current affairs program, would the panel meet the ABC’s editorial policies on editorial responsibility which require the ABC broadcasts to have a diversity of perspective and achieve balance in a wide range of perspectives? Would the board meet that test if they were actually to appear?

Senator Alston—Are you talking about the program *The Panel*?

Senator CONROY—No. If the ABC board were to appear on a specialist panel on the ABC, would they meet the diversity of perspective and achieve balance and a wide range of perspectives?

Senator Alston—It would depend on what they were talking about. What do you mean? Do you mean if they were on a program on the ABC?

Senator CONROY—Yes.

Senator Alston—Talking about what?

Senator CONROY—Would the board be able to be described as having a balanced and broad set of perspectives?

Senator Alston—It would depend on what they had to say. It would depend on what the subject was. Do you mean: would their CVs be regarded as broad and balanced?

Senator CONROY—Yes.

Senator Alston—Where would you start? Would you say, ‘He was in Young Labor in the seventies and he was in the Young Liberals in the eighties?’ What does that mean? That sounds pretty balanced to me.

Senator CONROY—I was talking about the board in general.

Senator Alston—I do not know how many of them belonged to the Young Labor Party. You could tell me. Jan Marsh presumably did. Dianne Foggo and all these unionists probably did: Janine Walker, Michael Terlet, Rod Cameron—maybe he did—Len Hingley, Wendy Silver. There were a fair number of them in your time. I suppose you would not have much doubt about their political persuasion. Look at David Hill. We did not know until after the event that he had been a paid-up member of the Labor Party throughout his time as general manager—an extraordinary proposition. You would not appoint someone on that basis, would you?

Senator CONROY—I did not. The Labor Party has a very straightforward policy on this.

Senator Alston—The Labor Party did not know about that?

Senator CONROY—We have a very straightforward policy right now.

Senator Alston—You never knew that he was a member of your own party?

Senator CONROY—I said that I did not. I was not involved in the appointment.

Senator Alston—I bet you a lot of others did.

Senator CONROY—Will the minister commit to removing himself from the ABC board selection process and supporting an independent panel, as Lindsay Tanner has advocated?

Senator Alston—Like the Nolan rules?

Senator CONROY—Something along those lines. It does not have to be an exact mirror.

Senator Alston—I just told you how effective they would be. Can you imagine a thug like Lindsay Tanner being able to choose on the basis of, I think it is, two members of his department—who would presumably be in terror of their lives if they came up with someone that he regarded as unacceptable—plus someone that he appoints anyway? And then he has

the final decision; he can overrule it. So you end up with the Nolan rules being applied here, the rules which gave you a Labour Party member and a long-time ministerial adviser to a Labour government being appointed BBC chairman. That is the model Mr Tanner is espousing.

Senator CONROY—It is an arms-length process.

Senator Alston—What is arms-length about that?

Senator CONROY—It is an arms-length process.

Senator Alston—It is just serendipitous, is it? It is fortuitous that you just happened to end up with a long-time ministerial adviser to Labour governments and a paid-up party member? It is just sheer coincidence? Or would you be shocked and horrified? Would you say, ‘This has gone horribly wrong’?

Senator CONROY—I am asking whether you will commit to that. Do you support an arms-length process or not?

Senator Alston—Why wouldn’t you rule that out?

Senator CONROY—I am asking you. You can say no or yes.

Senator Alston—I am telling you. We are happy with the act. We have made it plain. We think the act works well. There was a very good article that appeared in the *Age*. I do not think it was by Annabel Crabb—she is not here.

CHAIR—She has just left.

Senator Alston—It was someone else who wrote an article on the feature page about the system actually working exactly as it was intended to work. In other words, the government of the day makes the decision. The government of the day is accountable to the public. What you do not want is a decision being made by a bunch of bureaucrats or party appointees, which is what your combination would deliver. And of course you ultimately have the ability for the minister to override and ignore that anyway, so that is classically a political appointment.

So why not be upfront and honest about it? Why not just make the political appointment? If people want to make their judgments—if they say, ‘It’s outrageous that you appointed X,’ let them say that; it sells more newspapers—governments will wear it. If they make an appointment that the public thinks is perfectly sensible but one political party does not, then so be it. As far as I am concerned, someone like Dr Brunton has impeccable credentials. Having a PhD in anthropology, I would have thought, is a very important example of diversity and one which will benefit the ABC quite considerably.

Senator MACKAY—Mr Balding, in respect of the prospective cuts, I think you have indicated that you are looking at \$7 million. That is about a third of what you hope to generate or feel you need to generate in terms of the quantum you have identified of \$20 million to \$25 million. You said in earlier evidence that you are at the contemplative stage in identifying where the further cuts may come from. You must have some idea—even in ballpark terms—where that further \$13 million to \$18-odd million will come from.

Mr Balding—I will be sitting down with my executive on Wednesday, I think, of this week in all-day session to start that process. I will be looking to keep the board abreast of those discussions. That is why there will be no final budget decision taken by the board from an overall budget prospective until at least the July board meeting. We need to go through a whole range of issues. I am obviously looking to minimise impact on our main audience and I am also looking to minimise impact on our staff.

Senator MACKAY—Are you looking at any truncation or cutback to services that are currently provided to regional Australia? Will they potentially be impacted on by the prospective cuts?

Mr Balding—I have to say—and I think I said this at the last Senate estimates—that all programs and services will be reviewed.

Senator MACKAY—So there could well be cuts to services provided to regional Australia?

Mr Balding—Other than the national interest initiative funding, which has separate funding for those programs.

Senator MACKAY—When will you be in a position to advise us as to the full picture?

Mr Balding—That will not be until at least after the board considers our budget strategy and our corporate plan, which at the earliest would be at the end of July.

Senator Alston—It is just worth saying on that point that we will obviously be interested in obtaining further and better particulars, but to pick out a figure of \$25 million when you say that you cannot afford the \$7 million for multichannelling does not immediately explain why there is a need for these additional cuts. If you have been given your funding levels in real terms, I think you are being—

Senator MACKAY—Why don't you ask Mr Balding? Perhaps Mr Balding could enlighten you.

Senator Alston—I do not think it is necessary for Mr Balding to provide the detail to me right here and now. I am sure he will do so later. I am simply saying—because this is when it is likely to get the most coverage; not accidentally—that you would have thought that before floating the need for additional costs you would explain why there was a need to do that, given that it is not as if you have just had a cut and you have to find ways of meeting ongoing commitments. You have got funding.

Senator MACKAY—That is a good question. Mr Balding, what is the response to the minister's question?

Mr Balding—Over the last two to three years, the ABC have been identifying what the minister has referred to correctly as one-off funding sources. We have been able to apply those one-off funding sources to various initiatives—always on the basis that, in the event those one-off funding sources did not materialise into ongoing funding, those initiatives would be reviewed. Multichannelling was an example of that, and we have debated that this morning.

The other issue that applied one-off sources of funding in particular was our television program acquisitions. Again, in the 2000-03 triennial funding submission when we sought

funding for digital content there was an element there for program acquisitions. Although our funding may have been maintained, and that is correct, I think you need to realise that the ABC operates in a very diverse and developing industry. There are new technologies, new programs and new services available. There is a lot of added cost pressures for the ABC, particularly in television program acquisition and production costs. Although funding may be maintained, in reality the ABC was going backwards; hence, since being appointed to the position of managing director, I have made it very clear publicly on a number of occasions that the ABC needs to have a hard look at its ongoing programs and services to ensure that it fulfils its charter obligations but continues to operate within the level of funding provided by government.

Senator LUNDY—Just to drill down a bit there, are you talking primarily about programs produced digitally for the multichannels that you are going to cut or all programs?

Mr Balding—All programs, whether it be on our main channel or on the multichannel. It is a very competitive industry out there. Those costs are increasing. We have other cost pressures where we have not received additional funding. For instance, our requirement to caption television programs is an increasing cost we have never been funded for. We have never been funded for the development of our online site, which I am sure that you will agree is a very significant online site—and if not the best then one of the best online sites in Australia.

Senator LUNDY—Is that going to get cut?

Mr Balding—No, we are looking across all programs and services, and it would be wrong for me to speculate on what program or service would be subject to cuts.

Senator LUNDY—Can you rule out cuts for ABC Online?

Mr Balding—No. I am sorry, I am not in a position to rule out cuts, other than in respect of those programs and initiatives funded under the national interest funding.

Senator MACKAY—You have specifically mentioned three things: captioning, program acquisition and the online site. Presumably you have mentioned those because they do not involve major staff cuts. Is that right?

Mr Balding—No, please do not interpret that they are subject to cuts and that they are the only ones. I mentioned them in the context of funding being provided to these services where we have not received additional funding, and that is where the cost pressures were coming from.

Senator LUNDY—If you are no longer purchasing programs for your multichannels Fly TV and ABC Kids, can you give me a figure for the savings you will achieve from program acquisition just for those channels?

Mr Balding—In general terms—and Sandra might have an idea of the actual program acquisition costs for ABC Kids—of the \$7 million, Fly TV was costing us approximately \$4½ million and ABC Kids on the multichannel was costing us about \$2½ million.

Senator LUNDY—In program acquisition?

Mr Balding—In total cost to develop deliver the channel. I presume that the bulk of that \$2½ million would be around programming acquisitions.

Senator LUNDY—Minister, in terms of the stimulating effect of organisations like the ABC purchasing digital content and programs made in a digital format, have you given any thought to or are you in a position to make any observations about the impact on that industry sector producing digital content, and in fact producing less digital content as a result of these changes?

Senator Alston—These are niche markets, in the same way that SBS—

Senator LUNDY—You are putting a lid on them, aren't you? This decision, which you have let through, is going to be another blow to an emerging industry sector. You dealt this sector a bad enough blow with the digital TV act in the first place, but it seems that this will be another significant blow.

Senator Alston—You mean a unilateral decision by the ABC to deprioritise?

Senator LUNDY—No, I mean your decision not to fund the ABC to adequate levels actually.

Senator Alston—That is the point: we are funding them to the very same levels that enabled them to embark on multichannelling in the first place.

Senator LUNDY—Can you answer my question about your thoughts or observations about the impact on the digital content industries as a result of this change?

Senator Alston—As I say, I think these are niche channels—as is SBS. If you are talking about what drives the take-up of digital television, it is usually pretty mainstream—in fact, it is usually sport and movies, I think, from most people's understanding of both pay TV and digital. It is perfectly legitimate for the ABC to want to specialise, and to the extent that they have chosen to limit their area of operations to those youth and children programming areas I suppose that might impact the market for producers of children's programming, but the ABC still does a fair bit of children's programming anyway, and of course the commercials are required to do that under the quota arrangements. The production sector fluctuates all the time.

Senator LUNDY—It is going to suffer, isn't it?

Senator Alston—What—the production sector? The production sector suffers every time anyone decides to go for—

Senator LUNDY—As a result of this, there is going to be \$2.5 million and \$4.5 million less, a significant proportion of which goes towards production.

Senator Alston—If Channel 10 choose to go to reality television, you can say that affects the independent production sector in Australia. There are always decisions that are impacting one way or another on the offerings that producers—

Senator LUNDY—So do you think that is the path the ABC should take?

Senator Alston—No. You were asking me what impact I think this has on, presumably, the mainstream take-up of digital, and I am saying these are niche operations. The ABC is entitled to confine its attention to niche areas. They chose to do that 18 months ago. They could continue to choose to do that now if they sought. It would seem that, rather than saying that every area is exposed to cuts, as Mr Balding has just said, they could have put this into the

mix. They could have said, 'We have to find money from somewhere. We want to continue digital multichannelling. We will therefore have to look at everything else and see what we can find.' But they have not done that; they have just made a one-off decision that if there is one thing they are going to cut right here and now it is a couple of multichannels.

Senator LUNDY—I did not actually ask you about the impact on the take-up of digital generally, although you chose to respond to the question in that way. Have you done any assessment about the impact this decision will have on the take-up of digital generally?

Senator Alston—I only became aware of it late last night. I have not had a chance to digest it, but to the extent that there are—

Senator LUNDY—Are you concerned that it will reduce the appeal for potential consumers of digital content?

Senator Alston—I do not believe it will make any significant difference.

Senator LUNDY—Have you ever watched Fly TV?

Senator Alston—I have seen a few demonstrations.

Senator LUNDY—On your plasma screen perhaps.

Senator Alston—My kids are a bit older than yours.

Senator LUNDY—Have you ever watched Fly TV?

Senator Alston—I do not choose to watch children's programs normally, no.

Senator LUNDY—ABC Kids obviously services a specific market. Do you think it is important that the children of Australia have access to a channel that is specifically for them? It has children rated programs all the time. What sort of political priority do you put on services like Fly TV, which aims at the teenage market, not the children's market, and ABC Kids, which is for children.

Senator Alston—Do I think teenagers are desperately keen to have their own digital channel? No. To the extent that they want programming that is relevant to them, they would like that available on television. Given that analog TV has a 98 per cent household penetration, I would have thought that they do have that product. The ABC is not obliged in the same way the commercials are to meet the quotas. Nonetheless, it provides a significant amount of children's television, which it has done for many years. It chooses to continue to do that and we think that is perfectly appropriate. If it wants to go further, as it did 18 months ago—presumably it did that because it saw it as important and it was prepared to put it ahead of other things to fund these one-off cuts—they could have said, having identified one-off cuts, 'We will spend that on programming in regional areas.' But they did not. They put it into digital TV, because they thought that was a top priority. It would seem that it is suddenly no longer a top priority and it seems to have been a decision taken without examining other options.

Senator LUNDY—Can I ask Mr Balding to just remind the committee what the aim of both those digital channels was. What were you trying to achieve with both Fly and ABC Kids?

Mr Balding—Again, I think, identifying the various demographics but in respect of the multichannels, the aim was first of all to demonstrate a proof of concept—to bring to the Australian consumer and our audiences the awareness first of all and then the benefits of the new digital technology—what new digital technology would provide. Fly television was tailored for a youth audience. It was programs produced by the youth for the youth—their own news service, for instance, their own interviews—

Senator LUNDY—So young people will now lose the opportunity of producing those shows, won't they?

Mr Balding—A number of young, very talented program makers will ultimately lose their jobs. In respect of kids television, our ultimate objective was to have a channel which ran 100 per cent Australian content for children. I do not think you would find many parents in Australia who would disagree with that—that you could have a channel that you could turn to at any time and you would have 100 per cent Australian children's content on that channel.

Senator LUNDY—I have to say that as a parent I find it a very desirable thing and I am just astounded that the minister does not seem to share that commitment.

Mr Balding—Can I just make sure we clarify a point. The closure of the multichannels Fly TV and ABC Kids will have no impact on our children's scheduling and programming on the main channel.

Senator LUNDY—I would assume so, but because of those aims—worthy aims in a digital environment—is the fact that the board chose to cut those things relative to the significance of the other services that you would have otherwise cut? Are you really seriously at the bottom of the barrel in that regard?

Mr Balding—I have made it clear. I will just use the expression that I used back in my address to the Melbourne Press Club: there are no more rabbits left in the hat. There are no more one-off sources of funding. The board, along with management, has a number of further difficult decisions to make. I am approaching this with the objective of minimising the impact upon our main audiences and, hopefully, of minimising the impact upon our staff.

Senator Alston—But you are right, Senator Lundy, the ABC could have said, 'This is so important that we are going to have to cut elsewhere if there is a need to cut.' They could have done that, but they have chosen not to.

Senator LUNDY—What are the set-up costs for these channels—when they disappear now, to re-establish them again—and what sort of establishment costs did you incur when you first set them up?

Mr Balding—I do not have that to hand. I do not think the set-up costs are that much. To re-establish them I do not believe would be an issue. It is all about content on those channels.

Senator LUNDY—How long did it take to establish those channels, from the decision to fund them to when they actually went to air?

Mr Balding—I will have to take that on notice.

Senator LUNDY—Was it three months, six months, 12 months?

Mr Balding—I will take it on notice. It would be less than six months, I presume.

Senator LUNDY—Did you get any complaints about content on either of those channels that have perhaps prompted this decision?

Mr Balding—No, not that I am aware of. In fact, we received various praises for the content on those channels.

Senator LUNDY—It will be interesting to see what feedback you get as a result of this decision. Thank you.

CHAIR—Thank you, Senator Lundy. Senator Santoro now has some questions.

Senator SANTORO—I was not going to go down this line of questioning this morning, but my interest has been stimulated by some of the questions of the opposition and some of the answers that have been provided. I particularly refer Mr Balding to the suggestion that has been developed here this morning—particularly by the opposition and to a lesser extent by some of the answers that you have provided—that the government's commitment to digital television is not a very strong one. Are you able to confirm that the government committed \$20.8 million to phase 1 digitalisation?

Mr Balding—Yes. That was for capital for infrastructure.

Senator SANTORO—And \$36.8 million for phase 2 digitalisation?

Mr Balding—Again, for capital for infrastructure.

Senator SANTORO—And that it provided nearly \$60 million in equity injections?

Mr Balding—A number of those are borrowings.

Senator SANTORO—Made possible by government approving various ways of additional funding.

Mr Balding—Yes, if government provides us loan funds for that. But any loan funds provided the ABC has to repay. Again I stress that that is for infrastructure to meet the legislative requirements when we had to commence broadcasting in digital back in January 2001.

Senator SANTORO—Is it also correct that the government is picking up the ABC's phase 1 digitisation debt at a cost of \$32.6 million?

Mr Balding—That is correct.

Senator SANTORO—In addition, is it correct that the government is paying for ABC digital distribution and transmission, which will cost over \$600 million over 10 years?

Mr Balding—That is through the transmission funding, yes.

Senator SANTORO—Would you agree that that is a very sizeable and considerable commitment by the government to the process of digitisation?

Mr Balding—The government is contributing money towards capital infrastructure.

Senator SANTORO—Significant money.

Mr Balding—All money is significant when you are talking about the size of the infrastructure that is being rolled out. But let me also make it clear that, in respect of the cost of the digital infrastructure, the ABC is providing—from the time I last saw the figures—

about 55 per cent of the cost and the government is providing about 45 per cent of the cost. I need to stress that that is for infrastructure, not for content.

Senator SANTORO—In relation to the programs mentioned here this morning, particularly in your answer to the opening question from Senator Conroy, am I correct in saying that the Kids and Fly digital channels are basically projects that were funded by what could be described as ‘slack and fat’ in the budget over the last couple of years?

Mr Balding—No, Senator, I would not describe it that way. The ABC’s budget is not slack and it is not fat. We were able to identify what we called a ‘one-off’ source of funding—that is, funding that is made available only in one particular year or in two particular years. It is not ongoing funding. We chose to apply that to those initiatives. I would definitely not describe the ABC’s budget as fat or slack.

Senator SANTORO—By that I obviously meant, as the minister has been suggesting in some of his answers to questions from the opposition, that the ABC is indeed very capable of coming up with savings. I refer particularly to your triennial submission where it openly states:

Through continuing efficiency improvements since 1996-97, the ABC reduced Corporate support costs from 13% to 8% of total costs.

I commend the ABC on that, and so when I refer to ‘slack and fat’ it is not meant to be in any way an insulting or condescending description. They are achieved obviously as a result of good management effort. But you just answered the question by saying that it is was a one-off savings or funding source. If that is the case do you regard it as responsible for the ABC to use what are one-offs under expenditures, or indeed savings or efficiencies achieved through some good management action, to fund projects such as Kids and Fly when in fact there is no guarantee of ongoing funding for these projects? Do you think it is responsible to do that?

Mr Balding—It was done on the basis that this was a new technology, a new initiative. As the minister outlined, the parliament set up the necessary legislative framework to enable the ABC to multichannel. The ABC chose at the time to apply that one-off source of funds as a proof of concept to demonstrate the benefits, to demonstrate the new programs and services, that could be available through this new digital technology. The ABC was also keen to assist with the acceleration of the take-up of digital. It was always done on the basis that it was a one-off source of funding only and that if we could not secure additional funding from government then the ABC board would have to have a very hard look at the continuation of those services in the very short term. Since I have been managing director I have made that very clear publicly on a number of occasions.

Senator SANTORO—In commending you for undertaking new initiatives and programs, and projects such as Kids and Fly digitals, do you think it is fair for the government to be blamed, as has been suggested this morning, for a decision which was made by the board to not give that program priority by, for example, seeking new savings through new efficiencies? Do you think it is fair for the government to be blamed, as has been the case this morning, for a decision which was made by the board on Thursday—as I understand from what has been said this morning—of which the minister was made aware some time after that?

Mr Balding—The board has a number of other difficult decisions to make. Unfortunately, it does not stop here with this decision, but I reiterate that the board, in its triennial funding submission to government, made it very clear that, without additional funding, these channels could not be sustained.

Senator SANTORO—But they are basically decisions that have been made by the ABC board independent of government.

Mr Balding—Correct.

Senator SANTORO—And originally that decision, in terms of Kids and Fly, was a decision made by the board.

Mr Balding—I would have to have a look at that.

Senator SANTORO—I want to go to part of your answer—that is, there are further difficult decisions that need to be made. I refer particularly to the national interest initiative funding. Is it correct that the coalition provided the ABC with an additional \$71.2 million of program funding over four years from 2001 under the national interest initiative?

Mr Balding—Correct.

Senator SANTORO—Are you able to confirm that this was in fact the first additional program funding that the ABC has received from a federal government since the mid-1980s?

Mr Balding—Definitely, since I joined the ABC in early 1996. I am led to believe it has been a long time since the ABC received additional funds along those lines.

Senator SANTORO—I suggest to you that that was the first additional program funding received since the mid-eighties. If that is the case, would you agree with the minister that a decision about future funding and continuation of programs and other initiatives under that funding is best made only after the effectiveness or whatever public interest test you apply to that ABC activity has been properly evaluated? Given that there is still some time to go before that funding runs out, do you think that that is a reasonable public policy stance and a reasonable business management approach?

Mr Balding—The renewal of any funding should be reviewed to assess its effectiveness. I was keen and the board was keen to have the commitment in respect of the national interest initiative before it ceases. These are programs that have been established. They involve the employment of a number of people and we would need to be in a position to know before the end of the program, before the funds run out, whether or not that program is to be renewed. As you are aware, we had a triennial funding submission to put to government. The fact that that funding did run out during the triennium meant that it was only proper that the ABC board sought a commitment from government as part of that triennium outcome.

Senator SANTORO—In relation to the continuation of programs that have been funded under that initiative, presumably you have embarked on the implementation of recommendation 9, paragraph 5.64 of Audit report No. 40 2001-02, *Corporate governance in the Australian Broadcasting Corporation*. Are you aware of that recommendation?

Mr Balding—I am aware of the report, if you could help me with the recommendation.

Senator SANTORO—That recommendation says:

The ANAO recommends that, to enable the Board to assure itself that the ABC is delivering a news and information service that is independent, accurate and impartial, the material regularly presented to the Board on the basis of audience feedback be improved by addressing the issues of independence, accuracy and impartiality which should be supported by appropriate statistical surveys or other analysis.

The ABC response to that recommendation was that you agreed with that general principle.

Mr Balding—Yes.

Senator SANTORO—Has that criterion been adopted in decision making in relation to the programs that you want to be continued to be funded under the national interest initiative?

Mr Balding—Yes.

Senator SANTORO—Are you able to make that information available to the committee—the results of your surveys?

Mr Balding—It is a continuing process across all our programs and services.

Senator SANTORO—Are you able to make available to the committee the criteria you used for the programs funded under that initiative, and the feedback you have been receiving on them?

Mr Balding—We would be able to do that, but again it is still fairly early in the program itself.

Senator SANTORO—Which is the point.

Mr Balding—A couple of initiatives that were rolled out were only rolled out as late as January this year—the reintroduction of a weekend news service in Darwin and in Canberra.

Senator SANTORO—With respect, that is precisely the point that the minister made in response to a question from Senator Conroy—that it is still early days for anybody, including, I presume, your board, let alone the government, to make decisions on forward commitments for that type of programming.

Mr Balding—We can make available to this committee any feedback we have on the other programs that were rolled out earlier.

Senator SANTORO—I am asking—and I am trying to get you to agree with me; I am sure that has occurred to you—whether you think, particularly in view of what you said towards the end of your last answer, that it is still early days for some of the programs and the jury is still out, including whatever empirical research you have done and whatever empirical feedback you are getting from audiences.

Mr Balding—I do not think the jury is still out on the benefits that are coming out of this program. I just need to remind you about the Canberra bushfires where, if it had not been for the ABC reintroducing the weekend news service on the weekend of those fires, ACT residents would not have been kept as well informed as they were. In fact, we went live a weekend earlier than we were scheduled to. We were scheduled to go live on the long weekend in January; the fires were the weekend before that. We were in rehearsal and we actually went live that weekend. The jury is not out on the reintroduction of the weekend news service in Darwin. Essentially, the ABC is the only media television broadcaster in the Northern Territory providing seven days of news and current affairs. I do not think the jury is

still out on other initiatives for the regional program makers, such as 50 program makers producing 10,000 hours of additional regional radio content. The benefits of that were demonstrated pretty well on day one, when additional regional radio content went to air.

Senator SANTORO—Is it true that in previous estimates answers the ABC acknowledged that its level of government funding was higher in real terms than it was under the last year of Labor in 1995-96?

Mr Balding—Higher in real terms? I will refer that to Mr Pendleton, if I may.

Mr Pendleton—In real terms, the ABC's funding in 1995-96—when adjusted on a comparative basis—was \$596.5 million. The 2003-04 appropriation is \$591.3 million. That is \$5 million less in real terms.

Senator SANTORO—It is \$5 million less in real terms?

Mr Pendleton—Yes.

Senator SANTORO—That is not the information that I have.

Mr Balding—We would be happy to take that on notice and provide you with details.

Senator SANTORO—Would you be able to do that?

Mr Balding—Yes.

Senator SANTORO—I would be grateful for that. Is it true that since 1986 the ABC has been transmitting some 160 additional radio and television services? Is it also true that these include additional Triple J services, additional news radio services, additional local radio services and additional analog TV services? Would you be able to give the committee some idea of the sources of funding for these additional services?

Mr Balding—Mr Knowles might be able to address that for you.

Mr Knowles—All the extensions of transmission services are in fact fully funded by the government under one appropriation or another.

Senator SANTORO—Sorry, could you repeat that?

Mr Knowles—All the extensions of transmission services are fully funded by the government under separate appropriations.

Senator SANTORO—Would there be within the board an opinion that the government, including the government that is currently in power, has been reasonable in funding all of those additional services?

Mr Knowles—Almost since broadcasting commenced, the extension of services has been a matter which government has taken under consideration and decided at appropriate times whether it should or should not extend the services. I think that has been true for at least all the time that I have been in broadcasting.

Senator SANTORO—Is it also the case that, despite the ABC's constant claims of underfunding, the ABC has been able to develop and expand its online presence significantly since 1996 to the extent that its web site content and web casting capacity are among the most extensive in the country?

Mr Balding—That is the point I was making. Although one could argue that ABC funding has been maintained, you need to have a look at it in the context of the way that the ABC has been able to expand its programs and services, and ABC Online is a very good example of that.

Senator SANTORO—What you are really saying is that you are capable of achieving efficiencies to fund additional services?

Mr Balding—I am saying that our ability to continue to identify those sources of funding is limited; they have come to the very end.

Senator SANTORO—Mr Balding, I want to ask you a few specific questions and you may want to take these on notice. How many staff at the ABC are currently paid \$100,000 or more per year? Also, how many staff at the ABC were paid \$75,000 or more per year in 1996?

Mr Balding—I will take that on notice.

Senator SANTORO—In addition, how many journalistic staff at the ABC are currently paid \$75,000 or more per year, and how many journalistic staff at the ABC were paid \$50,000 or more in 1996?

Mr Balding—I will take that on notice.

Senator SANTORO—I now want to ask specific questions in relation to a particular presenter at the ABC. Is it true that Indira Naidoo, the presenter of the occasional five to 10-minute ABC TV program *Feedback*, is paid a salary of more than \$250,000—\$256,000 to be exact? With mandatory built-in salary on-costs, this would be a cost to the ABC of more than \$300,000. Is that right?

Mr Balding—I will take that on notice.

Senator SANTORO—Is it also true that each week you fly Ms Naidoo from Sydney to Adelaide to record the program in Adelaide? What does that cost? Is it business class travel? And what other costs are incurred to enable Ms Naidoo to present the program?

Mr Balding—I will take that on notice.

Senator SANTORO—I would be grateful for that. Are you able to confirm that in the recent budget the government announced that it would continue the extra funding for Radio Australia that was first provided in 2001?

Mr Balding—That is correct. It has provided the continuation of the additional transmission money for Radio Australia.

Senator SANTORO—Is the ABC exempt from the government's efficiency dividend?

Mr Balding—It has been and continues to be so.

Senator SANTORO—Is it true that SBS was only exempted from the efficiency dividend in 2003-04?

Mr Balding—I am sorry, but I do not know that.

Senator SANTORO—I appreciate that. But if that were the case, would you agree that the ABC figured better than that particular authority?

Mr Balding—Before you get into any comparatives, you need to go back to 1996-97 and 1997-98 when the ABC lost \$66 million of funding.

Senator SANTORO—That was one of the questions I was going to ask you: is it true that, other than the cuts that you have just mentioned in the 1996-97 budget, the ABC has not been subjected to any budget cuts under the Howard government?

Mr Balding—That is correct.

Senator SANTORO—What I am trying to do here is to balance up the ledger, because I was expecting the line of questioning from the opposition. My final question is: do you accept that, within the overall budget restraints where just about every other government department has been subjected to cuts and the very strict requirement to provide efficiencies, the ABC has been relatively well treated?

Mr Balding—That is a decision of government and for the Australian public to interpret.

Senator SANTORO—Chair, I am finished with this particular strand of questioning, but I have other questions in relation to governance.

CHAIR—We will perhaps come back to them, because we are proposing to have a 15-minute break now. We will have a coffee break now, so that everybody can stretch their legs and regain their energy.

Proceedings suspended from 11.00 a.m. to 11.16 a.m.

CHAIR—We will start with questions from the Democrats.

Senator CHERRY—If these questions have been answered earlier, just let me know and I will pick them up from *Hansard*. I am interested in the cost of redundancies flowing from the various restructurings of the ABC over the last three years. Are there still any ongoing costs associated with those redundancies?

Mr Balding—I would say there are about two years to go in respect of the repayment of that debt to fund the redundancies. Mr Pendleton would be able to confirm that.

Mr Pendleton—There are about two years left. There is a residual debt of about \$17 million to \$18 million.

Senator CHERRY—And that still comes out of your core budget?

Mr Pendleton—Correct.

Senator CHERRY—There was a proposal in your budget submission for a new broadcasting service for North Queensland, and as a senator for Queensland I was delighted to see it. As I understand it, the actual physical facilities you have in Townsville at this point in time are basically capable of running as soon as the recurrent funding is ready and there for that service to be put in place as a regional television service.

Mr Balding—That is not correct. There is a television studio there that has been mothballed for quite some time. Under our proposal, if we were to secure ongoing funding, we would have found funding from our own capital budget to digitise those studios. So there would be a lead time to do an effective news service out of there.

CHAIR—But the physical facilities of the mothballed studio represent a fairly significant investment which is not being used at all at this point in time?

Mr Balding—We have the capability to do satellite crosses, I believe, and to do interviews out of there, and it is used for that. We can pre-record interviews, but at this stage I do not believe it is sufficiently fitted out to produce a seven-day a week news service out of there.

Senator CHERRY—I understand that the special initiatives funding, which you have discussed with Senator Santoro, runs out in two years. Could you explain what the impact of having a cut-off date in two years time will have on your trying to run those initiatives?

Mr Balding—A similar question was asked, and I attempted to address it. The ABC would need some advance notice if that program were not to be renewed, because it has significant employment implications where you need to identify the wind-down costs, and if there are any exiting costs or redundancy costs we would need to factor them into considerations prior to the cessation of the actual funding itself. We will be putting a submission to government again in respect of seeking the renewal of that, but we need advice before midnight on 30 June of the funding year in which it ceases.

Senator CHERRY—How many staff have been employed under that initiative funding?

Mr Balding—I do not know the precise number, but with one particular initiative there were 50 new program makers. In respect of regional radio, there are other initiatives that have staffing implications. The new *Business Breakfast* program, which comes out on television five mornings a week, has, obviously, staff implications.

Senator CHERRY—Does your budget include worst-case contingency funding for redundancies for those programs being closed down in two years?

Mr Balding—We have put an amount of funds aside, notional at this stage. If we were given advance notice that the program was not to continue, I would fund any exit cost out of the national initiatives program.

Senator CHERRY—Do you have any figures on viewer numbers for the ABC digital channels Kids and Fly or on how successful the uptake rate for them has been out in digital land?

Mr Balding—The audience figures are a bit difficult to get. You need to understand that people can access those two digital channels either through a set-top box or digital television or through the pay services of Optus, Austar and TransACT. The latest figures that I had in respect of viewing was that, I think, ABC Kids had about 500,000 viewers a month and Fly TV about 300,000 a month—a small but growing audience. Ms Marshall might be able to confirm those figures for me.

Ms Marshall—Yes, those are the correct reach figures. This question was asked at the last estimates and I think that information was provided on notice. We could do that again.

Senator CHERRY—Thank you. What impact do you think the closing down of those two stations would have on digital roll-out in Australia?

Mr Balding—I believe it will certainly have an impact. This is one of the reasons that the ABC was arguing for content for the multichannels—it was around the strategy to assist the acceleration of the take-up of digital. We believe that providing compelling content on those

digital services would provide additional incentive for people to switch over to digital. In other words, it is an additional service that was not available. I believe it will have an impact on the roll-out. The research that we undertook in putting together our triennial funding submission was fairly conclusive in that providing additional service and that compelling content in turn provided incentive for consumers to at least go and buy a set-top box or access the services through the pay-TV platforms.

Senator CHERRY—In your funding submission you talk about the funding source for the current triennium. You say that you have been able to draw on a number of one-off savings to supplement funding to television programs but that the ABC has exhausted the options for application of such supplementary funding. Could you give the committee some examples of the sorts of supplementary funding sources you have found and why they have dried up?

Mr Balding—I can give you a couple of examples. Two or three years ago our employers superannuation liability underwent an actuarial study and it was determined that we were initially some \$12 million ahead of our liability. We had the option to take a windfall gain and have our premium reduced by that \$12 million or to spread that premium out over another 10, 15 or 20 years. We viewed that as a one-off source of funds. I think that is a pretty good example. We chose to take that windfall gain in that year. The following year, from memory, an additional \$4 million came via that source. Other examples of one-off sources of funding include that we had a reduction in our workers compensation premium. We had implemented some significant risk management strategies. That was recognised by our insurer. In fact, our premium was reduced for one year—I think by \$300,000 or \$400,000. That is another example of a one-off source of funds. It is not reoccurring, because you then adjust your premiums back and those premiums are ongoing.

Senator CHERRY—Will the actuarial situation with your super liabilities change as a result of the fund earning rates for the last year or so?

Mr Balding—They could do. They could fluctuate from year to year, depending on the actuarial studies.

Senator CHERRY—But when would you know that in terms of the next financial year?

Mr Balding—Mr Pendleton might be in a position to answer that.

Mr Pendleton—I would probably have to take that on notice. I think those rates are probably already in.

Senator CHERRY—I would be staggered if there was an employer in the country running a surplus in their super funds this year. What do you estimate the impact of the loss in aggregate of those one-off savings would be on your budget in the next triennium?

Mr Balding—In the triennium that was just announced as part of the outcome of the budget or in the 2006 triennium?

Senator CHERRY—The 2003-06 triennium.

Mr Balding—It is having that impact now. We identified up-front in the triennial funding submission we put to government that we could not identify any further one-off sources of funding. That is not to say that one-off sources of funding and windfalls may not become available over the next period, but we could not identify any further savings.

Senator CHERRY—Does your proposal to roll out broadcasting services to regional Australia at \$6 million, \$14 million and \$19 million include any funding of content?

Mr Balding—No, it is purely additional transmission funding to extend the reach of existing ABC programs and services. Even if we were to receive that money, it would not result in one extra minute of content. It is purely transmission funding.

Senator CHERRY—I am just trying to get an idea of what your estimate would be of the funding that you have available for content for the next triennium compared with the last triennium.

Mr Balding—That is one of the things we are going through at the moment. As I said, I am sitting down with my executive and we are working our way through it. It is very difficult process.

Senator CHERRY—At what point do you think the Senate or the public will be advised about how much money you have for content?

Mr Balding—As advised earlier on this morning, at this stage our timetable is to have a final budget strategy to our board at the end of July. So it would not be any earlier than the end of July.

Senator SANTORO—I would like to canvass some issues of balance in the ABC's news and current affairs presentation. I need to say at the outset that I do so with some reluctance, because I believe that the ABC is an invaluable public asset and its services are generally first-class. ABC broadcasting is, of course, an essential medium for Australians. But, in recent times, I believe there have been some instances where objectivity has been lost, to a considerable extent. I would like to get your views on that from your perspective, which, of course, is effectively the perspective of the editor-in-chief of the ABC. I particularly want to refer to some comments made by the ABC's Director of News and Current Affairs, Max Uechtritz, at the second annual Newsworld Asia conference in Singapore last August. He said at that conference that, in hindsight, the ABC was guilty of slanting its reporting of the Afghanistan conflict towards the United States view of international military operations there against the Taliban and al-Qaeda. I would like to ask you whether it is true that Mr Uechtritz told the conference, 'We now know for certain that only three things in life are certain: death, taxes and the fact that the military are lying bastards.' Are you aware of that comment?

Mr Balding—No, I do not believe I am.

Senator SANTORO—He also said, at the same conference, 'The lessons of war? So much technology, so many outlets, so much ignorance.' I would like to ask you whether you agree with Mr Uechtritz's comments, including the one about the military being lying bastards. Do you consider that this is an appropriate comment for Mr Uechtritz to be making on behalf of the ABC?

Mr Balding—Can I say first of all that, in respect of the ABC's processes—and I would need to take on notice what was said and in what context—I am confident that the ABC has adequate processes in place to ensure editorial balance and fairness throughout all of our programs and obviously, in particular, our news and current affairs programs.

Senator SANTORO—But if that individual in fact made those statements—and I am able to provide you with some information that demonstrates that—do you think that they were appropriate statements for somebody in his position to be making?

Mr Balding—I am not in a position to comment on that because I would need to look at the comments and look at the context in which those comments were made.

Senator CONROY—Which part of the kids overboard fiasco—

Senator SANTORO—I am more than happy to come to the ABC's coverage of the kids overboard fiasco shortly.

Senator MACKAY—Well hurry up, because we are running out of time.

Senator SANTORO—If you will let me continue in silence, as I allowed you, Senator Conroy, I will be happy. Otherwise I am happy to banter with you, I will just take up a bit more of your time. Mr Balding, if in fact Mr Uechtritz said those words—and he did—do you think that he should have been spoken to or counselled by his superiors if they became aware of those words?

Mr Balding—Again, I would need to look at the words in the context in which they were said.

Senator SANTORO—Would you be able to find out whether any action was taken in relation to that particular situation?

Mr Balding—What was the date of this?

Senator SANTORO—It was in August last year.

Mr Balding—If it was August last year, at that stage I was Mr Uechtritz's superior. I have not spoken to him about that.

Senator SANTORO—Given the examples of the ABC questioning the veracity of claims made by the US military and the US government in its Iraq coverage, and I do have a small compendium of those particular comments by ABC reporters, is it true that Mr Uechtritz's predetermined view about the military being lying bastards found a loud echo in the ABC's coverage of the Iraq war?

Mr Balding—Again, I would need to look at that in the context in which those comments were originally made.

Senator SANTORO—I want to proceed along this particular line of questioning despite your unawareness, if I can put it that way, of Mr Uechtritz's predispositions because I think that it strikes at the heart of the way that the ABC has reported the conflict in Iraq. Would you be able to provide the committee with copies of all editorial directives issued by Mr Uechtritz to staff about the ABC's coverage of the Iraq war?

Mr Balding—I will take that on notice.

Senator SANTORO—Would you be able to provide those to the committee?

Mr Balding—Yes.

Senator SANTORO—Thank you. Are you aware that Mr Uechtritz is on the board of the CEW Bean Foundation, which was established to honour CEW Bean and to commemorate Australian war reporting?

Mr Balding—Yes.

Senator SANTORO—If in fact you find out that it is Mr Uechtritz's view that the military are lying bastards, do you believe it is appropriate for him to be on the board of the CEW Bean Foundation?

Mr Balding—Again, I would like to look at that in the context of those comments and what was said.

Senator SANTORO—If you found that they were as offensive as some Australians find them, would you think—

Mr Balding—It would not be my decision; that would be a decision for the board of that foundation.

Senator SANTORO—I have a copy of a RAM bulletin dated November 2001. RAM is the Refugees, Asylum Seekers and Mass Media project. This organisation exists to 'promote best practice in media representation of refugee and asylum issues'. Is it true that this bulletin refers to the RAM project being centre stage at the biggest gathering of the world's news executives in Barcelona? Are you aware that it refers to a special session whose participants include Mr Uechtritz?

Mr Balding—I can remember that event taking place and, yes, I believe that Mr Uechtritz was there.

Senator SANTORO—I would like to make you aware that the bulletin states that the session:

... will examine the extent to which the rights of asylum-seekers, internally displaced people and refugees are catered for by the media, and consider how broadcasters can communicate the complexities of their amazing stories without losing audiences or exacerbating internal and international tensions.

Do you think that refers to the relaunch of the Media Workers Against War organisation? Are you aware that the RAM bulletin also states:

What a pity it took the atrocities in the US and the bombing of Afghanistan to galvanise opinion formers against Islamophobia.

Mr Balding—No, I am not across the detail of that.

Senator SANTORO—Would you be able to outline the relationship—assuming that they are the objectives of that particular conference—between the ABC and the RAM project?

Mr Balding—Could I take that on notice and provide the committee with the answer.

Senator SANTORO—You certainly can. Is the ABC a member of RAM and has it provided any funding to RAM?

Mr Balding—I would have to take that on notice.

Senator SANTORO—Does the ABC support the RAM project credo in its reporting of illegal immigrant issues?

Mr Balding—Again, I will take that on notice in the context.

Senator SANTORO—Did Mr Uechtritz have any formal role at the Barcelona conference other than participating at the RAM session?

Mr Balding—Again, can I take that on notice.

Senator SANTORO—Would you also be able to find out for the committee who paid for Mr Uechtritz's travel, accommodation and other costs of the conference?

Mr Balding—Yes.

Senator SANTORO—I would be grateful for that. Are you aware that the British newspaper the *Guardian*, reporting on the same Barcelona conference in an article headlined 'Repeat showings of towers "pornographic"', stated:

Max Uechtritz, director of news and current affairs at the ABC network in Australia, pointed out that at least 1,000 fewer people had died in New York than perished in Srebrenica, when "people were taken out and shot" in an even more horrific manner than the instant deaths on September 11. "Because it was a western capital, the scale seemed bigger," he said.

Do you consider that Mr Uechtritz's comments were accurate and appropriate given that he was speaking only two months after the World Trade Center attacks? Do you think that the purpose of his comments was to play down the extent of the atrocity of the World Trade Center attacks?

Mr Balding—Again, can I take that on notice because I am not aware of the details of those comments.

Senator SANTORO—I would appreciate, when you provide answers to the committee, if you as the Managing Director of ABC are able to provide your opinion in relation to those reported comments.

Mr Balding—I will.

Senator SANTORO—It seems that, despite the claimed parlous financial state of the ABC, Mr Uechtritz has a penchant for overseas travel. I also have a program and list of delegates for the Eurasian Media Forum 2002 held in Almaty, Kazakhstan in April 2002. Mr Uechtritz was one of the delegates. Did you approve his travel for this conference?

Mr Balding—Yes. He was from memory—and I will take it on notice and clarify any issues of accuracy—speaking at the conference and he was invited to attend that conference.

Senator SANTORO—He is also listed on the program as a participant in a session titled 'The role of media in international conflict.' Do you have any idea what Mr Uechtritz said at the session?

Mr Balding—No, I do not.

Senator SANTORO—Would you be able to provide any documentation such as a trip report from Mr Uechtritz that indicates what he said at that conference?

Mr Balding—I will.

Senator SANTORO—I am grateful for your assistance. I want to perhaps take up the challenge of my esteemed colleague Senator Conroy and talk about other issues relating to

bias and balance. On the issue of balance and objectivity in ABC news and current affairs, I would like to get your comments on a number of issues. On 15 April last year, *Four Corners* ran a story that it headlined 'To deter or deny.' The program aired allegations that electric cattle prods had been used in a detention centre. What evidence did *Four Corners* have that cattle prods had been used on detainees? Did the ABC verify this allegation with the relevant authorities? Does the ABC today stand by that allegation?

Mr Balding—Can I take that on notice.

Senator SANTORO—I would suggest to you that that allegation was subsequently found to be incorrect. I would appreciate your opinion on that. On 22 April last year, *Lateline* ran a story about a video of a riot at the Curtin Detention Centre. Is it true that the story did not include any comment from Australasian Correctional Management or the federal government? And if that is so, why was this the case? Was any comment sought and did the Australasian Correctional Management and/or the government refuse to make comment for publication?

Mr Balding—I will take that on notice and provide the answer.

Senator SANTORO—Is it true that the leaked video in the story was nine months old?

Mr Balding—I am not aware of that and again I will take it on notice.

Senator SANTORO—Given the age of the video, did the ABC consider it important to seek the necessary information about the facts of the situation? Didn't the story also focus on the lack of availability of medical services for asylum seekers?

Mr Balding—I will take it on notice.

Senator SANTORO—Given that the government released a statement the next day stating that the medical team was prevented from reaching the scene by other detainees, did the ABC consider it important to find out the reasoning behind the nonavailability of medical services?

Mr Balding—I need to take that on notice.

Senator SANTORO—Is it also the case that the video was shown as if it were continuous? Isn't it true that the time display on the video shows that it was edited; and why didn't *Lateline* mention this fact?

Mr Balding—I will need to look into that and take it on notice.

Senator SANTORO—I am grateful to you for saying that. I just want to put some questions to you; you can gather than I have some very real concerns about—

Mr Balding—I am sure you appreciate that I could not possibly be across all that detail. The ABC will address all those issues on notice and provide the answers to the committee.

Senator CONROY—Are you applying for a job as an editor of *Four Corners*, perchance?

Senator SANTORO—No, I am not. I am very happy in the job that I am in. In fact, Mr Balding, let me commend you on your \$400,000 saving in your improved injury risk management practices.

Mr Balding—Thank you.

Senator SANTORO—That was the business I was in before I came to this place, and a \$400,000 saving indicates great improvement in practice at the ABC; so congratulations on that. Safe workplaces are very important.

Senator CHERRY—Why aren't you concerned, Senator Santoro, about the *Daily Telegraph's* coverage of the incident?

Senator CONROY—I am sure he will spend a lot of time on it!

Senator SANTORO—I take Senator Cherry's interjection. The big difference with that publication is that it is not government funded, it is not funded by the taxpayers, and that is what we are doing here today.

Senator MACKAY—Then stick around for the Telstra estimates.

Senator CONROY—It does not have to follow the government's line, though; that is the point.

Senator SANTORO—I would be happy to attend some of the Telstra estimates.

Senator CONROY—Do you have a definition of 'independence'?

Senator SANTORO—What is the ABC's policy in relation to acknowledging the antecedents of ex-politicians who are interviewed or make comments on ABC current affairs programs?

Mr Balding—The editorial policies would require that any such thing should be made known during that program.

Senator SANTORO—So basically it is the ABC's policy that their political antecedents should be acknowledged?

Mr Balding—Yes.

Senator SANTORO—If so, do you believe that this policy is adhered to in a bipartisan fashion?

Mr Balding—Yes, I do believe so, although we do make mistakes and, as I have said to this committee a number of times, when we make mistakes we will acknowledge those mistakes and correct them.

Senator SANTORO—I will give you a couple of examples which, at least to me, indicate that that policy is not strictly adhered to. Former Labor senator Margaret Reynolds commented on Australia's election to the UNHCR on Radio National's *Breakfast* on 3 April 2002, but her Labor antecedents were not mentioned. This story commenced with a highly political lead from Vivien Schenker, who now works in the office of the Leader of the Opposition. In another example, former senator Mal Colston is usually referred to on the ABC as an ex-Independent senator, yet he spent more than three-quarters of his time in the Senate as a Labor senator. I just mention that to suggest that that particular policy is not being strictly adhered to.

What is the ABC's policy in relation to identifying think tanks as right-wing or conservative on the one hand or left-wing on the other hand? For example, in its frequent reporting of the Australia Institute on issues as wide ranging as the environment, child abuse and spam emails, to my knowledge the Australia Institute's left-leaning nature is never

acknowledged; however, right-wing leaning think tanks like the Institute of Public Affairs are usually tagged by the ABC as being conservative or right wing. Also, when *Four Corners* did a number on radio host Alan Jones it repeatedly tagged him as a conservative—

Senator CONROY—Did a number! Kroger spent an entire month trying to nobble it. Cut it out!

Senator SANTORO—Mr Balding, what is the ABC's policy on this matter and what monitoring is there of adherence to the policy? Are you able to provide the committee with any statistics on adherence?

Mr Balding—Yes, and the policy is clearly set out in our editorial policies, so I will be able to provide the necessary information.

Senator SANTORO—Do you acknowledge, from what I am suggesting to you, that there are obviously some lapses?

Mr Balding—There are lapses from time to time—taking into account the number of programs and the number of hours of news and current affairs that is broadcast both on radio and television and published on our online sites. Let me make it clear that we do make mistakes. I believe that in recent times the ABC has made a number of mistakes, and I have publicly apologised for those mistakes and will continue to do so.

Senator SANTORO—Without wanting to overlabour the point, I suggest that there is a certain consistency in some lapses, if we can put it that mildly.

Mr Balding—If you allow us to take it on notice, we will do a detailed analysis for you.

Senator SANTORO—I would be grateful if you would do that. I would like to ask some questions about the ABC's online reporting of opinion polls. Is it the case that ABC Online reported on an opinion poll supporting the Kyoto protocol in April 2001, a poll supporting heroin trials in August 2001 and a poll expressing concern about the state of universities in 2001? I think you will find that when you look into that the answer is yes. Is it true that ABC Online did not report on a poll in the first quarter of 2002 showing that 56 per cent of Australians supported the government's detention of illegal asylum seekers, with only 19 per cent opposed?

Mr Balding—I am not aware of the details, but I will take that on notice for you.

Senator SANTORO—Would you take that on notice. Is it also true that the ABC did not report on a poll in April 1998 showing majority support for Patrick Stevedores?

Mr Balding—I will have to take that on notice.

Senator SANTORO—Is it also true that the ABC also ignored a number of Newspan and Yellow Pages surveys showing support for the GST but did report on a survey—

Senator CONROY—Get a life, Senator Santoro!

Senator SANTORO—by the Commonwealth Ombudsman in November 2001 recording complaints against the GST?

Mr Balding—Can I please take that on notice?

Senator SANTORO—You certainly can. And do you agree that there appears to be a lack of consistency in the ABC reporting of opinion polls from what I have just outlined?

Mr Balding—I would have to have a look at that before I formed an opinion.

Senator SANTORO—Would you be able to provide me with your opinion after you have done that?

Mr Balding—Yes.

Senator SANTORO—Thank you. I would suggest that, basically, polls that support the government position seem to be underreported compared with polls that do not support the government position. I would appreciate an opinion from you in relation to the statement that I have just made. I would be grateful. Mr Balding, I now turn—and this of course will be of interest to Senator Conroy and I try to satisfy his reasonable inquiries—

Senator CONROY—What—a bit of balance?

Senator SANTORO—to the Senate Select Committee on A Certain Maritime Incident last year.

Senator CONROY—When the government lied?

Senator SANTORO—Is it true that during the Senate inquiry into a certain maritime incident last year a number of Canberra press gallery journalists authored a submission to the inquiry?

Mr Balding—I will have to have a look into that.

Senator CONROY—Yes.

Senator SANTORO—Do you know whether a number of ABC reporters were signatories to this submission and, if so, do you know who they were?

Mr Balding—Can I take that on notice?

Senator SANTORO—Are you aware that the submission clearly advocated an antigovernment position, accusing the government of ‘deliberate deception’, ‘blatant political manipulation’ and ‘harassment’?

Senator CONROY—Guilty as charged!

Mr Balding—I will take that on notice.

Senator SANTORO—Do you know whether the ABC signatories sought and obtained the permission of the ABC management to make that submission?

Mr Balding—I will have to take that on notice.

Senator SANTORO—As participants in this inquiry espousing a particular position, were these people prevented from reporting on the inquiry?

Mr Balding—I will take that on notice.

Senator SANTORO—Was any consideration given to preventing them from reporting?

Mr Balding—Again, on notice.

Senator SANTORO—Were they given any advice by the ABC management on (a) the need for objectivity in their reporting and (b) the need to declare their personal interest in the inquiry?

Mr Balding—Again, I will take that on notice.

Senator SANTORO—And does the ABC consider that the signatories could report objectively on the inquiry, if in fact you do find that the answer to those last three or four questions was no. Would you, as the Managing Director of the ABC, consider that the signatories could report objectively on the inquiry and that they did report objectively?

Mr Balding—I will take that on notice.

Senator SANTORO—What monitoring of this was undertaken?

Mr Balding—I will take it on notice.

Senator SANTORO—Thank you. Mr Balding, is it true that the inquiry received significant evidence on 25 and 26 March 2002 and that on seven of the 10 interceptor vessels there was a pattern of abuse of children by unlawful immigrants?

Mr Balding—Is that a question to me?

Senator SANTORO—Yes. Let me then follow up. Do you know whether the signatories from the ABC reported on this evidence on either 25 or 26 March?

Mr Balding—I will take that on notice.

Senator SANTORO—If not, could this have been because such reporting might contradict their personal views outlined in the submission to the inquiry?

Mr Balding—Let me take that on notice.

Senator SANTORO—And is it also true that David Marr has commented on the asylum seeker issue on *Media Watch* without disclosing the fact that he was jointly writing a book on the matter, presumably for commercial gain?

Mr Balding—Senator, let me take that on notice.

Senator SANTORO—And is such nondisclosure in accordance with the ABC editorial policies?

Mr Balding—I will take that on notice.

Senator SANTORO—Mr Balding, can you advise whether Ms Vivien Schenker—formerly of Radio National and now employed as Simon Crean's press officer—has resigned from the ABC or has she merely taken leave?

Mr Balding—Ms Howard may be in a position to provide an answer there.

Ms Howard—She is no longer an employee of the ABC.

Senator SANTORO—And what is the ABC policy on re-employing former staff who have left to work for a political leader in a political office?

Mr Balding—We would look at all staff applications on their merits.

Senator SANTORO—Do you recall a complaint from a coalition MP when a House of Representatives committee report entitled *Boys—getting it right* was released? The 7.30

Report did a feature on the report and interviewed the Labor deputy chair of the committee at length. The Liberal chair of the committee was not approached for an interview. What is the ABC's policy on whom from a committee should be interviewed about a report? Was that particular policy adhered to—

Senator CONROY—That is extraordinary.

Senator SANTORO—and why was the deputy chair chosen?

Senator CONROY—You have to toe the government line—you have to interview the government? Are you suggesting that is mandatory?

Mr Balding—I will need to take that on notice. Can you tell me the date of that program?

Senator SANTORO—I do not have the date here in front of me, but I will get that for you. I take Senator Conroy's interjections for the record.

Senator CONROY—You are going to have to.

Senator SANTORO—The point is that we are dealing with an organisation—

Senator CONROY—You are trying to suggest that they have a responsibility to interview the government on every story they do.

Senator SANTORO—No, I am suggesting that an organisation such as the ABC has the responsibility to at all times display balance.

Senator CONROY—It is to make a decision about what is newsworthy, not just print the government's propaganda.

CHAIR—Order! Let us go through the chair. Senator Santoro, address your questions to the witnesses.

Senator SANTORO—I refer to the lead-in to an ABC TV news story on Saturday, 15 February, which stated:

Indonesia claims a war on Iraq would be a war on Islam.

Is it a fact that this statement was not what was written by the ABC journalist in Jakarta, that the senior journalist's introduction was changed by a weekend network producer in Sydney and that this was done without the knowledge of the journalist in Jakarta?

Mr Balding—That is generally true, and I made an apology about that. We put an apology on air the evening that was brought to my attention.

Senator SANTORO—Thank you for that information. How usual is it for introductions by senior reporters to be rewritten by weekend producers?

Mr Balding—The policy is that they should not be changed unless you have conferred with the journalist. On that particular occasion, there was a breakdown—there was an error made. As I have said, I apologised to the Prime Minister and put a clarification on air that evening.

Senator SANTORO—Thank you. Do you recall that there was some media coverage of a Morning Star concert in support of West Papuan independence in February this year? Is it true that the Melbourne *Herald Sun* reported on 26 February that the minister for communications

had issued a directive to the ABC not to broadcast the concert, when in fact the only directive relating to the ABC's coverage of this concert was sent by Mr Gordon Taylor at the ABC?

Mr Balding—The minister did not issue any directive to the ABC about recording or reporting that concert.

Senator CONROY—Senator, are you suggesting that the government can direct this?

Senator SANTORO—Did Mr Taylor direct that all references to the ABC as a supporter of the concert be removed from the organisers' web site? Did he also tell the organisers that the ABC would not be broadcasting the concert? Did the ABC broadcast the concert?

Mr Balding—I might refer the last question to Ms Howard. From memory, when it came to the ABC's attention that they were using the ABC name and logo on that web site, we did request that they be withdrawn because it was very confusing in that it suggested we were sponsoring that concert and that was not the case.

Senator SANTORO—Did ABC management investigate how the organisers came to the conclusion that the ABC was a supporter of the concert and would in fact be broadcasting it?

Mr Balding—We just gave a directive that our name and logo be removed from that web site because we were not a sponsor.

Senator SANTORO—So the ABC provided no funding or other material support to the concert?

Mr Balding—Not that I am aware of. Ms Howard may be in a better position to answer that.

Ms Howard—We were listed as a sponsor on the web site for the concert, completely unbeknownst to us. It is an absolute contravention of our editorial policies. We asked them to remove us from the web site. In fact, we were very grateful to the minister's office for drawing our attention to the fact that we were listed on the web site.

Senator SANTORO—That is what I was referring to in my question before this.

Ms Howard—As you realise, it was nothing to do with us. It was not of our doing.

Senator SANTORO—The *World Today* program on ABC Radio on 14 March led with a story about a letter from the Minister for Immigration and Multicultural and Indigenous Affairs to community and ethnic media about their responsibilities. Is it not a fact that this letter was sent to the ethnic media more than a month before this report? The answer to that, I am certain, is yes. Is it not also true that this letter was widely reported on at the time that it was sent out, including by the ABC? Is it not also the case that the *World Today* story failed to point out to listeners that the letter referred to was more than a month old and sought to give the impression it had only recently been sent?

Mr Balding—I am not across that detail. I will have to take that on notice.

Senator SANTORO—Was the story rehashed as a lead-in to the next story on the program that day about how the US military was using new expert techniques to ensure that journalists disseminate their war propaganda?

Mr Balding—I will have to take that on notice.

Senator SANTORO—I would be grateful if you could. I remember listening to that particular program, and I was aware of the letter because the minister had indeed sent me a copy of it. I found the reporting of that letter a month after it had been sent as quite disturbing in the context of how it was being reported. Mr Balding, do you agree that the lead-ins provided by presenters of current affairs programs should accurately reflect the stories that follow the lead-ins?

Mr Balding—Of course I do.

Senator SANTORO—Do you recall a complaint last year when the *PM* program in the lead-in said that hundreds of rural doctors had shut their surgeries but the reporter stated seconds later that doctors in at least four New South Wales towns had decided that the risk is too great to beat, limiting their services to patients or shutting their doors altogether?

Mr Balding—I will have to look at the detail of that.

Senator SANTORO—When you do that and confirm that detail, I would appreciate it if you would give me your opinion whether you consider this lead-in was an accurate representation of the story.

Mr Balding—Yes.

Senator SANTORO—I would like to seek your views on a number of other examples of lead-ins in relation to the *AM* program coverage of the Iraq war. I stress that I have many of these examples, and I am quoting just a few. If I read them to you, you can provide me with your opinion—as you do with these sorts of queries—as to whether or not you think my concerns are justified. The first example is from 21 March, the first day of the war. The *AM* presenter stated that international aid agencies feared that hundreds of thousands of Iraqis could soon be streaming out of Iraq. However, the report itself only referred to one aid agency—the Red Cross—and made no mention whatsoever of hundreds of thousands of refugees. Do you consider that this lead-in was accurate? The second example was the next day. The presenter stated that tens of thousands of people had taken to the streets across the Middle East. The reporter then referred to large crowds on the streets in a number of countries and then stated, ‘In the Gaza Strip, however, thousands turned out.’ There was no mention of tens of thousands. In fact, the indication was that the Gaza Strip protest was the largest and that thousands—not tens of thousands—turned out there. Do you agree that this lead-in did not accurately reflect the report that followed? I would be grateful if you could take those two on notice.

Mr Balding—Sure.

Senator SANTORO—Let me give you two quotes from John Shovelan’s report also from *AM* on that day. In the first quote, John Shovelan said:

White House spokesman, Ari Fleischer, said the President hadn’t watched the opening of the air offensive on television—

and I now underline the part that is interesting from my perspective—

an indication of just how sensitive he is to launching a massive bombing campaign in an area so heavily populated.

What confidence do you have that the reason given by Mr Shovelan was actually the reason that President Bush did not watch the opening of the air offensive? And the second quote on the same day, also by John Shovelan:

Indeed today the Joint Chiefs of Staff said, I'm not sure he meant to say it—
and that is emphasised—

but he said the progress had been swift, swifter than it would have been if chemical weapons had been used.

Senator CONROY—This is reaching censorship levels.

Senator SANTORO—Clearly, the joint chiefs of staff were referring to Iraqi use of chemical weapons, so why do you think Mr Shovelan tried to leave an impression that the joint chiefs of staff—

Senator CONROY—It is a call for balance.

Senator SANTORO—We are talking about balance here, Senator Conroy.

Senator CONROY—No, we are not; it is censorship.

CHAIR—Please speak through the chair.

Senator SANTORO—As I said, Mr Shovelan tried to leave an impression that the joint chiefs of staff were actually talking about the US using chemical weapons.

Mr Balding—I will have to take all that detail on notice and provide a response to the committee.

Senator SANTORO—More generally, what day-to-day monitoring did the ABC undertake in its coverage of the Iraq war? Could you also provide a copy of any reports or analysis that the ABC did on its coverage of the war? Could you also inform the committee of any examples of the ABC coverage of the war that the editorial staff of the ABC considered to be inappropriate, inaccurate, unprofessional or contrary to the ABC's editorial policies?

Mr Balding—Let me take all that on notice.

Senator SANTORO—Thank you. Did you watch the *Four Corners* program on the Iraq war, reported by Liz Jackson, which went to air after the war ended?

Mr Balding—No, I do not believe I did.

Senator SANTORO—When you have a look at it or get a report on it, would you tell me whether you consider that this program fairly and accurately reported the conduct of the US military during the war? Would you think that it quite deliberately sought to give the impression that the US military was (a) incompetent, (b) uncaring, (c) gung-ho, (d) ill prepared, and (e) not welcomed by the Iraqi people?

Senator CONROY—You are not serious!

Senator SANTORO—If you will take some advice or view the program yourself—

Mr Balding—I will view the program.

Senator SANTORO—I would appreciate your views on those conclusions by the program.

Senator CONROY—Just before you move off that issue, could I just ask one question to follow up Senator Santoro's. It might give Mr Balding an opportunity to actually do something other than say, 'I will take it on notice.' Senator Santoro might want to look at the Australian National Audit Office *Corporate governance in the Australian Broadcasting Corporation* report.

Senator SANTORO—I referred to it in previous—

Senator CONROY—Obviously you have not read it, though you might have referred to it. Mr Balding, could you comment on the findings of the ANAO report into the ABC? What did the report find in regard to the ABC's editorial independence and integrity?

Mr Balding—From memory, and I cannot quote it—you have it there—the ANAO found that the ABC had adequate measures in place to ensure that we delivered balanced and unbiased news and current affairs coverage. That report also made a number of recommendations which the ABC management have agreed and accepted, and we are in the process of implementing those recommendations to further improve our corporate governance processes.

Senator CONROY—That would not have suggested you were absolutely perfect at all times—

Mr Balding—No.

Senator CONROY—but it found that the processes were in place.

Mr Balding—I believe it found—and I am paraphrasing—that we had sufficient robust processes in place to demonstrate that the ABC delivers fair and balanced reporting.

CHAIR—Senator Santoro, you have a few more questions, I gather.

Senator SANTORO—Yes. This will be my last series of questions. Again I am taking up the lead of my esteemed colleague Senator Conroy in referring to the *Corporate governance in the Australian Broadcasting Corporation* report. I have not read it in total but I have read considerable parts of it. Mr Balding, I would like to go through some issues of corporate governance with you. This is in the context of the December 2002 report of the Joint Committee of Public Accounts and Audit. As you would appreciate, this is an all-parliamentary committee and its report was unanimous. Is it true that the report found that there were significant gaps in the ABC's collection of performance data? I refer you to finding 2.10, which is of particular interest to me as a representative of many regional Australians who do not have access to full locally based and oriented ABC news and current affairs programming. This finding noted:

... what data was available indicated that the ABC had some difficulty in meeting its Charter obligations in relation to adults 25-39 years of age and rural and regional Australians.

Does the ABC agree that it has some difficulty in meeting its charter obligations to these groups?

Mr Balding—I will take that detail on notice, but I think what we need to keep on the public record is the finding of the ANAO report that found there was no evidence that the ABC did not fulfil its charter.

Senator SANTORO—How does the ABC analyse its performance data against its charter obligations? Does the ABC agree with the committee's recommendation that it should develop and implement a process for performance measurement against its charter obligations?

Mr Balding—As I said, we agree with all those recommendations. I think we put a qualification on two of them. What you have to remember is that these recommendations may be fine in theory; it comes back to an issue of resourcing and funding and practicality. What the ABC is not in a position to do is to go out and do individual research before it commissions every individual program. What it will do—and we have increased our audience contacts and surveys over the last 12 to 18 months—is to regularly go back to our audiences and seek their views. The latest audience survey was an audience appreciation survey. It was a very complex, very comprehensive survey. It was in June last year, and we will be undertaking a similar survey this year as well.

Senator SANTORO—Will the ABC specifically report on its performance against its charter obligations in its annual report, as recommended by the committee?

Mr Balding—Yes, it will.

Senator SANTORO—How will that be done?

Mr Balding—It will be done through a series of measures and particular performance measures.

Senator SANTORO—Is it true that finding 2.11 of this report found:

... objective performance data in relation to regional and rural audiences is not as readily available as data in relation to metropolitan areas and it is therefore not possible to determine whether the ABC is effective in meeting its obligations in this area.

What objective performance data does the ABC maintain in relation to regional and rural audiences? If that data is available, would you be able to provide it to the committee?

Mr Balding—We will provide an answer on that. You have to remember that the audience survey undertaken by a number of organisations and agencies predominantly centres around the capital cities of Australia. The actual audience survey data in respect of regional Australia is obviously not obtained as frequently as it is in the capital cities. So there is a difficulty in obtaining relevant audience data in respect of regional and rural Australia.

Senator SANTORO—But if you have any data would you be able to provide it?

Mr Balding—Yes, we will.

Senator SANTORO—Does the ABC agree with the committee that deficiencies in data collection 'can have the unintended effect of a more urban focus to programming and resourcing decisions'?

Mr Balding—I do not believe so, no. It comes back to the individual program makers. I think you need to acknowledge, or at least be aware, that with the spread of the ABC in respect of regional radio and throughout Australia we have very close contacts with our regional and rural communities. For a number of areas in regional Australia we are their lifeline; we are their sole communication medium. Our strength is in engaging and continuing

to engage with those communities. Our broadcasters, our journalists and our staff are in constant engagement with our regional and rural audiences.

Senator SANTORO—I gather from your answer that the lack of quantitative data is made up for by qualitative contact with your region.

Mr Balding—The actual audience surveys undertaken by ratings agencies and audience-surveying agencies are obviously very few and far between in regional and rural Australia. They do not happen there as regularly as they do in the metropolitan areas and capital cities.

Senator SANTORO—Mr Balding, is it true that the committee also noted, in paragraph 2.23, that ‘direct consideration of charter obligations does not appear to be an essential part of scheduling decisions’? How are the ABC’s scheduling decisions linked to its charter obligations? What processes are followed? How is compliance with the charter measured? How does the ABC report against its charter obligations?

Mr Balding—I am more than happy to provide a full and detailed answer to that.

Senator SANTORO—Thank you. Is it also true that the committee noted in paragraph 2.27 of its report that the Dix report in 1981 recommended that the ABC adopt output budgeting and that the Australian National Audit Office has also recommended that the ABC move to output budgeting?

Mr Balding—We have moved to output budgeting. Mr Pendleton might be able to elaborate a bit further on that.

Mr Pendleton—The ABC has been on an output basis for the last three to four years and is currently reviewing its programs in line with the recent reforms in the government financial framework.

Senator SANTORO—Mr Balding—and you may be happy to know that this is my last question of you—is it true that the committee found that the 22-year delay in implementing the Dix report recommendation ‘indicates that there may be underlying cultural resistance to accountability which must be addressed’? Perhaps you could explain the cultural and technological difficulties that prevented the ABC moving to output budgeting for so long. Is it not the case that the committee concluded that it was not satisfied that the implementation of information technology ‘is an adequate explanation for the deficiencies and delays in implementing an integrated reporting system’? Aren’t such systems fundamental to the ABC ensuring that its finances are linked to its charter obligations? Is the ABC now moving to output budgeting in 2003, as it promised the committee? In asking this question I bear in mind the answer just provided. Perhaps you could provide the committee with a written answer to those questions outlining the roll-out.

Mr Balding—We will do that. There is obviously a statement of fact in what the committee’s view and what the committee’s findings were. Let me say that the ABC does not necessarily agree with the interpretation of the committee’s views and findings, but I am more than happy to provide a detailed response to those questions.

Senator SANTORO—Thank you. I appreciate your courteous consideration of my questions, and I look forward to your replies.

CHAIR—We will now go to Senator Lundy or Senator Mackay.

Senator MACKAY—I think Senator Conroy has questions for the minister. How far away is the minister?

CHAIR—We are not quite sure, but he will be here as soon as he possibly can be.

Senator MACKAY—The opposition make the point that it is preferable that the minister be here when his own estimates are being heard.

CHAIR—I think he has a good reason for not being here.

Senator MACKAY—I do not think there is such a thing.

Senator CONROY—This is in his diary; it is Senate estimates. The purpose is to ask questions of the minister and the department.

CHAIR—It is, but sometimes ministers have to attend to other matters of urgency. I think Senator Alston is attending to an urgent matter. He would very much like to be here, and he will come back as soon as possible to answer your questions.

Senator CONROY—I have two questions that I can ask Ms Williams in the interim, and hopefully he will turn up. Can the department explain how the figures of \$488.7 million in 2003-04, \$501.4 million in 2004-05 and \$512.9 million in 2005-06 represent the ABC's funding being maintained in real terms over the coming triennium? How were these figures determined, given that there appears to be no corresponding figures in the previous budget papers?

Ms Williams—I gather that the figures you have read out are the base funding, so that is just general indexation.

Senator CONROY—There were no figures in the previous budget papers—is that right?

Ms Williams—I am not sure that I understand the question.

Senator CONROY—What were the corresponding figures in the previous triennium—2000-01 and so on? I am talking about the actual ABC base funding.

Ms Williams—We have got the figure for 2002-03, but I have not got with me comparative funding figures that go back for the full triennium.

Senator CONROY—I am interested in this concept of base funding and whether or not the 2003-04 figures and so on represent the base funding. I am just trying to make sure that we are comparing apples with apples. We had a concept of base funding previously; we just have a total figure now.

Ms Williams—We worked this out with a base funding figure, which represented the figures that you read out. On top of that, there are things like the on-off with the capital use charge, depreciation, the additional funding for Radio Australia that we have already discussed and the national interest initiatives that we have already discussed, and there is some other funding that has been added this year such as an amount for ComSuper and some adjustment for depreciation. On top of that of course, there is the appropriation for outcome 2, which is the analog transmission, and the appropriation for outcome 3, which is the digital transmission. There are also capital amounts added there, so it gets to the total figure in 2002-03 of \$807.7 million and in 2003-04, \$742.6 million. The base funding is the general funding that has been indexed in line with the government's commitment.

Senator CONROY—Sorry, I lost you at the end of that. Could you run that past me again.

Ms Williams—Having added all of those other amounts, I just mentioned that the base funding is the general funding that is not apportioned to those particular issues and it has been indexed in line with the government's election commitment.

Senator CONROY—In terms of the 2002-03 figure, what exactly was the corresponding figure? I am still confused.

Ms Williams—The base funding figure for 2002-03 was \$473.7 million and for 2003-04, \$488.7 million.

Senator MACKAY—Mr Balding, in earlier evidence you were unprepared or unable to rule out any potential cuts to ABC services to regional Australia. Are you able to give me a commitment that there will not be cuts to services in my home state of Tasmania?

Mr Balding—No. You would appreciate that I am not in a position to do that. We need to work our way through it.

Senator MACKAY—Are you able to give us a guarantee that there will not be any cuts or cessation of the ABC program known as *Stateline*?

Mr Balding—Again, that is a general ABC program and all programs and services are subject to review.

Senator MACKAY—Are you able to give us a guarantee that the same level of commitment will be given to local news content around Australia?

Mr Balding—There is a very strong commitment to keep our local news content, but again you need to appreciate that I cannot start speculating on individual programs or genres at this early stage. We have a lot of difficult decisions to consider and they will be considered over at least a two-month period.

Senator MACKAY—Are you aware of any instances where coalition members of parliament and senators have spoken to ABC journalists and, essentially, threatened them with respect to the way they have covered a particular issue—I am aware of a number of instances where this has occurred—and then gone on to say that they would go to their mates on the ABC board? Are you aware of any of those instances?

Mr Balding—No, I am not—not those details.

Senator MACKAY—Would you please inquire as to whether this has occurred?

Mr Balding—I will make inquiries. It would find it absolutely extraordinary, if that were the case.

Senator MACKAY—What would your attitude be if this had happened?

Mr Balding—As I said, I would find it absolutely extraordinary and I would see it as a threat to the independence of the ABC as the national broadcaster.

Senator MACKAY—Did the government contact you at all with respect to your decision or the ABC's decision to make your triennial funding ask public?

Mr Balding—No, they did not. That was my decision.

Senator MACKAY—And you have had no feedback from the government with respect to that?

Mr Balding—No.

Senator MACKAY—With respect to your web site, there was an article in the *Age* on 14 March in which it was indicated that the ABC's code of practice does not address the issue of material placed on its web site. Have you taken action to rectify this situation?

Mr Balding—We have looked at that and it will be picked up with the review of our editorial policies. The content on the web site is treated the same way as our content in respect of radio and television.

Senator MACKAY—So, basically, as far as you are concerned, that situation has been rectified?

Mr Balding—Yes—but to be formally rectified through the review and the amendment of our editorial policies.

Senator MACKAY—Has the ABC finalised rebroadcasting arrangements for ABC Asia Pacific?

Mr Balding—That is ongoing. In trying to extend the reach of ABC Asia Pacific, we are forever negotiating and entering into rebroadcasting arrangements with carriers. So it is ongoing.

Senator MACKAY—In the November estimates, the ABC was not in a position to provide details of audience numbers. This is a follow-up to the issue that was raised then. Can you provide details of the Synovate research into audience numbers for the last three months of 2002 and the first three months of 2003?

Mr Balding—Can I take that on notice and provide that to the committee?

Senator MACKAY—Yes. The anticipated commercial revenue to February 2003 was \$210,000. Has this been achieved?

Mr Balding—It is scheduled to be achieved but not in accordance with the budget. There is obviously a downturn in advertising revenue for ABC Asia Pacific, but let me make it clear again to the committee that the budget for ABC Asia Pacific is not predicated on receiving any revenue. Any revenue that comes in is on top of and is reinvested into programs.

Senator MACKAY—Do you have any idea of the projected commercial revenue for 2003?

Mr Balding—I would need to have a look at that. They are going through their budgets now.

Senator CONROY—Minister, I want to return to the implications of the cutting of ABC Kids and Fly TV, which we were talking about earlier. What incentive do you believe there will now be for ordinary Australians to buy a digital set-top box, given that those hours have now gone, or will be gone? What message do you think this will send about set-top boxes and the uptake?

Senator Alston—You are back onto what are the drivers of digital television. I suppose there is a mix of things. The price of the hardware is obviously a factor whether you are

talking about set-top boxes or integrated sets. The quality of the picture, I think, is a quite significant factor.

Senator CONROY—What did Kids and Fly look like on a plasma TV? Was it good? Did it impress you?

Senator Alston—I think my experience of Fly and Kids was confined to an ABC presentation; so perhaps you could remind me of what we looked at it on.

Senator CONROY—You didn't flick the plasma on?

Senator Alston—I do not think we did.

Ms Marshall—We did not see it on a plasma screen.

Senator Alston—What did we see it on? Was it through a box or an integrated set?

Ms Marshall—I think it was on a drop-down widescreen.

Senator CONROY—So you did not watch it on the plasma TV?

Senator Alston—Widescreen could also be said to be a driver more generally, because it fits more readily the video-aspect ratio. Other than that, I think that multichannelling, in principle, is likely to be a driver of take-up. It is then a matter of what is actually on offer. I noticed today, for example, that Kim Williams is reported as saying that, although take-up seems to have been fairly flat in recent times, he sees moving to digital as one of three very important events for Foxtel in the not too distant future.

Senator CONROY—Losing this service cannot be an encouragement to move into digital, surely.

Senator Alston—Everyone can weigh up the various inputs. As I said earlier, I think it is more likely that multichannelling in the broad, offering in the case of pay TV—because it is on cable—potentially hundreds of channels of digital quality film and audio, may well be a significant driver. A couple of niche channels may not be quite as compelling. Similarly, you could argue that if the free-to-airers were allowed to multichannel but they only multichannelled one or two programs and those programs were add-ons, such as sports backup and that sort of thing, that may not be a significant driver. So, if you are talking about making an impact on take-up, it is going to be mainstream applications and content. That is certainly the general experience to date. I think we are pretty much up with the rest of the world; we are not lagging by any means. But these things are ultimately going to be driven by consumer preferences and market responses.

Senator CONROY—What other content is available at the moment? If the ABC is cutting back on its digital, what other digital content is there?

Senator Alston—That they could get into?

Senator CONROY—No, that would encourage ordinary Australians to take up the conversion.

Senator Alston—I have said that the quality of the sets—in other words, the picture resolution—is a reason that people will move into a digital environment.

Senator CONROY—You do not think content is a driver?

Senator Alston—Yes, and I have said that, but at the moment there is a ban on free-to-air multichannelling.

Senator CONROY—But only because you got rolled, though.

Senator Alston—I am sorry?

Senator CONROY—Only because you got rolled in cabinet.

Senator Alston—I think you are misunderstanding that proposition.

Senator MACKAY—He got rolled on funding.

Senator CONROY—Rolled on funding as well; that is right.

Senator Alston—It is banned by law, and that law is one that you supported through the parliament.

Senator CONROY—Yes, but it was one that you were trying to change.

Senator Alston—We have not yet conducted a full review of digital television. There is no question of a decision having been taken on any of these aspects. I think that in many respects we are probably still waiting to see what the ACCC's view might be on some aspects, but certainly you can look at international experience to see what the drivers of digital take-up are. I read someone on the weekend saying that if you got set-top boxes very cheap or in fact thrown in, particularly into a subscription package, that can be a very significant driver. Why is the UK up at around 45 per cent penetration? Probably when ITV Digital was alive and Sky was in there punching as well they were both offering free set-top boxes to consumers. I think that that probably more than anything made it pretty attractive. But you do not keep people unless the quality of the content is there, and it is probably a big statement to suggest that the average subscriber is simply going to stay with digital television because of one or two niche programs.

Senator CONROY—Their kids might have.

Senator Alston—Their kids might, but the kids do not pay the bill.

Senator CONROY—Yes, but they are drivers in buying lots of things.

Senator Alston—I am not denying that everything is a possible contributor to take-up, and it is not an exact science anyway, but if you look at what is happening around the world you will see that digital television is generally in its infancy. We are moving in pretty much the same direction as a lot of others. It does depend on some of the regulatory decisions in the background.

Senator CONROY—Come on, be honest. The whole policy drive is now a complete shemozzle.

Senator Alston—You can throw around these sorts of statements if you like. The facts contradict that. The facts suggest that we have a lot more options for people here than they do elsewhere. We have required HD to be maintained as an option. The Europeans are now wishing they had done the same. In America it is sort of mandated, but not really. Nonetheless, they are moving into high-definition. The take-up rate will depend on a range of factors. If people are very satisfied with the high quality of free-to-air, they may not see the need to go further.

Senator CONROY—I want to return to Ms Williams just briefly. We were talking about the \$473.7 million for 2002-03. What did you deduct from that to get the base? I am trying to understand how you are actually compiling this figure.

Ms Williams—The base funding is the funding that can be moved around; it is general funding apart from specifics. The additions to that were in 2002-03—the capital use charge. That is an accounting treatment that was introduced with accrual accounting and that is, across government, changed for 2003-04. So that is one particular issue which muddies the waters a bit. There was depreciation funding, which again is an accounting treatment, that changes over the two years from \$75.1 million in 2002-03 to \$78.3 million in 2003-04. The additional funding for Radio Australia, which we mentioned earlier, and the national interest initiatives are taken out of the overall figure to make that base. There are also additions that have been removed, such as the special payment for changing ComSuper. Basically, it is the outcome 1 amount minus those ones I have just read out. Outcome 2 is the analog transmission, outcome 3 is the digital transmission and then there is a sort of capital component. So it is the overall outcome 1 amount with those amounts subtracted.

Senator LUNDY—There has been a great deal of investment by the ABC in its Canberra facility, including the provision of broadcasting and new services and the *Stateline* program. I acknowledge that you have said that you are not in a position to give any specific details of further cuts, but are you in a position to say whether or not those investments will not be undermined in the future?

Mr Balding—I believe those investments are an investment for the future and at this stage our capital program remains on track. We have done some major refurbishments and fit-outs of our facilities in the ACT and they are only of benefit to ACT residents.

Senator LUNDY—I understand there have been similar capital investments to boost your regional services. Are they shielded from your consideration of future cuts as well?

Mr Balding—Where it is an investment from the capital budget, then they are shielded. The problem we are looking at at the moment is addressing operational funding as distinct from capital funding. That is where the pressure is coming on the ABC.

Senator LUNDY—So I guess it does have relevance in that some of that operational funding will be supporting the additional content produced in the regional centres where you have made the capital investment.

Mr Balding—Correct.

Senator LUNDY—Are you in a position to ensure that that expenditure will not be reduced in the future?

Mr Balding—The most recent capital investments in the regional centres—I referred to them earlier—are the new regional radio stations at Ballarat and Wagin. At this stage, the content and the operational aspects for those radio stations form part of the national interest initiative funding, so they will be funded for at least the next two years.

Senator LUNDY—Do you have any other comment to make in relation to the operational funding of those areas where you have improved regional services?

Mr Balding—In what way?

Senator LUNDY—I guess providing some even vague assurance that the good work that has been done in those areas will not be undermined down the track.

Mr Balding—It is very high on our agenda to try to maintain those services. We are looking at how we can maintain those services, notwithstanding that overall our operational funding has been maintained in real terms. It is the context in which the ABC finds itself. It is an expanding industry. There are new technologies, there are new programs and services. I do not believe that the ABC can simply stand still; it needs to move with the industry. In relative terms, I think we have gone backwards. We have undertaken a number of initiatives—they were sourced from one-off funding and windfalls. We will be trying our hardest to maintain those services but it will be very difficult.

Senator LUNDY—And NewsRadio?

Mr Balding—Again, I cannot provide any specific comment on that. NewsRadio is a very valued ABC service which reaches some 800,000 Australians. It had the potential to reach a great many more Australians.

Senator LUNDY—Thank you.

Senator MACKAY—Donald McDonald made a public statement on the need for increased funding to maintain the ABC's presence if the government's cross-media ownership laws are passed. Do you agree with the statements of Donald McDonald, Mr Balding?

Mr Balding—Yes, I do, Senator. As I have alluded to this committee previously, I do not want to get into any discussion on the merits of the cross-media ownership bill, but if you want to talk about media diversity, the ABC has a very strong role to play there. In order to play that role, the ABC has to be properly funded.

Senator MACKAY—Presumably, that is not assisted by the recent lack of funding forthcoming from the government in that the cross-media ownership legislation is hanging over the ABC?

Mr Balding—No, it is not. It has put it under significant pressure. One of the reasons why the ABC board chose to identify those initiatives in the triennial funding submission—I think it was referred to earlier today as a 'wish list'. Let me reassure this committee: it was not a wish list. They are very well considered initiatives that we believe are very important to the Australian community and to the broadcasting industry in general. The extension—the roll-out of NewsRadio and Triple J—is very much part of that media diversity argument. The ABC has a very strong role to play there, as with the content we are asking for as well.

Senator MACKAY—Have you given any consideration to what level of funding may be required if any incarnation of the cross-media ownership legislation is carried?

Mr Balding—Even if we were to be granted that funding to extend the reach of NewsRadio, in particular, and Triple J, that would not result in one extra minute of content. We need additional funding for content—I have spelt that out in the triennial funding submission—and that is the matter we are grappling with at the moment. There is a gap, from an operational perspective, in order to fund new and compelling content.

Senator MACKAY—Have you had any discussions with any senators with respect to additional funding that may be required in the event of cross-media ownership legislation being carried?

Mr Balding—I have spoken to a number of members of parliament. Since being appointed as managing director I have tried to make an effort to come down to Canberra to talk to members of parliament, introduce myself and advance the argument that we are putting forward in the triennial funding submission. I have had a number of discussions with various senators. I have argued that reach is very much part of the argument for media diversity and that the ABC needs to be part of that actual debate. Again, I have emphasised the need for funding for content. It is no good being able to reach all Australians if we have not got content there.

Senator MACKAY—Minister, what is your opinion of Donald McDonald's statements?

Senator Alston—You will have to direct me to what you want me to comment on.

Senator MACKAY—He made some statements with respect to what additional funding the ABC would require if any particular iteration of cross-media ownership legislation were to go through the Senate. He said that the ABC would require more funding.

Senator Alston—I do not think we can even begin to be specific about what any particular form of legislation might involve and what impact it might have on the ABC or anyone else. It is far too early in the day to make that analysis.

Senator MACKAY—If you are contemplating the continuation of any iteration of cross-media ownership legislation, will you be looking at the issue of additional funding for the ABC within the new regime?

Senator Alston—You have seen the bill before parliament. It has already been to a Senate committee. That bill is about winding back the antiquated and archaic regime that Paul Keating put in place back in 1987.

Senator MACKAY—That is not my question, with respect.

Senator Alston—I am saying that is what the cross-media bill is about.

Senator MACKAY—That is not my question.

Senator Alston—It is not about a whole raft of other things.

Senator MACKAY—The question was: would you be contemplating additional funding to the ABC if the bill were to be carried?

Senator Alston—They are not related issues. We are talking about repealing the current regime. That does not have any necessary impact on the ABC, and the bill does not contemplate that.

Senator MACKAY—In the event of your putting the bill back before the Senate—in whatever incarnation or iteration it eventually emerges, depending on your negotiations with the crossbenchers—are you contemplating a situation where that will involve additional funding for the ABC?

Senator Alston—I am not contemplating anything other than getting the bill through the parliament.

Senator MACKAY—So there is no nexus for you?

Senator Alston—I am just saying: you know what our bill is about, we want to get it through the parliament. We are very disappointed—I would not go so far as to say angry because we are not surprised—that at the time of the last election the Labor Party went around saying privately that they were in favour of repealing cross-media and are now opportunistically against it. That is the real vice; that is what I think the public ought to be annoyed about. We will simply be trying to get that legislation through—with, hopefully, not a hostile majority.

Senator MACKAY—So in your mind there is no nexus between ABC funding and the cross-media ownership legislation?

Senator Alston—You can look at the bill. You will see what is in the bill.

Senator MACKAY—I know what is in the bill, but in your mind—

Senator Alston—Any amendments that people might move are matters for them if and when the legislation comes forward. Our concern is to get the current bill through the parliament.

Senator MACKAY—I have one final issue to deal with: the certified agreement negotiations. Have they been finalised?

Mr Balding—For our staff?

Senator MACKAY—Yes.

Mr Balding—Yes, they have.

Senator MACKAY—Can you give me on notice details of any changes in employment conditions covered by the new agreement?

Mr Balding—Yes, I can.

Senator MACKAY—Also on notice, can you tell me what date the previous certified agreement ceased to operate? What was the implementation date of the new certified agreement? How many staff does it cover, and where?

Mr Balding—I can provide those details.

Senator MACKAY—Terrific, thank you.

Senator SANTORO—I have one more question, although I have placed some other questions on notice. With the indulgence of the committee, I would like to ask it.

CHAIR—We will let you ask your question and then we will break for lunch. We will go until one o'clock and we will resume at two o'clock with the SBS.

Senator TCHEN—I have some questions to put on notice.

Senator SANTORO—I have a series of questions on costs and the number of people employed, but there is one question I would not mind asking, to see if we can get an answer here. Mr Balding, is it true that the technical and distribution division of the ABC overspent to the tune of \$40 million in the acquisition of digital infrastructure and services? It is it true that this overspend occurred without the division obtaining the normal approvals from the finance area of the ABC? Is it true that this overspend occurred while you were head of finance at the

ABC? Isn't it true that this overspend is well known at senior levels in the ABC? Was this overspend brought to the attention of the government?

Mr Balding—I would not use the phrase 'an overexpenditure', but the cost of rolling out digital infrastructure is greater than what we initially estimated. It has been brought to management's attention and the board's attention, and we are funding the additional costs of digital. Mr Pendleton has just correctly informed me that it is in the vicinity of some \$20 million, not \$40 million. I am happy to provide further details on that.

Senator SANTORO—How is that overexpenditure being funded, whether it is \$20 million or \$40 million?

Mr Balding—It is from our forward capital budget.

Senator SANTORO—Was this overspend brought to the attention of the government at the time?

Mr Balding—It has been brought to the attention of the government.

Senator SANTORO—At the time?

Mr Balding—I think the board considered it in December last year, when the board reconsidered the mid-year budget strategy. So it was brought to the board's attention and the board is aware of it, and the chairman wrote to the minister advising that.

Senator SANTORO—I will place my further questions on notice.

Senator TCHEN—Mr Balding, I thank you for the information you supplied to us following the last estimates hearing. There is another issue, however, which is to do with the complaints procedure. We had some conversations about that on the last occasion and earlier, in response to Senator Santoro's questions, you made a comment that where the ABC had made a mistake the ABC board will publicly acknowledge that. I have here an article written by a person who lodged a complaint with the ABC, which comments on the ABC's complaint procedures. His name is Mr Ralph Zwier. The article was published in the *Jewish News*. Are you aware of it?

Mr Balding—I am. I have read that.

Senator TCHEN—I would like to table this document and see whether you would like to comment on what he said. You do not have to comment on it now.

Mr Balding—I will take it on notice.

Senator TCHEN—Also, I recently received another email, from a gentleman who complained about ABC television's coverage on 24 May of the WHO's lifting of a travel warning to Hong Kong. The complaint is that the WHO's lifting of warnings actually applied to Hong Kong and Guangdong, in China, whereas the news only referred to Hong Kong. This viewer regards this as unsatisfactory and demonstrating bias on the part of the ABC. I am not sure whether it is a case of it being misheard or whether it was dropped off the news.

Mr Balding—Let me have a look at that, but I do not believe—

Senator TCHEN—Perhaps I could table that item as well. Unfortunately he wrote to me in Chinese. I am sure the ABC has the resources to translate it.

CHAIR—Can you interpret it for us!

Senator TCHEN—If you are not able to translate it, I would be happy to do so.

Mr Balding—No, we have interpreters.

CHAIR—That concludes the questions for the ABC, so I thank the ABC for appearing.

[12.47 p.m.]

Special Broadcasting Service Corporation

CHAIR—I welcome SBS. I believe that Senator Conroy is going to be the lead questioner.

Senator CONROY—I will kick things off, anyway. Mr Milan, could you outline for us your television ratings for 2001-02—the latest ratings?

Mr Milan—It was a good year for us. In broad terms—it depends on what demographic you look at—overall we gained probably about one point in rating. So we would consider that to be a successful year.

Senator CONROY—I note from your most recent annual report that you refer to 2001 as the most successful year for SBS television since the network was launched in 1980. Is it fair to say that television ratings for SBS have grown significantly as a result of successful programming in recent years?

Mr Milan—Yes, that would be fair to say.

Senator CONROY—Given that SBS television seems to have been going pretty well in recent years, can you explain the reasons behind the decision of former Head of Television, Peter Cavanagh, to depart SBS in August last year?

Mr Milan—It was Peter's choice. I cannot actually stop people leaving the organisation. He made his own decision for his own reasons.

Senator CONROY—Did he leave prior to the conclusion of his employment contract?

Mr Milan—Yes, he did.

Senator CONROY—When was the employment contract due to expire?

Mr Milan—Can I take that on notice? My sense is that it had a year or so to run.

Senator CONROY—And on what date exactly did he leave SBS and what was the payout that he received from SBS as a result of his leaving?

Mr Milan—I am happy to take those questions on notice.

Senator CONROY—Was he paid his contract out?

Mr Milan—No, I think it was somewhere between the two poles: what he would have been entitled to, had he fulfilled his contract, and—

Senator CONROY—If you leave voluntarily, why do you get paid for some commensurate part of the time for which you would have stayed? If he left of his own volition, as you have indicated, why did you pay him out for some of his contract that still existed?

Mr Milan—I think for the reasons that you have previously articulated. He had made a significant contribution to the business and the board felt that he should be treated fairly.

Senator CONROY—As you know, I am always arguing publicly about performance pay. Mr Gilbertson from BHP is the latest person to be paid out. I did not think you just got rewarded if you were leaving by being paid out. In Mr Shier's case he was paid out and it was acknowledged that in the end he was basically asked to leave, but in this case you seem to be indicating that Mr Cavanagh left voluntarily. I am trying to understand why you paid him out any part other than his actual entitlements.

Mr Milan—We are entitled to take a view as a board as to what those entitlements might be. The scale of numbers is quite confusing. In the examples you have given, considerable amounts of money were paid out.

Senator CONROY—I was not trying to suggest Mr Cavanagh got a Gilbertson-style payout.

Mr Milan—No.

Senator CONROY—I would be even more shocked.

Mr Milan—The amounts of money are quite modest, but I am happy to take the question on notice and give you the full details.

Senator CONROY—Were there discussions around why he left?

Mr Milan—Yes. Clearly we discussed why Mr Cavanagh left. Indeed I had a number of conversations with Mr Cavanagh to try and get him to change his decision. I liked Peter and I thought he was doing a good job. At the end of the day, Peter had to follow what he wanted to do with the rest of his life, and it was not to continue managing SBS television.

Senator CONROY—It just does not quite seem to ring correctly. When Gilbertson had a difference with the board, he left and they were forced to pay him some money in terms of severance. When Mr Shier famously left the ABC, there was an argument about why he left. He was paid some money based on the fact that there was some dispute about whether he was sacked or not sacked. I am trying to get an understanding of why Mr Cavanagh was paid more than his entitlements when he left voluntarily, if that is your contention.

Mr Milan—Certainly, it is not just my contention; it is the truth of the matter. But to be fair, there is always a degree of grey in these areas.

Senator CONROY—Sure. I am trying to get to the grey.

Mr Milan—The grey was that Peter felt that some of the changes I wanted to make in terms of managing the organisation disadvantaged him, which changed the circumstance that he felt he was appointed in. I took the view that, though he was resigning from the organisation, for a relatively small amount of money we could avoid any kind of unpleasantness which may well have damaged the public image of the organisation.

Senator CONROY—You sound like Don Argus justifying Brian Gilbertson's payout.

Mr Milan—Managing directors have to make those sorts of decisions. At the end of the day, I have a fiduciary duty to the taxpayer, but part of that fiduciary duty is maintaining the public image of the organisation.

Senator CONROY—So in Mr Cavanagh's view, some of the changes that you were proposing cut across his terms of employment. Was he going to have less responsibility?

Mr Milan—In essence, yes—that was his interpretation. That was the area of dispute between the two of us. I did not take that view of it.

Senator CONROY—What changes were you proposing to make that he—rather than you—felt reduced his responsibilities?

Mr Milan—To be fair, I would rather take this on notice, because I do not have my notes with me. In essence, one of the issues we discussed was giving me final sign-off of the advertising policy of the organisation—not ads on SBS but the way we advertise ourselves publicly outside of the organisation. That was an issue. It was a number of those sorts of day-to-day management issues.

Senator CONROY—Mr Brown has replaced him?

Mr Milan—Yes.

Senator CONROY—Is he with us today?

Mr Milan—No, Mr Brown is not here.

Senator CONROY—Is he busy?

Mr Milan—Yes. Someone has to run the farm. We are a small organisation.

Senator CONROY—Prior to leaving the SBS, did Mr Cavanagh express any dissatisfaction or concern to SBS management or the board regarding the decision last year to allow sponsorship of the *SBS Business Show*?

Mr Milan—No. That was not one of the issues that was in contention. Actually, Peter took the decision to sponsor the show.

Senator CONROY—Again, given the recent success of SBS television that you have outlined, why did the SBS head of television programming, Rod Webb, leave on 19 May?

Mr Milan—The new head of television wanted to make some changes to the way we administer the business, which is not unusual when you appoint a new head of department. As you can see from the newspaper reportage, Mr Webb took issue with some of those changes and decided he would rather be part of the restructure than implement it.

Senator CONROY—So there are record ratings for you and the two people responsible for programming and TV both leave. It seems a bit careless.

Mr Milan—I think it was Charles de Gaulle who said the graveyards of Europe are full of indispensable men. A large number of—

Senator CONROY—You had some successful ones, not indispensable ones.

Mr Milan—people have contributed to the success of SBS over the years. You have obviously named two of them, and both those men made important contributions. There is a whole host of other talented people at SBS and it is important for an organisation like SBS to have creative renewal, so no programming formula should ever ossify in time. I look forward to the opportunity and the challenge of hiring a new program director—hopefully as talented as Mr Webb was.

Senator CONROY—It seems strange for an organisation that is running so successfully to end up losing two key executives.

Mr Milan—I would dispute that, because part of the reason that we run successfully is that we make tough decisions from time to time and we make personnel changes. We are constantly looking to the future and improving the business.

Senator CONROY—As you mentioned, there were some media reports about Mr Webb's position or dismissal. Could you just confirm whether Rod Webb was dismissed, or is he on leave?

Mr Milan—He is no longer on leave. We have just been in the process of finalising the arrangements with Mr Webb.

Senator CONROY—This is 19 May—just a couple of weeks ago.

Mr Milan—No, 19 May was when the newspaper article came out. Mr Webb was on actual leave until two days ago and we have now finalised our arrangements with Mr Webb.

Senator CONROY—So was he dismissed? Did he go on leave? What actually happened?

Mr Milan—As I said before, he has chosen to become part of the restructuring, so in fact he has been made redundant.

Senator CONROY—So he has resigned.

Mr Milan—He has been made redundant. The reason he has been made redundant is that there were changes, to be fair, in the way the responsibilities were being ordered within the programming department and there was a significant change in his terms of employment. He chose not to continue in the role that we wanted for him and therefore has been made redundant.

Senator CONROY—You said he is no longer on leave, so he is back in the job and now redundant or—

Mr Milan—No, he is now redundant.

Senator CONROY—he came off leave to accept his redundancy.

Mr Milan—Correct.

Senator CONROY—How long was he on leave?

Mr Milan—Until 23 May.

Senator CONROY—When did he go on leave?

Mr Milan—On 19 May.

Senator CONROY—Sorry, when I said the 19th you said no, that was the date of the newspaper article.

Mr Milan—Sorry, I did not mean to mislead you. I meant it was in the context of your saying that the newspaper article appeared two weeks ago, so you should know. We only just recently finalised the situation with Rod.

Senator CONROY—So he had been on leave from 19 to 23. It was signed off on Friday.

Mr Milan—Correct.

Senator CONROY—Can you confirm that Mr Webb expressed concern to management about planned staff and cost cutting in SBS television prior to his departure.

Mr Milan—Yes, I can.

Senator CONROY—Can you confirm that, prior to his departure, Mr Webb expressed concern to management about planned staff and cost cutting being focused on SBS television, rather than areas like new media which do not have as significant an audience as TV?

Mr Milan—I can confirm that that was Mr Webb's view. I would have to say that I would dispute that.

Senator CONROY—You dispute that they have a lesser audience or that cuts were only targeted to SBS television.

Mr Milan—The cuts. First of all, there were changes throughout the organisation, so it is not fair to say that it was only SBS television—though as far as the public are concerned, it is probably the one that has had press coverage. As part of the normal housekeeping of reviewing the budget, we constantly review staffing numbers in all areas of the organisation and clearly, with the changes to the schedule, we will be making some changes to employment within radio as well. The supposition that Mr Webb put forward was not totally true is what I am suggesting. Certainly he made that allegation.

Senator CONROY—Was Mr Webb physically escorted from SBS on the day of his departure?

Mr Milan—That is absolute nonsense.

Senator CONROY—He was not?

Mr Milan—No. The only time we would ever escort someone from the building is if we thought there was a physical threat to staff. I can assure you that at no stage did Mr Webb present as someone who would be a physical threat to staff.

Senator CONROY—So Mr Webb had the opportunity to farewell the staff and talk to the colleagues he had worked with for a while?

Mr Milan—Yes, absolutely.

CHAIR—As it is one o'clock, we might break for lunch. We will have to call you back after lunch for a short period, Mr Milan.

Proceedings suspended from 1.00 p.m. to 2.07 p.m.

Senator CONROY—Continuing on the stretched resources issue, can SBS confirm the delivery of an email to staff from the new head of television, Mr Shaun Brown, stating that there was a gap between available funds and the television division bid over the next three years?

Mr Milan—Yes.

Senator CONROY—Can you elaborate on what he means?

Mr Milan—There is a small amount of restructuring that will take place within television, largely to reduce the administrative spend of the organisation, to move funds from

administration to program making. So the new head of television is basically seeking some efficiencies within the administration. The numbers of staff affected are very small.

Senator CONROY—In the email Mr Brown mentions that there is a need for ‘some redundancies’. Are any staff positions in SBS television under threat at present? If so, in what areas and in what numbers?

Mr Milan—The total number of positions likely to be made redundant is six or seven. There would be about another half-a-dozen short-term contracts that will not be renewed.

Senator CONROY—Those areas are in administration rather than in programming?

Mr Milan—They are administrators within programming.

Senator CONROY—Or does six or seven include Mr Webb?

Mr Milan—No. There will be a head of programming, but they are not all in programming. I think there are maybe two positions being closed off in programming, but they are administrative positions. They are not program-making positions.

Senator CONROY—So reports in the *Sydney Morning Herald* that Mr Brown intends to cut staff by one-third to ensure the SBS can make, commission and purchase programs are wrong?

Mr Milan—Not only are they wrong but, frankly, if they did not impact at times like this they would be laughable.

Senator CONROY—There have been suggestions internally that SBS are looking at—to use the phrase that is being bandied around—dumbing down of programming. Would you want to respond to that?

Mr Milan—Again, that is absolute nonsense. I think SBS has gained tremendous success and enjoyed rating growth because of the credibility and quality of its programs. Dumbing down would be counterproductive.

Senator CONROY—So if in a year’s time—the next time we are chatting about this—your ratings are down and there is an argument about your programs we will not be having a discussion about dumbing down?

Mr Milan—I hope not.

Senator CONROY—Excellent. Given that the government has maintained the SBS base funding in real terms over the next three years and provided an additional \$11 million in overseas program funding, how does SBS account for any need to cut back in television programming staff and expenditure? What is the driver here?

Mr Milan—It is a strategic decision taken by the head of television, supported by me as managing director, to spend more money on actual programs rather than on administering programs. He is also keen to see more money spent on promoting the programs that we put to air to try to take the SBS message even further.

Senator CONROY—I note that earlier you referred to the fact that you and Mr Cavanagh disagreed about that particular area. So, when you say that he wants to promote this area, would that be consistent with your view of the world?

Mr Milan—Yes, it would be.

Senator CONROY—What sorts of things are you talking about when you say ‘external advertising’? What are you looking at doing?

Mr Milan—Can I say that I still consider that to be a—

Senator CONROY—A Joe Cocker campaign?

Mr Milan—No, I think it would be something probably rather more informative. There are areas where we—

Senator CONROY—Senator Santoro has now got you on his list! Criticising the GST there—get that down.

Mr Milan—Clearly, there are areas of rural Australia that we have only just been able to get a service into. We would like to make people aware that our service is available to them. That is important to us. My personal focus since I have taken on the job as managing director is that I would like to see us increase what we spend on making programs here in Australia. SBS used to be ‘bringing the world back home’; more and more it is about telling stories about Australians living within a multicultural society. So a lot of the emphasis of this budget is to create more money for program making.

Senator CONROY—What are the total number of staff in the SBS television division at the moment?

Mr Milan—We have around 700 full-time equivalents. I am advised that that is the total for SBS. Are you just asking about the television division?

Senator CONROY—Yes.

Mr Milan—I was misleading you. That was the total staff of SBS. I think it is around 400, but we will give you the exact figure. It varies a bit.

Senator CONROY—Can I have a breakdown within television of permanent verses contract and casual staff? Can you break them into those categories?

Mr Milan—It does vary quite a bit from month to month, depending on what shows are in production. If we gave you a breakdown that showed the flow of staff numbers across a 12-month period, it might give you a more meaningful picture.

Senator CONROY—That would be a bit more meaningful; thank you.

Mr Milan—We are happy to supply that.

Senator CONROY—Does SBS television have a policy of preferring to employ staff on contracts rather than on a permanent basis?

Mr Milan—It depends on the area of the company. Certainly in the creative area of the company, yes. We employ a lot of people on a run-of-show basis.

Senator CONROY—But in administration and other areas it is—

Mr Milan—No. Permanent employees normally come under a collective agreement. There are some jobs at the management level, of course, which are contracts too.

Senator CONROY—I want to return to *The Business Program* and the issue there. Can you confirm that your business and current affairs program *The Business Show* was sponsored by a commercial company, Perpetual Investments, last year?

Mr Milan—Yes, it was.

Senator CONROY—Can you confirm the exact period during which the sponsorship lasted?

Mr Milan—I think it was seven weeks, but I will get back to you if that is not correct.

Senator CONROY—Can you outline the financial benefit that accrued to SBS as a result of this sponsorship?

Mr Milan—Clearly, the sponsor paid for the sponsorship. I do not know that I have that information here. Given that it was only a short sponsorship, it would not have been huge. My sense is that it was maybe in the order of \$50,000 to \$100,000.

Senator CONROY—Can you confirm that the matter is now the subject of Industrial Relations Commission proceedings?

Mr Milan—I am not quite sure of the technical term for its status, but certainly they have indicated an interest. We have challenged that by saying we believe they have no jurisdiction as it is a programming matter, not a staffing matter. We are awaiting his Honour making a determination.

Senator CONROY—Does *The Business Show* currently have a sponsor?

Mr Milan—No. In the interests of good staff relations and to be fair to all parties, until we actually have an outcome from the industrial relations court we are not seeking a sponsor.

Senator CONROY—But given that it has nothing to do with the commission, as you have argued—

Mr Milan—We have no wish to antagonise the bench or, indeed, our own staff. So, once the court has made the determination that it does not have the jurisdiction, my intention is to go talk to the staff as a group, to say, ‘Look, there’s no other legal remedy, in our view, open to you. Ultimately this is the board of management’s decision. We want sponsorship on the channel because it helps us actually fund programs,’ and to see if we can resolve the issue.

Senator CONROY—Can you confirm that the sponsorship was in breach of the then SBS editorial guidelines, which stated, ‘It is not acceptable for any outside organisation to fund news and current affairs programs which are produced or commissioned by SBS’?

Mr Milan—No. I cannot confirm that. I agree with that section of the guidelines. But what we would dispute is that *The Business Show* is a current affairs show. Because we accepted it was a grey area open to some misinterpretation, last year, as part of a review of all our codes, we changed the code specifically to keep the language the same but add a rider at the end that this excludes information based programs like lifestyle programming, book reviews, science shows and business shows. Our view was that the existing guidelines, as they were before the review, allowed sponsorship of the program, but to take out any ambiguity it was changed at the last review of the codes of practice.

Senator CONROY—I can understand your defining a couple of those things. Maybe some would argue science is a grey area—certainly lifestyle is. Senator Santoro might want to get his pen out, because I am about to get you in trouble again. I have appeared on the show a couple of times without a government senator being asked along, Senator Santoro. So you are in real trouble now, Mr Milan. He is going to review the transcripts immediately.

Mr Milan—In terms of balance.

Senator CONROY—In terms of balance, he is going to review those transcripts immediately. You had better make sure they asked me lots of hard questions. I was on the program to comment on current debate. I really do struggle to see how you could define *The Business Show* as not being news and current affairs, when I was commenting on current business debate. While I accept that it is possible to have comment taking place in shows, this is straight up and down a current affairs show.

Mr Milan—Again, I am not suggesting that there is not some news content in the show. But it also has a fairly extensive—

Senator CONROY—I agree with you it has news. The point is that I was one of the people on the panel, and the panel was discussing the current affairs in the business community. So it has news and it has current affairs—and, frankly, having watched it a number of times, that is all it has.

Mr Milan—It also has significant satirical comment at the end of the program, which is purely—

Senator CONROY—Oh, it is a comedy.

Mr Milan—entertainment based. All I am saying is that it is a program that has a different space.

Senator CONROY—John Clarke makes it a comedy?

Mr Milan—John Clarke adds a dimension to the show that says it is not purely a news and current affairs program. A lot of the information is not of the current—

Senator CONROY—You would accept that his satirical comment on current affairs is on that basis?

Mr Milan—Yes, I would.

Senator CONROY—So it is a satirical comment on current affairs?

Mr Milan—Yes, but it is not—

Senator CONROY—I do not know that that broadens it out into an entertainment show, though I find Mr Clarke very funny.

Mr Milan—I accept, and I think the board accepts, that it is a grey area—hence, we clarified the guidelines. The problem is that television is moving away from generalised programming into a whole range of specialised areas, particularly with the onset of pay television. It is important for us, if we are to maintain our commercial revenue base, to be able to distinguish between our mainstream flagship current affairs programs, like the 6.30 p.m. *World News* and our 9.30 p.m. *World News*—

Senator CONROY—But this is evolving into one of your flagship programs. This is a very credible program.

Mr Milan—I do not think having a sponsor changes its credibility.

Senator CONROY—But you are the one who is somehow defining these things that are called ‘flagships’ that you would not possibly contemplate sponsoring.

Mr Milan—No, I did not say I would not possibly contemplate sponsoring; I said ‘don’t contemplate’. In the interests of clarity, we changed the guidelines to allow us to sponsor *The Business Show*. At the end of the day it is up to the board to interpret the guidelines. Nothing is written in stone; it is up to the board and the board does that as best it can, taking into account what is happening in the rest of the—

Senator CONROY—So the board can unilaterally change the guidelines—

Mr Milan—It does not unilaterally change the guidelines.

Senator CONROY—to make a decision about what is a news and current affairs show and what is not?

Mr Milan—No. After some extensive consultation and much debate both within the board and the subcommittee, it felt that it was appropriate to allow sponsorship of *The Business Show*.

Senator CONROY—So it is a show that contains lots of news—daily news or the week’s news—lots of comment on the week’s news and ongoing current affairs issues in the business community, and has a little bit of satirical comment on those current affairs. Now you will tell me, on that definition, that the program called *A Current Affair*, which Mr Clarke used to appear on is not a current affairs program, on that definition, because he used to do a bit of satirical comment on *A Current Affair*. But let us not worry about the fact that Domain calls it *A Current Affair*. I suppose that was not a current affairs program; it was a comedy.

Mr Milan—You could argue that, but—

Senator CONROY—Many would argue that it is a current affairs program, but realistically, the three things we have identified on the program so far all fall into the category of news and current affairs. What are the other things that this business show does? I have watched it.

Mr Milan—They are actually falling into your definition of news and current affairs. Although the satire piece has some currency in that he often uses the events of the week, he also often uses long-term events. For instance, if you look at some of his comments on famous Australians, they are timeless pieces.

Senator CONROY—This is Mr Clarke, is it?

Mr Milan—This is Mr Clarke. Often they are timeless pieces. They might bounce off some item in the news, but generally speaking they range much further than just the news item that might kick the piece off.

Senator CONROY—I accept your argument that it is timeless. He has written a number of books. You can pick them up now and chuckle about them as much as you did on the first day he made those comments or did the current affairs pieces.

Mr Milan—Also, some of the reports within *The Business Show* are not timeless in the sense that they would be relevant in the 22nd century, but they are not necessarily germane to the news of the day.

Senator CONROY—No. They are relevant and timely and they add to the credibility of the show as a news and current affairs show. You will be defining the *Sunday Program* as just entertainment next.

Mr Milan—The *Sunday Program* is on Channel 9, so it is not up to me to make a determination on that, Senator. I would quite happily admit to you that the line between infotainment and news is a fairly grey one. That is why we have attempted to put some clarity into it. We believe we will be putting lots more of those sorts of programs to air. A science show could easily fall into the same grey area. The reality is, for us to be able to afford to make those sorts of shows, we need to increase our commercial revenue.

Senator CONROY—So while Mr Clarke is on the program, it falls into the entertainment avenue. If Mr Clarke were to leave the program, would it then become just a news and current affair show?

Mr Milan—You are asking me to speculate on what might be and I cannot answer that question. We would have to make a balanced—

Senator CONROY—So far we have defined that Mr Clarke makes it entertainment.

Mr Milan—To be fair to your question, the answer is no, it would not change the status of the program. We have made a determination that we believe there is an opportunity for us to gain sponsorship for a business show. We do not believe it damages the credibility of the program, nor do we believe that it breaches the old act. To add clarity to the situation, we have changed the interpretation of the codes so that it is clear to all what our intentions are.

Senator CONROY—I appreciate that you have the power to call it anything you want to and you guys can convince yourselves that it has somehow changed its status since the last time you looked at it. That does not mean that it is not going to be a matter of legitimate public debate. You are just calling black white.

Mr Milan—Grey.

Senator CONROY—Can you confirm—and I think you have—that your marketing department is actively seeking new sponsorship for *The Business Show* at the moment or in recent times?

Mr Milan—We are looking to line up someone when the dispute is resolved, but clearly it would not be in the interests of a sponsor to go into the show while there is a public dispute with a couple of staff members that are on the program. We would not want to introduce a sponsor to a situation where the program is still in, I suppose, a controversial mode.

Senator CONROY—I apologise for my ignorance, but you keep mentioning these codes, that you have changed the codes. Could you explain that terminology—what it means to us non-TV execs?

Mr Milan—Our codes of practice are basically the way we interpret the Broadcasting Act. They are published documents and they are the rulebooks by which we operate. We have various codes covering various areas.

Senator CONROY—Given that the revised editorial guidelines still prevent funding or sponsorship of news and current affairs programs, and that *The Business Show* is listed on the news and current affairs category on the SBS web site, has SBS sought legal advice about whether any further sponsorship of *The Business Show* would be in breach of even your new editorial guidelines?

Mr Milan—Yes, we have. In terms of Web advertising, we sought legal advice. Our advice was that the act was an enabler rather than an inhibitor. We assumed that, as far as Web based advertising is concerned, we could take a similar interpretation of the act as we have taken with advertising on television and radio.

Senator CONROY—I am really just talking about your SBS web site. If I go into the SBS web site and type in ‘entertainment’, it will come up with *The Business Show*, whereas if I type in ‘news and current affairs’, it will not come up with *The Business Show*? At the moment, the reverse is the case.

Mr Berryman—That is not so. We do not have the utility to flag programs like that. Under any news and current affairs program, we make it accessible to get to any SBS television program through search and other links. You have made the point yourself that if there is something that has come up in *The Business Show* that is relevant to our news programming we would cross-link to it. As a rule, *The Business Show* is a show that we treat on its own on the Web, but when it is relevant we make it accessible for people using our web sites to get to what programs they want.

Senator CONROY—You mislead them on your web site by advertising it as a news and current affairs show?

Mr Berryman—Is not a matter of misleading them. It is about making it easy for people that use sbs.com.au and its associated web sites to get to relevant information.

Senator CONROY—So the board has a greater understanding because it does not see it as a news and current affairs show but, for ease of access for the punters, you do not mind disguising the fact that you still consider it a news and current affairs show?

Mr Berryman—If soccer has relevance at the time through, say, the European Cup, it is newsworthy. People who use our news and current affairs web sites at that time will have access even to sports material if it is relevant at the time. We have admitted and discussed it here that there are things in that program which are relevant across a wide range of programming.

Senator CONROY—I appreciate the cross-link argument, but what I am talking about is that it is listed under the news and current affairs category on your own web site.

Mr Berryman—We have linked Indigenous magazine programming there as well, when it is relevant to the news of the day, and a lot of things in that program are relevant.

Senator CONROY—Would like me to call it up on the web site so that you can have a look?

Mr Berryman—I am well aware of what is on the Web, but that does not necessarily mean—

Senator CONROY—So despite the fact that the board has said it is not a news and current affairs show, you are still happy to have it listed under news and current affairs?

Mr Berryman—I am happy to have a cross-link to business programming and business information, which is information based programming, linked to wherever it is relevant on the web site, whether that be sport or news or current affairs. If you went to the SBS television guide, which is general, you would find that material there as well.

Senator CONROY—So you happily advertise it as news and current affairs?

Mr Berryman—We will advertise it wherever we possibly can, to get people to see the content.

Senator CONROY—Even if your board does not agree with you that it is news and current affairs?

Mr Berryman—No. We have agreed here that there is information in that program, which you have appeared on, that is relevant to the news and current affairs programs.

Mr Milan—I think it would be fair to say that the board has absolutely no input into the daily running of what comes up on the homepage of the web site.

Senator CONROY—Given that your board has made a determination that *The Business Show* is not news and current affairs, I would have thought that you would have had a chat to Mr Berryman to point that out to him and ask him to stop misleading viewers.

Mr Milan—We may well promote the show through other links on the web site as well. For instance, if there were a story on *The Business Show* about the financial workings of Manchester United, it may come under, and be flagged through, the sports section, as well, on the sports site. The site does actually cross-promote all programs.

Senator CONROY—This is not about cross-linking and cross-promoting. That is not what it is about. Do you have *The Business Show* listed under your entertainment category? Is there a cross-link back the other way?

Mr Berryman—There is a cross-link when we have, and are able to use, the video footage available from Mr Clarke's segments. We do link them from entertainment.

Mr Milan—I think we may be going in circles a little bit: we do not actually have a news and current affairs and an entertainment section front-up. We list the programs upfront, so *The Business Show* appears on its own. If you go into news and current affairs, to be fair, it does cross-link back to *The Business Show*, but then it does that in many other areas of the web site too. The actual first-up page, from memory—and I have to say that I do not use our programming guide because I work at the channel and do not have a need to use it—lists the show. Just as *The Movie Show* and *The World Game* are given separate listings, *The Business Show* is giving a separate listing.

Mr Berryman—And where it is relevant we will cross-link.

Senator CONROY—Can you confirm that the former executive producer of *The Business Show*, Deb Richards, expressed serious concerns to management about the sponsorship of *The Business Show*?

Mr Milan—Yes. I think Deb did make those representations.

Senator CONROY—And you were not interested? Did you just say, ‘No, you’re wrong’? At this point your guidelines have been amended.

Mr Milan—In essence, yes. Of course I am interested in all comments by staff. I regularly meet with staff, and I have met with the current group of staff that are objecting to this program on more than one occasion. At the end of the day, they are entitled to their views—and I respect those views—but I do not necessarily have to agree with them.

Senator CONROY—But they were right. When the dispute first arose, Ms Richards was right. Don’t you think that the fact that you saw the need to change your codes indicated that she was right?

Mr Milan—As I said in answer to your question before, I could see that the matter needed further clarity, yes. Does that mean she was right? I am not sure that that necessarily means that Ms Richards was right, but she certainly had a point that was considered germane. We did not review the code simply because of this one matter; they were due for review anyway—every two to three years they get revisited and updated. It was obviously an issue that we thought appropriate to raise with the board committee that looked at it, and indeed that committee spoke with a number of staff members and other members of the community about the codes, as we do when we review our codes. The result of that labour was posted on the staff intranet for six months before it came into force.

Senator CONROY—Can you confirm that Ms Richards was not informed of a new sponsorship prior to the sponsorship promotion going to air?

Mr Milan—I cannot. It would have been the responsibility of the then head of television, Mr Cavanagh, who, as we have discussed, is no longer with us.

Senator CONROY—Do you think that it should have been the case?

Mr Milan—No, I do not. We sponsor a whole range of programs on SBS, and I would have thought that that was an area that was within management’s prerogative.

Senator CONROY—I have called up your web site while we have been talking. Under ‘Choose a site by category’, there is news and current affairs. When I click that button it says—oh my God—‘*The Business Show*’. When I click on entertainment from the other options—oh my God, no *Business Show*.

Mr Berryman—It is not relevant at the time, as we have said before.

Senator CONROY—But it should be.

Mr Berryman—I think, to be fair, we are dealing with an information source of transcripts of our programming. It is similar to the way that we have links from our news program to weather web sites. We are confusing web sites which are records of television programs we have put to air—

Senator CONROY—Yes, but you have categorised them.

Mr Berryman—with a distinction about television programs made within the organisation to do with news and current affairs and a business show that, as the managing director has pointed out, falls into a grey area between information programming and what we have

discussed and agreed amongst ourselves to be relevant news information. How we choose to categorise this—

Senator CONROY—Would you like to update your web site? Do you think it might clarify things so that I stop bothering you?

Mr Berryman—Editorially, we make decisions—

Senator CONROY—I promise that I will not stop bothering you, but you might want to change it anyway.

Mr Milan—I am happy to banter this backwards and forwards, but at the end of the day there is nothing in law or the Broadcasting Act specifically that stops us from placing advertising or sponsorship around news and current affairs programs. It is purely an interpretation—

Senator CONROY—I was just engaging in a conversation with my colleague—my apologies.

Mr Milan—That is okay. The point I was making is that there is nothing in the act that forbids us from actually placing advertising or sponsorship around news and current affairs programs. It is a voluntary code that is put together by the board based on what it feels is appropriate. From time to time, circumstances change and the board makes changes to that. I have already conceded that it is a grey area, but the bottom line is that the board felt it was appropriate to have sponsorship of the *Business Show*. At this stage it does not feel it is appropriate to have sponsorship of our mainstream news program, or *Dateline* or *Insight*. I have to say, though, that my personal view with a program like *Dateline*, for instance, where all the stories are from overseas, is that the chances of any kind of cross-pollution from advertising are probably fairly slight. But the board does not take that view; the board takes the view that those programs are going to remain free of sponsorship.

Senator CONROY—So in your mind only *Insight* and your news service are sacrosanct?

Mr Milan—I do not think anything is sacrosanct forever—circumstances change. We are within two or three years of a new technology which will bleep out the commercials in commercial television programs—a personal video recorder. At that stage, the whole industry has to rethink how it goes about selling advertising. You cannot just write something in stone and say that is going to be the situation that will exist forever. We are a dynamic organisation and we have to take as dynamic a view of raising advertising revenue and other commercial revenue as we do of programming.

Senator CONROY—Did Ms Richards discuss this issue directly with senior management at SBS and, if so, with which managers?

Mr Milan—She certainly discussed it with Mr Cavanagh, she certainly discussed it with me and, from memory, she may have raised it with one of our board directors, Mr Gerald Stone. So she was given the opportunity to air her views. Forgive me if I do not remember the full details of all those conversations, but certainly she was given access to senior management to put her position.

Senator CONROY—On what date did Ms Richards leave SBS?

Mr Milan—I honestly cannot recall.

Senator CONROY—Could you take that on notice, please.

Mr Milan—Yes.

Senator CONROY—From the sounds of this iteration that was taking place, she did not leave at the end of her contract.

Mr Milan—No, she did.

Senator CONROY—Could you let us know when her contract was due to expire?

Mr Milan—Yes.

Senator CONROY—Did you terminate Ms Richards's employment prior to her departure?

Mr Milan—No, her contract was not renewed.

Senator CONROY—When was her contract due to expire?

Mr Milan—At the time that she left the organisation—I just cannot remember exactly when that was.

Senator CONROY—I am just trying to make sure that I get the sequence right here so that I do not do you a disservice. So this issue came up—

Mr Milan—The two issues are separate.

Senator CONROY—I understand that.

Mr Milan—It is true that Ms Richards had expressed some concerns about this program being sponsored, but her contract not being renewed had nothing to do with her view of the sponsorship. It was rather that we made a programming decision to take the *Business Show* in a different editorial direction.

Senator CONROY—What editorial direction are you taking it in? I am asking that as someone who occasionally appears on it.

Mr Milan—To try and make it more entertaining.

Senator CONROY—You want to make it a more entertaining business show! Perhaps you could add some singing and dancing girls! I will not take that as a personal reflection on the previous guests.

Mr Milan—No, it was also because the show changed its timeslot. The last show simply was not successful in gaining an audience. It just did not tip the Richter scale in terms of ratings.

Senator CONROY—And going down-market in a comedy sense gave you a chance? Was Ms Richards effectively escorted from the SBS premises on the day of her departure?

Mr Milan—No.

Senator CONROY—Would she have thought she was? Did you keep her company as she left the building?

Mr Milan—I cannot comment because I have no knowledge of the date in Ms Richards's mind. We do not actually have people available to escort people from the building except in case of dire emergency.

Senator CONROY—Do you accept that there is the potential to compromise journalistic integrity if news, current affairs or business programs have sponsors?

Mr Milan—No, I do not. I personally do not accept that.

Senator CONROY—So you think that someone could sponsor the 6.30 news and it really would not make a difference?

Mr Milan—Personally, having had a fairly extensive career in both public and private broadcasting, I am not aware of any private broadcaster that I have been responsible for ever compromising itself editorially because it took advertising. I can only go on my own experience. Having said that, I realise that I am currently custodian of a public broadcaster and many of the folk who are very core stakeholders for SBS may take a different view to that.

Senator CONROY—Have you ever witnessed—not under your direct control but at another television station—what you may have thought was a station compromising its editorial position because of sponsorship? Have you ever watched *Media Watch* where they occasionally point out these little conflicts, and sometimes even big conflicts?

Mr Milan—I am aware of media organisations which I used to manage getting themselves into trouble, but it did not happen on my watch.

Senator CONROY—Are you aware of any other business or current affairs programs that receive sponsorship on any of the Australian commercial networks?

Mr Milan—I think they all do on the commercial networks.

Senator CONROY—You think they all do; you think it is the norm?

Mr Milan—Indeed there is one news and current affairs program on SBS that comes with a sponsor and which we can do very little about—that is the *News Hour with Jim Lehrer* that comes from a public broadcaster in America. Mr Lehrer actually thanks his sponsors personally on air and I do not think it compromises his credibility at all.

Senator CONROY—That is a matter of opinion. We can take up the issue of editorial independence another day.

Senator LUNDY—I would like to go back to the questions asked earlier about programming and staff cuts. I was trying to listen in to Senator Conroy's questions earlier. You mentioned that two jobs will go locally in programming. Can you detail those again for me, please?

Mr Milan—I will take that on notice.

Senator LUNDY—You mentioned two admin positions in programming. How many people are in programming altogether?

Mr Milan—There are 13 or 14.

Senator LUNDY—I thought it was 15.

Mr Milan—Yes, I think it would be 15 if you included the program director or the network programmer. If you include the position that Mr Webb held, I think it would be 15. There

would be 14 positions under Mr Webb in that department. I think there will be two positions going from that department.

Senator LUNDY—So it will go from 15 to 13, and that includes the director?

Mr Milan—Correct.

Senator LUNDY—In terms of how those cuts are applied, how have you prioritised what areas are going to lose some funding? I guess I am looking for the rationale behind those cuts in relation to other areas being cut as well.

Mr Milan—The rationale, as I thought I had already articulated, is that we are looking to save money on administration so we can spend it on making programs.

Senator LUNDY—What about other areas within the organisation being cut?

Mr Milan—Other areas are being cut. We are making some cuts in new media. I do not think we are actually cutting staff in radio, but radio will be making some changes in line with some changes in the program formula there. So we are looking at areas in the organisation to see where technology is enabling us to make some staff savings.

Senator LUNDY—I am sorry, I was a little distracted. Did you identify any jobs that were going in new media.

Mr Berryman—Not as yet.

Senator LUNDY—Perhaps you could tell me how many are going?

Mr Berryman—In new media, some initiatives that we have funded in the past will go, particularly with partnerships and investment with state film bodies. It will be difficult for us to make those coproductions in future. In new media we will be concentrating on supporting our television and radio business in their endeavours to make programming rather than making the exclusive online content that we have made in the past.

Senator LUNDY—So how will that manifest itself in numbers of jobs?

Mr Berryman—We will be doing our best. We are reviewing the budgets at the moment. It is a very small staff we are talking about.

Senator LUNDY—How many?

Mr Berryman—There are eight people in multimedia. At this time I do not see that we will need to make staff cuts. Savings will be in the areas that we develop rather than the staffing that we have.

Mr Milan—That is run-of-show business on the previous determination that will not be replaced. The money is not coming in. The staffing level in new media, as in our television division, goes up when we are actually making programs. It is additional work that will not be taking place. I want to emphasise that at all times we try to be a benchmark employer. We do not go around cutting staff needlessly; we are looking to try and take as reasonable an approach as possible. There are some areas where technology has improved. We have just spent a lot of money on the television scheduling system, a new computerised scheduling system, which has enabled us to make some administrative savings. That is really what is working through the system.

Senator LUNDY—Are you able to give a commitment that those two jobs are the only ones going in that programming area?

Mr Milan—No, I am not.

Senator LUNDY—So there is a possibility there could be more?

Mr Milan—I know I am on the public record. I am not sure whether it is two or three. I think it is now two, but there may be a third job. In terms of all levels of employment within the organisation, I go back to what I said before: it is a dynamic organisation. We are always looking to improve the organisation and change it.

Senator LUNDY—It is obviously within your capacity as manager to make those decisions. I am trying to get as much specific data from you now as possible.

Mr Milan—There are no further cuts planned at the moment, if that is the answer you are seeking. What we are discussing with the staff within the next week or two is all that is going through for the foreseeable future.

Senator LUNDY—That is two, or possibly three, job cuts in programming?

Mr Milan—To that department.

Senator LUNDY—Are you sure about that? There are not possibly four or five?

Mr Milan—Originally the head of television was looking for four or five but after discussion came back to the view—because management does try to be responsive to what gets fed back through people further down in the organisation—that two or three was probably a more reasonable level.

Senator LUNDY—You mentioned that there are perhaps some areas that will grow under your current plan. Where are the areas within the organisation in which you could be creating jobs?

Mr Milan—They are either through local production or through our film commissioning arm, SBS Independent. We like the SBS Independent model because it enables us to sort of leverage off the private market as well so we can turn our own dollars into three or four production dollars. That of course creates employment within the local film and television industry.

Senator LUNDY—You mentioned technology—a new bit of software that is helping you find—

Mr Milan—I am not a technologist, I warn you.

Senator LUNDY—That is good, because I am not either. But I am really interested, as I know the minister is as well.

Mr Milan—I am very impressed that you got the Internet up.

Senator LUNDY—You can just refer the questions to the minister. I am just curious about the software that you purchased to perform that role. Can you elaborate a little more about what it does?

Mr Milan—It is a good question. It was a very complex and difficult search because our programming is much more complex than that of a standard English language channel that is

only buying programming from two or three different sources. We needed a system that could cope with something like a couple of thousand different programming sources. Eventually it was an Israeli system, wasn't it?

Mr Berryman—Yes. We used a number of systems that were locally made—a bit of software—and a bit of software that we sourced from the UK and Israel. It was the first time that we had replaced that system in about 15 years, I think. The system was a very old legacy system. Remember that these systems actually play our programming to air as well as record details about the programming. The organisation, as part of its digitisation program, decided to upgrade itself and put in things that were relevant for an organisation in 2003 rather than things that had been installed in the mid-eighties.

Senator LUNDY—How much did it cost?

Mr Berryman—I would have to take that on notice, as there are a number of different vendors and customisations involved. I do not have the lump sum figure on hand. We could provide it.

Senator LUNDY—You would be paying ongoing licensing fees as well, I presume.

Mr Berryman—Of course. As with any software, there would be support and licensing and modification, but it must be noted that a television organisation cannot run without its automation system, regardless of how old it is or what it does. It plays tapes to air, it records rights, it makes sure that we are getting value for money. Regardless of what efficiencies we have achieved through the use of that software, it is something that a television organisation cannot afford not to have. In fact, it would not operate without it.

Senator LUNDY—And this new system is working?

Mr Berryman—It is working very well.

Senator LUNDY—How long has it been in place?

Mr Berryman—We have been operating the first stage since the beginning of the year. We will modify the software and the different systems as the organisation grows. As we implement new programming strategies, we will be adapting the technology at the back end to suit them.

Senator LUNDY—Could you take on notice the detailed cost to date and the ongoing costs associated with licensing fees, maintenance and services. Why did SBS move the Melbourne office of SBS radio to Federation Square?

Mr Milan—First of all, our lease was up at the Ballet Centre. Secondly, the Ballet Centre premises had grown too small. Thirdly, we wanted to give more visibility to ourselves in a town that basically considers itself the multicultural capital of Australia. For all those reasons, it seemed a good opportunity to move. Also, because of the government's involvement in the project, we were able to negotiate very favourable terms.

Senator LUNDY—What were the preconditions, if you like, at the Ballet Centre? You said it was too small. Did you have an option for renewal there, or any offers for helping out with the space problem?

Mr Milan—Not that I am aware of, but I will take that on notice.

Senator LUNDY—Are you able to give me a figure on the cost of the lease renewals and refittings of the new premises at Federation Square?

Mr Milan—Yes. The construction fit-out was \$5.6 million; the technical fit-out, \$2.186 million; management fees, \$700,000; making good the Ballet Centre, because it was the end of the lease so we had to return it as we found it, \$370,000; a \$1.2 million contingency; and miscellaneous, \$847,000. So the total budget appropriation spread over two years was \$10.909 million. The last rent we paid to the Ballet Centre was \$420,000 and Federation Square was \$401,700. To be fair, the outgoings at Federation Square are higher because it obviously has much more amenity in the building. If you put the two figures together, the total rent for the Ballet Centre was \$585,300, and we are now paying \$797,700. But, given the amenity the organisation now enjoys, we have a disproportionate benefit from it compared with the rather modest increase in rent and costs.

Senator LUNDY—There is a big difference between those amounts compared with the Ballet Centre. You say there is increased amenity, and you mentioned profile earlier—was that the word you used?

Mr Milan—It think it might have been ‘profile’.

Senator LUNDY—Are you getting \$200-odd thousand a year additional profile and amenity, because that is a difference in the annual rent costs?

Mr Milan—I would say that the sign on the side of the building alone would be worth \$500,000 to \$600,000 a year. As I said, I think we are getting—using that wonderful American word—expansional benefit from the relatively small investment. We are all very happy with the move to Federation Square, as indeed are most of the staff.

Senator LUNDY—Obviously you are not paying anything additional for the sign on the building—or are you—as part of that \$797,500?

Mr Milan—No, it is part of the package.

Senator LUNDY—Will it always be part of the package or is this a one-off?

Mr Milan—Yes.

Senator LUNDY—Can you explain what you mean by ‘amenity’?

Senator CONROY—Have you been to Federation Square?

Senator LUNDY—No.

Senator CONROY—It is lovely.

Senator LUNDY—It’s lovely, is it?

Senator Alston—They have done a lot better than we have in getting visibility for the naming rights. Ours was basically on a plaque that was tucked away under the desk.

Mr Milan—I do not think I should comment on that.

Senator Alston—No, you should not.

Mr Milan—One of the problems we have faced in marketing SBS and taking the message outside of Sydney is that television, by and large, is based in Sydney. There are a couple of camera crews and one or two operatives in Melbourne, but we have not had the ability to take

our television channel into Melbourne. The move to Federation Square has enabled us to actually broadcast from the centre itself and to have audiences.

Senator LUNDY—This is for SBS radio?

Mr Milan—No, this is SBS television. From the BMW emporium—I am not quite sure what it is called—we ran our Sunday football show all day, and members of the public were able to drift in and out and actually see the show going to air live. So that is the kind of facility that we have.

Senator LUNDY—We now know that the Melbourne office costs some \$797,000 per year in rent. How does that compare with the Sydney office?

Mr Milan—The Sydney office is owned; we own the real estate. There is no real basis for comparison. It also houses three times the number of staff, so there is no direct relevant comparison.

Senator LUNDY—What sort of space do you have in Sydney? Is there plenty of space?

Mr Milan—No, we are packed to the gunnels.

Senator LUNDY—Would you take on notice to put your best efforts to comparing the cost to the organisation of the Sydney accommodation and the Melbourne accommodation? I appreciate that you are not comparing apples with apples.

Mr Milan—It truly is impossible. We could not give you anything that was meaningful. The Sydney operation is an owned building where the investment was made—how many years ago?—12 years ago. A large chunk of the mortgage has now been paid off. It is in a semi-industrial area, but it is still on the North Shore of Sydney, so it is still a very valuable site. To give you a meaningful comparison, all I can do is reassure you that Federation Square offers superb value for money for SBS and, therefore, for the taxpayer. For \$100 million a year, to have a site as visible as the Federation Square site and to have external signage is really an extraordinary achievement and the team that negotiated for it on our behalf did a really good job. I should thank the minister for his assistance. It was because the federal government put a significant amount of cash into the project at the end that we were able to negotiate such good terms for the lease. So it is a really good deal for SBS.

Senator LUNDY—So how much cash did they put in?

Mr Milan—\$50 million to \$52 million. These were separate decisions, but we weren't short to actually take advantage of our position to exert a bit of leverage on the managers of the site on the basis that federal money was coming into the project.

Senator LUNDY—Did the minister help you with that as well?

Mr Milan—Not directly, no.

Senator Alston—He can do his own arm twisting.

Senator LUNDY—I thought you would be in there, Minister, looking after SBS, getting them a good deal in salubrious accommodation in Melbourne.

Senator Alston—They coped very well on their own, actually. They could not complain about the accommodation, no.

Senator LUNDY—Why does SBS have a Melbourne and a Sydney office for SBS radio?

Mr Milan—Radio as a medium is national before it is international. It is regional before it is national and it is local before it is regional. A lot of the programs in radio are very much community based and there are significant communities within both Melbourne and Sydney. Historically, SBS grew out of two community service radio stations—2EA and 3EA—so there is the history but also the recognition that radio is a one-on-one medium of communication. The programs have a very high level of local community information in them, unlike television which is more a medium of general entertainment.

Senator LUNDY—I still do not understand why you need to have two offices, because you could do different programs from one office.

Mr Milan—You cannot do local programs. Also, the mix in terms of communities is very different from—

Senator LUNDY—If you cannot do local Melbourne and local Sydney programs, how do you local programs for the rest of the country?

Mr Milan—Because the broadcasters live and work in the communities they are serving.

Senator LUNDY—So you do a local program for Sydney and Melbourne.

Mr Luu—SBS radio has two production centres. They complement each other. We have two centres because the programs are both local and national. Our mix of programs is such that the radio programs can cater for its listeners in Melbourne or in Sydney in a local sense. At the same time, we have national programs that cater for listeners around Australia. So it is a combination of both local and national in that sense and it is not a duplication either because both work together.

Senator LUNDY—So when are you opening offices in Brisbane, Adelaide, Hobart, Perth and Darwin?

Mr Luu—We would love to do that if we had the money. But the fact of the matter is we do not have the money to have any physical presence—

Senator LUNDY—Sure. But you have enough money to open a Melbourne office to service the Melbourne local community.

Mr Luu—The Melbourne office was historically there, as was already mentioned by Nigel, when Radio 2EA and 3EA both started in June 1975. Radio 2EA and 3EA grew to be a national network. We want to make sure that resources are efficiently used, and in this case they are used efficiently. We do not have the facilities. We do not have the money to do it in Brisbane, Perth, Adelaide or outside Sydney and Melbourne. But, in terms of programming, our broadcasters and program makers do have correspondents in various parts of Australia to ensure that, whenever we produce a national program, it is in fact a national program from that point of view.

Senator LUNDY—Let me get this clear: you have two offices, in Sydney and in Melbourne, both of which produce local content for their respective local audiences but both of which also produce national content.

Mr Milan—It feeds into signals which are heard outside of Sydney and Melbourne.

Senator LUNDY—Do both Melbourne and Sydney broadcast nationally?

Mr Luu—Yes.

Senator LUNDY—Do they overlap in any way?

Mr Luu—No. Let us say, for example, that we have the Greek language program at six o'clock tonight. It may come from Sydney or Melbourne. It is a national program; it certainly will discuss the issues in such a way that it caters for Greek Australians listening around Australia.

Senator LUNDY—So you are not duplicating the production of national content?

Mr Luu—No, not at all.

Senator LUNDY—But you think it is worth while putting a—

Mr Luu—At any given time, only one program from either Sydney or Melbourne goes national.

Senator LUNDY—Perhaps you could explain to me the rationale behind picking the Melbourne and Sydney audiences. There are lots of people in Australia—admittedly, those are the two concentrated population centres.

Mr Luu—No, that is not quite true—

Senator LUNDY—But the rationale you have just described has a logical next step, which is that you would want to pursue a presence in other regional localities, particularly the other state capitals, for example.

Mr Luu—We certainly would like to have a second frequency for the states and for the capital cities outside Sydney and Melbourne—

Mr Milan—Perhaps I can help by giving you two other pieces of information. Firstly, we did apply in the last budget for signals and for the funding to actually just distribute our existing signal. We were unsuccessful in getting that, so it is a priority of the board's to actually get our signals further afield. Secondly, we invested about three or four years ago in some outside broadcast vehicles, so we can actually take those vehicles to other centres. At one stage, I gave Quang the nickname 'Quang of the Nullarbor', for taking our outside broadcast van across to Western Australia. It has been up to Brisbane and has been as far north as Darwin; it has been as far south as Tasmania. We use those vans to actually involve local communities with the programming, which then comes back and is broadcast on the national network.

Mr Luu—You asked about why we have local Sydney and Melbourne programs and the national one. We would certainly love to be able to do a variety of programs that satisfy the needs of our listeners, but the fact of the matter—and the reason we do local programs in Melbourne and Sydney—is that Sydney and Melbourne combined represents 70 per cent of our listeners.

Senator LUNDY—Another issue I would like to raise is about the support for digitisation as expressed by SBS—in particular, the issue of declarations of interest on the part of SBS board members. Can you tell the committee if there have been any directors who have declared an interest as a board member of SBS?

Mr Milan—From memory, there are none currently, but from time to time I think we may have had one or two interests declared. I am not aware of anything that is germane to the conduct of our affairs at the moment.

Senator LUNDY—I understand that recently there was a joint venture by two companies, AAV Australia Pty Ltd and Regency Recordings. Are you aware of that?

Mr Milan—Yes, I am. Ted Gregory, one of our board of directors, is also a director of those organisations.

Senator LUNDY—My understanding is that that joint venture effectively produces hardware associated with the reproduction and distribution of digital content in some way or another—

Mr Milan—Yes.

Senator LUNDY—and that Ted Gregory has been reappointed as a director on the board of SBS.

Mr Milan—Yes.

Senator LUNDY—Can you confirm that those interests have been declared?

Mr Milan—Yes, they have. The board is aware of Ted's involvement with both of those organisations. I cannot think of any decision that the board has taken that would have led to monetary gain for Mr Gregory. The only thing I can think of which historically has come up during my tenure and Ted's is that I think AAV are involved in the digital distribution of advertising commercials. I am advised it is DubSat. Ted, from memory, absented himself from meetings where any discussion of DubSat took place. But, in fact, we were part of an industry decision to take on DubSat as a technology, rather than it being a one-off SBS decision. But at all times Mr Gregory made his interests absolutely clear to the board and, indeed, to management and took no part in the decision-making process.

Senator LUNDY—Can you confirm that in his reappointment as a director he has been consistently a director right through the recent period?

Mr Milan—As far as I am aware, yes, Ted's two terms have been absolutely concurrent. Sometimes there can be a month or so's gap in hearing from the minister's office, but I think in this case we got notification just in time. So I think Ted was consistently a director.

Mr Williams—Just on a point of clarification, I believe there was actually one day's gap in between. I do not know that there was any particular significance to that, but I am clarifying that for the record.

Senator LUNDY—In terms of the joint venture, are you aware of the full extent of that organisation's interests and the potential relationship between SBS's push for digitisation and those interests?

Mr Milan—No, I am not, as I said in front of you. But I am aware that they are operating in an area where at some stage in the future our paths may cross. At that stage, I would expect Mr Gregory to act appropriately and declare an interest.

Senator LUNDY—As we would. Thank you.

Senator CONROY—I have one question for Mr Luu. Could you quickly give me a run-down on the recent cutbacks in your Yiddish-Jewish programs? I had a string on questions which I will put on notice for you, but could you briefly give us the background to that?

Mr Luu—Certainly. SBS needs to ensure that it stays relevant to the needs of Australians of non-English-speaking backgrounds particularly and also to the needs of other Australians. For that purpose, we review the schedules now and then, using data from the census. The last time we did this was in 1992-93, using the 1991 census. Six months ago we started the process of reviewing the schedules based on data from the 2001 census. We conducted consultation around Australia, with more than 1,000 Australians of all backgrounds participating in the process, and suggested the criteria for looking at the allocation of air time again. That is the background. And many of them were in fact of Jewish background.

The set of criteria was re-endorsed by the community. This includes the number of people speaking a language other than English at home, the proportion of people who are aged, the proportion of people who are new arrivals, the proportion of people who are lacking capacity in English, and employment. They are the five criteria. When you apply those five criteria into the situation as it is today compared with 10 years ago, you find that in the data in 2001 there are in Australia 5,946 people speaking Hebrew in the home and 2,667 people speaking Yiddish in the home. On that basis, the current allocation of three programs a week is not consistent with the needs of other communities.

By way of example, there are 38,731 Indonesian speakers in Australia and they are entitled to three programs. The Hungarian community has 28,484 Hungarian speakers and also has three programs. In comparison, there are 5,946 Hebrew speakers and 2,667 Yiddish speakers. So that invaluable air time could be equitably readjusted, the board agreed with our recommendation to take one hour from the Yiddish language program and from the Hebrew language program. Even now, with two programs each a week, the Yiddish and Hebrew speakers are still, I believe, well taken care of. You can see this if you compare their allocation with the Thai community's—with 17,344 Thai speakers, there are only two programs a week. The Tongan community of 10,587 speakers also has two programs a week, which is equal to the number of Yiddish and Hebrew programs a week.

Senator CONROY—Thank you. I have a range of other questions on the background to some of those details, but I will put them on notice.

Senator SANTORO—I will not take up much of the witnesses' or the committee's time. I have a couple of lines of questioning that I want to briefly explore with our witnesses. As an Italo-Australian I very much appreciate the cultural and social significance of SBS radio and TV. I am sure I speak on behalf of all my colleagues here today, particularly Senator Tchen. I particularly appreciate the Italian news program in the morning. I always try to watch it. It is good to get an Italian perspective on the world news that we get here in Australia through more conventional news services. Mr Milan, you would be aware that the ABC announced this morning that it is closing its digital multichannels?

Mr Milan—Yes, I am.

Senator SANTORO—SBS also has multichannelling—the SBS World News channel. Can you tell me whether it is business as usual for the SBS World News channel, or are you planning to follow the ABC's lead and shut it down?

Mr Milan—It is business as usual. Our recommendation to the board when it meets will be that the channel continue.

Senator SANTORO—Is it true that you were treated in exactly the same way as the ABC in the recent budget process and, indeed, budget outcome and that is that you had your funding maintained in real terms?

Mr Milan—As far as I am aware, yes.

Senator SANTORO—The SBS annual government funding is just over \$100 million—

Mr Milan—Correct.

Senator SANTORO—compared to the ABC's \$700 million, roughly speaking?

Mr Milan—Yes. On that comparison, ours would probably be more in the order of \$120 million to \$130 million, because it would include transmission.

Senator SANTORO—But, roughly, you are operating on about a sixth or seventh of their budget?

Mr Milan—Significantly less, yes.

Senator SANTORO—Why do you think it is possible for SBS to be able to continue with its multichannelling programs and activities when the ABC cannot? What do you do differently?

Mr Milan—I can only think that it is a higher priority for SBS than it is for the ABC. We took the decision to go into multichannelling without government funding. We realised that there was a risk in doing that, but on balance the board—indeed, on management's recommendation—took the view that this was very exciting technology. We can argue about the timing of digital take-up, but eventually—

Senator SANTORO—You have got to be in it.

Mr Milan—In essence, yes. And we believe that, having offered a service to those folk who have bought digital set top boxes—further, it is our belief that a number of them would be from non-English speaking backgrounds, because they are specifically buying the programs to do what you do, Senator, which is to watch programs in a timely way in the language of their choice—they would be very disappointed if we shut the service down. We were sad that we did not get more money from the minister, because we would have liked to expand the service. Nonetheless, the existing service will continue.

Senator SANTORO—So it is basically a matter of priorities?

Mr Milan—Yes.

Senator SANTORO—Just on a slightly different tangent, did SBS broadcast the AJA journalism awards?

Mr Milan—Yes, we did.

Senator SANTORO—Do you broadcast award ceremonies for any other trade union bodies?

Mr Milan—We certainly have done the film industry awards. I do not know if you would call the Screen Producers Association of Australia a trade union—it is an industry body and can be equally radical as times.

Senator SANTORO—Who made the decision and how much did it cost to broadcast that event?

Mr Milan—Ultimately, I made the decision. The then Head of Television, Peter Cavanagh, would have taken the first decision, but certainly it would have been endorsed by all of us. The cost would have been the cost of the broadcast itself. I do not believe we paid anything to the union for rights; I think it was simply the cost of having a couple of camera crew there. I can give it to you on notice.

Senator SANTORO—I would be grateful for that. In relation to that, is it true that the broadcast did not include the person who was the guest of honour—that was Minister Tony Abbott—but did include Gerald Stone?

Senator CONROY—Televising their speeches, is that what you mean?

Senator SANTORO—I am about to get to that.

Mr Milan—It was a delayed telecast and it was deliberately delayed because we had to cut three hours into one hour of programming.

Senator SANTORO—Gerald Stone is a director of SBS, isn't he?

Mr Milan—Yes, but he was there giving an award rather than actually giving a speech as such, so I think that if he appeared on camera it was actually to hand out an award rather than to give a speech.

Senator SANTORO—So who made the decision not to broadcast the speech by the guest of honour, who in fact was presenting the award?

Senator CONROY—You will televise them when they speak: that is your instruction, Mr Milan.

Senator Alston—The ABC did you a big favour when they did not run Simon Crean's budget reply, if I remember rightly.

Senator SANTORO—You see the point I am making: you have the guest of honour presenting the award.

Senator CONROY—At least you did not get cut for *Play School*, look on the bright side.

Mr Milan—The guest of honour, whether they be from politics or other walks of life—and regardless of what side of politics they come from—very rarely get covered in those sorts of events because what people are actually interested from an audience perspective is who is winning the awards.

Senator CONROY—Obviously you are underestimating audience there. Santo sat up all night waiting to watch Tony Abbott.

Senator SANTORO—Even when the minister is presenting the award?

Mr Milan—To answer the first question, it would have been the producer of the program who would have made that decision.

Senator CONROY—He has his orders now, Santo. It is okay.

Senator SANTORO—It is not a matter of orders, through you, Mr Chair. It is a matter of trying to figure out how these things work in a place like SBS.

Senator CONROY—Politicians, in general, are boring.

Senator Alston—Not all of them.

Senator SANTORO—Senator Conroy is obviously speaking for himself, Mr Chair. I would like you to look at how that decision was made.

Mr Milan—I will do that for you, Senator.

CHAIR—Senator Tchen, do you have any questions?

Senator TCHEN—I do not really want to exercise Senator Conroy's sense of humour any further, so I will pass. I would like to put on record my appreciation of the SBS service and, in particular, its high quality.

Senator CHERRY—Following on from Senator Santoro, which is a scary thing to do, I would like to come back to the multichannelling issue. SBS was planning to launch a second multichannel. I presume that plan is now completely on hold.

Mr Milan—Actually, we were planning to launch a third possibly. We have two up—the World News channel and SBS Essential, which will continue. We had applied for funding for an arts channel, and that will not go ahead now because we simply do not have the funds to do it.

Senator CHERRY—How much Australian content would be on your World News channel?

Mr Milan—None.

Senator CHERRY—That is what I thought. Those are all the questions I have. I will review the transcript, but do any programming decisions—and if this was answered earlier then just say so—or any review of your program follow from the budget decisions last week?

Mr Milan—No.

CHAIR—I thank the SBS witnesses for appearing. That concludes the questioning of SBS.
[3.29 p.m.]

Telstra

CHAIR—I welcome officers from Telstra to the table.

Senator CONROY—Minister, what is the government's current policy on the further sale of Telstra?

Senator Alston—We are considering our response to the Estens committee before we go any further down that track, but we have made it plain that we would require legislative authority before proceeding further with privatisation, that we would require to be satisfied

that service levels are adequate and that we would certainly want to ensure that taxpayers were getting value for money.

Senator CONROY—When does that mean you are aiming for? I am trying to remember the budget forward estimates.

Senator Alston—That has it out to 2005.

Senator CONROY—Is it 2005 or 2006? That is what I am trying to remember.

Senator ALSTON—2005-06.

Senator CONROY—So can you provide an update on the comments by the Treasurer on 29 November last year that the government intends to put Telstra sale legislation before the parliament in the first part of this year? Is that statement still correct?

Senator Alston—I do not think anyone could be precise on the matter at this stage. Obviously, until such time as we have addressed those other issues, it is premature to be talking about when we might proceed further.

Senator CONROY—I thought the comments by the Treasurer of the first half of this year would run out on about 30 June.

Senator Alston—That is right. I think it was an indicative assessment.

Senator CONROY—I do remember that you were far more cautious back in February and perhaps calming the Treasurer down even then.

Senator Alston—I think the Treasurer's concern has always been to ensure that taxpayers get value for money and that we comply with our public commitments, which obviously involve ensuring that we respond positively to the Estens committee report before we take any further action.

Senator CONROY—So you are not expecting this legislation to appear before 30 June or any time in the near future after that?

Senator Alston—I simply cannot say when we will be in a position to take the matter forward until we have had further consideration of the Estens report and its implications.

Senator CONROY—So you have no idea when we will see the legislation?

Senator Alston—No, because it is conditional upon other matters.

Senator CONROY—Has the government decided on a minimum share price that it will consider acceptable before selling Telstra?

Senator Alston—No.

Senator CONROY—It has been more than six months since you received the Estens report—is that right?

Senator Alston—That sounds about right.

Senator CONROY—Are you planning a formal response?

Senator Alston—I will be responding formally in due course, yes.

Senator CONROY—You have had the report for six months. I was just wondering if there is any indication of when you would be responding.

Senator Alston—I cannot be precise about that, but we are working on it.

Senator MACKAY—This year?

Senator Alston—I would think so.

Senator CONROY—Sorry, Minister, was that yes?

Senator Alston—I actually said that I think so.

Senator CONROY—So some time this year?

Senator Alston—I would think so, yes.

Senator CONROY—Can you confirm that your response has been rejected by cabinet three times already?

Senator Alston—I can tell you that that is totally incorrect. I do not know what you mean by ‘my response’, but the fact is that it has not been considered by cabinet three times, so by definition that cannot be right.

Senator CONROY—But it has been considered by cabinet?

Senator Alston—We have commenced a consideration of some of the issues, yes.

Senator CONROY—But it has not passed cabinet yet?

Senator Alston—We have not completed our consideration.

Senator MACKAY—How many times has it been considered by cabinet?

Senator CONROY—How many times have they told you to go back and start again?

Senator Alston—I am not going to canvas with you the precise cabinet deliberations. I am simply prepared to say that we have commenced our consideration of it. There are some issues which require further analysis, and when that is completed we will be ready to resume our assessment.

Senator MACKAY—How many times has it been on the cabinet agenda?

Senator Alston—I cannot tell you that, and I do not think I would even if I could remember.

Senator CONROY—The Estens inquiry recommended improving phone services affected by the six-by-16 and similar pair-gain systems. For the benefit of Australians suffering from slow Internet as a result of being on pair gains, has the government made any progress in responding to these recommendations to fix problems associated with pair gains? I am confident that Senator Lundy will be taking up this issue at length, but would you like to give us a preliminary opening response?

Senator Alston—I will just look to see what the recommendation was. Recommendation 4.12 states:

Telstra should be required to demonstrate that it has an effective strategy to address any dial-up data speed issues arising from poorly performing pair gain systems. Telstra should provide a formal undertaking to the Government in relation to any actions necessary to implement such a strategy.

And recommendation 2.7 states:

Telstra should promptly confirm to the Government that it has an effective strategy for improving as soon as possible the quality of telephone services affected by the use of 6/16 and similar pair gain systems. Telstra should give a formal undertaking to the Government, including providing timeframes, in relation to any actions required to implement such a strategy. Progress in meeting this strategy should be monitored by the Australian Communications Authority and reported on publicly.

I think it is fair to say that Telstra has already indicated its willingness to comply with those recommendations, and we are involved in discussions to put us in a position to give our own formal response.

Senator LUNDY—Minister, at the last estimates you identified those two recommendations, and there was a nominated amount by Telstra, I recollect, that would go towards pair gain remediation. Mr Scales, can you remind me what that amount was?

Mr Scales—I will ask either Mr Pinel or Mr Mullane to go through that in detail with you. There was the specific amount that you spoke about, but in addition to that we are always examining the extent to which our technology meets our customers' needs. I would not want to leave you with the impression that any amount which we have indicated in the past is the only amount that we are putting towards ensuring that people have the right technology to meet those circumstances. I will ask Mr Pinel if he would like to answer that.

Senator LUNDY—Perhaps while you are finding that figure, I will ask the minister a question in relation to the pair gain replacement program. Minister, as you see it, is that program directly linked to your previous statements about regulating, or at least requiring a minimum dial-up Internet connection speed of 19.2 kilobits per second? Do you see your activities in that regard, in a regulatory sense, being linked to Telstra's ability to remove those pair gains?

Senator Alston—No, I think they are separate issues. Estens treated them separately, and we are responding to them separately. Estens said that a positive response to 19.2, by way of making it a licence condition, was one of the requirements before you could be satisfied about the adequacy of services. He did not say the same thing in relation to pair gains, but he did make a couple of specific recommendations which will be separately addressed.

Senator LUNDY—At what stage is your plan to regulate for 19.2 kilobits? When will that become a mandatory requirement for carriers to obtain their licences?

Senator Alston—It is only in relation to Telstra. Recommendation 4.1 of the Estens report stated:

A licence condition should be placed on Telstra that would require all Australians to be guaranteed dial-up Internet speeds, or equivalent throughput, over the Telstra fixed network of at least 19.2kpbs. As part of the licence condition Telstra should be required to report on its compliance with the requirement, and more generally on the data speed performance of its regional network, which should be maintained at least at current levels.

It is an obligation on Telstra, rather than on other carriers. A licence condition is a licence condition. A breach of that is a pretty serious matter. We would expect full compliance.

Senator LUNDY—Is that currently a licence condition? Have you implemented that regulation?

Senator Alston—No. I think you would say that there is a standing agreement, and this is really wanting to enshrine that in such a way that it is legal and enforceable. It should not involve any great change of practice, but it certainly ensures that there will not be any slippage without a penalty being attached to it.

Senator LUNDY—Can you just give me the time frame of that agreement you have with Telstra to achieve that? Also, I am intrigued with the notion of sanctions being applied.

Senator Alston—This arises out of Besley, doesn't it? So we are talking about a couple of years. The agreement probably covers a lesser period than that, but it has certainly been in place for 18 months or so. This is really saying, 'Formalise it so that if there is a breach of licence condition then you can deal with it accordingly.' A breach of licence condition can certainly involve fines and ultimately, in theory, the cancellation of a licence.

Senator LUNDY—I am trying really hard here to nail you down on when it will become a mandatory element of Telstra's licence condition to provide 19.2.

Senator Alston—As soon as we make it a mandatory licence condition.

Senator LUNDY—So when are you going to do it?

Senator Alston—There is no great urgency about that—

Senator LUNDY—Hang on. Ask all those long suffering dial-up Internet connection users.

Senator Alston—At the moment, Telstra is a party to an agreement to provide that minimum level of service.

Senator LUNDY—Hang on. It is not happening—very specifically in some areas, and I will go through that in a minute. When does it have to be done by, or doesn't it matter?

Senator Alston—Estens did not put a time frame on it.

Senator LUNDY—Is it a farcical recommendation?

Senator Alston—No. When we announce our formal response to Estens, we will be announcing our position on that one. I do not see any problem about us mandating it. Therefore we will presumably be doing it as soon as we are in a position to announce our response to the other recommendations.

Senator LUNDY—Will it be at that point that you will require 19.2 or will you identify some forward time frame that you somehow negotiate with Telstra to allow them to comply?

Senator Alston—It will not be backdated. I think it will be a requirement from the time that it is announced, unless there is some need for a specific transitional arrangement, which I would have thought Telstra would already have put to us if it were necessary in their view. I do not recall having been told that.

Senator LUNDY—Perhaps I should ask Telstra whether it is their intention to put forward a transition plan for the removal of the pair gains, which, because of their nature, cannot provide 19.2 kilobits per second—certainly not a minimum.

Mr Scales—As I mentioned earlier, we are consistently evaluating the requirements of our customers in this regard. We have discussed on previous occasions at Senate estimates how

we have a remediation program. You have alluded to it and asked some questions about how much—

Senator LUNDY—Did you find that figure? Was it \$170 million?

Mr Scales—We have allocated around \$20 million already—whether the \$20 million is the exact number, I am going to ask Don to cover. We are always remediating where it is required and where it is in line with what our customers' requirements are.

Senator LUNDY—It seems to me that, if that is the case, you have not made the minister aware of a transition program or alternatively the minister is not going to announce his Estens response, because there is no way Telstra could comply in providing minimum 19.2 kilobits per second dial-up speed the minute the minister announces the Estens response, is there?

Senator ALSTON—I am not sure why you are saying that, because there is a hotline arrangement now that enables people to bring complaints to the attention of Telstra and there is an obligation on Telstra to respond to that.

Senator LUNDY—I am saying it because I know that there are types of pair gains that Telstra still have in use and intend to maintain to the point at which they no longer work that do not provide 19.2—that is why.

Senator Alston—Well, get those people to tell us about it and we will ensure that Telstra delivers 19.2.

Senator LUNDY—There is a very big difference between customers frustrated with their dial-up Internet connection speeds making a complaint and that being fixed somehow and you mandating a regulatory requirement to provide 19.2 kilobits. If it is the former and not the latter then your Estens response is a joke.

Senator Alston—So you are saying people would not bother complaining until there is a licence condition. I find that rather strange.

Senator LUNDY—I am saying that sometimes people do not actually know why their speeds are bad because Telstra does not tell them, so they do not even know whether or not they should complain.

Senator Alston—They do not have to. And people are not going to know that—in your terms—any more after a licence condition has been mandated. Most people do not surf the government *Gazette*. They will simply have a complaint. They should know there is a hotline there. They can bring it to the attention of Telstra. If, through you, they are dissatisfied with a response, we can certainly deal with it. But you cannot just sit back and say, 'A few branch members have complained to us but we haven't bothered to bring it to Telstra's attention.'

Senator LUNDY—All those people will be very interested to read that comment, Minister. Can you tell me whether the government's Estens response will require, through a licence condition, Telstra to provide—ie, not respond to complaints—services of a minimum of 19.2 kilobits.

Senator Alston—Yes, that is what is required. I quote:

A licence condition should be placed on Telstra that would require all Australians to be guaranteed dial-up Internet speeds, or equivalent throughput, over the Telstra fixed network of at least 19.2kbps.

Senator LUNDY—So the day after you make that announcement and the regulation is in place, if a customer rings up and says, 'I'm not getting that and I cannot get it because I am on a multichannel analog radio system,' are you going to fine Telstra?

Senator Alston—Telstra will be required to comply with that licence condition. If they do not, they will be in breach and they can be dealt with accordingly, and Telstra accept that. That has always been the case since the Estens report was released.

Senator LUNDY—So now can I ask Telstra. Given there are still a number of types of pair gain systems—and there are many, including some very old systems—my understanding is that some of those will only be replaced when they are no longer able to function. There is not a proactive plan to replace all of those pair gain systems that currently cannot deliver 19.2 kilobits per second and you will do it effectively on a complaints based program.

Mr Scales—I will ask Mr Pinel to cover this, but again we would not want to leave you or the other members of the committee with the wrong impression. We have a remediation program, which I referred to earlier, so it would not be correct to suggest that we are not systematically looking at our system, trying to understand what the appropriate technology is for our customers and then making the remediation where it is appropriate. There are some customers, however, who may not need the level of data speed that you are referring to. But let me hand over to Mr Pinel.

Mr Pinel—Pair gain systems are used in a number of ways, predominantly for voice. For voice communication there is no significant issue with the use of pair gain systems. It is only when customers attempt to use it for dial-up Internet connection that a data speed issue arises. So the need to replace the pair gain systems in a service that is used purely for voice really does not exist. There is a commitment from Telstra at this stage to ensure that customers who require a data connectivity over a dial-up service do achieve a minimum of 19.2 kilobits per second effective throughput. That is identified through the Internet assistance program and through other means by customers who approach us proactively and say that they are having concerns with Internet speeds. We will take the appropriate action to ensure that, where they require 19.2 kilobits per second effective throughput, the network can deliver that. If that requires some change in the way that the network is configured, such as converting to a copper line, we will take that action.

Senator LUNDY—So you will still not be in a position to upgrade all your equipment to be able to manage 19.2. You are telling me that because it will only be on the request of a data line that this regulation actually has any impact at all, you will not be upgrading those systems. I will give you an example. I think the four-channel digital pair gain system can only manage up to 7.2 kilobits per second.

Mr Pinel—That is correct.

Senator LUNDY—So it is only if one of the customers on that pair gain system requests a data line that you will actually do anything about it. Is that correct?

Mr Pinel—That is correct. If the customer is using it solely for voice, there is no imperative to make changes. The four-channel DPGS works extremely well for voice and I do not see any imperative to change that situation. If the customer wishes to use it for dial-up Internet connectivity, it becomes a different situation and we will take the necessary action.

Senator LUNDY—I just want to get this clear: Telstra's response to that part of the Estens report is that this mandatory regulation will only apply when there is a request from the customer for a data connection, for an Internet dial-up connection?

Mr Scales—The issue that we are grappling with everyday is that sometimes we are not aware of what the customer demands are. That is why, in a sense, Mr Pinel raised the point about the way in which this technology can be used for one particular requirement very efficiently but for another not quite so efficiently. So once we are aware that that is the requirement, then we are in a position to move and remediate in the way in which you are suggesting that we should, and we do.

Senator LUNDY—There are two issues here: the first is that that means, of course, that Telstra does not have a plan to remediate those pair gains, other than what is driven by requests for data connections—correct?

Mr Scales—The way we describe it is that it is when we know what our customer requires of us. That is what drives us, as you would imagine.

Senator LUNDY—You do not need to justify it. I am just getting it clear because the way the Estens report reads, the impression is that Telstra will be required to provide 19.2 to any Telstra customer, not that they go through the process of requesting another line, finding out that they have been given a pair-gain line and cannot get the data speeds, then having to lodge a complaint, then having to wait for Telstra to provision new lines, then hoping there will be exchange capacity—and hopefully there is an exchange for them to get that—and then for that to be an affordable service. That is very different from knowing that anyone who uses any line to dial up will actually get 19.2 kilobits per second. I think that is the issue here, with the minister giving an impression in his response to Estens that 19.2 will be the new standard whereas, in fact, people will have to go through a complaints process to achieve that.

Senator Alston—It is not a complaints process.

Senator LUNDY—Hang on—listen to what Telstra is saying, Minister. It is a complaints process. It is only when they become aware of a demand or a need for a data line, either a new line or the transferring of an old voice line to a data line, that they will do anything about complying with that regulation.

Senator Alston—Do you think it is reasonable to expect that data level services should be available to people who only want voice?

Senator LUNDY—What I think is reasonable is that Telstra invest in a network that will actually provide Internet users with a decent connection speed. Quite frankly, I do not think 19.2 is good enough.

Senator Alston—If they do want it for the Internet they will be guaranteed 19.2.

Senator LUNDY—Have you ever used the Internet at 19.2 kilobits per second, Minister?

Senator Alston—I have used it at all levels.

Senator LUNDY—It is pretty slow.

Senator Alston—So?

Senator LUNDY—It means that it is not much good. The calls time out when you download an email.

Senator Alston—Remember that this is a minimum. This is not the optimum, this is not world's best practice. This is a guaranteed minimum. This is to enable people to have web browsing, chat and email, which are the three most popular services.

Senator LUNDY—Hardly!

Senator Alston—If they want to go to broadband they can pay for that.

Senator LUNDY—They can pay for that—let them eat cake!

Senator Alston—I am just saying that the government's obligation is not to require service providers to offer the very best to everyone. There are usually cost differentials involved. The government's obligation is to put minimum standards in place, as we have done with a customer service guarantee which you have always opposed; I do not understand why. Nonetheless, we have a very comprehensive regime that requires Telstra to install and fix phones within a minimum period. If they do it faster good luck to them. But we are not going to say, 'What is the fastest you could possibly do it?' and then require that. We say, 'What is a reasonable minimum?'

Senator LUNDY—I will hand back to Senator Conroy, but I will come back to it. I think it is quite amazing that the two things you have said you will respond to in the Estens report turn out to be complete furphies because people will still be driven by a complaints based program that you said has been in place for 18 months anyway. So nothing has changed; nothing is new.

Senator Alston—If anyone comes to you and says that they want an Internet connection and they cannot get 19.2 you should be bringing that to the attention of Telstra, and we will deal with it if Telstra does not. It is as simple as that.

Senator LUNDY—But that is the same as it was last year, isn't it? Ever since you said 19.2.

Senator Alston—Ever since we entered into that agreement.

Senator LUNDY—Which was when? Give me a date.

Senator Alston—I have told you; I think it has been in effect for 18 months or so.

Senator LUNDY—So Estens—

Senator Alston—Estens knew that.

Senator LUNDY—and the recommendation you just talked about in putting a regulation in place will make no difference to that process for any of those customers.

Senator Alston—Estens was fully aware of the way that the system operated. Estens knew, and people had the opportunity to—

Senator LUNDY—So Estens is at fault. Surprise, surprise! The Labor opposition has been saying that it has been a bit of a political exercise anyway. I think this is evidence that it is exactly that.

Senator Alston—You might think that, but these were people very experienced in dealing with regional and rural issues. In fact, two of them had been on the Besley committee. They were able to receive complaints from all and sundry. They looked at the system and said, ‘Mandate it.’ And that is what we will be doing.

Senator LUNDY—In other words, it is a false solution to a problem that you say you have effectively addressed which, in everyone’s view, it does not address anyway.

Senator ALSTON—You can say that as much as you like. I know it suits your purposes to say that. As I understand it, you are saying that you know of people who have problems but are not prepared to complain because it has not been mandated as a licence condition. That strikes me as incredible.

Senator LUNDY—No, I have not said that at all. You are interpreting what I am saying. I am saying that there are people out there who from time to time use their voice services for data, and do not understand and get very angry when they cannot even achieve a minimum standard of 19.2.

Senator ALSTON—If you know they are angry you have presumably told them to get onto Telstra or you have got onto Telstra. If they are not getting satisfaction you should tell us.

Senator LUNDY—Why do you not just admit that those two recommendations in Estens were complete furrphies? Telstra do not have to change their behaviour as a result of them at all, do they? They just keep doing what they have been doing for the last 18 months.

Senator Alston—You seem to have a predetermined line on it all.

Senator LUNDY—You do not seem to have a defence.

Senator Alston—I have told you that if people have complaints, Telstra are required to respond positively to them. Otherwise we will take action to ensure that that is formalised. Estens said, ‘Make it a mandatory licence condition.’

Senator LUNDY—What action will you take if action is not taken by Telstra immediately? Will you apply a sanction? What action do you take now? You do not take any.

Senator Alston—You obviously respond to each—

Senator LUNDY—Each and every case?

Senator Alston—No, we do not have a one size fits all response. You look at the circumstances. If there was a huge intervention of natural forces, you may well accept that that is why the problem occurred. If they blatantly ignore it—if they do that on a systematic basis—they are liable for penalties of up to \$10 million.

Senator LUNDY—This is just a farce, Minister.

Senator Alston—You will have a range of responses. You may not like to have a range of responses, but we think that that is a much more sensible way of dealing with a whole range of problems.

CHAIR—We are breaking at 4.30 p.m., Minister.

Senator Alston—While we are at it, could I seek your guidance, Chair. I understood that the advisers table was reserved for advisers to senators. If that is so—and, as I understand it,

we have the presence here today of a CEPU representative—I would like to know whether that person is a formal adviser to one of the members of the committee or whether that person is simply an intruder who should not be entitled to sit at that table. Senator Mackay, you might like to clarify it. Do you have a CEPU representative formally on your staff?

Senator CONROY—Chair, I ask you to clarify what your ruling is on what Senator Alston has just made up about a table at the back? Is there some rule that we are unaware of?

CHAIR—It has never been brought to the attention of this committee, but I presume that the committee secretariat must have discussed it with you. It certainly has never come before the committee.

Senator MACKAY—There are no rules about who owns the table.

Senator CONROY—Is the table for people to put a computer on? Is it a specially reserved table?

Senator Alston—No. There are tables for advisers and there are tables for other ordinary mortals, and that usually includes members of the union who would be sitting in the body of the room. But if they have special privileges because they are formally on your staff, then I am happy to have that confirmed.

Senator MACKAY—They do in this case, but they are not formally on my staff. I am not embarrassed about this. The CEPU is up here assisting the Labor opposition to ask Telstra questions because it is the only way we can get information.

Senator Alston—In an unpaid capacity?

Senator MACKAY—Absolutely. Unless you want to do something about our staffing.

Senator Alston—They have taken leave without pay from work, is that right?

Senator MACKAY—They are not on my staff.

Senator TCHEN—They are not assistants, they are supervisors!

Senator Alston—They are probably supervising the members of the committee to make sure they do not inadvertently have their preselection put at risk!

Senator LUNDY—You do not want to answer any more questions about your dodgy Estens response. I will come back to those pair gain issues a little later and also follow through with the detail about the different activities that are taking place.

CHAIR—I think this issue is one that the committee probably needs to discuss in due course because, as I am advised, the secretariat has said that that table should be used by parliamentary advisers and not people who are not.

Senator CONROY—As opposed to volunteers?

CHAIR—As opposed to volunteers.

Senator Alston—As opposed to people who just blow in for the hearing.

Senator MACKAY—Let us just get on with it. If this is the best we are interested in, good God!

Senator LUNDY—If that is the best you can do, Minister, we are in for a fun couple of days.

Senator CONROY—I refer Telstra to the information on staff numbers detailed on page 26 of the Telstra financial highlights for the half year ended 31 December 2002. This document shows that full-time staff and equivalents declined by 4,090 from 45,827 to 41,737 in the half year ended December 2002. How does Telstra account for the staff reduction of 4,090? Could you give us a breakdown by job type?

Mr Stanhope—We do not have a job type breakdown here. Usually we look at our staff numbers by business unit.

Senator CONROY—Could you give us a breakdown by business unit or could you take that on notice?

Mr Stanhope—Yes, I will take that on notice.

Senator CONROY—Also, could you give us a breakdown on how many were line technicians, how many were call centre staff and how many were management?

Mr Stanhope—Yes, we will be able to do that on notice.

Senator CONROY—Can Telstra tell us how many of those jobs were lost in the areas outside of our capital cities and how many were within capital cities?

Mr Stanhope—I can refer to our program. First of all, I need to say that we do not really manage to a head count target, but we did make an announcement back in March 2000—and it is the last head count announcement we made—of a reduction in staff of 10,000 over the period up to June 2002. As at June 2002—I know that time has marched on since then and we did exclude NDC at the time we made that announcement—there was a reduction of 9,353. Up to April 2003—so this is later information than you just quoted me—there was a reduction of 11,423, excluding NDC. The metro-country mix is 78 per cent metro and 22 per cent regional. If you want to include NDC into the mix, it is 79 per cent metro and 21 per cent country, so there is not much difference.

Senator CONROY—Are you able to give us a breakdown on a state basis as well? I am happy if you take that on notice.

Mr Stanhope—Yes, I will take that on notice, because I have macro numbers here.

Senator CONROY—In Telstra's 2002 annual report, the number of jobs in 2002 fell from 48,317 to 44,977. What staffing level is Telstra expecting to announce in the 2003 annual report, when you produce your 2002-03 financial year report?

Mr Stanhope—The number you are reading there is an FTE number, which includes contractors, agencies, part-time and casual employees. We are expecting our full-time staff number to be around 37,500. So you have to take into account our level of full-time equivalents which, by the way, is currently running at about the equivalent number—42,467 is our full-time staff plus our full-time equivalent number. That is about where we are today. So we are expecting on an annualised basis around a 2,800 FTS reduction in this financial year.

Senator CONROY—Do you have any idea what types of jobs they are, on a similar basis to what we discussed—that is, geography and breakdown of job division, such as linesmen versus other types?

Mr Stanhope—I cannot give you the types. It is about 1,500 in infrastructure services. This is from about 30 June 2002 to, we predict, 30 June 2003. Over the next two months—we have nearly finished May—that could change. It is a forecast. Telstra Technology group is minus 30, Country Wide is plus 70, there is no change in Telstra Wholesale, and consumer and marketing is minus about 210. Business and government is about minus 400. There has been an increase in broadband and online—a growth area, as you might anticipate. There have been about two in international and about minus 300 in finance and administration, which is an overhead area. There has been no change in legal and regulatory and about 10 in employee relations. That should add up to something around that number I gave you.

Senator CONROY—Thank you. I think Senator Mackay will come back to these figures—

Senator MACKAY—I will.

Senator CONROY—so I want to move on to share dividends. I refer Telstra to their recent statement to shareholders that future dividend payments in 2004 would only be by direct credit to an Australian bank account. Other than the obvious cost saving, do you have a reason for that?

Mr Stanhope—That is one of the reasons. Over 50 per cent of our recipients of dividends now get it by direct credit, including the government of course. It is driven by cost savings, but it is also quite efficient. We find that we have a lot of cheques that go missing or get lost, and that is expensive to follow through, so it will certainly save costs.

Senator CONROY—What mechanisms does Telstra have in place to protect the privacy of people's bank accounts?

Mr Stanhope—We actually ran the proposal by the Privacy Commissioner to make sure that we have all those processes in place. Telstra has always taken privacy matters very seriously. Because people often have dividends or shares in other people's names—like sons, daughters or grandchildren and so on—we are offering a third party account option as well, so it does not just have to be the account of the registered shareholder, if you like. We have gone over all of that process and we can assure all our shareholders that strict privacy conditions will be in place.

Senator CONROY—So, if I am a Telstra shareholder—which I am not—and I do not want to give you my bank account details, how am I going to get my dividend?

Mr Stanhope—We will look at the exceptional case—

Senator CONROY—No, I just do not want to give you my bank account details.

Mr Stanhope—We have said that—

Senator CONROY—I am not exceptional; I just do not want to give them to you.

Mr Stanhope—We would prefer that you did. We would want to look at each case on its merits as to why you would not want to do that.

Senator CONROY—Because I do not want to and I do not think I should have do. How are you going to give me my dividend? I appreciate your company rules, but how are you going to give me my dividend?

Mr Stanhope—I guess that, in such a circumstance, at the end of the day we would have to pay you your dividend, but we would prefer to give it to you via direct credit to your bank account.

Senator CONROY—So legally you cannot withhold my dividend just because I will not give you your preferred method of payment?

Mr Stanhope—No, the dividend is yours. We cannot withhold it.

Senator CONROY—But you would hold it until I give you my bank account details?

Mr Stanhope—Yes.

Senator CONROY—Would you pay me interest on it?

Mr Stanhope—We would hope that we would not get to those circumstances.

Senator CONROY—But if I continued to say, ‘No, I do not want to give it to you’—

Mr Stanhope—Again, we would have to look at each individual case to see whether we should or whether we would. We have got a 12-month communication program going on, and it is our desire to see everybody on direct credit. There are other examples. Centrelink uses direct credit and people seem to be able to cope with that in their lives, so we think that it is a natural progression for people to get their dividends by direct credit. By the way, since we have suggested this, we have had 155,000 applications and a very low number of complaints about it.

Mr Scales—We are conscious of the points you are making—that is, we are sensitive to the rights of shareholders and we are sensitive to our responsibilities to shareholders. That is why Mr Stanhope mentioned that over the next 12 months, firstly, we are going to try to do our very best to convince shareholders that it is in their best interests because we will be more efficient in doing so and, secondly, we are going to try to convince shareholders that they have nothing to fear. We understand that is something we have to convince shareholders about. That is our responsibility and we will set about doing that. Also, we are conscious of the very point you made that ultimately it is their money. They have invested in a great company and we are going to make sure that they get value out of investing in a great company. We will do all that we can to convince them that it is the right one for them.

Senator CONROY—So if you are holding money because you do not have a bank account number—whether it is because you have a lot of difficult shareholders like me or just that other people have not got around to giving you the details—will you pay interest?

Mr Scales—I think what Mr Stanhope said was that we are going to look at each of these cases and that is what we are going to be doing. Our approach is going to be as sensitive as is necessary to convince people that it is in their best interests as a shareholder of a company that is trying to be as efficient as it possibly can on their behalf—not on our behalf, but on their behalf—so that we can maximise shareholder return. That is the message we will be trying to get to them.

Senator CONROY—When a transaction is done electronically, is there a cost to the person receiving it? If you are transmitting money to my account, do I bear any cost?

Mr Scales—Mr Stanhope would be best to answer that.

Mr Stanhope—No.

Mr Scales—I think primarily any cost would be associated with their being part of a banking syndicate, but there would be no other costs, as I understand it.

Mr Stanhope—That is correct.

Senator CONROY—There is no cost?

Mr Stanhope—No.

Senator MACKAY—Mr Stanhope, I want to go to the figures you gave Senator Conroy. Were they for the 2002-03 financial year?

Mr Scales—Are these the figures about employment numbers?

Senator MACKAY—Yes. You were quoting 2002-03 figures, were you, Mr Stanhope?

Mr Stanhope—I was.

Senator MACKAY—As I understood it, you said 2,803 FTE. Is that what you said?

Mr Stanhope—No, FTS—full-time staff.

Senator MACKAY—I know what FTE means. What is the FTE figure?

Mr Stanhope—I do not have a prediction for the end of the year, but it is nearly 5,000.

Senator MACKAY—So a 5,000 FTE loss 2002-03.

Mr Stanhope—No, not loss.

Senator MACKAY—What then?

Mr Stanhope—The 5,000 is the difference between full-time staff and FTE. So there are about 5,000 equivalents—part-time, contractors.

Senator MACKAY—You said there was a net loss, as I understood it, of 2,803.

Mr Stanhope—Full-time staff.

Senator MACKAY—Full-time staff. What is the loss, including part-time casual?

Mr Stanhope—I am sorry, I do not have the casual number. I do not have the FTE number.

Mr Scales—That figure is relatively small. The total number would not be any more than the equivalent of around 400 or 500 people in total. It is relatively small. It makes very little difference to the total numbers, but we can get those for you. It is not a controversial point.

Senator MACKAY—So the 2,803 that you quoted, Mr Stanhope, is not full-time equivalent; it is actually full-time staff.

Mr Stanhope—Correct.

Senator MACKAY—You said something about it including contract staff. I could not hear you.

Mr Stanhope—No, I said FTEs include contract staff. Say an IT contractor is helping out, a contractor who is in the place working, a labourer—

Senator MACKAY—Have you always formally included contractors in your staffing aggregate?

Mr Stanhope—Yes, in our full-time equivalent staff we have.

Mr Scales—Just to clarify that, when we look at the labour costs within the company we try to separate out two elements of our total labour costs. The first is those people that we employ ourselves, and for all intents and purposes that is the figure that we call full-time staff or FTS.

Senator MACKAY—That is my understanding.

Mr Scales—The second is a figure that we call FTE, which is full-time equivalents. That includes the very substantial number of contractors that we would have working for us around Australia at any particular point. That could vary—this is where Mr Stanhope used the 5,000 figure. There could be an additional number equivalent to about 5,000 people on an FTS basis that we would add to make up the total number of people that we had available.

Senator MACKAY—I understand.

Mr Stanhope—I can give you an idea. There are about—

Senator MACKAY—What question are you answering now?

Mr Stanhope—I am telling you about the difference between full-time staff and FTE.

Senator MACKAY—What I am interested in is the number of people directly employed by Telstra at this point—at this point, as Mr Scales has indicated.

Mr Stanhope—Right.

Senator MACKAY—So we have a reduction of 2,803 full-time staff in 2002-03?

Mr Scales—I think Mr Stanhope said it was roughly that figure and it could vary a little over the next couple of months. That is the current figure.

Senator MACKAY—That is all right. So that is a ballpark figure?

Mr Stanhope—Yes. The forecast for the end of the year is about 2,800—that is what I said.

Senator MACKAY—Of those, there are 1,500-odd out of the network area, did you say? I could not quite hear you.

Mr Stanhope—Yes—1,500 or thereabouts out of the infrastructure services area.

Senator MACKAY—And these are people who are directly employed by Telstra as distinct from contractors?

Mr Stanhope—Yes, they are.

Senator MACKAY—The projection—this goes back to the discussion you and I had previously, Mr Scales—for the next financial year is somewhere between five and 10 per cent. Is that correct?

Mr Scales—As we said when we had this discussion before, we do not make those predictions.

Senator MACKAY—What are the projected staffing levels for next financial year?

Mr Scales—Part of the reason we cannot make those predictions is that we do not know how intense the competition will be over that period. We are managing to meet our customers' requirements in the face of whatever competition there is at the time. We do not predict what those figures will be; we respond to the particular demands at the time.

Senator MACKAY—But at the Senate Environment, Communications, Information Technology and the Arts Committee inquiry you were able to quantify the productivity levels that would be required of Telstra as somewhere between five and 10 per cent.

Mr Scales—I think what I indicated—and you were very cleverly taking me in a particular direction—was that, for us to remain competitive in the environment in which we operate, we will simply have to become more productive on the labour side, if I can put it that way. That depends, of course, on the level of competition.

Senator MACKAY—I understand. I was not being particularly clever. I think that companies generally do put a figure on projected productivity required over a coming financial year. I think you were being fair there. But, to be blunt, it is not acceptable for Telstra to sit here and tell the Australian parliament that they do not know—or they are not prepared to say, guess or give any indication—about prospective staffing cuts for the next financial year.

Mr Scales—I certainly would not, under any conditions, want to give the Senate that impression, because that is not the way we act, as you know.

Senator MACKAY—You are—that is precisely what you are doing.

Mr Scales—That is not the way we act.

Senator MACKAY—What are the projected staffing levels for next financial year?

Mr Scales—As I said, we cannot predict that because it depends on the level of competition.

Senator MACKAY—Have you done any work internally on staffing levels?

Mr Scales—We have done work on what we believe is the appropriate level of competitiveness that we will need to address, which is the point that I made to you last Monday.

Senator MACKAY—What does that work tell you about your projected competitiveness?

Mr Scales—Mr Stanhope can give you a few more details about this, but we would expect, as I said last week, to have to increase our general productivity by around seven per cent plus over that period to be able to meet the level of competition we are facing.

Senator MACKAY—When we last met, you talked about five to 10 per cent. Have you run a line through the middle to get seven per cent—is that it?

Mr Scales—No, that is not right.

Senator MACKAY—Then please enlighten me.

Mr Scales—It is unfair to suggest that.

Senator MACKAY—Enlighten me: where did ‘seven per cent’ come from?

Mr Scales—I think you were asking me a relatively specific question about whether we have done any work—

Senator MACKAY—Yes.

Mr Scales—and I was responding to the specific question which you asked me.

Senator MACKAY—So you have done work that indicates that, in terms of expected productivity, you are looking at around seven per cent for the next financial year?

Mr Scales—Yes.

Mr Stanhope—Can I help out here. We are in the middle of our planning preparations.

Senator MACKAY—I understand that—and we are in the middle of budget estimates.

Mr Stanhope—We have not completed our plan yet. Our plan does not go to our board of directors until 25 June. Have we done work around this? Yes, of course we have. This is how we have measured productivity. It is revenue dollars per labour, and labour on staff, which is the FTEs that I was talking about. It is around 7.2 per cent for 2002-03, whole of company. We are aiming for a similar level for 2003-04.

Senator MACKAY—What are the knock-on consequences of the major cost, which is staffing?

Mr Stanhope—I cannot give you a number, but I have just told you 7.2 per cent; we are looking for something similar. The labour impact will be something similar to this year.

Senator MACKAY—So 3,000-odd.

Mr Stanhope—It is a logical conclusion to reach.

Senator MACKAY—It is. This is ridiculous. Basically, we want fairly straight—

Mr Stanhope—It is approximately—

Senator MACKAY—3,000 staff.

Mr Stanhope—the same number as last year, yes.

Senator MACKAY—So we are talking about 3,000 approximately—

Mr Stanhope—Yes.

Senator MACKAY—for 2003-04?

Mr Stanhope—Yes. But just bear in mind what has been said here already. We are still doing the plan, and the in-year activity that Mr Scales was talking about can vary that headcount, of course.

Senator MACKAY—I understand all that.

Mr Stanhope—It is a variable element in our cost mix.

Senator MACKAY—Yes, I know. We just want to know what work you have done at this point.

Mr Stanhope—I have told you, Senator.

Senator CONROY—I am a bit confused. I am looking at a copy of a page from your annual report which says that you got solid results in a challenging year. There is a table of full-time staff and equivalents, and you have got 40,977 listed there for 2002, and I thought you mentioned a figure of 37,500 in 2003. Is that a directly comparable figure for the next year?

Mr Stanhope—No, it is not, because it does not include that number of full-time equivalents, or the part-timers. The part-timers are the 5,000 or so that Mr Scales referred to. If you take them off, you will get that level of about 2,800 I was talking about as the reduction.

Senator CONROY—So the difference is the casuals.

Mr Stanhope—Yes, that is correct.

Senator MACKAY—Just getting back to the 3,000-odd figure, if you look at this year, Mr Stanhope, you will see that about half of that came from network related staff. Is that correct? I do not want to verbal you.

Mr Stanhope—That is right—thereabouts.

Senator MACKAY—What is the projection—

Mr Stanhope—When you say ‘network related staff’—

Senator MACKAY—Infrastructure.

Mr Stanhope—Telstra Technology staff are network related staff too.

Senator MACKAY—‘Infrastructure related’ is perhaps a better term.

Mr Stanhope—Yes.

Senator MACKAY—When Mr Scales was in front of the Senate inquiry he said somewhere between five per cent and 10 per cent, so it could be more than seven per cent. Is that right?

Mr Stanhope—What I said to you is that as a planning number for 2003-04 we are aiming for a similar level of productivity—around seven per cent. So you can assume that the labour reduction will be similar. That is what I said.

Senator MACKAY—But the contention from Telstra previously was that the pressure on Telstra with respect to productivity from its competitors was likely to be higher this year. From what you are saying, it is not. Is that right?

Mr Stanhope—We have got to balance what we have to deliver—customer service. We have got to balance all of those things. Whilst we have got a flattish outcome, we have got—

Senator MACKAY—You have been nobbled, haven’t you? You guys have been nobbled, haven’t you?

Mr Scales—No, not at all. The reason why we deliberately give targets like this is that, as Mr Stanhope mentioned earlier, the plan has not been completed. We are not that anxious to signal to our competitors what our plans might be, and we are not particularly keen to signal to our competitors in such a public forum as this how we may be wanting to compete with

them in a pretty aggressive market. If they know that we are going to have quite precise figures around cost reductions, that gives them the ability to be able to put in place ameliorating actions which will stop us from being able to compete effectively with them. So you can understand why it would be that we would want to be a little bit less than absolutely precise in this environment.

Senator MACKAY—I can understand. Minister, have you had any discussions with Telstra recently?

Senator Alston—That is a big question, isn't it?

Senator MACKAY—Not really. You had some today, did you? Have you had any discussions with Telstra in the last 48 hours?

Senator Alston—Have I talked to some people from Telstra in the last 48 hours?

Senator MACKAY—No. Have you had any discussions with Telstra in the last week?

Senator Alston—What does that mean: have I talked to any Telstra employees?

Senator MACKAY—No. Have you had any discussions with any of the people at the table in the last week?

Senator Alston—Yes, I have spoken to Mr Scales.

Senator MACKAY—Have you discussed the issue of staffing in the last week?

Senator Alston—Staffing. In what context?

Senator MACKAY—It is not a hard question.

Senator Alston—If you are talking about Telstra staff—

Senator MACKAY—Yes, Telstra staff.

Senator Alston—No, I do not think so.

Senator MACKAY—You have had no discussions with Telstra with respect to Telstra's staffing in the last week?

Senator Alston—No.

Senator MACKAY—Are you sure?

Senator Alston—I was certainly not in a position to talk to Telstra staff until I came to Canberra today, so I am really only talking about one conversation I have had with Mr Scales. The subject of that conversation was not about Telstra staffing.

Senator MACKAY—Has anybody in your office had any discussions with Telstra?

Senator Alston—No idea. We talk to Telstra all the time.

Senator MACKAY—With respect to staffing in the last week?

Senator Alston—So what if I have?

Senator MACKAY—I want to know.

Senator Alston—I am not sure that that is a particularly relevant question for public policy making.

Senator MACKAY—That is my judgment whether it is or it isn't. I would hope that one would, given the potential revelations of last Monday. As minister for communications, you would be perfectly entitled to ask your office to talk to Telstra. I would assume that you had.

Senator Alston—We talk to them on a regular basis.

Senator MACKAY—Has your office spoken to Telstra on staffing in the last week?

Senator Alston—I will check.

Senator MACKAY—Please do.

Senator Alston—No, not to my knowledge.

Senator MACKAY—Mr Scales, what has changed from last Monday when you talked about a potential productivity dividend that was in excess of last year's potential productivity dividend, which you are quite clear on the *Hansard* was in excess, and now when Mr Stanhope indicates that the productivity dividend is the same as that in the last financial year? What has happened in the last week?

Mr Scales—I do not think anything has happened in the last week. I tried to indicate earlier that I used the figure five to 10. I think, without quoting you absolutely accurately, you said, 'Have you cut it down the middle?' which by implication suggests that it is within the range that I gave last week.

Senator MACKAY—So you have now done further work. In the Senate inquiry previously you were talking about it being between five and 10 per cent. Now Mr Stanhope is in a position to be quite unequivocal about seven per cent. So why did you last week talk about a range between five and 10 and why is Mr Stanhope now talking about seven?

Mr Scales—To be honest with you—and it is my fault, not yours—I cannot remember the exact question that you asked me. But I would have tried to answer your question then as accurately as I am trying to answer it now. As I understand it, your question to me was: have you done any work? And I answered as accurately as I could, which was, 'Yes, we have,' and that the figure—which I think has been verified by Mr Stanhope—was around seven per cent.

Senator MACKAY—So we can now confirm that there is a potential cut in the next financial year of approximately \$3,000, give or take?

Mr Scales—The only qualification I want to make about that is the point that John Stanhope made when he was answering your question, and that is that our plans have not been finalised. These issues are, as you could imagine—given that we are 49.9 per cent public owned—matters for the board to determine when we put before them our final business plan. That can change.

Senator MACKAY—I understand that, but unfortunately the parliament of Australia cannot wait for Telstra's board to consider this. This is budget estimates and we need this information now. All I am trying to do—I am not trying to verbal Telstra here—is get a ballpark figure of the potential staffing loss for the next financial year. Mr Stanhope has been quite useful and helpful.

Mr Scales—As you can see, we are trying to be as helpful as we can.

Senator MACKAY—As always.

Mr Scales—All I wanted to do was put the appropriate qualification so that we were not misunderstood—again, around this principle of being as open and honest as we possibly can with you but not trying to mislead you.

Senator MACKAY—So the answer to that question is broadly yes—contingent upon other exigencies et cetera—

Mr Scales—Which is what we said about five minutes ago.

Senator MACKAY—So we are looking at 3,000.

CHAIR—Thank you. We will take a short break now.

Proceedings suspended from 4.30 p.m. to 4.44 p.m.

Senator MACKAY—I would like to ask one final question to clarify the situation. What will the next annual report say with respect to staff? We have a column in this year's report that says that full-time staff and equivalents are 44,977 and, 2001, 48,317; so we allege a net loss of 3,304. Is that correct?

Mr Stanhope—You have just added up my forecast numbers. It will be a bit more than that because I did rough forecast numbers. The 2,800 is more accurate. I just did a rough split, so there will be a bit more across all those groups.

Senator CONROY—That should be 42,000—

Mr Stanhope—Yes, full-time equivalents.

Senator CONROY—give or take, and not the 3,000 that Senator Mackay was referring to.

Mr Stanhope—That number also excludes our offshore staff like TelstraClear and CSL. That is really domestic staff, because we have a couple of thousand people in CSL and so on.

Senator CONROY—That was my question.

Senator MACKAY—Are you clear on this?

Senator CONROY—As clear as I am going to be, I suspect.

Mr Scales—That is about right. They are the equivalent numbers.

Senator MACKAY—So what should those columns say now?

Mr Scales—If you are asking what would they be exactly at the end of this year, we cannot tell you because there are still a few months to go. The numbers you have referred to are net change, which you have spoken about. The net change is around the 3,000 figure that you have referred to.

Senator MACKAY—Looking forward to the next annual report, it will be approximately the same—that is, 3000 net loss.

Mr Stanhope—The planning parameters are about the same.

Mr Scales—Again, with those caveats I mentioned earlier that the plan has not yet been finalised.

Senator CONROY—I want to talk about Telstra line rental increases. Based on your third quarter 2002-03 results, can Telstra state how much their revenue has increased as a result of the line rental increases in August last year, allowing for any fixed line call cost reductions.

Mr Stanhope—The basic access revenue we published in the quarterly results increased 9.6 per cent over the nine months prior corresponding period. So year on year, for the nine months to March, basic access revenue has increased by 9.6 per cent.

Senator CONROY—What is that in dollar terms, roughly? I am helping you out here, because I do not know what the actual—

Mr Stanhope—About \$200 million.

Senator CONROY—I am vaguely thinking back to the calculation—and that is only for nine months. Wasn't the expected figure about \$180 million that some market analysts were putting on the increase?

Mr Stanhope—For the year.

Senator CONROY—For the 12 months. I will come to what you think you will make in the 12 months.

Mr Stanhope—I cannot answer with a forecast.

Senator CONROY—We are talking about a fixed item here. Short of people pulling the phones out of the wall, you should be able to do—

Mr Stanhope—But it is volume and price related. It is \$204 million. There is a volume and price variation. The current price or yield variation is \$228 million, but volume has gone down \$24 million, so it is not as simple as saying, 'Basic access has gone up by this much,' because there is a volume impact.

Senator CONROY—I accept that. But nine months is a reasonably lengthy period. You have to expect it to be reasonably consistent. Is there any seasonal factor that you would anticipate? Is it colder so people stay in more and make more phone calls?

Mr Stanhope—No. Basic access is about nearly \$780 million a quarter. It stays fairly constant. I can tell you exactly. Let us start with this year: September was \$765 million, the quarter to December was \$794 million and quarter 3 was \$781 million. So there was a bit of a variable outcome.

Senator CONROY—So you have made net—if I can use the word net—\$204 million after you subtract the \$24 million from the \$228 million?

Mr Stanhope—The volume variance, yes.

Senator CONROY—Accepting that there are factors in both directions, you have no rough calculation of what you think you will get for the entire 2002-03 financial year.

Mr Stanhope—No, I do not. But if the quarter is around about \$780 million again then it is going to be about \$3 billion or thereabouts from basic access revenues for the company.

Senator CONROY—But you are not able to work out what the increase is due to the line rentals, netted off?

Mr Stanhope—No, not the volume.

Senator CONROY—If nine months is net \$204 million, you do not think you could just work out what 12 months is?

Mr Stanhope—You could do an extrapolation; it might be another \$32 million of volume reduction.

Mr Scales—The reason one needs to be slightly careful here is that we all understand that, as we get closer to the appropriate price for line rental charges, which is what the ACCC is really encouraging us to do, you get people who will make the appropriate choice as to whether they want to maintain a fixed line. So the elasticity question is not a trivial one. And that is why it is that Mr Stanhope, to some extent, is equivocating around whether you can extrapolate it. As one moves into this area, you begin to move into slightly uncharted waters where real elasticities tend to kick in, and this is a situation that Australia has not been in probably in its history.

Senator CONROY—We have not set out to try and get Australians off the phone—you are right.

Mr Scales—So that issue about how we get the appropriate allocation of resources, and people can make choices about whether they want a mobile phone or a fixed line or some of these other things, now becomes an issue. It is not quite as easy as simply extrapolating.

Senator CONROY—I am sorry, I am having trouble imagining that poor pensioner who cannot afford their fixed line rental anymore—

Senator MACKAY—And getting a mobile.

Senator CONROY—so they decided to cash it in for their mobile. Telstra should live in hope, I guess. If they keep that marketing exercise going, they might just get there.

Senator MACKAY—They could access their broadband via their mobiles.

Senator CONROY—Pensioner concessions, of course.

Mr Scales—As you know, there are pensioner concessions. And given the fact that I would be remiss—

Senator CONROY—If you didn't mention that.

Mr Scales—if silence were regarded as my not suggesting that.

Senator CONROY—We never take silence as consent from the other side, except in the case of the minister.

Senator MACKAY—Because he's not here.

Senator CONROY—Just to try and drill down into those figures fractionally—but you may not be able to understand that, Mr Stanhope—in regard to Telstra's July 2003 line rental increases of \$1.60, how much extra revenue does Telstra expect this increase to deliver to Telstra's revenue over 2003-04, allowing for any reductions in the fixed line call costs? Do you have an estimate?

Mr Stanhope—It is a difficult question to answer because we do not know the elasticity around demand. In our planning of course, we are estimating a certain amount for basic access, but I do not think it is wise to reveal our forecasts here. It is very price sensitive information.

Mr Scales—In addition to that, we are not exactly sure what all of our competitors will do in this market. So we are not only trying to judge what the elasticity is but also trying to understand what might be the competitive dynamics. That makes it a little difficult for us.

Senator CONROY—I accept some of the commercially sensitive issues there. I think they will be exposed in another few months, and you should be able to make your calculation, but I accept you do not want to—

Mr Stanhope—With all due respect, Senator, it would be like giving our competitors our forward plan.

Senator CONROY—Do you have any further increases in line rental costs planned, without revealing the extent of them?

Mr Stanhope—Rebalancing continues as we have the mechanism within the price control regime.

Senator CONROY—Have you read that memo from the ACT government?

Mr Stanhope—No, I have not.

Senator CONROY—Is that where you get this term ‘rebalancing’ from?

Mr Stanhope—Rebalancing is a term that is used. It is a term that is used by the ACCC.

Senator CONROY—I did not know that it was unbalanced in the first place.

Mr Stanhope—Absolutely.

Senator CONROY—All of those poor pensioners just thought they were using their little old phone, but they have been unbalanced for years.

Mr Stanhope—There has been an access deficit, as we know.

Senator CONROY—How much revenue does Telstra expect to make by abandoning the popular 15c neighbourhood calls on HomeLine Plus and HomeLine Complete and will this revenue increase be fully offset by the 1c and 2c reductions in general local call costs on those plans?

Mr Stanhope—I certainly do not have that level of detail.

Senator CONROY—Essentially what I am asking is: is it revenue neutral?

Mr Scales—Mr Storzaker may be able to give us a bit more information on that, and I might ask him to cover it. This is going to be a difficult question for us to answer as precisely as you want, and part of the reason for this I raised earlier. We are in a highly competitive market. If we make a change, our competitors make a change. The extent to which we can predict revenues requires us to predict the way in which our competitors will respond to any decision that we might make in a particular marketplace. So it is a very difficult issue for us to calculate.

Mr Stanhope—I am advised that it will be fully offset.

Senator CONROY—It will be revenue neutral?

Mr Stanhope—Fully offset, yes.

Senator CONROY—I have some questions around corporate governance which, as you know, occupies a lot of my time. I will not enter into this now, but I did want to have a discussion with you about the accounting treatment of some of your products. Would there be anybody here now who could answer those questions—not that I want to go to them now because it would be quite a detailed conversation. I just want to flag that at the next estimates I want to have a chat with you about the accounting treatment of some of your products.

Mr Stanhope—I am the finance director. If I cannot answer your questions, we are probably in serious trouble.

Mr Scales—Did you want to indicate which products you are referring to so that we can try and understand your questions?

Senator CONROY—I am bound by issues of confidentiality. The Liberals might move in and ask the questions for me if I revealed that. It is a very competitive market.

Mr Stanhope—We are happy to answer those in due course.

Mr Scales—We could always take it in camera.

Senator CONROY—What is the formula that has been used to calculate the retirement payout payable to Telstra CEO, Dr Switkowski? What is in the contract?

Mr Scales—There is no specific retirement payout.

Senator CONROY—I understand that. So how is it going to be calculated?

Mr Scales—Dr Switkowski's contract is a pretty simple contract. I am just trying to remember all of the details of the contract. If you are searching for whether there is what is sometimes described as a golden parachute, no, there is not. There is a provision in his contract where if he is terminated he would receive—I am going slightly from memory here—the equivalent of one year's salary or thereabouts.

Senator CONROY—The government is the major shareholder in Telstra, isn't it?

Mr Scales—Yes, that is correct.

Senator CONROY—Has that remuneration policy been put to a vote of shareholders?

Mr Scales—As I understand it, it is a matter for the board. As you would be well aware, under good governance arrangements the board has an appointments and compensation committee, which is pretty well better practice for governance arrangements. I think that is the sort of thing that the Americans have been talking about and would like to see put in place by boards, run by the independent members of the board. The board convenes the appointments and compensation committee and these sorts of issues are addressed by them.

Senator CONROY—I appreciate that, and it is good governance to have a separate committee that looks at these things specifically and has some expertise in them. But I was asking about the remuneration policy being put to the shareholders at any stage for their endorsement perhaps—the board being representatives of the endorsement.

Mr Scales—Mr Stanhope may help me with that. Since I have been at Telstra, I do not remember that issue having been put to an annual general meeting. But, as I say, I am not sure.

Mr Stanhope—Certainly the remuneration policies of the company are stated in the annual report. But specifically the CEO's remuneration plan—

Senator CONROY—I am happy for it to be broader—don't panic.

Mr Stanhope—I beg your pardon.

Senator CONROY—Don't panic, I am happy for it to be broader than just the CEO. I did not want to suggest in any way that I was limiting it.

Mr Stanhope—How we remunerate our executives is stated in the annual report and, of course, is a requirement of the Corporations Law that we disclose the five top—

Senator CONROY—You would accept, though, that there is a difference between stating something in your annual report for shareholders' information and allowing them a say in what they think of the policy structure and policy framework and actually seeking their endorsement of it.

Mr Stanhope—Yes. One is a disclosure and the other would be more likely an approval. I understand the difference.

Senator CONROY—I was just wondering because the government has a very straightforward position on issues of redundancy and being laid off. It has set up a national redundancy scheme. You may be familiar with it: it basically insists that people should just get eight weeks salary when they are made redundant. I was just wondering whether the government had expressed a view to the Telstra board, given that it is the majority shareholder, that redundancies should be only eight weeks salary, not 52 weeks. There is a bit of a difference between eight weeks and 52 weeks.

Mr Scales—I am not privy to all the conversations the government may have had with members of the Telstra board, but I understand the case to be that the government requires the Telstra board to put in appropriate governance arrangements within Telstra and I understand that it is very comfortable with those governance arrangements. As I think I mentioned to you, the governance arrangements in place are probably at the better practice end.

Senator CONROY—The definition of better practice is probably a little generous. Better practice would be putting the remuneration policy to a vote of your shareholders. I am keen for it to be a mandated part of the Corporations Law, as you are probably aware, but in terms of best practice it certainly meets current standards. We could debate all night whether that falls under the definition of better practice, Mr Scales.

Mr Scales—Of course.

Senator CONROY—Do you think it would be a good idea if the board were to put their remuneration policy to the shareholders?

Mr Scales—They are not issues for us. They are issues for the board.

Senator CONROY—I have always said to you that you should see whether Dr Switkowski has some spare time and that you might like to pop along and have a chat with him. I do not think you can get away with telling me that you are more than enough for us when you then want to duck-shove it up to the board because they are not here, Mr Scales. I do not think you can have it both ways.

Mr Scales—If I understand your question, it is about corporate governance. The debate currently around corporate governance is about what is the appropriate role of the board and what is the appropriate role of salaried professionals working on behalf of both the board and the shareholders. My point was that, in terms of the governance arrangements, it is the board members who under better practice arrangements, as I think you would know and would understand, are really given the responsibility by shareholders to make these decisions. That is the point I was trying to make: the distinction between my role as a paid employee and the role of the board as being those responsible for governance.

Senator CONROY—You have extensive experience in some of these areas. You might go back from here and say to Dr Switkowski, ‘This is an issue that is of concern; you might want someone to have a look at this.’

Mr Scales—I know that the chairman of the board and Dr Switkowski are always discussing issues around corporate governance. It is not only an issue for Telstra but also, as you would well know, an issue that is almost foremost in the minds of the boards of the top 100 companies in this country.

Senator CONROY—I do my best.

Mr Scales—There is an extensive debate about all the issues that you are raising.

Senator CONROY—Dr Switkowski is up for renewal shortly, isn’t he?

Mr Scales—Dr Switkowski’s contract expires, I think, around March or April next year.

Senator CONROY—So some time in the next 12 months—you do not normally wait until the last day before you sign a new contract. You try to deal with it six months out, or something like that, so that you have continuity or not. Is the board going to try to include some mechanism to calculate the retirement payout in the next contract and not leave it quite as vague as it appears at the moment??

Mr Scales—As you would be aware, Senator, having studied this whole question of corporate governance and having strong opinions on it, these are issues for the board to address, sometimes behind closed doors, and when they come to an appropriate decision to then discuss that with the chief executive. They are not issues which people—

Senator CONROY—A major shareholder has just arrived. He might be able to save you the trouble of telling me that you are not on the board. Senator Alston, welcome back. We were just discussing Dr Switkowski’s remuneration. We are wondering whether or not the government has approved his 12-month payment if he were to be retrenched. That is in his contract, I think Mr Scales informed us.

Senator Alston—That we have to approve?

Senator CONROY—No. I was wondering whether you are aware, firstly, that he will receive a 12-month payment if he is made redundant.

Senator Alston—We did not appoint him and we did not—

Senator CONROY—You are the major shareholder, though. You do have a say.

Senator Alston—Shareholders have a say at the annual general meeting. They do not administer contracts with employees. They do not make board appointments.

Senator CONROY—The federal government's redundancy package policy—as part of what you put in place to deal with National Textiles—says that people being made redundant should only receive eight weeks remuneration. Is it fair for Dr Switkowski to get 12 months or 52 weeks when most Australian workers can have only eight weeks? Is that consistent government policy—that you just turn a blind eye to the CEO of Telstra?

Mr Mullane—I do not think it is a matter of turning a blind eye. He is probably being remunerated in accordance with much higher levels of responsibility.

Senator CONROY—This is about what would happen in a redundancy situation. Is it fair for workers to get eight weeks when, if Dr Switkowski were made redundant, he would get 52 weeks?

Senator Alston—I imagine that the board decides what is an appropriate package. If Dr Switkowski is at a level where he ends up with a better package than the ordinary Australian worker, it would be because he has much higher responsibilities.

Senator CONROY—You may be aware that just last week shareholders in a major public company, GlaxoSmithKline, rejected the gold parachute provisions for their CEO. Do you have a view whether the government should take a leading stance in the community and try to indicate to the board of Telstra its views on golden parachutes? Should Dr Switkowski get to keep a 52-week redundancy payment?

Senator Alston—As I recall from reading that item, the vote at the GlaxoSmithKline AGM was not a majority against the package but I think close enough for the board to have another—

Senator CONROY—It was 51 per cent with 10 per cent abstentions, Senator Alston, so it was actually a majority.

Senator Alston—All right. Obviously, each business will make its own judgment on these matters. Our view has always been that, if you are performing in an area of high responsibility, particularly—

Senator CONROY—The GlaxoSmithKline gentleman has high responsibilities, but his shareholders still said, 'No, that's just a bit too greedy.'

Senator Alston—I do not know what the precise package was that he was being offered.

Senator CONROY—He was looking for two years in the case of redundancy—£24 million it was.

Senator Alston—Those are much higher—

Senator CONROY—Mr Scales has indicated that the CEO has only one year at the moment, but his contract is coming up for renewal probably in the next six months. I am wondering whether the government might want to take a lead in corporate governance or shareholder activism.

Senator Alston—I know it is your approach to try to bind corporations and others hand and foot and to tell them what you think is appropriate.

Senator CONROY—But you are the shareholder.

Senator Alston—We are a reluctant, passive investor. I would have thought that it is much more appropriate to—

Senator MACKAY—They would all be proud of you.

Senator Alston—If it wasn't for you lot, we would have been able to sell Telstra at a much higher price than you would obtain now.

Senator MACKAY—That is right, and we are proud of it.

Senator Alston—You have a lot of explaining to do. We will get there one day, but it will be no thanks to you.

Senator CONROY—You are the \$6 billion man. You made an announcement and lost \$6 billion off the share capital. Don't you sit here and lecture us. You opened your mouth and \$6 billion got wiped off the share market. Six billion dollars just from you opening your mouth!

Senator Alston—You have managed to cost taxpayers probably \$20 billion. That is what you have probably cost Australian taxpayers. I do not even know what you are talking about. If you are saying that minor fluctuations in share prices can be attributed to statements by politicians, then you do not have a very sophisticated understanding of the way the market works. Unless, of course, they took some of your statements seriously, in which case they would be terrified and there would be a big sell-off.

Senator CONROY—I remember the day that Paul Keating was rumoured to be quitting as Treasurer and the dollar dropped 2c, so don't give me a lecture about the effective and efficient workings of the market—they dropped the dollar by 2c on a rumour that Keating was quitting, when he was not. So please do not try to give me a rundown on the workings of the market.

Senator Alston—I would have thought the market would have jumped enormously on that rumour.

Senator CONROY—No, tragically it did not. The point I am trying to get to is whether or not the government will take a lead as the majority shareholder. It would not matter if every other shareholder took the lead—they could not actually win the vote. So the question is—

Senator Alston—Your idea of taking the lead is to do what you think is politically opportunistic and expedient at the time. That is not our approach. We would take the view that the Telstra board will act responsibly. If they are markedly out of line with community standards, if we think that—

Senator CONROY—The community standard as defined by the Prime Minister is eight weeks for a redundancy. You have 52 weeks in there.

Senator Alston—I do not think that has ever been an across-the-board formula or template that applies—

Senator CONROY—It is the government's policy.

Senator Alston—But not in relation to the top 100—

Senator CONROY—Oh, of course! Rich people get a better one, don't they?

Senator Alston—If you want to play the class warfare game you are perfectly entitled to. I am sure it goes down well at branch meetings and union functions—

Senator CONROY—That is right, we will leave it to the club.

Senator Alston—but if your workers think that their levels of responsibility are exactly the same as managers, then we really are back in the days of the twenties. We are not in the 21st century.

Senator CONROY—Brian Gilbertson got a deserved payout, didn't he?

Senator Alston—If you want to pursue your politics of envy, you can.

Senator CONROY—The Prime Minister thought so.

Senator Alston—I have said to you that there are standards. If we think they have been exceeded we will say so, but it is not our job to go in and pre-empt decisions that we believe responsible boards are capable of taking. Telstra and its board members are very much aware of their responsibilities. We have confidence in them that they will act appropriately. I think that all you are doing is flagging to them that they would not have much scope for movement if you had any ability to influence.

Senator CONROY—What is the approximate value of the retirement payout that Mr Switkowski is entitled to receive?

Senator Alston—Why don't you call him Dr Switkowski when that is his real name?

Senator CONROY—You are very sensitive today.

Senator Alston—I am just saying that because you also called Jonathan Shier 'Shier.' I just wonder whether you are orally dyslexic or whether this is your way of putting people down. If it is, then I think you ought to lift your game.

Senator MACKAY—It is like Hollingworth: just call me 'Doctor.'

Senator Alston—I mean, we could call you 'Conroy Twitty' if we wanted to, but we don't.

Senator CONROY—Mr Scales, what is the approximate value of the retirement payout?

Mr Scales—I think the numbers were disclosed in our annual report. I do not have those figures in front of me but I could get those for you.

Senator CONROY—Could you get us the formula that has been used to calculate the retirement payout payable to other executive directors of Telstra?

Mr Scales—Yes, I will opt to take that on notice.

Senator CONROY—We were talking earlier about how it is a little bit unclear what the factors are at the moment. If you could get us that that would be good. According to the 2002 Telstra annual report, non-executive directors are eligible to receive additional retirement benefits. What are they and what is the formula that has been used to calculate the retirement payouts to non-executive directors of Telstra?

Mr Scales—I will take that one on notice as well. That is an issue for the board, as you know.

Senator CONROY—I am just asking. I am not asking you to pass judgment.

Mr Scales—Those details are in fact fully disclosed in the annual report, but I will simply get the details of them and send them off to you.

Senator CONROY—Stan Wallis gave his money back because he presided over a collapse in the value of AMP. Telstra's share price has, it would be fair to say, gone down a bit, so it would be interesting to see whether there were any retirement benefits being given that were not tied to performance. So I am interested in whether or not there are any performance hurdles for the Telstra directors and non-executive directors.

Mr Scales—I will get the details out of the annual report and make sure that they are given to when we give our answers to other questions on notice.

Senator CONROY—Minister, do you think that non-executive directors, people on the board who preside over collapsing shareholder values, should be given gratis payouts as they go?

Senator Alston—If you are talking about after the event—

Senator CONROY—Like Stan Wallis.

Senator Alston—I thought there was a contractual obligation. I may be wrong. I did not follow it closely.

Senator CONROY—Stan Wallis received \$1.6 million as a retirement benefit from AMP and eventually gave the money back because he presided over a collapse of some significance in AMP money. I was just wondering whether the government has a view as to whether or not there should be retirement benefits for non-executive directors.

Senator Alston—Again, I do not think there is a simple formula for these things. They should be judged by what is reasonable.

Senator CONROY—The market is saying, by and large now, that this should not happen.

Senator Alston—If you happen to have been a non-executive director of a company for 10 years when it has been having phenomenal growth—let us say you had been running Wesfarmers over the last five years—and then for some reason beyond your control the share price tanked, does that mean that if you leave at that time you should be treated as though you are culpable and there should be no recognition of your contribution to the good times? I would have thought you have got to make these judgments sensibly. If you have a prescriptive ideological view that everyone should be getting whatever multiple it is of average weekly earnings, we would be interested to hear of it in due course and I am sure that most people will be suitably unimpressed.

Senator CONROY—A radical left-wing view, pay for performance. So you would agree that Stan Wallis should have kept his money at AMP, his \$1.6 million?

Senator Alston—It depends how you judge performance. If someone has performed very well over a long period of time—Stan Wallis was a very successful chief executive at Amcor.

Senator CONROY—And at Coles Myer.

Senator Alston—Say in his last year, Amcor had gone very badly, you would just regard all the good years?

Senator CONROY—No. It went very badly the year after he stopped being CEO.

Senator Alston—So?

Senator CONROY—Just a coincidence?

Senator Alston—It may be a reflection of the fact that if he had stayed there, it would not have. You cannot just come to a conclusion that suits you.

Senator CONROY—I think it just showed that Mr Wallis had an exquisite sense of timing on when to bail out.

Senator Alston—That was clearly not so in relation to Amcor.

Senator CONROY—He very successfully looked after Coles Myer and AMP. You are right, he is deserving.

Senator Alston—We do not take a simplistic view that, because you happen to be a director, you are ultimately—

Senator CONROY—Responsible: that would just be fiduciary duties required by a court. But, you are right.

Senator Alston—There will be judgments made about the level of responsibility for performance—

Senator CONROY—By shareholders.

Senator Alston—And they will be made on the basis of what is reasonable. There is no prescriptive approach that says: ‘The company went badly. No-one should ever get anything, irrespective of their contribution over a long period of time.’

Senator CONROY—What I am asking you, as the majority shareholder in Telstra, is this: do you believe that there should be retirement benefits, particularly in the case where the share price has—to use your phrase—tanked? Do you believe that if someone left the Telstra board now they should keep their retirement benefits—even if it is still an existing program?

Senator Alston—If it is a retirement benefit to which they are entitled—

Senator CONROY—Stan Wallis was entitled to \$1.6 million. He gave it back.

Senator Alston—If they are entitled to it, then what are you doing? Are you ripping up a contract?

Senator CONROY—No. You could ask them to give it back and you can then cancel the scheme on going forward.

Senator Alston—The criticism to be made is of those who entered into that arrangement in the first place—

Senator CONROY—That is fair.

Senator Alston—and we are all in favour of those being tied as much as possible to performance, and in many respects—I do not know whether you can get to this point—to the individual contribution made by a particular person. At the end of the day, it does not always follow that, because you happen to be employed by someone, you are deserving of a high reward simply because the company performed well. It is a sort of blunt instrument that is often used but, similarly, it does not follow that just because you happen to be a director at the time that somehow it is all your fault—any more than perhaps you can say as a matter of

course that, because you are director of a well-performing company, you deserve a very substantial reward. You may not. These things have to be judged on the merits of what is reasonable and we can all make those judgments if we have open minds. I do not have any doubt that members of the Telstra board, being very experienced people, are acutely aware of their community obligations.

Senator CONROY—Good chaps. Mr Scales, I can only suggest a Corporations Law 101 course, if you could give it to Senator Alston, and also the recent OneTel decision, where a court ruled what the responsibilities of a chair and directors were. Perhaps you might want to draw that one to his attention.

Mr Scales—I should also say that there are two women on the board.

Senator CONROY—I accept your admonishment.

Senator TCHEN—I have one question. Mr Scales, it is good to see you come back after last Monday; obviously it was not a hanging offence. You might recall that in the other place last Monday, because there is so much interest in pair gain technology and its shortcomings, I asked whether Telstra could give that particular committee an estimate of the capital costs of ensuring that Australians will not need to use pair gain technology to upgrade the system.

Mr Scales—I will ask my colleagues to answer that in detail. If we were to replace all pair gains, the amount would be very large indeed.

Mr Pinel—I cannot provide a figure—

Senator TCHEN—An approximation will do at this stage.

Mr Pinel—Even an approximation is difficult, except to say that we are talking about numbers which are certainly in the tens and probably in the hundreds of millions of dollars. That is my very rough figure. I would have to take it on notice in order to do the sum. The more important thing is what the benefit of doing so would be. It would be difficult to ascertain any significant benefit from such a program, either commercially or from a customer service perspective.

Senator TCHEN—Supposing it becomes a policy issue that all Australians should be entitled to instant access to a high-speed Internet service at the guaranteed minimum level that the government has set. What would it cost Telstra or a network provider to upgrade the national network to provide that service?

Senator Alston—Whether they wanted it or not.

Senator TCHEN—Yes.

Mr Pinel—Once again, I would have to take the question on notice, and I would have to question the value of such a policy.

Senator TCHEN—It is just that last week I asked that question of a number of people and nobody could provide me with an answer. One estimate which was given to me was \$10 billion or something.

Mr Pinel—It is a figure that I hesitate to even contemplate at this stage without doing some research on it. If you like, I can take that on notice and get you a figure.

Senator TCHEN—Thank you, that is all.

Senator MACKAY—Mr Scales, I want to revisit the issue of capital expenditure cuts. In the Senate inquiry hearing last Monday you kindly gave us a ballpark figure of somewhere between 16 per cent and 20 per cent—you said it could be around those figures. Do you have any further information about what it is likely to be?

Mr Scales—Mr Stanhope will be able to give you some details around that.

Mr Stanhope—Our guidance is that we will finish with around a \$3.2 billion or \$3.3 billion spend on domestic operating capex in the fiscal year 2002-03. Our guidance for the next fiscal year is around \$3 billion. That was the guidance we gave to the market at the half year and gave again at the time of our quarterly results. That is actually a reduction in 2002-03 on 2001-02 of about 10 per cent, and a reduction in 2003-04 of about 8½ per cent.

Senator MACKAY—Okay.

Mr Stanhope—We have a capex framework, if you like, and I did want to point out to the Senate committee today that in 2002-03 we are actually moving our spend on asset replacement and support to maintain current operational performance of the company. That is an actual category of capex.

Senator MACKAY—Is that opex?

Mr Stanhope—This is capex.

Senator MACKAY—What is the category called?

Mr Stanhope—Asset replacement and support to maintain current operational performance. That has moved from \$228 million in 2001-02 to \$426 million in 2002-03. It will drop down to \$363 million in 2003-04 and it has ebbs and flows based on the state of the network, if you like, at the time. Most of our capex is spent on revenue generating customer demands and just meeting customer demand. That capex was \$1.9 billion in 2001-02, moving down to \$1.6 billion in 2002-03, but is about \$1.6 billion again in 2003-04. It is what the market analysts call maintenance capex just to meet customer demand, without building up the levels of held orders and so on.

Then we have a category of what we call legal and regulatory compliance. It is the sort of capex we need to spend to make sure our occupational health and safety commitments are met, that we upgrade air-conditioning plants and so on. That has gone from \$68 million in 2001-02 to \$341 million in 2002-03 and about \$120 million in 2003-04. We are still working the plan for the 2003-04 year. That is what we really call meeting the business needs. Then we have a discretionary program, and in the discretionary program we have spends on what we call new revenue growth. So it is new product development primarily. It was \$349 million in 2001-02, \$325 million in 2002-03 and it will be \$258 million in 2003-04.

We have another capex category called revenue and customer retention. It is to put products out there or to change systems, billing plans and so on in order to keep customers. It is not new revenue; it is to keep customers. It was \$269 million in 2001-02; \$292 million in 2002-03 and it will be \$180 million in 2003-04. Then we spend on operational efficiency and productivity—again replacing legacy systems, old systems and so on. It was \$567 million in 2001-02, \$456 million in 2002-03 and it will be \$258 million in 2003-04.

Those last three categories of capex are more our discretionary spend capex. We make sure that we continue to meet customer demand. We do all the asset replacement and support capex that we need to do to make sure we keep the network running and meet customer demand.

Senator MACKAY—Can you run that last figure past me again?

Mr Stanhope—Yes, the operational efficiency productivity was \$567 million, \$456 million in 2002-03 and \$258 million. Why is that going down?

Senator MACKAY—Yes, why is that going down?

Mr Stanhope—It is going down because we are actually reducing the number of systems and platforms that we need, so we do not need to continue to spend in that area. I can give you some ideas of where the reductions are coming from—productivity or business improvements in the plan. Because we have 70 per cent occupancy of ADSL ports in exchanges, if you lift the port occupancy in exchanges you get better capital efficiency. That represents savings of about \$9 million. There are savings of about \$11 million because the demand in wideband services is dropping off. I am sorry—it is \$27 million. In the inter-exchange network, what we call the IEN, the unit cost and asset utilisation, there are savings of \$30 million and we have deferred the upgrade to 2004-05, saving \$10 million.

In mobiles, year on year demand and usage are steady, but we are keeping our drop-out levels below what we see as an acceptable standard. Our spend on depth of coverage is less next year than in 2002-03 because we spent it in 2002-03. There is \$30 million in savings in narrowband—or the CAN—because new estate demand is reducing from 2002-03. A lot of the customer access network spend is in new estates, and we expect new estate customer access distribution cable rollout to be less than last year. I am just giving you some examples of the year on year reductions.

Senator MACKAY—We will be able to look at those figures in more detail when we get the *Hansard*. That was very useful, so thanks for that. In terms of the aggregate, my information is that the annual report—and take me through how that occurred—talked about a projected capex of \$3.6 billion. Is that right?

Mr Stanhope—We would not have had a projection in the annual report. The 2001-02—

Senator MACKAY—For 2001-02, it was \$3.6 billion.

Mr Stanhope—Yes. The 2001-02 annual report would say \$3.6 billion because that number includes offshore capex, like capex spent in TelstraClear in New Zealand. Those numbers I have given you are domestic capex—what we spend onshore, in Australia.

Senator MACKAY—Then Telstra revised its estimate down, in February this year, to \$3.2 billion to \$3.3 billion-odd.

Mr Stanhope—It is somewhere between \$3.2 billion and \$3.3 billion for domestic operating capital expenditure.

Senator MACKAY—That is domestic?

Mr Stanhope—Domestic operating capital expenditure.

Senator MACKAY—So the figure of \$3.6 billion includes offshore expenditure?

Mr Stanhope—Yes. For example, this year TelstraClear will spend about \$160 million in capital. It is not included in that figure I just gave you.

Senator MACKAY—So the \$3.6 billion includes offshore—

Mr Stanhope—Sure.

Senator MACKAY—and the \$3.2 billion or \$3.3 billion, or whatever it turns out to be, excludes offshore.

Mr Stanhope—Yes, it does.

Senator MACKAY—What if you were to add offshore—what would that figure be?

Mr Stanhope—As I just said, TelstraClear is another \$160 million, so it would be about \$3.5 billion.

Senator MACKAY—Right.

Mr Stanhope—There is a bit in CSL too—I just cannot remember the number offhand.

Senator MACKAY—I understand this is a fairly unsophisticated process, but that is the nature of estimates. So you are looking at about \$1 billion in cuts to capex—is that right?

Mr Stanhope—From what point? From 2002-03 to 2003-04, we are looking at about \$400 million.

Senator MACKAY—From 2002-03 to 2003-04?

Mr Stanhope—Yes, that is right.

Senator MACKAY—That is \$400 million in domestic expenditure?

Mr Stanhope—That is our guidance. Again—

Mr Scales—That is the guidance that has been given to the market.

Mr Stanhope—We have said the spend is around \$3 billion next year.

Senator MACKAY—Yes.

Mr Stanhope—Sorry—I beg your pardon. It is not \$400 million; it is only \$300 million.

Senator MACKAY—That is about 10 per cent.

Mr Scales—Yes, it is \$300 million. But again, if one projects that forward, one has to put the caveat on it, as I did earlier, that these issues have not yet been fully resolved and still have to go through the normal process of approval by the board.

Senator MACKAY—So that we can deal with it here, we are talking about approximately 10 per cent less in domestic spend?

Mr Stanhope—Yes. I said 8½ per cent. It is about \$300 million on \$3.25 billion.

Senator MACKAY—Yes. All right.

Mr Scales—And that is across all those categories, I think, that Mr Stanhope was covering. The only reason I raise that point is that one cannot then extrapolate from that and say it means a cut of 10 per cent or thereabouts in our access network, because what we are always looking at there is what we need to do to (a) achieve what our customers require of us and (b) meet our regulatory requirements and all the other things that go with that. I simply want to

put that caveat on that as well. You cannot assume—nor would it be appropriate to assume—that that means a 10 per cent cut in our infrastructure.

Senator MACKAY—Here is your big chance, Mr Scales. How is the \$300 million saving going to be derived?

Mr Scales—It is not appropriate for me to comment on that because of the reasons which I mentioned earlier.

Senator MACKAY—So you are saying to us, ‘Don’t assume that it is coming from a critical area’—which we would allege—and we say, ‘Fine; where is it coming from?’ and you say, ‘We can’t tell you.’

Mr Scales—That is exactly right.

Mr Stanhope—I went through some of the categories.

Senator MACKAY—You did. What do the cuts that you articulated add up to?

Mr Stanhope—They add up to about \$246 million, and then in the plan there is reduced capex required for government sponsored initiatives.

Senator MACKAY—So there is your \$300-odd million?

Mr Stanhope—Yes.

Senator MACKAY—I read in the paper that Telstra is planning on putting \$420 million into a new program to fix black spots in Telstra’s national network through a network reliability study. The report by Michael Sainsbury was in the *Australian* last Wednesday. Can somebody give me an indication of what that is about and where the money will come from?

Mr Pinel—I did not see the report, so it is difficult for me to comment.

Senator MACKAY—Let me tell you what it said. The report in the *Australian* said that Telstra was planning to put \$420 million into a new program to fix black spots in Telstra’s national network through a network reliability study, which is due to be unveiled any day now—that is, the announcement is due to be made any day now. Do you know what that is referring to?

Mr Pinel—Not specifically. I am not sure that the announcement has been made, but a lot of work has been carried out to identify areas of the network that would benefit from further work, much in the way that the regional network program last year addressed similar issues.

Senator MACKAY—I appreciate that. Just to correct that, that funding is not entirely for black spots. The article then goes to allege that high on Telstra’s agenda will be the twin problems of the leaking cable gel sealant and the cable air pressure issue. I take it that this \$420 million is likely to look at fixing the network. Is there \$420 million contemplated?

Mr Pinel—I do not know that figure as such; I have not heard that figure quoted.

Mr Scales—Part of the dilemma which we have here is the one that I was trying to allude to earlier. We understand your dilemma as well, but please try to understand ours. We are right in the middle of our planning processes, as you would expect, at this time of the year. It is the dilemma which all companies face: they are trying to put together plans. There is no doubt that we are very concerned about black spots. It is an issue not only around our customers but

also about trying to meet the competition. We have an active program of encouraging our customers and others in the community to get in touch with us to address where these black spots are so that we can address them. It is not something that we are in a position to be able to discuss in any detail until such time as our plan has been approved by our board. It is an issue that we are very concerned about—I want to make that very clear—but we are simply not in a position to be able to verify those numbers at this point.

Senator MACKAY—Mr Sainsbury is obviously on to something here. He got information from Telstra that about \$420 million was going to be spent on the network. In fact, he quotes an unknown Telstra executive—and I appreciate that they are unnamed—who said that \$187 million has been set aside in New South Wales alone. Is Telstra contemplating a major capital injection of that nature?

Mr Scales—What Mr Stanhope alluded to before was that we are always looking at our capital expenditure program and how we can make sure that we are, first of all, maintaining our network and that it meets the customer requirements which we were talking about before. It is certainly true that we are considering very seriously this issue of black spots. I am not in a position to be able to give you what the detail dollar figure of that might be because it has not been approved by the board.

Senator MACKAY—Are Mr Sainsbury's allegations in the *Australian* that this program, or additional capital injection, is likely to be unveiled later this week correct?

Mr Stanhope—The guidance we have given on capex is the amount of capex we are likely to spend.

Senator MACKAY—Yes, I understand that.

Mr Stanhope—So we are not talking about an injection over and above—

Senator MACKAY—It is within what you have already articulated. I appreciate that.

Mr Stanhope—Yes, it is. The planning parameters, if you like, see a modest increase in the funding in 2003-04 around network reliability. It is about a much better prioritisation of what we are doing, and it will be focused on things that this committee has been concerned about. It will be focused on CAN rehabilitation programs, including the poor performing tails, it will have gel filled joints and wet cables as part of the program and it will have the gas pressure maintenance as part of the program. Again, in line with the plan, it is up from about \$390 million to about \$420 million. So we are putting a little more in, but it is a reprioritisation—and it is all those things that we have talked about a number of times in this committee.

Senator MACKAY—So it is not \$420 million?

Mr Stanhope—As I said, we have moved the program around network reliability up from about \$390 million to \$420 million.

Senator MACKAY—So, in terms of reprioritisation or whatever, it is an addition of how many million?

Mr Stanhope—What I am saying to you is that it is a modest increase.

Senator MACKAY—I have just read this article. I am asking questions predicated on the article.

Mr Stanhope—And I am trying to explain it to you. There is a modest increase over what we would have spent last year on network reliability. We are going to spend \$420 million instead of \$390 million.

Senator MACKAY—So that is an extra \$30 million?

Mr Stanhope—Yes. It is within that parameter that we have already talked about.

Senator MACKAY—I am not questioning that at all. Will this announcement be made later this week?

Mr Stanhope—I have no idea.

Mr Pinel—I have no knowledge of the announcement at all. This is investment that occurs every year. As Mr Stanhope has said, they are slightly different numbers to last year, but every year we engage in life cycle replacement of plant and address plant that is not performing to the standards we require. It is not an unusual element; it is just a repetition of what happens every year in the capital planning rounds.

Senator MACKAY—So it is no big deal, basically.

Mr Pinel—I think it is. It is a big deal that there will be ongoing expenditure spent on the network to keep it in good shape and to address some of the issues that are raised from time to time.

Senator MACKAY—But in terms of this report I think I understand what Mr Stanhope is saying: it is coming off a base of around \$390 million but potentially going up to around \$420 million. So it is \$30 million, not \$420 million.

Mr Stanhope—The important thing that has come out of the network reliability study is: where should we focus?

Senator MACKAY—So we will not have a big bang announcement by Telstra in the next week of a \$420 million spend.

Mr Stanhope—No.

Senator MURPHY—Some of these questions may have been asked by other senators. What does core domestic capital expenditure actually cover? Is that just domestic expenditure?

Mr Stanhope—The numbers that we have been speaking about before you arrived—

Senator MURPHY—I was trying to listen to it, but I do not know what I actually missed. You will have to forgive me if you have already answered this.

Mr Stanhope—They are numbers for core domestic capital expenditures. So it is what we spend in Australia. Why we call it core domestic capex is that sometimes there is also some investing capex—we might put some equity into Foxtel or something like that. So that is what it is, yes.

Senator MURPHY—Just as a matter of interest, do you actually meet the ASX reporting requirements for the coverage of core domestic capital expenditure?

Mr Stanhope—I would suggest that our disclosures exceed the requirements of the ASX. Our disclosures are very fulsome.

Senator MURPHY—With regard to that expenditure, is it all spent in Australia?

Mr Stanhope—Yes.

Senator MURPHY—So it is not used to pay for companies here under an Australian registered business number but which may well be doing work elsewhere?

Mr Stanhope—No, it is domestic capex spent in Australia. If NDC, for example, did any work overseas, they would be funded usually through an equity injection—and we call that ‘investing capital’.

Senator MURPHY—But is that covered by what you would explain as domestic capital expenditure?

Mr Stanhope—No, it is not.

Senator MURPHY—So that would be reported separately?

Mr Stanhope—Yes, it would be, under investing capital.

Senator MURPHY—Can you tell me about a project called Project 750?

Mr Stanhope—I am not aware of that project.

Senator MURPHY—I am actually trying to find out about it. I think it arose out of a statement made by Mr Smith from your corporate affairs office—Project 750.

Mr Scales—We do not know what you are referring to.

Senator MURPHY—You do not know about Project 750?

Mr Scales—Why don’t we take that on notice and if we can find any such project we will get back to you about it.

Mr Stanhope—I may be able to help, with some advice. We think that was a project that was in the press that we know nothing about. We do not have a Project 750.

Senator MURPHY—There is no Project 750?

Mr Stanhope—No.

CHAIR—Very mysterious.

Senator MURPHY—In regard to the work that is proposed to be done by Satyam or Infosys—and I do not know whether Senator Mackay followed this up in terms of the employment conditions for—

Senator MACKAY—I have got some issues, but I do not think I have got that one. Go ahead.

Senator MURPHY—With Satyam and Infosys, when you negotiated and/or settled the contract—and I understand that one or both of the contracts may have already ceased—did Telstra ask the companies what the proposed pay rate and conditions of the Indian citizen employees would be?

Mr Scales—It is not exactly clear which contract you are talking about. We do quite a minor amount of work with Infosys.

Senator MURPHY—It may not be abundantly clear to me either, but whether this is Project 750 or a project of some other name—you say you do not know about Project 750—I was given some information that it came out of a statement made by—

Senator MACKAY—Actually, Senator Murphy, Senator Lundy was going to ask about this after dinner. Do you want to wait until she gets to that?

Senator MURPHY—We can wait until then.

Senator MACKAY—I am sorry about that.

Senator MURPHY—That is all right.

Senator MACKAY—I was only looking at my briefs. Otherwise, she will come back and kill me.

CHAIR—If Senator Murphy wants to pursue it, he is entitled to.

Senator MACKAY—No, we will work it out.

CHAIR—We want peace between the ALP factions.

Senator MACKAY—We get on very well—always have.

Senator MURPHY—I have not got a copy of the news release which Telstra put out on 22 April this year, which contained a statement referring to the IT staff of Infosys and Satyam. That is why I am curious as to when those contracts were negotiated.

Mr Scales—I think what you may be referring to is that there was quite a bit of publicity—

Senator MURPHY—Yes, in part.

Mr Scales—around an arrangement where Telstra is asking its IT suppliers to consider how best they can meet our future demands. We currently work with a number of IT suppliers—quite large IT suppliers, as you would probably be aware—and we have asked them to quote on our future requirements. You may be referring to press reports that we have also asked two international companies, Infosys and Satyam, to be part of potential partnerships with us for IT services. Certainly, if that is the nature of your question, we are wanting to work with the world's best IT companies.

Senator MURPHY—I understand that; I think you said that in the statement.

Mr Scales—It is our view that IBM GSA, Deloitte Consulting, EDS, Satyam and Infosys fall into that category. The last two companies that you referred to have their origins in India, but they are in fact international companies. They operate in almost every major country in the world. They are very large companies that have people employed in almost every country in the world. When they operate in various countries in the world they abide by the laws of those countries. In our discussions with both of those companies that you have spoken to, they have assured us—as you would expect that they would—that when they work with us in Australia or on other continents, whether it be North America, Europe or an Indian subcontinent, they will abide by the laws of those countries. Certainly, from our perspective, we require that of them. What they have said as a result of some of the publicity around this is exactly what I have tried to convey to you now. They themselves have put out releases and have tried to give comfort to those people who are trying to suggest that they were doing anything less than I have just outlined.

Senator MURPHY—So that undertaking is something that you have sought and been given: whenever they do work in Australia they will meet whatever the Australian requirements are in respect of pay rates et cetera. Is that the same with regard to contractors?

Mr Scales—Do you mean contractors other than—

Senator MURPHY—No, contract employees.

Mr Scales—In general?

Senator MURPHY—Yes.

Mr Scales—Certainly that is the case. There is another set of conditions around contract employers and employees in that they are obliged to operate under the law of this country. There are all sorts of appropriate safety measures which ensure that that happens.

Senator MURPHY—It does not work in some forms of employment. As I think you would know, a lot of people work in this country in different forms of employment where, clearly, whilst there is an obligation to pay them appropriate rates of pay et cetera, a lot of them do not get paid that. Just because there is a significant undertaking, it does not necessarily mean that that is the case. I am really interested in your pursuit to ensure that as a very major employer and company—

Mr Scales—Just following up on your concerns around both Infosys and Satyam: these are international companies and they have a reputation which is second to none. Most recently I found myself in a situation where I spent 10 weeks at the Harvard Business School. You would be interested to know that one of those companies is regarded as one of the case studies because of the quality of its product. That is what is driving all the work which we are doing.

Senator MURPHY—Mr Scales, I am not questioning their integrity as a business in terms of the quality of their product and/or whether they have been judged as providing best service. It was really a question of when they are paying people, and you say that Telstra has been given an undertaking that they meet the requirements within this country. That is what is of interest to me.

Mr Scales—I think we have gone one step further. The other thing that we have done is that we have spoken to them, as you would expect us to, and they have assured us that because they are primarily a business revolving around people, given the work they do, their major asset is their people. Therefore, they are saying that they can afford not to do exactly as we are suggesting or else they will not be employing the very best people.

Senator MURPHY—I could take a rather cynical approach. There are a lot of companies around who say people are their major asset but, by gee, they do not mind offloading a few of them from time to time or underpaying them.

Senator HARRADINE—I would like to ask about the Telstra broadband eLab in Launceston in Tasmania.

Mr Scales—Mr Pinel will answer that question for you.

Senator HARRADINE—At the recent Senate references committee in Launceston evidence was provided by Telstra that audit figures demonstrated that to June 2002 the amount spent on the B-eLab was \$8.5 million. Given this, could Telstra indicate if this figure

of \$8.5 million was including set-up and other related costs for the laboratory before the B-eLab was opened? What were the costs involved in setting up the centre prior to its opening?

Mr Pinel—The \$8.5 million was the total expenditure to that date, including the set-up costs, but did not include the funds associated with the business development fund. That was a separate parcel of money—I think \$5 million—which was assigned under that umbrella.

Senator HARRADINE—If you have not got it now, take on notice what the costs involved in setting up the centre prior to its opening were. There was a Telstra media release on 19 August 2000 when B-eLab was opened where the minister said ‘the laboratory builds on the Government’s existing commitment to Tasmania’s IT&T skills, services and employment opportunities’ and that the B-eLab in particular ‘will play an important part in ensuring that Tasmania is in the best possible position to seize opportunities offered by the information age’. Given this, could Telstra detail the specific objectives that it undertook to meet the government commitments? What are those specific objectives and could you point these out in any business plan or other documentation and provide a copy to the committee, including details of how you are tracking the meeting of this commitment?

Mr Pinel—It may be better to provide a more detailed answer to you in writing but, in summary now, the major elements of the program were the establishment of the eLab in Launceston, which is an extension of the Telstra research labs. That laboratory has an establishment of 25 people who are predominantly professionals with degrees or higher qualifications. That laboratory was supplemented by a program that encouraged the people of Launceston to participate by connecting to broadband connectivity, particularly ADSL. Research associated with that—on their usage of broadband, their behaviours et cetera—will help us to grow a better understanding of the broadband industry in Australia.

This is the first extension of research labs outside of Melbourne and Sydney, so it was a fairly significant step for Telstra. The other element of it, the \$5 million for the business development fund, is managed separately from Telstra, but it has the intention of providing funding to IT business in Tasmania to encourage them to develop new products and services associated with the broadband business. I think beyond that, and watching the time, it is probably better to provide you with a more expansive statement in writing following this meeting.

Senator MURPHY—The objective for ADSL take-up in Launceston was 5,000 households, wasn’t it?

Mr Pinel—Yes.

Senator MURPHY—And you have only got about 1,350.

Mr Pinel—I think the current figure is over 1,400—around 1,440.

Senator MURPHY—There must have been a jump in the last couple of weeks.

Mr Pinel—I understand we connect probably 30 to 40 a week, incrementally.

Senator MURPHY—It is a long way short of 5,000, which was an objective you had.

Mr Pinel—The connectivity there to ADSL is significantly higher than in many other comparative regional towns around Australia. As for the expectations, I suppose there are a

couple of reasons for that. One was that the program was somewhat later in starting than we had anticipated. But we are learning as we go. As part of this, the drive was for people to take up the product anyhow, and that is part of the learning experience that we have.

CHAIR—Members of the committee, it is now just past six, so we will break for dinner. You can continue on this line of questioning after the break.

Proceedings suspended from 6.00 p.m. to 7.06 p.m.

CHAIR—Senators Harradine, Murphy and Mackay have some questions for Telstra, which may take about an hour, but after that we are going to call the ABA and Professor Flint, because Senator Harradine has some questions which he particularly wants to address to Professor Flint. Then we will go back to Telstra, regrettably; I am sorry about that.

Senator HARRADINE—Chair, more accurately, I would rather the questions were directed to him whilst he is here.

CHAIR—I take that point. But that is what we are arranging tonight. I am not sure that Telstra will finish this evening, having spoken to the ALP senators. I think in all likelihood they will have to come back in the morning, from what Senator Mackay has said.

Senator HARRADINE—Before the adjournment I was really looking at the statement that was made by the minister at the opening of the B-eLab about the building of the IT industry in Tasmania. Could you indicate, from the audited figures, the precise funds spent in this area and the output where Telstra demonstrated that they had successfully, through the B-eLab, ensured that Tasmania could be in the best position to seize opportunities offered by the information age?

Mr Pinel—It is probably better to take it on notice to provide you with accurate information on the detailed financial analysis. But, just to expand on what I said before, Telstra has been active in a number of areas as part of the B-eLab project, including providing mechanisms and encouragement to the people of Launceston to connect to broadband and be part of the living laboratory that is there. To that end, we have been providing subsidies of \$38.50 a month to people who have connected to ADSL, which makes the broadband service they connect to extremely good value for money. We have actively promoted in the community the availability of these subsidies and the activity of the centre, and we have had some good endorsements from the Launceston City Council in terms of the work that we have done there.

Very early in the piece, in addition to the \$38.50 a month subsidy that we provide, we also fully refund the installation fees for customers who joined the program at that stage. At that stage the installation fee was \$189 per unit, so there was quite a substantial amount of encouragement for people to join the program and to connect to the broadband service. The community developed an understanding of what broadband was and how its use could enhance both their private life and their business life. In addition to the moneys, the \$8½ million, you see identified there—at this stage the spend to April this year is now about \$11 million in total, which is incremented from the \$8½ million to the end of June last year—naturally Telstra has provided ADSL ports in six of the Launceston exchanges as part of its normal provisioning program. The cost of providing the ports is not included in that; it is

incremental on top of that. That is another element of our contribution and commitment to the program.

There has been dialogue with the industry in Hobart. Certainly, 10 of the 25 employees at the B-eLab are new Tasmanian graduates, so job opportunities have been provided for them to participate and to grow their IT skills in a very high-level research establishment. To some extent, that is a major contribution to the IT community in Launceston. The other element, as I said, is the \$5 million for the development fund that has been running as part of this program. It is not administered by Telstra, so I am not in a position to provide any details of that. But it also sets out to encourage IT businesses in Launceston and the broader Tasmanian area to develop applications and skills in the IT area. There is obviously still more work to do. We are actively promoting, and have actively promoted, connections and will continue to do so.

Senator HARRADINE—You mentioned the number of employees that have been recruited for the B-eLab—and that is acknowledged and welcomed. But, outside of the B-eLab, can you provide us with any evidence that extra jobs have been created because of the B-eLab's operation since opening?

Mr Pinel—Once again, I can only refer to the business development fund and its operations. Whilst Telstra is not managing that, it has provided funding and encouragement to industry in Tasmania to engage in work that would not otherwise have occurred in the IT industry there; so that is \$5 million of funding there.

Senator HARRADINE—I am talking about as a direct result of the B-eLab, rather than the BDF. For example, what specific companies from Tasmania have jointly developed and trialed applications with the B-eLab and have you calculated the value to Tasmania, as well as the number of jobs?

Mr Pinel—I cannot provide that information at this stage. It probably comes in two parts. The first would be as part of the day-to-day operations of the B-eLab and their engagement with the outside industry in the work that they are doing, and there would be some spin-offs that I will take on notice to quantify. The other element would be the work that is done under the business development fund. As I said, that is not something that Telstra can answer. The TECC administer that and are in a better place to provide that sort of information.

Senator HARRADINE—At the Senate references committee hearing in Launceston, the showpiece—according to Telstra—was the establishment of the eLaunceston site. Could you tell me who initially developed the site and when?

Mr Pinel—The eLaunceston portal was established early in the program. As to who developed it, I do not know that I have those details with me, but I can provide them.

Senator HARRADINE—Could you take that on notice, please.

Mr Pinel—Absolutely.

Senator HARRADINE—What was the cost?

Mr Pinel—I will take that on notice also.

Senator HARRADINE—What was the contribution from Telstra? When did the B-eLab take over this role? What value can be attributed to this effort in terms of the cost to Telstra

funds and the cost to Commonwealth funds? If you do not have that information, could you take those questions on notice?

Mr Pinel—I do not have that level of detail with me, but I will take them on notice.

Senator HARRADINE—Finally, what IT industry development has come from this exercise?

Mr Pinel—Once again, there have been a number of applications to the business development fund for allocation of moneys to help in the development of products and applications.

Senator HARRADINE—Sorry, I am talking about the eLaunceston site.

Mr Pinel—About the eLab itself rather than the business development fund?

Senator HARRADINE—No. I am talking about the—

Mr Pinel—The portal?

Senator HARRADINE—The portal, yes—the Launceston City Council portal.

Mr Pinel—Once again, I will have to take that on notice and come back to you. The portal was developed as a highlight of the program to provide people with opportunities within Launceston to see the developments of the community. I think I will take your question on notice and give you a more considered response.

Senator HARRADINE—Regarding the successful trials in the B-eLab of a Telstra BigPond toolbar, iCall sizzle Internet telephony, broadband kiosks and Sony PlayStation games, when did work start on each of those trials?

Mr Pinel—Again, that level of detail is not with me tonight.

Senator HARRADINE—How many hours or resources from Telstra eLab were used in each project? Where did the projects originate? What was the local industry development from these projects? What is the status of these projects now? What were the benefits to local industry and the region in general?

Mr Pinel—I will take those on notice, if I can, and get you considered responses.

Senator HARRADINE—Chair, I do not know whether my colleagues want to ask questions on the B-eLab matter, but I wanted to ask other questions of Mr Pinel.

Mr Pinel—If I could just correct one statement I made before the break to Senator Murphy, my colleagues brought to my attention the fact that I said that growth in ADSL connections was 30 to 40 a week. The figure is actually 30 to 40 a month. I would like to make that correction now—my apologies, Senator Murphy. I would have found about it in due course, I am sure!

Senator MURPHY—You would have.

Mr Pinel—But the figure is 1,440 households or thereabouts.

Senator HARRADINE—Chair, my colleagues may wish to ask further questions about this matter. I am going to ask specific questions about another area of Telstra.

CHAIR—Does anyone have any B-eLab questions?

Senator MACKAY—I will just ask a couple of questions, and then you can hand over to Senator Lundy. There have been allegations in the media that B-eLab has failed to deliver jobs. There has also been a suggestion by the Tasmanian Information and Technology Industry Council that the funding arrangements should be halted and reviewed before the remaining funds are spent. It says \$15 million here, but it is \$19 million—is that right? You were saying the spend was \$11 million at the moment.

Mr Pinel—The spend is \$11 million, plus the \$5 million that is allocated to the business development fund which is not out of the government funding—that is separate. So there is really \$25 million available, of which \$11 million has been spent.

Senator MACKAY—So what do you say to the sections of the industry that are saying B-eLab should be halted and reviewed and that it really has not fulfilled its potential?

Mr Pinel—I would challenge that. When you say it has not fulfilled its intentions, certainly there is an established laboratory and facilities there. Part of that is the Telstra Research Labs, which undertake good high-level research work using local resources. It has provided us also with good research material and an understanding of the uses and applications of broadbanding in a community such as Launceston. So, to that extent, we believe that the program has been successful. Has it met its expenditure rates? We have spent \$11 million to date and we are committed to continuing to spend the \$15 million which Telstra has committed to it. We will continue to engage with local industry on a whole range of levels.

Senator MACKAY—So when did Telstra become aware of the fact that uptake was not matching initial projections?

Mr Pinel—I think that, from the very early days, it has been clear the take-up rates depend probably less on price than on the value that people see in broadband: the applications and uses that they have for it. We really started from a very small knowledge base in the Australian context about what the take-up rate of broadband would be, so the Launceston experience has been of great value to the industry in general and to Telstra in specific about the drivers for broadband take-up.

Senator MACKAY—That is not what the industry are telling us.

Mr Scales—I think one of the important points about this particular project is that it was a trial. Its purpose was to understand some of the issues around the three particular elements of this trial. One of those elements, which you quite rightly talk about, is the take-up issue. I think what we have begun to understand as a result of our own work with regard to the take-up is that there are issues about the particular environment in which people are operating—questions about price, questions about how available the technology is and questions about how quickly people can learn the technology. They are all of the lessons which we have gotten out of this trial. I underline the word trial. This is a trial and it is meant to be a trial.

Senator LUNDY—If it is a trial, have you published reports about the results?

Mr Scales—It is not finished yet.

Senator LUNDY—Yes, but it has been going for four years.

Mr Scales—Four years is not very long for a trial of this type.

Senator LUNDY—It was only funded for five years.

Mr Scales—At the end of five years you would want to do a review.

Senator LUNDY—How are you going to spend more than half of the money with barely 18 months left of the trial?

Mr Scales—Those of us who have been involved in any form of experimentation know that if you are trying to put a trial into place you do it over a period of time which is well defined, you have appropriate benchmarks that you try to achieve during that period, you understand the extent to which any one thing that you have done might be varied by some other change to the experiment and then you do a review. That is quite normal for experimentation like this.

Mr Pinel—Just to expand on that: as I understand it, there is agreement with the department to extend the trial to 2006.

Senator LUNDY—You would need that at least to spend all the money, wouldn't you?

Mr Pinel—Within the funds available the trial is capable of being extended, which is a good thing for Launceston. The trial will also be extended in scope to include some analysis and work on 802.11 wireless broadband Internet.

Senator LUNDY—But that is new, isn't it? That was not part of the original proposal.

Mr Pinel—No, it was not part of the original brief. I guess that is part of it being a pilot in that there has been a period of review that has said, 'In the time that the pilot has been running technology has moved on somewhat; here are some new technologies that we also want to learn something more about in a controlled environment.'

Senator LUNDY—I remember, Mr Pinel, that back in about 1994-95 Telstra were embarking upon a broadband trial here in Canberra but they canned it because technology was moving on. They did not proceed with that trial.

Mr Pinel—That is the nature of technology, in our industry at least.

Senator LUNDY—So what makes this one different?

Mr Pinel—I am not sure that it does make it different. It makes it a current project that we are going down a path with.

Senator LUNDY—The difference is, I suspect, that you are using half taxpayers' money and you have still got a fair bit of it to spend, so it is worth sticking with, isn't it?

Mr Pinel—There is still a fair bit of Telstra's money to spend, too, and we are committed to doing so.

Senator LUNDY—So how much of Telstra's money has been spent so far?

Mr Pinel—Of the \$11 million to date, I think around \$5 million of it is Telstra's.

Senator LUNDY—So in a \$30 million broadband project that started four years ago that was supposed to take five years you have spent approximately \$5 million.

Mr Pinel—That is right.

Senator LUNDY—It is not very impressive, is it?

Mr Pinel—I think you need to look at what the program was. It was never intended that the Telstra spend and the government spend would necessarily attract a straight line pass.

Senator LUNDY—Every other country in the world has discovered that broadband is the latest thing for both social and economic development, particularly in rural and regional areas. I am astounded that this project has remained so stunted under Telstra's guardianship. It is very disappointing.

Mr Scales—As I mentioned earlier, this is an appropriate trial. Is the senator suggesting we stop the trial?

Senator LUNDY—No, I just want it to be meaningful and useful. You say you have not done any research results yet.

Senator MURPHY—And what are some of the emerging problems?

CHAIR—Who is asking the questions?

Senator LUNDY—There was something called the iCall sizzle Internet telephony trial, which was conducted back in 2001. Was that a part of this?

Mr Scales—There are a number of questions on notice that we intend to get back to the senator on, including those ones.

Senator LUNDY—I do want to make a point out of that—that is, evidence already gathered through the Australian telecommunications network inquiry has referenced trial and research results. I just want you to take on notice whether there are any results available for this trial, either in part if not in whole.

Mr Pinel—I think it is probably the learning from it rather than published results. Some of the learning relates to the fact that take-up has not been what we expected, even though the pricing is very attractive. That leads one to conclusions about what are the drivers for broadband take-up. Certainly that needs a lot more thought and a lot more work to better understand it. I think there is some valuable learning there that we need to build on.

Senator LUNDY—Dr Switkowski once said at a world congress conference on IT, I think, held in Australia that he thought the results to date from the broadband trial in Launceston were effectively evidence that people did not want broadband. Is that still Telstra's view?

Mr Pinel—No, not at all. The broadband growth in Australia is fairly typical of a life cycle curve for new products and new technologies—that is, you go through a stage of early adopters, fairly slow growth with early adopters, and people who are turned on by particular aspects of it, before you enter into a higher level of growth as it becomes a more accepted and better understood product. Where we are exactly on that curve is a moot point, but I think in recent times we have seen significant improvements around Australia in take-up rates. Certainly from my experience, once people have experienced broadband I know of very few who would go back to a narrowband connection. There is a growing awareness in a number of industry sectors, particularly education and other areas, that broadband has real benefits for people in the general community and for business.

Senator LUNDY—On the 802.11b aspect of the trial, has Telstra already purchased the spectrum necessary to run that?

Mr Pinel—I will take that on notice; I do not know.

Mr Scales—Mr Mullane might in fact be aware of issues around that.

Senator LUNDY—And I am curious as to whether that comes out of Telstra's component of the trial costs.

Mr Mullane—The 802.11 spectrum is a free spectrum, not a licensed spectrum. I am sure we can experiment there without too many difficulties.

Senator LUNDY—What about companies that are currently experimenting with commercial applications of the 802.11b standard service? Are there any operating in the Launceston area?

Mr Pinel—I would have to take that on notice. I do not know of any, but that is not to say that there are not some.

Senator LUNDY—If there were any people trying to make a business out of providing a service on that free spectrum, would Telstra still conduct the trial in Launceston?

Mr Pinel—Yes, I believe we would. It is related to the presence there of the eLab; hence, a research facility committed to broadband is there. That is the logical place to carry out those research activities.

Senator LUNDY—The minister is not here at the moment, but perhaps Telstra should comment and I will ask him the question later. Is it appropriate that at least a proportion of taxpayers' money is used to fund Telstra research into markets that are developing or perhaps competitive, with players already in the market, potentially displacing them?

Mr Pinel—I think there are many aspects to that. You would have to see what the defined research that we carried out was to be. To date, as far as I know, that has not been specified. We would take all of those elements into account. But, for example, issues of roaming from a broadband DSL service to an 802.11 to other platforms is something that we do not have significant experience with in Australia at this stage and it is a fertile area for more research work. If your implication is that we would try and displace a competitor in the marketplace, the answer is obviously no.

Senator LUNDY—Other communications companies do not have the benefit of subsidising their research dollar for dollar with a taxpayer funded grant, do they?

Mr Scales—There are research and development grants that are available to them.

Senator LUNDY—There are.

Mr Scales—And they have taxation benefits.

Senator LUNDY—But this one has been around for a while and it is there for you to pick and choose what you do with it. You do not have to apply again, do you?

Mr Scales—I was trying to address the general point that you were making. The point is that all companies have available to them access to research and development taxation benefits.

Senator LUNDY—Perhaps you could just summarise what your strategy is to make this project worthwhile for the residents of Launceston and hopefully more widely, for Australia.

Mr Pinel—I think the benefits are multiple. Certainly, in the short term, the immediate benefit to the consumer is that there is access available at extremely subsidised prices. So the opportunity is there at a very competitive price for both businesses and the consumers in Launceston to gain experience, knowledge and understanding of broadband activities, the applications that exist and the ways they can be used and developed to support both their lives and their businesses. So that is the first thing.

The second benefit is that it creates in the community generally in Launceston a body of professional expertise in the people that work there and, through their interactions with the community broadly—at both a work level and an informal level, through societies and other organisations—they provide an injection into the community of perspectives and understanding of broadband that would not otherwise be there. I think that is a very positive thing.

Thirdly, it has obviously provided good local employment to a number of graduates—I am not sure whether they are from the University of Tasmania, but, certainly, to Tasmanian new graduates. There are 10 of those employed there. This has kept them locally in Tasmania, which I think is a good thing for the state. Finally, there is the opportunity for working more closely with industry and industry organisations in Launceston and within the IT sector in particular. So there are plenty of opportunities there. I have seen some of the correspondence—have we exploited it as well as we could and have we done as well as we could? There are always opportunities for us to do more in those areas. I would trust that we will. Certainly it is our intention to extract the most benefit from this lab for us and for the people of Tasmania and Launceston.

Senator LUNDY—Are you planning to make any changes to the outcomes of the project, linking it more closely with specific industry development outcomes in the region? If you can change the scope of the project, surely you can change the objectives as well, to make it far more strongly and closely linked.

Mr Pinel—As Mr Scales said, this is a trial. As such, we would be open to any directions that would add value to both the Launceston community and to our work.

Senator LUNDY—Will you consider linking it more closely with industry development outcomes?

Mr Scales—We want to make this work. I get the impression from your line of questioning that somehow you think we do not want to make this work. We are very anxious to make this work because we think that it will teach us a lot. There are three elements to the program. One element of it is that it will help us to understand what is the likely demand for broadband in certain groups within Australian society. We want to learn as much as we can. If you believe that there are people we should be talking to and we have not, we need to know who they are and we will work with them. We want to make it work.

Senator LUNDY—Can I say I think you are probably getting a bit of a picture here from all of the senators asking questions that there are concerns in the local industry, that there is a strong feeling that the project has not been as tightly integrated with what they see as their regional objectives—and I am talking about the local ICT industry, the small businesses that are, in many respects, world-class in the region.

Senator MACKAY—There was a press release put out by the Tasmanian IT industry, the Tasmanian IT Industry Council, TasIT and the Tasmanian branch of the Australian Computer Society last week slamming the laboratory. Certainly three of the senators here are here representing our constituents.

Senator LUNDY—It is a pretty clear message. It is up to you now to take the initiative to try and turn this project into something that everyone can support.

Mr Scales—We understand that and we are aware of that article. When we have spoken to our people at the Telstra research laboratories they are of the view that, while not perfect, as Don has mentioned, lots of great benefits have come out of this particular project and the three elements of the project that we spoke about. Now, is there room for us to do better on a trial like this? There could well be, because that is the nature of a trial. What we will do is go back and take on board the sense that we are getting from the committee. We will ask the people at Telstra research labs whether there is anything in addition that we need to do to be able to accelerate issues around this because, quite frankly, we want to make it work.

Senator LUNDY—I have one final question. How many of the software or application or content based initiatives at the eLab have been associated with creating plug-ins for Microsoft software or existing Microsoft products?

Mr Scales—I think we agree with Senator Harradine that we will take a number of those issues on notice.

Senator LUNDY—I am happy for you to take that on notice.

Mr Pinel—I am not sure that we are able to answer that one senator in that the development fund, which I think is what you are referring to, is not one that Telstra administers. I am not aware but I would expect in that environment there is probably either confidentiality or certainly protection of IT stuff.

Senator LUNDY—I am talking about projects within the eLab itself.

Mr Pinel—Outside of the business development framework?

Senator LUNDY—Yes, within the eLab.

Mr Pinel—We can take that on board certainly.

Senator MACKAY—Can I just ask a couple of supplementary questions that you also may wish to take on notice. What milestones were set with ICT take-up in the Launceston area with respect to broadband trials? Can you answer that off the top of your head?

Mr Pinel—I cannot answer off the top of my head. I know once again, as a trial, it was because we did not have much understanding of what was likely to be the case and what the drivers were, but I will come back to you with something more explicit than that.

Senator MACKAY—Also, what is the definition precisely of a connection or a location?

Mr Pinel—In what context—an ADSL connection?

Senator MACKAY—For example, you have 1,350 connections—

Mr Pinel—One thousand, four hundred and forty.

Senator MACKAY—I am sorry.

Senator LUNDY—They have been busy the last few weeks.

Senator MACKAY—I regard myself as admonished.

Mr Pinel—That was this morning.

Senator MURPHY—More updated information than the Tasmanian Telstra people!

Senator MACKAY—Those connections, would that equate to 1,340, or whatever you said, rebates per month?

Mr Pinel—Yes, it would—rebates of \$38.50 per month.

Senator MACKAY—So it is connection, not location? You can have several connections in one location?

Mr Pinel—I equivocate because you have put it in a context that I have not thought through, but I believe it is associated—

Senator MACKAY—It seems to be a critical question for the industry.

Mr Pinel—I will come back to you with an accurate answer. I understand it is per connection.

Senator MURPHY—You can have more than one connection in a location?

Mr Pinel—Yes, you can.

Mr Mullane—It would be access to DSL lines. You might have multiple connections to the end of one line. I also think that some of those 1,440 connections would be straight commercial connections to the network by commercial customers.

Mr Pinel—I will get the details and come back to you.

Senator MACKAY—Regardless of that, how many homes and businesses have discontinued their connection since the beginning of the trial?

Mr Pinel—I will have to take that on notice. I understand from comments that disconnections have been relatively few. You also need to put that in context that a disconnection may occur when somebody, for example, moves house and it becomes a connection at another premises. So the figures may be a little difficult to get down to the last unit. We will give you some indicative information at least on that as best we can identify it.

Senator MACKAY—I would like to go back to Senator Murphy's point about location versus connection. We are interested in statistics on location and on connection, because there is that synergy there. Could you take on notice the number of ADSL lines provided to the homes of staff employed at Telstra eLab and employed by Telstra in the Launceston region. Can you find out whether Telstra B-eLab staff remotely access the B-eLab from their homes.

Mr Pinel—I will take all these on notice.

Senator MACKAY—If they do, do they pay for access? If it is the case that they do not pay for access, are they still counted in the figures? Does Telstra claim a rebate from the Commonwealth for these connections?

Mr Pinel—On notice.

Senator MACKAY—Are the number of ADSL trial sites in Launceston to businesses using Telstra Internet phones and kiosks or other Telstra trial applications services and hardware included in the 1,340, or whatever it is, and does Telstra claim a rebate from the Commonwealth for these?

Mr Pinel—I will take that on notice.

Senator MACKAY—Just take them all on notice, because I have more.

Mr Pinel—I think the rebates all come out of the Telstra funding, but I am—

Senator MACKAY—Take it on notice. I think Mr Scales has made a very good offer to the committee. Does Telstra operate any other trial sites in the Launceston area or provide a fee of reduced connections, say, to the Launceston City Council? If this is the case, does Telstra claim a government rebate for these connections? Could Telstra also indicate the number of ADSL lines that form part of the 1,340, or whatever you said, connections that connect Telstra exchanges and other Telstra facilities in Launceston with ADSL services or infrastructure, and again does Telstra claim a rebate for these connections?

Senator MURPHY—I will be a little more general in the questions with regard to broadband. In March this year the ACCC released some figures that suggested that the take-up or the rate of broadband adoption had slipped by around 13 per cent from 29.2 per cent in the April-June quarter of 2002 to 16.4 per cent in the October-December quarter of that year. In respect to the trial B-eLab in Launceston, what emerging problems have you discovered that would suggest that the take-up of broadband is problematical?

Mr Scales—I do not think there has been a reduction in the take-up of broadband; in fact, it is increasing quite substantially. You might be suggesting it is a change in the rate of growth. Is that what you are referring to?

Senator MURPHY—In that respect, yes, it was the rate of broadband adoption.

Mr Scales—That is quite different from a reduction in growth.

Senator MURPHY—It was also reported where Professor Fels, if I am correct, said that the biggest drop occurred across ADSL services. In the April-June quarter, growth in ADSL take-up was 51.4 per cent, but this declined to 24.1 per cent in the July-September quarter.

Mr Scales—It is still quite a substantial take-up, as you can imagine, to have those sorts of growth rates in those periods.

Senator MURPHY—What are some of the problems? I am just trying to think what the problems are that exist in Launceston where you had a strategy for connecting 5,000 households. You have only got up to 1,440.

Mr Scales—My colleagues will be able to jump in here, but one of the learnings out of this trial is that there is a group of people for whom—this is not necessarily general—the narrowband connection is adequate and to pay any price above what would be a narrowband connection is not any more than they normally require for the sorts of things which the minister was talking about earlier.

Senator MURPHY—Yes, I understand that.

Mr Scales—To some extent, that is one of the learnings. So the question for Telstra then arose: if one wants to stimulate the market, what are the ways by which one should do that? I do not think we have fully evaluated what that might mean in a marketing sense, what it means in terms of how we think about positioning ourselves against our competitors and so on. There are a number of learnings in that regard. My colleagues might be able to give some more detail.

Senator MURPHY—I guess I was asking that in this context: is the technology, the wire, the copper that is there able to provide a broadband service that has sufficient speed to be of worth greater than the narrowband? What things, from a positive point of view, can the broadband deliver? It seems to me—and I say this as someone who has little knowledge of the technologies involved—that, from what I have read in reports, our broadband speed is somewhat lagging behind what I might deem to be world's best practice.

Mr Scales—There is no difference between speeds—

Senator MURPHY—I notice the minister is shaking his head about that.

Senator Alston—Again, the debate is usually that we are in the middle of the pack in terms of take-up and growth rates, but I do not think it is fair to say that people are getting slower speeds here than they are getting elsewhere. In fact, there is no reason why that should be so, unless you are simply overcrowding the service deliberately. If there is a lesser take-up than expected, then you would not expect any crowding out to occur. I think it is more a matter that the main drivers are normally always on. High-speed access to the Internet: do people in Launceston value a faster rate of access to the Internet sufficiently to pay more than they are paying for a normal dial-up service? In many instances, the judgment they make may be that it is not worth it. If you are running a large business, it is a very different proposition, but if you are at home and you are looking to save money, and you are not getting a tax deduction for your payment, then quite often you are happy to wait a bit longer.

Senator MURPHY—I do not know which pack you are referring to necessarily, Minister, but I thought our position in the pack had slipped somewhat in the last short period of time. I do not have the report with me, but I did note reading that we had slipped down the order somewhat.

Senator Alston—There are two or three countries which are ahead of the pack. Where you are in the pack itself does not really matter much. It is a question of whether you are on the right trajectory and the statistics for take-up here have been pretty impressive in the last 12 months. Obviously, the lower the base, the easier it is in some respects, but I think Telstra would say that they have something like 363,000 ADSL customers and there has been an increase of about 160 per cent over, I think, a 15-month period. So that is very much on the right growth path. Whether other countries are a bit ahead or a bit behind depends on a number of factors. As Mr Scales was saying, in Germany, for example, where narrowband was very cheap, it was very difficult accordingly to persuade people to go across to ADSL. If, as in Korea, ADSL is very cheap and they did not have much narrowband, everyone goes straight to the higher level. So broadband in South Korea is phenomenally ahead of anywhere else and there are a number of special factors to explain that as well.

Senator MURPHY—I guess I was probably referring to speed.

Senator Alston—Generally people say you get one meg, or thereabouts, maybe two, from ADSL. What do you need for a decent Internet connection? Probably 384. In other words, you are really talking about video—

Senator MURPHY—Did you say 384?

Senator Alston—Yes. If you are wanting to watch video on ADSL, maybe you do need 1½ megs, but if you are just wanting normal access to the Internet, you do not need above one meg, as I understand.

Mr Scales—Unless my colleagues want to correct me here, we have had no complaints about the speed of the technology that has been appropriate for our customers' needs. So, if our customer requires an ADSL connection, we have had no complaints that that ADSL connection gives anything else except appropriate speeds. If we are talking about satellite, again, given that technology, we have had no complaints that that does not deliver the appropriate speed. I am not exactly sure of the point that is being driven at here, but we do not think speed itself is an issue, with the appropriate technology.

Senator MURPHY—I might be wrong, but I understood that the kilobits per second speed in the main being provided by Telstra was in the order of 264 kilobits per second or less. I accept that it may be a requirement of the customer to have less or more. I also understood that if you want certain aspects of video streaming et cetera you have a much higher requirement.

Senator Alston—You get reasonable video—reasonable: jerky—at 64 kilobits. The normalised Internet connection will give you 128, so you do not need to go anywhere near one meg for reasonable videoconferencing. If you want world's best practice and you are a big multinational trying to connect to the other side of the world, then maybe you do, but if you are talking about linking up a number of country towns, for example, or Aboriginal communities you do not need those sorts of speeds for videoconferencing.

Mr Mullane—I think Telstra's experience is that the vast majority of our customer take-up is at 256 kilobits and 512 kilobits per second services in a downstream direction. We do offer a 1.5 megabit service, but it is quite a small percentage of the take-up. So I think that customers are purchasing what they want. I have a suspicion that some of the reference material you are talking about there is what is happening in countries like Japan, where I heard recently they are offering six megabits, and I think a couple of other Asian countries might be going down that track. To do some of these applications like video streaming is growing extremely rapidly in places like Japan in the consumer market and I think they are more besotted with those sorts of applications than perhaps a lot of Australians are at this stage. Telstra's own analysis of the take-up rates here is that at the same stage of roll-out of the service—

Senator Alston—In other words, years from zero. So, if we have been rolling out for three years, we are doing very well compared with other countries at that same stage.

Senator MURPHY—Going back to the Launceston B-eLab, I take it that there are no problems with regard to technology in getting take-up?

Mr Pinel—The only constraints are those that exist on ADSL generally—that is, it has limits in the ultimate distance from the telephone exchange.

Senator MURPHY—Yes, I understand that.

Mr Pinel—So once you get outside that 3½ kilometre footprint—

Senator MURPHY—So what does your research show you there with regard to Launceston? I did not really want to ask these questions. I have actually been asking them of the local Telstra people and I have found it difficult to get answers to these things, so I am sorry I have had to come here and ask you questions that I really should not have to ask.

Senator Alston—There were some teething problems a few years back with ADSL.

Senator MURPHY—This is something I have continued to follow. I will not claim necessarily to be always on the right track, but I am just trying to do my best to get the information to understand why we have only 1,440 people that have taken up what was planned for 5,000. We have really one year of the trial remaining, although I understand that it may be going to extend out for a further period. That is fine, I do not want to be critical of it, but I have just been trying to understand what the problems are and whether there is something that might be able to be done about that.

Mr Pinel—Certainly the take-up rate in Launceston is around 1,440 or thereabouts, but the rate, as I understand it from information I have seen, is still significantly higher than is being experienced in other regional centres. I am trying to think of the town where I saw the statistic—I think it was Ballarat but I am not sure—but we have stimulated the demand to some extent in Launceston above the norm. So 1,440. When we started the whole project, we had no real sense for the take-up rate. I am not familiar with the 5,000 figure but, if that is the figure, I would expect it was very arbitrarily set at the time, because it was set in an environment of no real base information on which to make that judgment. So the figure of 1,440, whilst low, is a sizeable rate of connection in the Australian context.

Senator MURPHY—It is not a problem with any of the exchanges in Launceston?

Mr Pinel—All the six exchanges are ADSL enabled. There are plenty of ports, and we will ensure that that remains the case.

Senator MURPHY—In general terms, Tassie has got 200-odd exchanges, of which I understand about 24 are ADSL enabled. What is the plan for the longer term there?

Mr Mullane—Telstra has nationally about 920 exchanges now enabled. We have got a plan for the rest of this financial year: by the end of June we expect there to be about 940 to 950 exchanges enabled. We will not be rolling out as aggressively as we have done in the past. In fact, we are planning to move to a new model to guide the roll-out—that is, a demand register led model. We will have an online demand register on which customers and potential customers of Telstra or other ISPs who live in towns that are not at that point enabled will be able to register their interest. The reaching of suitable registration levels will then guide our investments.

Senator MURPHY—But how many are you planning to further enable in Tassie?

Mr Mullane—As for commitments, I have not got the number off the top of my head, but I can get it easily and come back to you.

Mr Pinel—Following on from that, you should keep in mind that there are other technologies available for high-speed Internet connection, including ISDN, which is broadly

available through all of our exchanges, and also satellite connectivity for those people who are in the more remote areas or outside the footprint of ADSL.

Senator MURPHY—Are you going to do anything with ISDN in what is referred to as ‘always on ISDN’?

Mr Mullane—Perhaps I could say that we are doing some more work on ISDN at this stage. We are not in the position to make any announcements, but we are doing some more work on that.

Mr Scales—That particular issue goes to the heart of some of our product development. As you would be well aware, we are in quite a competitive environment, and we do not particularly want to signal our product development to everybody publicly in a forum like this. However, it ought to be said that in all of these areas we are investigating where there might be other products of this kind where we might be able to encourage people to take up broadband, as broadly as you have defined it.

Senator MURPHY—As I understand it, the speed—kilobits per second—in ISDN is somewhat lower.

Mr Mullane—In one sense it is, but in another sense it is higher. Here is the subtlety: ISDN is what we call a symmetrical service, so it is the same speed up as it is down. It has two choices of speed—64 kilobits each way or 128 kilobits each way. If you take the 128 and 128 service and compare that to the lower speed of the DSL range, which is 256 kilobits down but only 64 kilobits up, then you find that the 128 and 128 kilobits service in fact has a higher upstream speed. This is very important for applications such as teleworking, because you generally send as much information as you receive. The other big thing about ISDN that is worth noting is that the distance limit is considerably enhanced compared with ADSL, which is typically 4½ kilometres from the exchange on standard cable. But we do also have an extender, which is part of the service if required, and that can essentially more than double the distance, particularly on longer lines, because you generally have thicker cable. So you have greater range, it is a very well proven technology and it operates exceptionally well. I think it has a lot going for it.

Senator MURPHY—We will await the announcement of ‘ISDN always on’.

Senator HARRADINE—The company MessageLabs estimates that 40 per cent of emails in Australia are spam. What steps has Telstra taken to reduce the number of spam emails—frequently including gross pornography—which assail people every day?

Mr Scales—We are as concerned as anybody about the spam issue. You would be aware that NOIE brought out a report on this particular question and there were a number of recommendations in that report. We are working with NOIE on this issue. We will be doing all we can to conform to their broad recommendations. Again, I might ask my colleagues to make any additional comments on that issue.

Mr Mullane—We are doing quite a number of things in the field of spam at the moment. We are just at the point of completing a full review and standardisation of our acceptable use policy across all of our BigPond products. That will be completed at the end of this month—in other words, at the end of this week. That will give us greater power to remove problem customers, particularly those who are operating with open mail relays. They are often the

cause of other customers coming in and spamming out through their mail relays. It has been very difficult to remove those sorts of customers to date if they do not cooperate with us. That is an important step forward.

In April we installed spam monitoring software on the BigPond newsgroup servers, and that prevents the posting of spam into these forums. So far we have found a greater than 50 per cent reduction in the total data volumes and postings that are going on in those servers. So that has had a very substantial impact on the amount of spam coming from that source.

We have a project looking at what we call the ‘client side’, or the customer PC type side, of a security package which would provide firewall, antivirus, contents filtering and spam control measures. We have been running a pilot in the last month or so, and we will be further evaluating the best opportunities in that field quite soon. On the network side of things, we have a project running to implement what we call a hosted security package, which will put an antispam bundled solution into the network servers. We are at a point of evaluating vendor solutions on that front.

There are a number of other things associated with denial of service attacks—we are monitoring that more closely. We are tightening the throttling rules for BigPond customers, so that if we see excess volumes of mail being generated we throttle that back. Across the board, we are actually ramping up activities very strongly here.

Senator HARRADINE—Chair, I do not want to cross over or ask questions which should be asked of NOIE tomorrow, so thank you. Do you know how much money would be received by Telstra from spam emails going through Telstra’s pipes?

Mr Mullane—I could not hazard a guess at that. It is not something that we are even keen to think about. In fact, the reason that we are implementing this hosted security package is to prevent just that situation.

Senator HARRADINE—Is Telstra doing work on developing an effective filtering system to protect children from Internet pornography?

Mr Mullane—We are working very closely with the IIA codes of practice in this area. They have a ladybird branding or logo for customers to identify ISPs that are applying their codes of practice, and we are certainly in there. Basically, we would work in a very cooperative sense with the industry on this front, and particularly with NOIE et cetera, as we always have done.

Senator HARRADINE—But as the leader in the field and a highly respected public company would Telstra see it as its own obligation to attend to this issue rather than relying on others in the industry who may insist upon charging the ISP customers for various developments? For example, could one of the projects of B-eLab be to investigate the latency that filtering equipment presently introduces into the network? For example, a project could measure the latency of the different filtering technologies and then develop projects that will work to reduce the effects, thus allowing institutions to introduce large-scale filtering systems without detriment to performance. Would you, as a leader in this area, not see that to be of great importance? It would certainly attract customers to BigPond.

Mr Mullane—I think there is merit in some of the things you mention there. From Telstra’s point of view, we do see ourselves as the leading ISP in Australia. We would always

be at the leading edge of the group of ISPs dealing with matters of concern, like this, to the community. I think we could take your comments—your suggestion about more project work around it—on board. I personally could not say any more about that tonight, but it is not a bad idea.

Senator HARRADINE—Could you also take into consideration undertaking research into the tracking of IP addresses used in peer-to-peer networks? This work would be of great advantage in the area of child pornography, for example, where such applications as Kazaa Media Desktop increase the spread of such material but are difficult to track. I understand that normal filtering does not work in this regard and that it normally requires total barring of the use of P2P applications.

Mr Mullane—I can see where you are coming from, but I make the observation that the Internet is a huge, global entity and there are very large numbers of ISPs, many of them much bigger than Telstra. By ourselves, we would not be able to solve that issue, but I note your comments.

Senator HARRADINE—I am just wondering whether you could do some study on it. Obviously, this would be of great interest to law enforcement people worldwide.

Mr Mullane—I will certainly discuss that with our online security people when I get back to the office.

Senator HARRADINE—Thank you.

CHAIR—I think that means that, at this stage, we have concluded with Telstra.

Mr Scales—Can I make one last comment. Senator Tchen asked a question earlier on, when he was here, about the approximate cost of replacing all pair gain systems. I have been able to get some information for him. Our estimate is that it would be in the vicinity of \$2 billion plus to replace all pair gains, if we were required to do that.

Senator Alston—I think Senator Lundy might be as interested as Senator Tchen in that.

CHAIR—Thank you very much. We will excuse the Telstra witnesses for the next half an hour to an hour.

[8.12 p.m.]

Australian Broadcasting Authority

CHAIR—I welcome Professor Flint and the ABA witnesses. Senator Harradine, please begin.

Senator HARRADINE—Professor Flint, how many complaints has the ABA received about the SBS television program *Queer As Folk* each year over the last two years? What was the nature of those complaints? How did the ABA act on those complaints?

Prof. Flint—As far as I am aware, we have received no complaints. As you would know, these are dealt with first by the station concerned. There is no requirement that they report them to us, as with all of the commercial and national broadcasters, but none has filtered through to the ABA.

Senator HARRADINE—There have been no calls to the ABA at all in respect of those matters?

Ms Wright—We have undertaken no investigations.

Senator HARRADINE—But have you received any calls and referred those back to the station?

Ms Wright—We can check that for you. It is our procedure to keep a record of all the calls that we receive and, if they have not gone first to SBS, we would then refer them in that way. We have a record of that and we could provide you with that information. But we have opened no formal investigation. As you know, we do about 250 formal investigations a year. None have come back that second time if we have referred them on to SBS.

Senator HARRADINE—How many complaints has the ABA received about *Big Brother* each year for the last two years? What was the nature of those complaints? How did the ABA act on them? I ask the same questions about *Big Brother Uncut*.

Ms Wright—From my memory, and again we can provide you with fuller information, we have conducted one investigation into *Big Brother Uncut*. I am not aware that the other ones proceeded to a full investigation stage, but we would need to check that. I would also need to check the finding of *Big Brother Uncut*, but I think it was shown in the MA time zone and I think the ABA found that the material was suitable against the MA classification.

Senator HARRADINE—Would you provide the committee with the report of that investigation?

Ms Wright—Yes.

Senator HARRADINE—Could you also provide the committee with the number of calls that have then been referred to the particular station? Has the ABA considered the use of the new 3G mobile phones and their potential for the transmission or receipt of pornographic content to anyone who has such a phone?

Mr Fraser—The 3G services are relatively new in Australia. We have not received—

Senator HARRADINE—I am aware of that.

Mr Fraser—any complaints about material on those services to date.

Senator HARRADINE—So you do not propose to do anything about 3G mobile phones?

Mr Fraser—We do propose to monitor the use of those services. We are aware that there have been instances overseas of those services being used, for example, to contact children, but at this stage we are proposing to monitor—

Senator HARRADINE—Are you aware of the growth in the use of mobile phones by teenagers?

Ms Wright—Yes, we are aware, and we have been, it is fair to say, interested particularly in the situation in Japan, where there has been a great deal of interest in that technology. We have been watching that situation and watching the lessons from that situation as monitored by the international children's charity Childnet International, because we are aware that there has been a substantial take-up there. We have had discussions about how that might impact in Australia, but our understanding with our watching brief on it at the moment is that it is not an issue that we are immediately taking action on. But we are aware that there is a role for the ABA there, and it is something that we would be looking to address in the first instance

through community education initiatives. If parents have a phone for their children so their children can keep in touch with them, it is very important that they become aware of other uses for the phone. As my colleague has said, we are aware that in the UK there has been particular focus on the fact that phones can be used by paedophiles to contact children and lure them from online sites. So I think we have quite a strong watching brief. Our understanding from talking to companies in Australia is that the technology is not at a stage of take-up where that is an immediate issue, but it certainly is one for the future.

Senator HARRADINE—Will this not be addressed by the review of the telecommunications consumer protection service standard regulations?

Ms Wright—The ABA is not conducting that review; DCITA is conducting that review.

Senator HARRADINE—I understand that DCITA is doing it, but is the ABA making any contribution to that in respect of 3G mobile phones—and if not, why not?

Ms Wright—We are ready to provide the information that we have to that review. As I said, we have been watching the situation in Japan and the UK, and we are in a position to provide that.

Senator HARRADINE—You have said you have got a monitoring role on the matter. Will you not then present this to DCITA in respect of its review?

Ms Wright—We made a formal submission to that review and we have then been available to DCITA as and when they need to seek information from us, if something arises that they want to discuss further or gain more information on, and they quite regularly have those discussions with us. As I said, we stand ready to have discussions or provide any of the information that we have to that review.

Senator HARRADINE—Looking forward, as you must as an organisation—you must surely not take the next six months or a year or two years; you must go beyond that—are you not considering at all the question of the use of 3G mobile phones for that purpose?

Mr Fraser—Certainly in our submission to the review of schedule 5 of the Broadcasting Services Act we have flagged the use of convergent technologies, including portable devices, and flagged the issues that we have mentioned previously. We have indicated that we will continue to monitor the take-up of those technologies.

Ms Wright—We have also had briefings with particular companies on services that they offer or that they will be offering in Australia in that regard.

Senator HARRADINE—Are you aware of the Australia Institute report called *Regulating youth access to pornography* in Australia?

Prof. Flint—Yes.

Senator HARRADINE—The report indicates a failure of government policy in the regulation of online content. It found that 84 per cent of 16- to 17-year-old boys and 60 per cent of 16- to 17-year-old girls experience accidental exposure to Internet sex sites, including depiction of actual or simulated rape and bestiality. Furthermore, 10 per cent of 16- to 17-year-old boys view Internet sex sites every month and 93 per cent of parents would support automatic filtering of Internet pornography going into homes. The Australia Institute reported this as directly relating to the ABA. It also reported:

... tens of thousands of websites showing pornography, some of it of the most extreme kind, are easily accessed by children. Not only is regulation of pornography on the Internet manifestly failing, but the regulatory authorities themselves appear to have lost sight of their functions. The ABA seems to be more concerned to promote use of the Internet than to protect children from its dangers.

Do you have a reaction to that report?

Prof. Flint—Yes, I have a reaction to the report. I thought the report was highly polemical for a think tank and that its conclusion that the ABA is more concerned with promotion was untrue. It also seemed to suggest that mandatory filtering was the magic wand which would solve all the problems of pornography on the Internet, yet it published within the body of the report the research which the ABA had undertaken which demonstrated, I think very clearly, that filters typically overshoot and undershoot in relation to capturing what is offensive. We have a concern—

Senator HARRADINE—You are talking about the current filters?

Prof. Flint—Yes, the current filters. There may well be within the European Union improved technologies for tightening up filters. For that reason, we would warn against excessive reliance on filters by parents as the one and only means of controlling the flow of pornography because that could create a situation where parents could be complacent and believe that the filters will undertake all of their work. We recommend a raft of measures, including the availability of filters. In fact we have required that the codes offer to all users the availability of filters at least at cost, if not free. We think that that is probably a better way to go with the present state of the technology and we are very wary of creating a situation where carers and parents might think that the filter is something on which they can absolutely rely.

Senator HARRADINE—Could you point out to me from the Australia Institute report where it concludes that it is the one and only means? You have made that statement, Professor Flint. Where in this whole document is that suggested?

Prof. Flint—That is the conclusion I read, and certainly it came from the press releases that flooded across the country from the Australia Institute in which they said that mandatory filtering with adult opt out was the solution; that was the way that Australia could protect itself from Internet content. I think that would surprise most governments in most countries.

Senator HARRADINE—Is it not a fact that they called for a recognition by parents and others in responsible positions such as teachers that the use of adequate filtering systems could assist them in their undertakings and responsibilities?

Prof. Flint—My understanding is that they went further, but perhaps my colleagues could identify the areas of the report where they said that.

Ms Wright—The point I would like to take up is that Professor Flint has said there has been a mixture in the reportage of the research done by the Institute—they made some polemical statements which, in fact, are not part of their research instrument or the research that they undertook. Certainly, the media line was that mandatory filtering was seen as the solution. I think they quoted the two researchers as saying that. However, you are correct in the sense that, in many points, the report varies from the lines that the Institute took in the media. I think it is fair to say that the ABA shares with the Institute a concern that children are

exposed to material that is not suitable for them. Like the Institute, we place a strong value on the importance of community education—in fact, we have a role in this regard under the act—and we also consider that there is a role for filtering.

In relation to the 94 per cent figure that was mentioned, for us that figure poses more questions than it answers, because the research did not publish the survey instrument. Our reading of the question as it has been paraphrased is that 93 per cent of people answered yes to the question: ‘Would you support a system to restrict access to Internet pornography going into homes?’ We would argue that you could construe the current system as offering that. Unless the questions were then posed about whether people actually had filters or not—because we believe that people who already had filters could have answered yes to that question—and, if they had been offered filters and they had not taken them up, why not, it is very difficult to know if that statistic is a criticism of the current scheme or if it actually supports it. We have not been able to get to the bottom of that survey instrument. As I said, we take very seriously the concerns that young people are exposed to pornography, but we are endeavouring to find out what is going on so that we can continue to play our role in that regard.

Senator HARRADINE—So you have done research in respect of filtering, have you?

Ms Wright—We did research work early in 2000 which, unlike the Institute’s report, showed that 84 per cent of parents that we surveyed monitored their children’s viewing in a number of ways. So we thought there was a parental involvement—

Senator HARRADINE—I am sorry—you have said something about the Australia Institute report. The findings of the Australia Institute, or at least the reputable company that the Institute used for the research, were, I think, that 93 per cent of parents would support automatic filtering of Internet pornography going into homes. Are you suggesting that the findings were not just that? Are you challenging the validity and reputable nature of the study?

Ms Wright—The point that I made does not go to the reputable nature of the Institute; it goes to the survey instrument. My understanding of research methodologies is that the sequencing of questions is important. If you ask a question, there is a flow-on effect to other questions. So, to interpret the meaning of that and to understand what is meant—and, as I said, we are not clear on that, because we are not privy to the other questions—we would have to find out whether or not people who already have filters under the current scheme answered yes to that question. That may not have been a concern of the Australia Institute when they put the survey together and they could have done that in good faith. But we cannot interpret that in a way that is helpful to us unless we know the sequencing of questions.

Senator HARRADINE—The survey, including consideration of sequencing, was done and conducted by Newspoll. Isn’t that a reputable polling company?

Ms Wright—It is a reputable polling company, but I am not aware of the other questions that were asked. Usually when you publish research—

Senator HARRADINE—But you appear to be criticising it.

Ms Wright—you publish the questionnaire so that people can see the role that that question played. There is nothing wrong with the Institute’s question or its finding. I am

saying that, to be truly helpful for the ABA to draw conclusions in relation to our role in the scheme, it would be important to know whether questions were asked in general whether they supported that in a general sense or in the sense that they took action or had already taken action in relation to filtering.

Senator HARRADINE—Since it is of burning concern to you, did you happen to get the telephone and ring up the Australia Institute and its surveyors to find out answers to the questions you are raising now?

Ms Wright—At the time that the reports were released, we frequently contacted the Institute. The reports were finally released via a journalist who asked for them to be made available to us.

Senator HARRADINE—Since you have read the reports and since that presumably has raised questions in your mind—and presumably they did not come to mind just now—why did you not you raise the questions with the authors of the report? We are talking about the numbers of parents who would support automatic filtering of Internet pornography games. These are the people who are concerned, are they not, with the increasing abuse of children through the accidental exposure of those children to Internet sites, including the horrible types of pornography that I mentioned and as was mentioned in the survey?

Ms Wright—Again, in relation to that survey, we would have many questions that we could discuss with the Institute, including the claims they have made about that material.

Senator HARRADINE—Why didn't you?

Ms Wright—Because there is nothing, as I understand it, in the questions they asked the young people about the material that they actually saw. What we did was benchmark it against another survey that was released in the same week from America, where there was a larger sample—

Senator HARRADINE—Ms Wright, why didn't you contact the Institute? If you are genuinely, if the ABA is genuinely, concerned about what the survey showed—that is, the numbers of 16- to 17-year-old boys and 16- to 17-year-old girls experiencing accidental exposure to sex sites, including depictions of actual or simulated rape, if that is surely of concern to you, why did you not follow up with the Institute?

Ms Wright—In relation to the 83 per cent, as I said, the first step we took was to look at other work.

Senator HARRADINE—I was referring to the number of 16- and 17-year-olds being exposed.

Ms Wright—That is right: the 83 per cent of 16- and 17-year-olds.

Senator HARRADINE—Professor Flint, what have you done about it? What are you doing for those children that are exposed to this material?

Prof. Flint—The answer was that so many children in this survey said they were exposed. The experience that we have had is that sometimes these statements do not actually reflect what happened. The boys are saying that they were exposed to pornography. Our experience, and I have discussed it with other people, is that sometimes you have to be careful with these figures, because there is a certain degree of boasting in relation to them. We compared them

with figures we had received from the United States. We are not entirely sure about what the exposure rate is.

Senator HARRADINE—Professor Flint, we are talking about a reputable company doing the survey. They are perfectly well aware of what you are saying and, in fact, I have it somewhere here about the sample of people selected and what action was taken to see that the response was not affected by what you are saying.

Prof. Flint—What we are trying to do is do business—

Senator HARRADINE—I am no statistician, but I think it is plus or minus something they have said. Don't you agree that this is of great moment to the people of Australia, particularly at this time when child abuse is of such importance and concern to the community? Isn't it child abuse when 84 per cent of 16- and 17-year-old-boys and 60 per cent of 16- and 17-year-old girls experience accidental exposure to Internet sex sites, including depictions of actual or simulated rape and bestiality? Isn't that of concern to the ABA as the chief regulatory organisation?

Prof. Flint—I am advised that a similar but more rigorous study undertaken in the United States found that one quarter of teenagers who used the Internet regularly had unwanted exposure to such material in the past year, most of them encountering nudity but not sexual activity. So we wonder about the survey—not because we in any way dispute the reputation of the people who did the survey; it is really about the instructions they received, the depth to which they went into this, the rigour with which it was approached and so on. Obviously, we are concerned; we were equally surprised. We were also surprised by the way the Institute approached the question. Instead of coming to us and seeing what more we could do about it, they decided to flood the media with a number of highly polemical press releases and suggest that we were more interested in promoting the Internet than in protecting children, which is completely untrue. We felt that they should try to see what we were doing—the raft of measures that we are using to restrict access to pornography.

Ms Wright—And as a result—

Senator HARRADINE—On that matter, I think your responses speak for themselves. Did you see *60 Minutes* last night?

Mr Fraser—Yes, I did.

Senator HARRADINE—Did that demonstrate how paedophiles used the Internet and chat rooms to prey on vulnerable children?

Mr Fraser—The focus of the story was the use of chat rooms in particular by paedophiles to contact and groom children.

Senator HARRADINE—Professor Flint, was the ABA aware of this?

Ms Wright—Yes, this is—

Senator HARRADINE—I am asking the professor.

Prof. Flint—It has come to our attention, yes.

Senator HARRADINE—What are you doing about it?

Prof. Flint—We are adopting a raft of measures, particularly in the field of community education. We have a vigorous program of trying to educate adults, carers and children in the use of the Internet. We have a growing number of arrangements with schools to try to get our message to them, and my colleague Andree will give you further information on that.

Senator HARRADINE—We have predators out there.

Prof. Flint—Sorry?

Senator HARRADINE—We have predators out there, as this program showed—paedophiles seeking to lure young teenagers into their net by the use of chat rooms. What is the ABA doing about that, since you say that you know about it?

Ms Wright—We have a number of initiatives, which I would be very pleased to tell you about. I would preface my comment, though, by saying that currently chat rooms are outside the legislation, so the work that we do here comes from our commitment to this area and our concern about it. The first thing I would note—

Senator HARRADINE—Chat rooms are outside—

Ms Wright—They are outside the scheme.

Senator HARRADINE—your scheme?

Ms Wright—But we take a community education role to it.

Senator HARRADINE—How do you mean they are outside? Why are they outside your area of concern?

Mr Fraser—They are not within the definition of Internet content contained in the act—in fact, they are specifically excluded from that definition.

Senator HARRADINE—Chat rooms are?

Mr Fraser—Yes, that is right.

Ms Wright—Yes.

Senator HARRADINE—ISPs are not?

Mr Fraser—No.

Senator HARRADINE—No? Why don't you require ISPs to take action on this?

Ms Wright—I would like to outline the action that we are taking. As I said, we released a brochure in our education campaign on chat in December last year. Again, it was promoted by Childnet International and it had a lot of coverage there. In our work with INHOPE we contribute to a group of hotlines that, in one six-month period alone, took action on 35,000 cases of child pornography on the Net, and a lot of those hotlines deal with chat. If we—

Senator HARRADINE—Who has done this?

Ms Wright—INHOPE. This is the Internet Hotline Providers in Europe Association.

Senator HARRADINE—I am talking about the Australian Broadcasting Authority.

Ms Wright—Yes, and I am talking about that as part of what we have done. We also link, again as an educative initiative, to chatdanger.com, which is a very important site giving advice. It is an interactive site where people—families and children—can go if they are

having problems in chat rooms. We have done a lot of work in trying to provide children and parents with information in this area so that they know what the problems are and the steps that can be taken to deal with them. As my colleague said, we do not have an official role for dealing with chat under the scheme, but we have a very active role, nevertheless, in using our endeavours in an educational way and in an international liaison forum to get the message out to children. We also in some instances can pass that material onto the Federal Police if we have concern. Again, we do not have a legal role there, but we do have service level agreements with the police jurisdictions around Australia. We refer material to them as appropriate. Anything to do with child pornography and luring of children by paedophiles, we pass straight onto the police.

Senator HARRADINE—How many have you passed on?

Mr Fraser—Since the scheme commenced operation we have—

Senator HARRADINE—You are talking from when?

Mr Fraser—From 1 January 2000.

Senator HARRADINE—This is the budget, and I am talking about in the last financial year.

Mr Fraser—We would have to take that question on notice. But certainly since 1 January 2000 we have received in the vicinity of 500 items, or the details of 500 items, of Internet child pornography from law enforcement agencies either here in Australia or overseas.

Senator HARRADINE—What about chat rooms—have you had any of those?

Mr Fraser—No. We have not received reports about those incidents in chat rooms, for that very reason that chat is outside the scope of the scheme.

Senator HARRADINE—When you say it is outside the scope of the scheme, you are talking about doing something about it—that is to say, doing something technological about it that can be used by parents and others to protect their children from predators. But on the other hand you are saying you deal with that question of chat. You have a leaflet out about it. Haven't you done anything about developing a system, filters, a monitoring system or the like, and suggesting ways of dealing with it? Since you say it is not in your area, although ISPs are, have you not raised this matter vigorously with DCITA so that they could take this into account during their review?

Mr Fraser—We are aware that it is a key issue, particularly for families, because children do like to use chat rooms. Recognising that it is a real-time sort of medium and environment, we consider that really the best mechanism to assist families is education and advice about—

Ms Wright—There are some mechanisms. We are aware that there was a task force in the UK that looked at the issue and it is possible that this is something that could be looked at in Australia—that chat rooms be actively monitored. I think that the UK looked at such a scheme. I am not aware that it was taken up, but it was certainly something that came out of that task force where each chat room should be monitored and therefore there would be somebody who could be contacted within that chat room if a young person found themselves in trouble or out of their depth. So, yes, we are aware that a number of agencies around the world are looking at these issues. As it is a global medium, these are common problems, and

we are very mindful of the work done elsewhere. While we are not aware that any country has gone that far, we are aware that they are some of the issues that are being considered elsewhere in English-speaking countries at the moment.

Senator HARRADINE—While we are on chat matters, and since it is of great concern, could you provide the committee with—presumably you have legal advice for your assertion that chat rooms are not in your area of responsibility or concern—the legal advice upon which that action is taken?

Ms Wright—Yes, we will provide you with that.

Senator HARRADINE—So you have had legal advice, have you, that this is not in your bailiwick?

Ms Wright—Our understanding was that, at the time that the debate on the legislation being introduced, those issues were raised and I think we can provide you with that material. In the explanatory memorandum there is reference to that, so that is the basis of our understanding for the path we have taken, and we are very happy to supply that.

Senator HARRADINE—What was your recommendation to the government? I should not ask that, I suppose. Where do we go? Anyone who saw the program last night would be absolutely appalled. And for those of us who know that young people like chat rooms and so forth what do we do as of now?

Mr Tanner—I think the scheme that we put in place was pretty visionary as of two or three years ago when it was thought up. There were widespread predictions that the kind of regulation that was proposed would have deleterious effects on Internet uptake. We have introduced the scheme and that has brought a number of significant benefits for regulation of the Internet. At the time the scheme was created, the parliament recognised there was a need for ongoing review and that review is now being undertaken—and not by the ABA.

The ABA has been an active participant in that review. We have repeatedly taken a wide view of our responsibilities and we have expended our funds and set our projects accordingly. I think spam is outside the scope and online content as well, but we have pamphlets on spam to assist concerned Internet users in dealing with it. We have commissioned a fairly major piece of research into another area that is at present not caught by the scheme which is streamed audio visual material on the Net. We have commissioned that research precisely to assist the government in spotting and dealing with issues as they arise. You have listed a number of issues and the ABA is active in keeping in touch with the industry on problems that arise and has, when it has seen fit, either produced educational material or commissioned research to assist the government in coming up with regulatory responses to that.

Senator HARRADINE—Will you provide the committee with copies of that research.

Mr Tanner—I would be happy to do that.

Senator MACKAY—I have some questions for Professor Flint. They touch on some of the issues that Senator Harradine has raised. Professor Flint, in practical terms, how do you make sure that you have a proper and adequate separation between your role as the head of the ABA and as spokesperson for Australians for a Constitutional Monarchy?

Prof. Flint—My practice would be, if I had to distinguish that role, to withdraw from any matter that came before me which related to any of the organisations—not just ACM. If it related to some of the matters with which I am involved—for example, the English Speaking Union or others—I would withdraw from the hearing of a complaint if there were a conflict of interest. That would be the principal approach that I would adopt.

Senator MACKAY—Is that the only practical strategy that you use?

Prof. Flint—I would not wish to intermingle the two, as I would not wish to intermingle other private matters which relate to my role. For example, I would avoid referring to my role as Chairman of the Australian Broadcasting Authority if I were dealing with a matter which related to any of the organisations of which I am chairman or an office bearer. I am involved in several organisations—ACM is not the only one—and I think this would be common for statutory office holders throughout the Commonwealth.

Senator MACKAY—It is correct, isn't it, that one of the roles of the ABA is to monitor the presence of—I am quoting here from the ABA web site—'inappropriate conduct in the media'?

Prof. Flint—I think that would be a reasonable proposition.

Senator MACKAY—It is under a 'What we do' excerpt from the ABA web site, so I am assuming it is correct.

Prof. Flint—I think it is meant as an overview, for simplification of the objects.

Senator MACKAY—I am just attempting to get confirmation that that is on the web site. That is generally what you believe?

Prof. Flint—I am sure, if you say it is on the web site, it is there.

Senator MACKAY—Thanks for that. Some people would not take me at my word, believe it or not. Would it be the case that what is considered inappropriate reflects a general community standard? How do you determine 'inappropriate'?

Prof. Flint—Certainly the theme of the act in relation to the protection of children and in relation to what adults should see is based essentially on community standards.

Senator MACKAY—Would that category include materials such as news reports of paedophilia and child sex cases which might be aired in the media at certain times, similar to the line of questioning that Senator Harradine has been raising?

Prof. Flint—Yes, but news reports and current affairs are subject to a different treatment by the codes. They would not be, for example, subject to classification, if I am correct.

Senator MACKAY—The questions that Senator Harradine was asking you with respect to the program last night would clearly be within your bailiwick. You indicated to him that it was within your bailiwick.

Prof. Flint—Yes. It was on television; it would certainly be a matter over which we would have some—

Senator MACKAY—As an adjudicator, which you effectively are, over this type of material, what is your personal position on this sort of activity?

Prof. Flint—My personal position on what?

Senator MACKAY—Paedophilia and child sex cases.

Prof. Flint—My view is that paedophilia is repugnant, it is so surprising and it should be dealt with severely.

Senator MACKAY—Presumably you share the community's general abhorrence with respect to this. Do you think there is any conflict between your role at the ABA upholding community standards on what constitutes inappropriate content and your vigorous public defence in the media of the behaviour of the Governor-General, whose behaviour you described as 'a mere error of judgment' rather than what you described as 'moral turpitude'?

Prof. Flint—Moral turpitude, as I understand it, means moral wickedness. I do not think anybody in this Commonwealth would think that the Governor-General is morally wicked. I think that would be an unacceptable proposition, highly defamatory and completely and absolutely untrue.

Senator MACKAY—Who says? You say, do you?

Prof. Flint—I am sorry?

Senator MACKAY—That is your assertion, isn't it?

Prof. Flint—I think it is obvious. It is self-evident.

Senator MACKAY—Is it? It is an opinion.

CHAIR—There has been a division in the community. Some people do hold the sorts of views which Professor Flint is—

Senator MACKAY—Yes, but some people are not heading up the ABA.

CHAIR—I know, but you have to respect the fact that a lot of people in the community hold that view.

Prof. Flint—I do not think that, as Chairman of the ABA, I am expected to express opinions on these matters, but if you wish I will. I say that I do not think that the Governor-General is guilty of moral turpitude and I do not think anybody thinks that. People do criticise him, and I understand that, but I certainly do not think he is guilty of moral turpitude.

Senator MACKAY—Do you think you should be more careful in future with your comments on issues such as the Governor-General, the allegations that he protected paedophiles, in your capacity as head of the ABA?

Prof. Flint—I assure you, Senator, that I am very careful in what I say.

Senator MACKAY—I do not think you are.

Prof. Flint—That is a matter of opinion, but having read the 400-page report which was tabled in the Queensland parliament—

Senator MACKAY—As have I.

Prof. Flint—and having read the particular case that you are referring to where there was a question of an error of judgment, I would say and I think it is not unreasonable to say that the then Archbishop of Brisbane did behave in a very careful, painstaking way in assessing that

case. You would know, having read the report, that submissions were put to him, that apparently the priest in question was contrite, that these matters had occurred before his ordination and the archbishop requested a psychiatrist report. He had submissions put to him about the financial condition of the person concerned. He attached very careful conditions to his decision. He consulted with his diocesan bishops. He sought the approval of the priest's wife to agree to supervise him and, in addition, there was a condition that the man never come in contact with children alone and that he would always be with another adult. We all agree that this was still an error of judgment, but it was not that sort of decision which was taken in many dioceses in other churches, particularly in the United States, where priests were just transferred from one parish to another without any additional control.

Senator MACKAY—I did not mean to debate the issue, but I will note that we are here at estimates with respect to ABA and you have chosen to enter into a debate about ex-Governor-General Hollingworth. I am saying that is abusing your position.

Prof. Flint—Senator, is this an ambush? You asked me the question.

Senator MACKAY—No, it is not an ambush. I just asked you about the separation of your roles and you sat here for the last three minutes and defended the Governor-General yet again, at estimates, where you are here as head of the ABA.

Senator Alston—Senator Mackay, is it correct that you asked Professor Flint for his view on the subject of the Governor-General?

CHAIR—Yes.

Senator Alston—If that is so, you can hardly complain if he answers your question.

Senator MACKAY—I asked his view with respect to paedophilia.

Prof. Flint—I was offering you the courtesy of an answer, Senator. You wanted my view. I gave you my view. You can hardly complain about my doing exactly what you asked me to do.

Senator MACKAY—Okay.

CHAIR—With respect, you also specifically mentioned the archbishop.

Senator MACKAY—Yes, I did. I said ‘your vigorous public defence in the media of the behaviour of the Governor-General, whose behaviour you described as “a mere error of judgment”’. I will read the whole question again: do you think there is any conflict between your role at the ABA upholding community standards on what constitutes inappropriate content and your vigorous public defence in the media of the behaviour of the Governor-General? So the question was: do you, Professor Flint, believe there is any conflict between your role as head of the ABA and your comments in relation to the Governor-General? That was my question.

Prof. Flint—I gave you the answer, Senator.

Senator LUNDY—No, you took the opportunity to express an opinion about the Governor-General when that was not the question at all.

Senator MACKAY—You took the opportunity to put a vigorous defence of the Governor-General.

Senator LUNDY—You are smiling, so you are probably pretty happy with your effort.

Senator MACKAY—That is right, Senator Lundy. I think the point has been made. How many appearances have you made in the media speaking in support of the Governor-General in recent weeks?

Prof. Flint—Perhaps a dozen.

Senator MACKAY—You said that in a fairly desultory fashion. Do you have any more specific—

Prof. Flint—I am not sure of my style on that occasion. I would have to look at a film to see the way in which I answered.

Senator MACKAY—Can you please provide on notice all details of where and when these appearances took place, including the number of newspaper articles and interviews that you did?

Prof. Flint—I am not sure that that is a matter—

Senator TCHEN—Chair, this matter does not have anything to do with the budget. We are here for budget estimates, Senator Mackay.

Senator MACKAY—Are you trying to shut me down, Senator Tchen?

Senator TCHEN—No, I am just asking a question.

CHAIR—That is a fair point. We are dealing with estimates.

Senator TCHEN—You have not asked a single question about the budget yet.

CHAIR—And annual reports, and this is not an annual report.

Senator LUNDY—Senator Tchen, it does have an impact. If these comments are being made while Professor Flint is actually drawing a salary, then it has everything to do with the Commonwealth budget. So how about you just settle down and let Senator Mackay get on with the questions.

Senator TCHEN—Are you saying that he is making comments which have an adverse effect on his ability to carry out his job? Where in his job description does it say that he cannot make public comment on matters he feels are of personal importance?

Senator MACKAY—Thank you, Senator Tchen, I think we have made our point yet again. Was any administrative assistance of any kind, such as typing or faxing correspondence, provided by any member of the ABA for the writing of any of the newspaper articles you authored or any other activities associated with your recent comments in relation to the Governor-General in your capacity as head of Australians for a Constitutional Monarchy?

Prof. Flint—No.

Senator MACKAY—Do you type your own speeches?

Prof. Flint—Yes.

Senator MACKAY—Would you please provide this committee with all details of personal travel that you have undertaken in the past two years—travel as the head of the ABA, I should say.

Senator Alston—You do not mean personal travel.

Senator MACKAY—No, that is right.

CHAIR—You mean travel on ABA business.

Senator MACKAY—Yes—I am sorry, my mistake.

CHAIR—Not personal travel.

Senator MACKAY—No, I corrected that. Professor Flint, would you include the dates of flights, destinations, appointments and purpose of the travel. Would you also indicate, if you were undertaking travel for the ABA, whether there was any point at which you took the opportunity to make comment in your capacity as head of Australians for a Constitutional Monarchy, if at all.

Prof. Flint—I think I can provide you with details of my travels.

Senator LUNDY—When the ABA asks the OFLC to classify an item of Internet content, does the ABA provide that office with the URL or the name or title of that content?

Ms Wright—No, it does not.

Senator LUNDY—Why not?

Ms Wright—Because there is no need. We have an automated complaints mechanism so that the material is caught in our server, and the OFLC can have direct access to those images. We think this gives maximum security without any room for exposure of those details which could underline illegal material and material that is illegal to access.

Senator LUNDY—According to the OFLC's annual reports, in the two years ended June 2002 the ABA submitted 21 items of Internet content to the OFLC that were classified 'not prohibited'. Over half of these items were classified G or PG. Can you tell me why the ABA has that type of content classified, given that online content is not prohibited unless it is classified at R and over 18, X and over 18 or is refused classification?

Ms Wright—Yes, I can, Senator Lundy. While a lot of the material that comes to us for investigation is sexually orientated material which might back onto the RX or XRC categories, if you are moving into areas of racial speech, violent crime or terrorism, my experience of classification tells me that then the X and RC border is not relevant. Sometimes material that is complained about does not meet the fairly high threshold to be illegal and will be found to be in the unrestricted area. It seems, I know, unusual at first blush to say that you could have something on the G or PG refuse classification border but that is the case, and I would cite the example by the OLFC some years ago when the video made by David Irving was put in for classification. There was a concern there that, with its views denying the holocaust and the offence potentially to certain sectors of the community, as a type of racial hatred or speech that could have been classified RC—I think this was in the mid-90s—and yet it was classified G or PG at the time, but the debate took place across the G, PG and RC

border. So sometimes items take that classification, but the complainant has genuinely thought that it could be caught within the RC definition of racial hatred or violent or terrorist material.

Senator LUNDY—So regarding those classifications—the way they are spread in the non-restricted area—can you draw the conclusion that they are generally not of a sexually explicit nature but have attracted other types of concerns from complainants?

Ms Wright—Yes, that would be a fair comment.

Senator LUNDY—From the ABA's point of view, can you explain to me the reasons why the names and the URLs of non-prohibited content, such as that classified as G or PG, could not be made public under the OFLC's online classification database? I certainly appreciate the sensitivities—that it is undesirable content that has been debated in some way—but under Australian law it is not illegal content, or it is not restricted content as far as sexually explicit material goes. So what is the logic there?

Ms Wright—We follow the same referral procedure for all material. In some cases we can make a reasonable estimate of how we think material is likely to be classified. In some other cases we do not know what the classification will be and are not in a position to prejudge—the OFLC is the expert body in that way, as I said. So what happens is we follow the one referral method and we do not necessarily prejudge the material. In a sense what you are saying would then mean there was follow-up action after the fact to provide information to the OFLC on a classification it had already made—and that does not seem to be standard procedure with any of its other clients.

Senator LUNDY—I guess it is an issue that reflects on the treatment of the restricted sexually explicit sites currently under consideration as far as legislation goes. The justification used for that is carried across to these issues, even though the same arguments are not necessarily being applied. So what you are telling me is that it is the fact that that is your general system—that that is why these items that have been classified as non-restricted are prevented from being made public to people interested in Internet censorship.

Ms Wright—It is our general system, but we are aware that there is an interest in this so we have adopted the procedure of providing on our web site pro formas, if you like, to illustrate each of the classification categories. Then we provide statistics against those pro formas and the categories per month so that people can see what is happening, the types of material that attract those classifications and the numbers that we have been referring. We did this in addition to other actions we take to report on what we do—for example the six-monthly report that is tabled in parliament and our annual reporting. I think our statistics on Internet referrals have come up at virtually every Senate estimates since the inception of the scheme, but we thought additional measures were appropriate so people could understand what those classification categories attracted, the types of complaints that we were getting and which category they fell into.

Senator LUNDY—Given that this has attracted a lot of attention, do you think it is time to review your system—in this case, with these non-prohibited items, your process of not revealing the URL and therefore not allowing some level of public scrutiny of that process?

Ms Wright—I am not sure that in a broader sense it has attracted a lot of attention. I think we have had one FOI request in the life of the scheme. I am not aware of any other letters

from members of the public or anything else in that light that has reached us. That FOI request, I think, was traced right the way through the appeals mechanism and our procedures were upheld. We did not then have any follow-up by people who were concerned about that. We are aware that one organisation, which made the FOI request, is concerned, but that is the extent of the concern that has been put to us.

Senator LUNDY—Perhaps I should ask some questions about that process and the complaints you are receiving, particularly in relation to the changes to the funding arrangements for the NetAlert body. Certainly, the ABA is losing \$0.5 million per annum—funding that will be allocated, as I understand it, from the budget papers to NetAlert. Can you explain to the committee the implications of the funding changes to NetAlert and how that impacts upon the reporting process managed by the ABA?

Ms Wright—Yes. My understanding is that the funding going to NetAlert is basically money that has always been provided under that one umbrella to NetAlert, with the exception of the first year, when I think \$450,000 of that money came to us because NetAlert was still being set up. We used it to initiate research and whatever; we did not want to wait at the beginning of the scheme. But in all other subsequent years of the scheme, that money has gone to NetAlert, once it was established, and the current budget line simply reaffirms that situation.

Mr Tanner—The ABA was conscious that, with half a million dollars a year going to that other agency, the whole situation was under review. In a scenario where those functions being performed by NetAlert were returned to the ABA, we would be interested in having that money available to us in order to discharge those functions. But obviously in a scenario where they do not return to the ABA, we have not spent the money. It is money that we realised was dedicated to those purposes.

Senator LUNDY—Why has it cropped up like this in the budget papers then, showing a line item deduction from ABA's budget?

Mr Tanner—As I understand it, the initial NetAlert grant was for a fixed period, with the money shown in the budget papers as reverting to the ABA. It has always shown on our budget up ahead, but we were also well aware that the future of NetAlert and its role, and our role, were going to be reviewed, and we fully expected that the actual use of that money would be dealt with at the time of the reviews.

Senator LUNDY—Are there any changes to the way the ABA works with NetAlert in receiving complaints through the hotline they promote?

Ms Wright—Yes. We have regular contact with NetAlert and, most recently, after their existence was reaffirmed in the budget, Karyn Hart contacted the ABA to say that she would like to meet and talk about ways forward. However, we have also had dialogue with them about the hotline that they operate, which tends to have people ringing in asking for information. My understanding of talking as recently as two weeks ago to one of the people who operates that phone line for NetAlert is that sometimes they get people ringing in and saying, 'We've found some material. We're not usually the sort of people who make complaints; what should we do?' She said it was more a case of encouraging them to make a complaint, and then what often happens is that the person says, 'I'm really not the sort of

person who makes a complaint, but can you do it for me, dear?’ So then NetAlert will forward it on to us and we will investigate it anyway. They play a role with some of the people who are more hesitant, whereas a lot of people come directly to us. We have talked about our processes with NetAlert and their processes with us to make sure that we are covering the field in that way. So they are playing a role of shepherding a certain group of people, if you like, who do not want to make a complaint in their own right but are willing to make it through NetAlert.

Senator LUNDY—I am not hearing that there is much change for you in that scenario: you will still operate that hotline and you will still pursue those complaints.

Ms Wright—Yes, the hotline is very important to us. I guess it is through that sort of mechanism, as we mentioned earlier, that we relate in a global way to other hotlines—and, because of our INHOPE accreditation, we can receive referrals from them if they receive complaints about material hosted in Australia and we can forward complaints we receive directly to them. Certainly, that has proved to be very important for the American hotline, probably because they have very good and direct links with law enforcement there, whereas if we go through more traditional referrals in that way it takes longer.

So we are mindful that they are able to immediately action material that we forward on to them, and of the role the hotline plays internationally. I think there are now 15 or 16 accredited countries, with about 19 hotlines between them, and the number increases incrementally every year. It seems to be a very good global perspective. Also through that forum, we are very mindful of other community education initiatives that are being undertaken by those bodies and by the European Commission—as well as the filtering work being done by the commission. The commission has largely sponsored INHOPE to date, but I think INHOPE are likely to move beyond a situation where they need commission funding.

Senator LUNDY—The ABA was involved in NetAlert previously because the funding was part of the ABA’s allocation. Are you able to provide a breakdown of NetAlert’s expenditure during the life of that funding allocation—that is, up until this financial year—including salary and conditions for each member of staff, rent, program funding and project costs?

Ms Wright—Not for NetAlert. Apart from that first year, when the money reverted to us, it went to them cleanly and they administered it.

Senator LUNDY—Okay. I can pursue that with NetAlert. You mentioned earlier, in your responses to Senator Harradine, the value of pursuing education of Internet users, particularly parents. Apart from NetAlert, what strategies does the government fund—and do you support—to provide end user education about the use of filters on home PCs and help parents manage Internet content in a realistic way that is suited to their views on the level of censorship they want to provide?

Ms Wright—We have undertaken a number of initiatives ourselves. You would be aware that we jointly undertook research with NetAlert on filters—and I noted from our web statistics that that report has been accessed 28,000 times, which is a substantial figure for a government web site. We also have a community education brochure on filters, and in that regard I would mention that we have been in discussion with a number of education

departments around Australia and we have estimated that we will need 500,000 brochures to distribute through the school systems next year. As well as the report we did in conjunction with NetAlert, we provide information on our web site that is broken down into an easily accessible and user friendly table so that parents can look at it and choose the type of filter that might be appropriate for them.

We attempt to give advice according to the age of the child and the type of service because we are aware that the type of filter that you want if you have a child in primary school may well be different from the filter you want if you have a child in secondary school—and if you have both, then that is a third choice. So we are trying to provide information from that perspective. My colleague here has been able to attend a number of workshop days where projects that have been funded by the European Commission on developing filters—on budgets that we can only dream about here—are reviewed to see how the next generation of filters is progressing and when it is going to be available. We endeavour to make all that information available too.

Senator LUNDY—To make it publicly available?

Ms Wright—Yes.

Senator LUNDY—A couple of questions there—you mentioned 500,000 brochures. Are they currently built into this year's budget for next year? Do you already have money for that?

Ms Wright—Yes, we are anticipating that. What we find is that some of the education authorities are very happy that we have developed the brochures. In some instances, they have come back to us and said that they would like to, for example, repackage some of them together and that they would be willing to finance that because they consider us to have done the work. We have had a couple of states trial our brochures through teachers in the schools and we have had very positive feedback from those teachers.

Senator LUNDY—Can I just ask you why the ABA is doing that, because my understanding of the role that NetAlert played was that they were set up as a stakeholder-run organisation to do that kind of public education, and I know that they have circulated, amongst other things, fridge magnets and other information to try and get the word out there? So why are you doing that now, and not NetAlert?

Ms Wright—Because our role is overtly built into the act. If you look at section 94 of schedule 5 of the Broadcasting Services Act you will see that it talks about the ABA having certain functions, which cover 'advise and assist parents and responsible adults in relation to the supervision and control of children's access'. It talks about 'conduct and/or coordinate community education programs about Internet content and Internet carriage services'. It also talks about 'commission research'. So under the act we have a direct role.

Senator LUNDY—So what do you do to consult with all of the stakeholders—not just concerned parents but, obviously, schools, industry itself, which has a lot to say about these issues, and also the organisations that are concerned about filters and concerned about censorship of the Internet? What system have you got in place to make sure that you talk to everybody and they are in the best and most informed position from which to proceed?

Ms Wright—In our community education initiatives we made a decision early on that the nine- to 14-year-old age group was a particularly at risk age group, because they are moving

towards fairly basic Internet experiences and it is a time when they need to have a number of tools and mechanisms that they are familiar with that they can use. We then thought that the best way to get distribution of information that we develop in that regard, in addition to our specialised web site, is to work through the schools, because they have the distribution mechanism. If we sent brochures to the schools from outside the system, I gather they receive a great many brochures on a great many things and that in the first week of a term about 14 sets of brochures go into the bin, so we decided to not have that strategy but meet with the various education departments and look at the schemes they had to promote the Internet and Internet access in schools and to become a part of that and to have them pilot our brochures or to distribute our brochures so that they are not just going in at a general point of entry. We have negotiated with the department, who then distribute them and promote them.

We are aware that the Internet industry have their ladybird initiative, and we are aware of the work they do with that. We meet regularly with them and talk about the work they are doing—keep them briefed, keep NetAlert briefed, on the work that we are doing. I think we have probably got quite good visibility with our web site. We have people approaching us, and I guess most of the major stakeholder groups we know by now and are in contact with.

Senator LUNDY—Can I just ask you whether Clive Hamilton, one of the authors of the report Senator Harradine was referring to earlier, consulted the ABA either formally or informally in the preparation of that report?

Ms Wright—I understand that he contacted our content assessment manager and said they were undertaking research, and they had a long talk at that stage. I think the institute had research in the field. They were neither aware of the review of the scheme nor necessarily aware—we gained the impression—that there was legislation in place or the policy intent behind that legislation. I understand our content assessment manager filled them in on those details, directed them to the DCITA web site and said that there were submissions into the review. They asked at that stage if we would like them to come back and discuss with us the research findings before they made them available. We have an email which we sent back to them saying we would very much like that. However, the next thing that we knew was that the report was released, and it had not been made available to us, so that then did not happen. However, they have spoken on a number of occasions in public and we have gone along to those seminars, attended those, listened to those and on occasion talked with them in those forums.

Senator LUNDY—Minister, can I just ask you a question about the NetAlert funding? It is pretty common knowledge that the CEO of NetAlert was doing the rounds in the lead-up to the budget, arguing the case for a significant increase in their funding to allow them to embark on an education campaign. Minister, my question is: it seems that you have lost confidence in NetAlert and the ABA is picking up elements of what NetAlert either think they should be doing or have otherwise done in the past, and I just wanted to know if you are of that view, because it would help to make it make a lot of sense, because I do not know why you have not funded NetAlert.

Senator Alston—We have. We have given them more money than they got last year. They got \$500,000 last year. They are getting \$750,000 a year for each of the next two years, followed by \$500,000 thereafter, so they are actually being better funded.

Senator LUNDY—But they were running a case for significantly more funding so they could be more effective in educating end users.

Senator Alston—They were jumping up and down, like most people tend to do ahead of a budget, giving interviews—

Senator LUNDY—But do you put a priority on end user education?

Senator Alston—Absolutely.

Senator LUNDY—You have not given it any more money.

Senator Alston—I have just told you that we have gone from \$500,000 to \$750,000.

Senator LUNDY—That is marginal.

Senator Alston—Make up your mind: you start off by saying we have not given them any money, then you say we have not given them any more money, and when I point that out you say that we have not given them much more money.

Senator LUNDY—How much extra money is the ABA getting this year to fund the brochures? Can you quantify the figure for all the half a million brochures? I suppose you will get your photo on them, won't you, Minister?

Senator Alston—I did not hear the question.

Senator LUNDY—The 500,000 ABA Internet safe usage brochures.

Senator Alston—We are giving them \$750,000, and they are also expecting to supplement their funding allocation through sponsorship and other forms of commercial support. I have here a letter thanking us for our contribution over the next three years. They have said that substantial pledges of support have already been made to NetAlert in varying forms by the private sector. We are very concerned about this whole issue, and we certainly want to see—

Senator LUNDY—You keep saying you are, but I never see it manifesting itself in any significant budget increase for these organisations.

Senator Alston—Obviously, you are not following the game. Five minutes ago you thought we had defunded them; now you discover that we have given them a 50 per cent increase. You cannot just have a preconceived notion of these things. The fact is we take it very seriously—

Senator LUNDY—Hang on a second. You are the government which keeps saying, 'Shock, horror, we've got to do more to make the Internet safe—

Senator Alston—And you have been laughing at us for years. You have always said, 'It can't be done; it's too hard.'

Senator LUNDY—No, you are starting to sing my tune now, because you know that it is end user education that will make the difference in actually facilitating parents—

Senator HARRADINE—I draw it to your attention that these questions are relating to NetAlert. As I understand it, NetAlert are not here to answer their questions.

CHAIR—That's a very good point. NetAlert is on the agenda for tomorrow, and I suggest we leave this until tomorrow and expedite what we are doing, because we want to recall Telstra.

Senator LUNDY—I still have an outstanding question for the ABA in relation to the funding and costs of the brochure campaign they plan to do next year. Do you have a figure for that?

Ms Wright—I would have to take that on notice. It depends on the brochures. We have six brochures, we have plans for a new one and, as I said, some of the education departments would like us to package them together.

Senator LUNDY—I know you will not be able to give me an exact figure, but I would like an estimate.

Ms Wright—We would have to get back to you on that, because we are still negotiating how we divvy up that \$500,000—how much we are funding those; how much they are, in a sense, sought by education departments.

Senator LUNDY—Is the ABA generally of the view that the most effective way to protect young people from unwanted content is through supervision by their parents, as end users of the Internet and managers of content in their homes, whether they use filtering technology or whatever?

Ms Wright—We endeavour to inform parents, teachers and children through community education initiatives of every mechanism available to them, and that includes the development of filters.

Senator LUNDY—But it is the end user that you are targeting.

Ms Wright—We have always considered that it is important to have an informed user community.

Senator Alston—Does Labor now support the online content regulation regime?

Senator LUNDY—We support end user education, Minister. I will pursue these questions.

Senator Alston—I just want it to be clear: you are still opposed to the online content regime that we have in place?

Senator LUNDY—We support end user education, Minister; you know that. It is a shame that you do not.

Senator Alston—Everything else is too hard—is that right? ‘Don’t even bother to try it; just leave it all to parents.’

Senator LUNDY—You can keep pretending that you have solutions, but all you are doing—and the ABA said it—is tricking parents into thinking that they are doing the right thing.

Senator Alston—I am just confirming your position on it: you would not lift a finger to do anything; you are simply saying that it is all up to parents. That is your position, is it not?

Senator LUNDY—You can keep sticking your head in the sand about these issues or you can start to get a grip on the technical reality and start funding programs to help that end user education.

CHAIR—I think we have all made our points. Senator Harradine, have you got any more questions for ABA?

Senator Alston—Senator Lundy, do you support Mr Tanner’s urging that paedophile sites should be released under FOI? I can understand why you do not want to answer.

Senator LUNDY—Chair, I have got a couple of other questions about commercial radio codes of practice.

CHAIR—If you have got some genuine questions, let us get on and ask them—

Senator LUNDY—My questions are always genuine.

CHAIR—instead of dealing with things that are going to be dealt with tomorrow.

Senator LUNDY—Senator Alston is dying to get on this side of the table—you will get your chance very soon, I am sure.

CHAIR—I would not be so sure about that.

Senator Alston—I do not think so.

Senator LUNDY—I am an optimist.

Senator Alston—I have been there; I am determined not to go back!

CHAIR—If you want to ask those questions, Senator Lundy, please do so because Telstra is back in the room now, and that is what we need to deal with.

Senator LUNDY—At the last estimates the ABA notified the committee that the commercial radio codes of practice were currently under review. Have you completed that review?

Ms Wright—The review is in train. We have commissioned research which we are about to finalise and release to assist that review, and then the next stage will be for the radio industry to take that research into consideration in their redrafting of the codes.

Senator LUNDY—When are you hoping to complete the review?

Ms Wright—One is always hopeful. I would hope by the end of the year, but I would need to look back through the timetable for you. The way it would work is that we would release the research, they would consider it, they would redraw the code, the code would be advertised, it would go out for public comment—it would need to be out for public comment for at least four to six weeks—and they would then have to consider the responses they get. If they were then able to produce a document for us that reflected those responses and met the criteria which we register codes against, we would consider it at that point. However, it is quite possible that we would then have other issues that we would wish to discuss, so it is a little difficult ahead of—

Senator LUNDY—So it could be 12 months from now?

Ms Wright—Sometimes these codes of practice—depending on the issues that are raised, the issues that come out of research and the dialogue that we have—can take a little time, yes.

Senator LUNDY—Again at the last Senate estimates the ABA said that the adequacy of local news and information programs in regional Australia, other than regional Queensland, New South Wales and Victoria, is under review. How are you proceeding with conducting your review of other regions?

Prof. Flint—As you know, we have imposed conditions on all of the aggregated markets. We are now having research undertaken in relation to the situation concerning local news in the other parts of Australia. This will come before the board so that the board can work out a strategy in relation to that. There are widely different areas. For example, with cities such as Mount Isa, it could be argued that a local news service ought to be provided, but others are so vast it would be unreasonable—for example, remote Western Australia.

Senator LUNDY—Have you identified specific regions that you are investigating and assessed them on their merits, as you say, or are you doing blanket surveys and research across all of those regions, outside the ones I mentioned?

Mr Tanner—Can I just clarify that the ABA commenced an inquiry generally into the issue of local content on regional television services. It made a decision after its initial benchmarking and public consultation that it would concentrate on the mainland aggregated markets, and it has done that. It issued a report in August and has now finalised a condition. What it has left outstanding is all other regional television markets, which is, as the chairman was saying, a fairly diverse collection but in fact includes all other markets other than the five largest Australian cities.

Senator LUNDY—Which is why I am saying it. So you are looking at all of those, or have you grouped them together and perhaps left any out of that research? Are they all going to be covered?

Mr Tanner—I think it is fair to say that the board will be presently considering issues and advice on the best way to proceed with all or some of those areas.

Senator LUNDY—So you do not know yet?

Mr Tanner—Yes, I think that is probably fair to say.

Senator LUNDY—You do not know yet. My understanding of the process is that, once you do that research, the board will then decide on how to proceed and whether to have more specific investigations into identified regions.

Mr Tanner—That is possible; I do not know. There is a wide range of things the board could decide to do.

Senator LUNDY—What is the time line for that next phase of decision making about those outstanding regional reviews?

Mr Tanner—I am hoping to have advice to the board in the next four weeks, I would say, on initial issues about options and how we might proceed. In terms of a time line beyond that, I guess it depends a bit on what course or courses of action the board wishes to pursue.

Prof. Flint—As part of that process I went to a number of places, and Senator Mackay will be delighted to know that that will be included in the list. I went to Mount Isa and I found that there was an interest there in local news, and I have been very interested in pursuing that. But I can see that there are going to be difficulties in relation to trying to draw some sort of common scheme out of this and I think the common scheme applicable to all these areas will be very difficult. We could do it for the aggregated markets but it is going to be hard, but we have to get all the information.

Senator LUNDY—It is hypothetical but would you contemplate recommending regionally specific solutions for local content?

Prof. Flint—I suspect that that is probably the way we will have to go. I do not think that it would be a one size fits all when you get people living in such disparate communities.

Mr Tanner—If you look at the decisions the ABA has made to date, although the condition is fairly generic, the overarching principle is that the ABA has imposed the same condition on all licensees within a particular market but it has also been prepared to impose slightly different conditions on the groups of licensees in different markets. I would suggest that the remaining regional markets are more dissimilar from one another than the four aggregated mainland markets are.

Senator LUNDY—That gives me a bit of an idea of how diverse it can potentially be. Are you able to give a sense of the timing for when you would like to conclude these investigations? Again, hypothetically, do you see yourself carrying out rolling investigations into a whole series of regions over the next few years? What are your thoughts on that?

Prof. Flint—I am keen to have something done because I feel that having gone there and listened to what people have had to say we have to respond. But I can see that there are also going to be difficulties in trying to do something which would be fair to the broadcasters but also fair to the people in these areas. It may well be, as you rightly point out, that we will have to look at regional specific solutions if we can find solutions. For example, there is the problem of *Imparja*, which spreads over a vast area. How could you impose on *Imparja* a requirement that they broadcast local news, without anticipating what the results would be? I could see it would be very difficult for such a broadcaster.

Senator LUNDY—Okay, we will wait with interest. Thank you, that is all I have.

Prof. Flint—Mr Chairman, as a final matter can I draw the attention of the committee—and I think Senator Harradine may be interested in it—to our submission to the review of the act. I thought it had not been published, but it is on the web site of DCITA. I can give a copy to the senator. It does contain our views on the extension of the definition of the content in one specific area and it does contain some information on what we have been doing in relation to chat rooms and other matters that I am sure will be of interest to the senator and which will be relevant to the current review.

CHAIR—Thank you very much, Professor Flint.

Senator HARRADINE—Thank you.

CHAIR—I thank the ABA for appearing.

Proceedings suspended from 9.40 p.m. to 9.53 p.m.

Senator CONROY—I have just been advised of a problem with the recording which requires me to start again. I am sure that thrills nobody.

CHAIR—I understand we started without the hearing being recorded. If you reread your questions, perhaps that will be enough.

Senator CONROY—I apologise for this; we have got to do a take two. We will make sure you give the same answers to the same questions! Is it true that the Melbourne metropolitan

area has been on contingency for most of 2003? Can you indicate for how many days of this year this has been the situation? I think you were taking that on notice.

Mr Rix—We will take that on notice.

Senator CONROY—I said that my information is that of last Friday there were 2,050 faults in metropolitan Melbourne, and that that was above the 1,700 faults. I asked you to confirm that. You said you would take that on notice, but then I think you gave me a figure for today.

Mr Rix—Yes. I gave you the figure for 9 a.m. today. For the Melbourne metropolitan area, there were 1,180.

Senator CONROY—I asked, ‘What is the current customer field work force in the Melbourne metropolitan area?’ I think you took that on notice.

Mr Rix—That is correct; I took that on notice.

Senator CONROY—Then I asked, ‘How many days of overtime have been worked in Melbourne so far this year?’ You took that one on notice.

Mr Rix—Yes.

Senator CONROY—I asked how many days of overtime in general have been worked in Melbourne, and then I asked how frequently Telstra staff worked on Saturdays, Sundays and RDOs, if this was a common occurrence—whether they would be working these days every week or whether it was less frequent than that. In other words, I am asking about the amount of overtime that is being done. Then I asked, ‘Is it correct that Telstra communicates with its work force by SMS to request that they work overtime?’ I quoted one such SMS, from 23 June. It says: ‘Hi team, we require maximum overtime on Saturday on fix and fit tow. Please advise your team leader ASAP, thanks, Mary.’ I also read another one, from last Friday, 23 May. It says, ‘Hi team, if you wish to work your RDO this week, please advise your team leader ASAP. Thanks, Mary FSTS’.

Mr Rix—And I advised that both of those are consistent with the checking of 23 June, which would be last year. If there were 2,000 faults last Friday in Melbourne—

Senator CONROY—There were?

Mr Rix—No. I said if there were 2,000, that process would be consistent.

Senator CONROY—I think that covers everything, Mr Scales, unless you can think of anything I might have missed that I asked.

Mr Scales—I think I might have said that overtime is a normal operating procedure for most organisations, and ours is no exception. I think I also indicated that overtime is a normal part of our enterprise agreement, as negotiated with the unions.

Senator CONROY—Is Visionstream a company that provides contracting services for Telstra in Melbourne?

Mr Rix—Yes. Visionstream provides contracting services. It is part of a contracting work force that we use, and could use, around Australia.

Senator CONROY—So they step in if there is a problem with the number of faults?

Mr Rix—They potentially could, yes.

Senator CONROY—When do you call Visionstream in?

Mr Rix—I can talk generally, but if you want details specifically for Melbourne I would have to take that on notice and find out. Generally we would talk to them in extreme situations. Are you talking about from a fault perspective here, for contingency?

Senator CONROY—Just to help me out there, what else would you bring Visionstream in for other than for contingency? But please keep going about contingency.

Mr Rix—We certainly look at contingency from a contracting perspective. I do not know why else they would use Visionstream in Melbourne, but it could be that Visionstream are doing some work on a daily basis for them, which could be part of their program of work that they do. I could take that on notice and check it out.

Senator CONROY—Perhaps you could find out whether any other work is being done by Visionstream and what the conditions would be where you call them in on a normal basis, if there is such a thing as a normal basis for calling in an outside work force. Are you aware that Visionstream are advertising for installers and fault repair technicians in the weekend newspapers?

Mr Rix—No, I am not aware of that.

Senator CONROY—I guess that we can probably take up most of these issues again tomorrow morning.

Mr Rix—Yes, that is fine. Visionstream has been a contracting partner at Telstra now for many years. We use a number of contractors around Australia when required. They are part of our corporate-sourcing processes for bringing in the use of flexible labour when required or the use of additional labour when we believe it is the most appropriate way in which to serve our customers. But I can take on notice the question specifically about the use of Visionstream in Melbourne.

Senator CONROY—Thank you.

Mr Rix—I do have an answer to an earlier question. At 5 p.m. on Friday in Melbourne, there were 1,523 faults.

Senator CONROY—Is that inconsistent with them sending out calls for overtime?

Mr Rix—No, I do not think so. I do not think it means that they would want to use everybody. As I said before, certainly Telstra look for volunteers, and in asking for volunteers for overtime the process that you read out is consistent.

Senator CONROY—So it would not be inconsistent, if you are not above contingency, to send out a call for overtime?

Mr Rix—No, not at all. Our first priority is to serve the customer with regard to this, and it is not inconsistent for our customers to require services on the weekend. As you would be aware, we have a number of programs that would include priority assistance for customers with life-threatening medical conditions which we try to respond to quite quickly. We also potentially have carryover work during the week where, for one reason or another, we could not complete the work—for example, for a health and safety reason or another reason—and

we have made a further appointment on the weekend. A third of those would be for the reason that a customer was not able to be home and make an appointment or a commitment during the week and had requested a weekend.

Senator CONROY—How many job cuts will there be this financial year and next financial year in the Melbourne metro area?

Mr Rix—I am not aware of that number at the moment.

Senator CONROY—I am happy for you to take that on notice and come back to me tomorrow.

Mr Rix—I could take it on notice, but I doubt that I would have an answer tomorrow. We are still in the business planning cycle and going through the budget rounds at the moment for the sign-off of budgets. There is no fixed number that our regions are asked to find from a headcount reduction perspective. There are certainly reductions based on our overall spend. There are many ways in which we would look to make those reductions. It would not be all through headcount. Part of it certainly would be, but overall there would be use of labour which would be from a contracting perspective, if required for peak load. There would be casual labour, which we would use for our casual work force inside of Telstra, and our part-time work force—inside Telstra we would use that as well—and there would also be the use of other discretionary spend. So I do not have a number overall for a reduction in Melbourne, and I would not be able to get one by tomorrow morning.

Senator CONROY—Given how busy they seem to be, you would not be expecting there to be cuts, would you?

Mr Scales—I think what Mr Rix is trying to indicate is that we do not have any numbers for next year.

Senator CONROY—What about so far? I did say this year and next.

Mr Scales—We can give you where we are this year, but what we cannot do is provide you with information for next year. Mr Rix does not want to mislead you, and he is just trying to give you a response.

Senator CONROY—I was not suggesting that he was. If you can give me that figure tomorrow, that would be good.

Mr Rix—Just to be clear, that is the figure of reduction for Melbourne metro this year?

Senator CONROY—So far this year. I think Mr Scales said that would be possible to do.

Mr Rix—I am not sure if I can get that tomorrow, but I will certainly attempt to.

Mr Scales—If we cannot get it, we will put the question on notice.

Senator CONROY—Thanks.

Mr Scales—The only point I would make about Visionstream is that I think the impression might have been given that Visionstream only works for us. It works for a number of companies in the industry of course, and we are only one of those. It provides a range of services to almost all of the other larger—and even some of the smaller—telecommunications companies.

Senator CONROY—Will you take that on notice, Mr Rix, and try to get the information for tomorrow morning—that is, how many times you have called them in?

Mr Rix—That is Visionstream?

Senator CONROY—Yes.

Mr Rix—Yes, I will look for the nature of work that Visionstream performed for us in Melbourne.

Senator LUNDY—I thought I would take the opportunity now to go back to the pair gain issue. I would like to start with an update on the Gungahlin MiniMux trial. Telstra conceded that some 60 per cent of the Gungahlin RIM boxes are physically too small to hold MiniMuxs. It is unclear to me what the implications of this are around Australia with respect to the MiniMux trial. Perhaps you could explain that. I think you also said that a MiniMux trial was being undertaken in Townsville.

Mr Scales—I am going to ask Mr Mullane to cover this issue on both counts: the question of where we are with Gungahlin and also the implications for the MiniMuxs.

Senator LUNDY—Thank you, Mr Scales.

Mr Mullane—In respect of the 60 per cent figure across the rest of Australia, we have looked at the situation with RIM cabinets right across the country. Cabinets that could accommodate a MiniMux today would be about 85 per cent of all cabinets—in other words, much higher than the Gungahlin situation.

Senator LUNDY—So 85 per cent can fit a MiniMux.

Mr Mullane—Could accommodate a MiniMux panel.

Senator LUNDY—So why is Gungahlin different?

Mr Mullane—It is probably atypical because of two or possibly three factors. One is that there is a large concentration of RIMs in a fairly dense urban area and RIMs are not always in such a situation as they are in Gungahlin. There are in some other situations like that, but it is not the norm for RIMs in every situation across Australia. The age of the RIMs in Gungahlin or the age of the community there has led to quite a percentage of those RIMs, if you like, being more fully equipped with PSDN and ISDN equipment than a lot of other—

Senator LUNDY—So they are full?

Mr Mullane—Yes. Because of the growth situation over the lifetime of the installations from the earlier days of Gungahlin, some of those cabinets are fuller than others. In fact, some have had to be duplicated with subsequent cabinets, so the ones that are full cannot accommodate MiniMux. There was a third reason, which I have forgotten for the moment. Gungahlin is somewhat atypical, but there is scope for MiniMux that has to be assessed in every situation. Having said that, there are probably seven different ways we could provide broadband to a RIM situation. Let me try and list them quickly: we could use existing copper where such exists; we could run some new copper from where we have an existing DSLAM within the distance range; we could outpost a DSLAM to the RIM—that is the MiniMux type solution—with today's technology; we could utilise a CMUX-AU, which is the RIM replacement to place that out perhaps adjacent to a RIM and use the ADSL capability of that

box to run DSL on the copper; we could look at the economics of installing a centralised DSLAM within a population of RIM such as you might have in Gungahlin and then running some copper from a centralised point to the RIMs that are—

Senator LUNDY—Is that like a new exchange?

Mr Mullane—It does not have to be a new exchange, just a centralised DSLAM.

Senator LUNDY—So how would it access the copper on the existing RIMs?

Mr Mullane—You would have to run some new copper from the centralised DSLAM to the RIMs that you could not accommodate with a MiniMux. So that is another solution. We have ISDN, which does offer lots of capability to customers that we mentioned earlier this evening. Lastly, in some situations there is the existence of hybrid fibre coax service in those area as well. So there is a range of solutions. Telstra's approach to provide broadband in any situation where we have RIM—or, indeed, any other pair gain system—will depend on looking at the most appropriate solution out of all that mix, coupled with the fact that we have to have an appropriate level of aggregate demand to make that an economic proposition.

Senator LUNDY—Through my campaign I have obviously had feedback from many different regions, including other fast-growing outer metropolitan zones that look very much like Gungahlin in that they have been populated quite rapidly in recent times. The use of RIM seems to have been Telstra's favourite approach for those fast growth estate type developments, particularly where, like in Gungahlin over the last few years, a developer is engaged by the local authorities to effectively develop the land and sell the blocks et cetera. What makes it possible for you to make assumptions that Gungahlin is different?

Mr Mullane—I did not say it was different; I just said it was atypical compared to the whole population of RIMs.

Senator LUNDY—But do you concede that those rapid growth outer metropolitan areas are likely to have the same densities of RIMs and the same capacity issues—that is, almost maximum capacity?

Mr Mullane—I could list several others that would be similar to Gungahlin. It is probably one of the areas with the highest number of RIMs—not quite the highest but it is up at the top of the list.

Senator LUNDY—Have you done a survey of the areas that are most affected by RIMs that come into this category?

Mr Mullane—We are very familiar with it, yes.

Senator LUNDY—Can you tell me what areas they are?

Mr Mullane—I can give you a couple of examples off the top of my head, but—

Senator LUNDY—Could you take it on notice to provide me with all of the areas?

Mr Mullane—Let me put it this way: where do you draw the line? I could give you a list of every RIM in Australia, but there are a lot of them.

Senator LUNDY—Give me your top 20 locations. We will start with that.

Mr Mullane—I can give you a list of the top 20.

Senator LUNDY—Can you give me a few examples now?

Mr Mullane—The exchange with the largest number of RIMs in Australia is Castle Hill in north-western Sydney. Some other examples are Townsville, Miller near Liverpool in Sydney, Deer Park in Melbourne, Narre Warren in Melbourne. Anyway, we will get you a list of the top 20.

Senator LUNDY—Gungahlin and Townsville had the MiniMux trial—

Mr Mullane—And Kellyville and Castle Hill.

Senator LUNDY—And Kellyville and Castle Hill.

Mr Mullane—In fact, we had four MiniMuxs in the trial situation in Gungahlin. We commissioned three further MiniMuxs last week: two each on the Gulliver exchange in Townsville and one on the Kirwan exchange. We are commissioning two on the Castle Hill exchange this week and a third on the Kellyville exchange this week.

Senator LUNDY—So after you do the Kellyville one how many trials will be occurring?

Mr Mullane—That is it. That is the trial population we had always intended it to be—10. The initial part of the trial was whether this technology operates satisfactorily and provides the service that we want for customers. But the larger part of the technology is getting the operational processes around a new device in the field such that we can provision and maintain services and that there is no aberration in the normal things that the customer gets from Telstra. We will be at that point, I would say, towards the end of June, which is what we had really targeted.

Senator LUNDY—I do not know if you can organise it this evening, but can you organise a table with those exchanges that you nominated, the regions where they are located and the number of MiniMuxs you are putting in?

Mr Mullane—You mean those 10?

Senator LUNDY—Yes.

Mr Mullane—Yes, I can give that to you quite quickly.

Senator LUNDY—I was not able to write them all down as you spoke, but if you can bring it in the morning that will be fine.

Mr Mullane—The four in Gungahlin are connected to Crace exchange. There are two further connecting to Gulliver exchange, one to Kirwan, two to Castle Hill and one to Kellyville.

Senator LUNDY—The relative success of those MiniMux trials is still contingent upon space being found in the RIMs, so what are your plans post pilot?

Mr Mullane—The space is not a factor in the trial: either you can or you cannot due to the space factor. If you have space, then that is a trial, and we have space in the cabinets at those 10 locations. We cannot do the trial without the space being there. As to what our plans are beyond that, assuming that all our operational practices are smooth, and we have that in place for both Wholesale and Retail customers so that we can do business on both sides of the company, we will proceed to a commercial deployment during 2003-04. We are already

looking at the next prospective sites beyond these 10 and, should we elect to proceed, they will become a standard building block of Telstra's infrastructure.

I would say, though, that it is not in any sense a universal solution. All those other solutions I mentioned earlier form an equal part of it. In each area we need to assess the most appropriate arrangement for providing the service in a technical sense, and that does vary from area to area—we have already done quite a lot of this work, by the way—and that has to be coupled with a suitable level of customer demand. Earlier I mentioned the broadband demand register, and that will be a two-phase development. The first phase will identify customer demand by exchange area and the second phase is destined to take that demand level down to RIM level, so we will have an accurate picture that will certainly guide our decisions. In the meantime we have our own early manual version of that, if you like, based on customer inquiries for broadband.

Senator LUNDY—Word of mouth.

Mr Mullane—No, we get fairly accurate information.

Senator LUNDY—You have described a situation where you have a multitude of solutions that will vary from region to region, depending on what is already in place, depending on demand—depending on a range of factors. One of the things that comes up again and again from a customer's perspective is that they just do not know their circumstance and find it extremely difficult to find out. What work has Telstra done in publishing the information about exchanges on its web site? So instead of just typing in their number and getting told yes or no on the basis of their exchange, what are you doing to increase the sophistication of the self-inquiry about ADSL availability? Given that over the last few months you have been able to provide the Senate committee with quite detailed information about the capacity of individual exchanges in the network, what are you doing about getting that higher level of information onto your web site, for example, so that customers can access it and can start answering pretty fundamental questions such as: am I on a pair gain, what equipment is in my exchange and what sort of broadband service am I able to get as a result of that? If the answers are no, no and no, what else can I do?

Mr Mullane—I think it is a complex situation. The answer is that there are many factors, other than some of the things that we have spoken about here tonight. You have to have an available port. We do not recommend connecting DSL to a prime number where you have a business rotary line group, because if the prime number has a fault on it associated with the DSL service you take the whole telephone service off the air for the company while you are testing or working on that link. There are complexities around this. For example, we introduced two important new policies, one in about March which was on customer requests for DSL where they are connected using an ANT1 pair gain system. We remove that device now—

Senator LUNDY—I was going to come to that.

Mr Mullane—providing all those other conditions are in place—that is, the customer is in an enabled exchange area, they are within the distance limit and there are no other incompatible products on the line. In the last three weeks we have introduced a transposition policy, so we are utilising spare copper. We had previously not been able to do that. That is

going to make a big difference. So, where we have a customer on a pair gain system and they are desirous of either ADSL or ISDN service that requires a copper path and all of those other factors are in place—that is, the exchange is enabled, they are within the distance limit, there are no incompatible products et cetera and there is spare copper available, so it is sitting there in the ground—we will transpose the customer off the pair gain system onto the copper.

Senator LUNDY—Didn't you do that anyway?

Mr Mullane—No, not really.

Senator LUNDY—Why not?

Mr Mullane—Because it was not the policy—sorry, not the policy; the processes of the company were not set up to do it.

Senator LUNDY—I think you meant to say the policy.

Mr Mullane—No, I meant to say the processes. It was quite a task to change the process.

Senator LUNDY—If someone rang and requested ADSL and if you had exchange capacity and they fitted all the criteria but they happened to be on a pair gain, are you telling me that you did not give them the normal copper?

Mr Mullane—We could not.

Senator LUNDY—Why not?

Mr Mullane—Because the processes would not support it.

Senator LUNDY—Couldn't you just remove the pair gain and install some new copper?

Mr Mullane—We had spent the last several months redesigning the process to do just that.

Senator LUNDY—What you mean by process?

Mr Mullane—We are talking about big volumes here.

Senator LUNDY—Is it a software thing or is it that someone has to physically go out and roll out a bit of copper?

Mr Mullane—It is a combination of both. You have to be able to ascertain that there is copper available, so it is a systems rider thing. You then have to do the service qualification to check that the copper that is available does fit the criteria required for the service. Then you have to go back to the customer and see if they still want to proceed. Then you have to initiate an order for the transposition. When that is done—

Senator LUNDY—That does not sound too hard. Is that process too difficult for Telstra to manage?

Mr Mullane—We should invite you to come into our work centres and have a look at it.

Senator LUNDY—I have seen them. They are amazingly efficient. There is a lot of quite impressive software and you can do a lot from computers, I have found out, when it comes to servicing those networks.

Mr Scales—I think what we are trying to explain here is that, as you know, we are moving through a process where demand for particular products is changing over time. What the

company is trying to do is adjust its processes to meet increasing demand. That is what we are trying to do here.

Senator LUNDY—Yes, I do appreciate that. I did not think I would end up asking these questions because I presumed that, where there was capacity to do that, you got a request and all of those preconditions were in place and of course Telstra would proceed with that connection. What I am hearing is that that is only a recent innovation.

Mr Mullane—Let me put it this way. One of the big things that we had to be very precise about was that we undertook that same process for both Wholesale and Retail applications. That, to be honest, was the thing that took most of the time—we had to produce that process in the fullness of time.

Senator LUNDY—You had better step me through that. Why is it so different?

Mr Mullane—It is not rocket science. It is a simple change, as you have indicated, to the observer, but—

Senator LUNDY—So the issues were about wholesale and resale?

Mr Mullane—Wholesale and Retail.

Senator LUNDY—But it is the same physical thing that has to change?

Mr Mullane—But we have different front-of-house processes for each part of the business, because it operates differently. The actual transposition work and the service qualification et cetera are exactly the same for both sets of orders coming from the different fronts-of-house. So—

Senator LUNDY—So, whether it is a Wholesale or a Retail order, you have to make that port available and put in that ADSL connection?

Mr Mullane—Absolutely. It is the same issue with ports, cable pairs, enabled exchanges and the whole thing.

Senator LUNDY—So why did the Wholesale aspect of it make it tricky?

Mr Mullane—It did not make it tricky. We just had to be very precise with our information and our design of the processes. It had to be foolproof and failsafe. We are dealing with multiple major IT systems and multiple work processes in front-of-house and back-of-house and it just takes time. We have had a limited volume version of this process running for some months—off the top of my head, probably since February or March. That gave us some of the learning we needed to automate that. So we are now doing serious volumes.

Senator LUNDY—Going back to the issue of the ANT1 replacement, a Whirlpool news bulletin says:

The new offer appears to build on Telstra's February offer to convert customers' ANT-1 units to true copper services.

It goes on to say:

... an existing, spare copper line would have to be available in the customer's street, and normal ADSL qualification procedures would still be enforced ...

Describe for me what the process would be if a customer rang up, wanted ADSL, and found they were on a pair gain. What additional time would they have to wait for that connection to be installed?

Mr Mullane—If it results in the transposition being undertaken, in our experience in the three weeks of volume work we have had it is taking just over seven days to undertake the transposition. That may blow out as the volumes increase, but that has been the experience to date. So there is some extra time, for a start, which is not surprising, because there is extra work involved. Apart from that there is not much difference to the customer. It is also important to say that everyone that hits a pair gain will not find a transposition available. We expect only about 20 per cent or so will find spare copper. But that is a lot better than none.

Mr Scales—What we are also trying to do here is be relatively precise about where there are customers where we may have a system where there is excess copper or copper that is not being used so we know that we will be able to give them the data speeds that they want under these arrangements. We are trying to be as targeted as we possibly can in this whole process.

Mr Mullane—Provided that ANTI is within the distance limit and the exchange is enabled, then the copper is there. What ANTI entails is removing the ANTI device, converting back to a single PSTN service on the copper pair and then enabling DSL on top of that. That is a three-stage process, so it is a bit more complicated than just a straightforward DSL on top of an existing PSTN service.

Senator LUNDY—What is the average waiting time for customers who request and are eligible for an ADSL service who currently have an ANTI service?

Mr Mullane—I think the current go-to-whoa time frames are about 20 days, but I can check that fairly easily. I have the current figure in my bag.

Senator LUNDY—For both of those processes, what difference is there in time taken if the request comes from Telstra Wholesale and presumably is a request on behalf of an ADSL reseller?

Mr Mullane—I think Wholesale can often be quicker, because they have a fairly streamlined entry point into Telstra.

Senator LUNDY—For the ANTI replacement process as well?

Mr Mullane—My understanding is that it would be pretty similar.

Senator LUNDY—I have heard of the odd complaint about customers requesting an ADSL line and being knocked back, being told the line is not able to support that service. Then the person applied through Telstra BigPond—obviously a retail service—and was able to get the service. It was reported on whirlpool.net.au on 7 May that an iiNet customer was denied ADSL ostensibly because of a faulty line, but was subsequently connected when applying under Telstra BigPond. I think at the time Telstra's defence was human error. Perhaps you could step me through what happened with that example. I am sure you can appreciate that it breeds suspicion in the minds of customers and competitors alike if they think you are playing games and effectively discriminating against Wholesale customers and resellers of ADSL in favour of Telstra's neat little vertical with BigPond.

Mr Mullane—I certainly understand the concern there. I do have some details of this particular case. It was my understanding that the customer had originally applied with iiNet sometime in the latter part of 2002. They were beyond the distance limit and failed the service qualification process, and were advised that service was unavailable. They applied again through BigPond in January and once again the service qualification process rejected the application on the grounds of excess distance—it was beyond the limit. The person applied again to BigPond in April and the front-of-house operator, from my understanding, was a pretty new person to the job. Even though the service qualification failed, there was an opportunity to send it for a manual service qualification check by the back-of-house people. That is the normal process when it is a borderline case.

In the first stage of providing DSL we used to do it as a ‘red or green and nothing in between’ thing, but where it is close to the limit we decided that it is worth getting the experts in back-of-house to check it fully to make sure that there are no errors in any aspect of the record. That is what has been happening. I guess this new person sent the service call through as a manual request. Back-of-house did a service qual and it failed again. They sent a failure message back to the operator. Somehow the new operator inadvertently set the computer record to ‘pass SQ’ which they should not have done; it was a mistake. That caused the automated ordering process to run, and our system dispatched the order.

But we still have not got to the end of the road. It then goes off to our automated plant allocation system, which allocates the ports and does another service qual check, and it was rejected again. This is at back-of-house. So the back-of-house operator then sees this order and, because it had come through this particular email queue from front-of-house with a sort of manual SQ request on it, assumes there is some reason why this one needed to be passed. They spoke to the supervisor at back-of-house because only the supervisor has the power to override the SQ fail. The supervisor obviously did not think it through deeply enough, and passed it. Consequently the service was connected—and it should not have been.

Senator LUNDY—Going back to the point at which there was discretion, I thought it was a technical limitation.

Mr Mullane—The technical limitation is a distance limit that is calculated on the basis of the cable records. It is not an electrical test; it is a calculation by a computer system of the transmission loss, which is set at a limit of 49 decibels. That limit is set because of issues around the level and quality of voice calls. It is not to do with the performance of the DSL circuit itself. The reason for the voice call limit is that when a DSL service is provided there is a splitter at the exchange end and some tie cable, and filters or a splitter at the customer end, so there is additional loss inserted into the line. If you have a customer on a long line and you insert this additional loss, whilst the DSL will still generally operate okay, the probability of receiving or making faint calls increases. As the penetration of DSL permeates through the network, this poses degraded network voice standards, so we have to be very careful with this. That is the background.

Senator LUNDY—Was that the iiNet customer?

Mr Mullane—Yes.

Senator LUNDY—Have you had any other issues like that crop up, or would you only find out about it if there was a story on Whirlpool?

Mr Mullane—In my 2½ years associated with DSL—and I have been there from the start—I have heard one or two comments from Telstra Wholesale staff. On every occasion—the two or three occasions—I have said, ‘Get me the details and we will check it out.’ That is the only one that has ever come to my attention. That is in a sample of more than 200,000 connected services. So it is a very unusual case.

Senator LUNDY—With respect to the wholesale provisioning of DSL ports in exchanges to allow a reseller to connect the service, are you required by regulation to provision them within a certain time?

Mr Mullane—Not by regulation, no.

Senator LUNDY—Are you required to provision in a set time under any guidelines—

Mr Mullane—Like CSG time frames or—

Senator LUNDY—code of practice, agreement, contractual arrangement?

Mr Mullane—Not that I am aware of. We do have our internal targets, but it is a very complex business. These are hugely complicated services in many respects, and they depend on other services, so it is one of those areas that is difficult to put hard codes on. We can certainly have targets and that is what we do.

Senator LUNDY—Hang on! To put a finer point on it, the time lag between the provisioning of DSL ports to competitors is very meaningful for them because it relates to their quality of service and they do not have control of that timing. It seems to be a question of competitive advantage, if only Telstra know what those time frames will be and there is no maximum time frame or code that is supposed to give resellers guidance.

Mr Scales—From a wholesale perspective—and we have discussed this at other senate estimates—we are very keen to make sure our wholesale business works well with our wholesale customers. It is an important part of our business and it is in our interests to make sure that we do not discriminate between our resale and our wholesale customers. We can understand the point that you are making that there is a degree of concern and we are always talking to regulators around this issue, because they are concerned as well.

Senator LUNDY—So is it transparent? Can you bring up your work schedules showing the average time it takes to provision a DSL port for a competitor as opposed to yourselves?

Mr Scales—The answer is: yes, we can. Just answering your other question about whether this control is by contract or by some form of CSG, it is generally controlled by a contract or relations between us and our wholesale customer. By the principle of wholesaling, not every customer is the same, so we have different sets of arrangements with different wholesale customers which include issues around how we might provision time, how we might record that and so on. I do need to assure you that it is important for us to keep a clear distinction between our wholesale and Retail customers and to make sure that our wholesale customers feel confident that they can deal with us in that wholesale market. We are not the only ones operating in that area. Our competitors, as you know, are operating very effectively in that market.

Mr Mullane—I would like to emphasise that the Wholesale and the Retail front of house areas are totally separate. The back of house is the only place which is common and an order is an order. They get Retail and Wholesale streaming through all day every day. For example, if there is a shortage of ports in a particular exchange, that impacts both Retail and Wholesale and Telstra is then dependent on our suppliers to supply those ports. Of course, we are trying to get them supplied in a step function before the demand gets to it. Most of the time we succeed, but occasionally there is a hiccup in that area. That can look like a delay to the wholesaler, but I can assure you it is an equal delay to the Retailer.

Senator LUNDY—I got sidetracked onto ADSL, so I just want to go back to pair gains for a little while. Telstra has previously stated that to replace pair gain systems on an ad hoc basis would be anticompetitive. That was used as an argument against the replacement of pair gains. What has changed?

Mr Scales—I am just trying to go through the issue in my mind as to how it would be anticompetitive.

Senator LUNDY—I could not work it out either.

Mr Pinel—It would be anticompetitive if we were to do it for our retail customers but not for our wholesale customers. That would be the anticompetitive element in it.

Mr Mullane—Or vice versa.

Senator LUNDY—I figured that, because you have got that local loop in the ADSL ports in the exchange, if you did it for yourselves you would be doing it for your resellers anyway.

Mr Scales—Maybe to answer your question about what has changed, what has changed in this process is that we have begun, as everyone has, to understand both the strengths and weaknesses of pair gain systems in a new market. We know that for some of the demands of our customers pair gains are exactly what is needed and that in other cases they are not. To use a bit of the jargon, we are setting about having a degree of mass approach to this while at the same time maximising our ability to be able to meet our customers' demands. So it is mass customisation, I suppose. That is probably what has changed in this whole process.

Mr Mullane—I think you talked about the replacement of pair gains. We are not replacing pair gains here; we are bypassing them with the existing copper, by and large, or we are removing the ANTI to access the copper underpinning it. If we had a similar situation for a 2DPGS system, we would do the same.

Senator LUNDY—But there are also some pretty old pair gain systems, and I know that as they reach capacity and can no longer provide a service you are replacing them.

Mr Mullane—We might replace them, if it were about additional capacity, or we might put some additional copper in the street and anybody that required the next service would go on the copper, or if we had somebody on the two- or four-channel system or the RAM 8 who wanted a DSL or an ISDN service or had complained to the IAP about having a dial-up speed of less than 19.2 kbps then they would go on the copper too. It is not always about replacing; it is about augmenting and sometimes replacing.

Senator LUNDY—That is a fair point.

Mr Scales—Maybe what was said was that we would be non-competitive rather than anticompetitive. If we, for example—and we think that the numbers are something like about \$2 billion to replace the relatively simple pair gains—

Senator LUNDY—I do not think it had anything to do with the costs of the investment. My recollection is that the comment was made in the context of saying, ‘That means we could replace them for our retail services, but who else would get access to those?’ The point I am trying to make of course is that, whatever reasons Telstra were using previously not to touch their pair gains, they are no longer using those reasons. You seem to be making a case that you are doing a lot to try and mitigate some of the more deleterious effects of pair gains.

Mr Mullane—The difference is that we were not doing it for either before and now we are doing it for both. That is the difference.

Mr Scales—We are also trying to make sure that we are not driven by technology. We are driven by what is in fact the customer demand and our ability to meet that customer demand. That is why to some extent, even in the discussions over the last few hours, we have been trying to make the point that we will use a number of technologies to drive broadband.

Senator LUNDY—I am so tempted to get sidetracked and ask what role Telstra has in driving demand. I would argue that price has a lot to do with that and that maybe that is why more people are not taking up ADSL. But I will resist the temptation and not go there.

Mr Pinel—I would look at the Launceston experience on that one and say that there are indicators—

Senator LUNDY—But there were other reasons for that, weren’t there?

Mr Pinel—We can explore that too, if you like.

Senator LUNDY—Shall we talk about the lack of a marketing campaign, the poor promotion and the lack of engagement with local industry?

Mr Pinel—Certainly the price lever did not result there in the sort of take-up rates that—

Senator LUNDY—Mr Pinel, you are really inviting me to start dissecting some of the significant flaws in the early promotion of that program. In the interests of time, I was going to resist from going there this evening.

Mr Pinel—I appreciate your restraint.

Senator LUNDY—Good. Let us move on. You have described a process that is response to customer demand as ad hoc, so you have this perpetual and relatively demanding process of augmentation of the copper network and the CAN. I cannot help but wonder how on earth you are going to achieve that at the same time that you are actually cutting back the human resources needed to embark upon such a significant program—if it is indeed significant. I presume it will become more and more significant as the demand does grow and people start to discover offers like that which you have put on the table now—the 5 May one—which is: if you are eligible and we can replace the copper we will do it. Can you respond to that, Mr Scales, about whether or not there is any relationship between your plan to replace pair gains and your staff cuts on the ground?

Mr Scales—I might ask Mr Rix to come in here, but there are a number of reasons why it is that we are able to do that. First of all, we are doing things differently. The technology does not stand still, nor does productivity stand still, so we are able to do more with less. And that certainly does enable us to meet the sorts of demands that you are talking about. Secondly, by trying to tailor to suit particular customer needs, we are able—particularly around campaigns like the ones we are talking about—to do what Mr Rix was talking about a little earlier and that is to use the full resources that are available to us, not only those that are inside the company but also contractors from time to time, to enhance our own work force. So there are a number of strategies which we might use that enable us to do exactly as you have suggested.

Mr Rix—The question of the expansion of new forms of technology and the type of access that is required to meet those is actually an excellent question for the whole of telecommunications going forward. It becomes a dilemma for the whole industry. One of the things that Telstra is doing this area is making sure that it tailors its investment—and over a long period of time we have a really good record of investing in the access network. We have talked about numbers up to \$900 million, year on year. Over time we are trying to get smarter in the way that we invest, and that is to maintain the copper network or the narrowband network and at the same time grow in areas like broadband. I have quoted numbers—I think on Monday a week ago—in regard to our investment in the broadband network and at the same time in maintenance. We are also moving down the path of an area service management approach. To do that, we are looking at bringing a multitude of work forces together under single management. That would be with the inclusion of areas like NDC, which you would be aware we have brought back into the organisation; our network services group, which predominantly does main cable and reticulation growth area within our narrowband network, including main cables and junction cables as well as distribution cables; and our service work force. These types of things under single management will give us the flexibility in the future to look at both maintaining our service standards and our performance and, at the same time, mixing that with where we need to grow in appropriate areas. Today we have talked a fair bit about the other trials that are going on, particularly with regard to data and access and the use of minMUXs in our RIMs. These are the types of things that—

Senator LUNDY—I am sorry to interrupt, Mr Rix. Thank you for that, because obviously you are looking at how you are managing your employees and contractors to try and do it, but what we are talking about here is more physical work being done on the CAN.

Mr Scales—For example, there are issues around self-installing—a means by which we are able to do some of these things without having people going out into people's premises—but, in addition to that, one size does not fit all in terms of staff and staff numbers. Mr Stirzaker might want to give you a bit of a run-down on some of the things which we are doing, which may go to the heart of some of the points you are raising.

Senator LUNDY—Would you make it quick because I would like to get through a little bit more before we close tonight.

Mr Stirzaker—The back of house and front of house operations are the part of the business I am responsible for, on the retail side. To meet demand like ADSL—this also applies to ISDN—which is complicated from a process perspective, we do put resource on. We do grow the number of people who are engaged in doing that work. And that is what has

happened. What we then do—I know that you have seen some of those terrific computing systems that you referred to before—is to get started on the process of simplifying it, stripping out redundant parts of the process and doing some actual IT type work to streamline the whole thing. Then, as we can, we will contract the resources employed. The message is that we have grown resources and jobs to do this work, but as a natural part of the business we will then streamline it. I would suggest that similar principles apply equally out in the field. If the work has to be done as a part of supporting growth, that is exactly what we go and do. But then we will constantly look for better ways of doing it.

Senator LUNDY—Following the ACCC's investigation into pair gains, Telstra has agreed to tell customers if ADSL is unavailable because of a pair gain. Is that correct?

Mr Stirzaker—That is correct.

Senator LUNDY—So why do I keep getting complaints that customers are not told that pair gains are blocking their ADSL access until they themselves ask? They get the run-around or get knocked back and then they go back and ask. Could there be a problem in your system that prevents that policy from being implemented?

Mr Mullane—My response would be that it is not until you undertake the full service qualification that the full extent of what the line situation might be is apparent. By just applying on the web site they will not find out the detail; they will need to get an operator to do a full service qualification before they will get that information. By and large, they should get it. If they are not getting it, let us know of a few examples and we can follow it through.

Senator LUNDY—So it is a front of house, back of house connection or communication problem?

Mr Stirzaker—It is, but we are transitioning. As Dennis said, our service qualification categories were either yes or no, red or green, with nothing in between. In line with the policy changes, we have now got what we call internally a 'maybe' category. I am surprised by the complaints, to be perfectly honest. The work that is going in with both the front of house and the back of house processes—which are complex at this point in time—is to hunt down as many as possible of those maybe categories, because we do want to grow broadband sales and we are growing them. I would hope it is a transitional phase as we work and take the wrinkles out of the process and teach everyone all the things that they need to learn. As Dennis explained before, there was an example—the only one that he is across—where it was not as perfect as we would like. But we will certainly make it a lot better.

Senator LUNDY—I will continue to monitor that. It does not seem to be working well at this stage. There does seem to be a communication problem still.

Mr Stirzaker—I personally—and from Dennis's offer I know he feels the same—would certainly like to have a look at any specific examples.

Mr Mullane—I was at Ballarat last week. They have set up a small number of operators who can handle the more complex situations. They can take an inquiry that is referred from somebody who is perhaps not quite so experienced with some of these more complicated ones and deal with it. They are doing a great little job and I am sure their workplace is going to grow.

Senator LUNDY—I just want to go back to that issue about anticompetitiveness. I have managed to have the reference sent up to me. It was an answer to a question on notice, No. 46. I asked about the fact that a number of constituents had claimed that Telstra had refused to upgrade a pair system because it was anticompetitive. I asked for confirmation and the reasoning. The answer was:

Telstra is moving towards a new business rule that will allow consideration of carrying out small network build activity and finding alternative pathways so that more customers can access high speed Internet which will also apply to Wholesale customers.

And that is what you have been through. The answer continues:

Prior to the business rule change, there was a Telstra policy that no conversions to copper or network build activity were to take place, as Telstra did not want to engage in one-off activities that would have the effect of advantaging one customer (or set of customers) at the expense of others. If Telstra had engaged in these activities on an ad hoc basis, it may have led to situations where Wholesale customers could have claimed that Telstra was acting in an anti-competitive manner.

That was the response, but it does make the point that it was the policy of Telstra not to upgrade customers previously, even if they requested that.

Mr Scales—Yes, but I think, if I am hearing you correctly, it is because we were concerned about ourselves being anticompetitive.

Senator LUNDY—Yes, that is right.

Mr Scales—What we tried to do is address that by saying, ‘Let’s find ways by which we can extend the opportunities to open this market up on both a retail and a wholesale basis.’

Senator LUNDY—Yes, I understand that. I just make the point that it was a policy decision not to upgrade customers previously until you finally got your head around the problem and started to look at the wholesale issues as well. I have a quick question about ADSL upgrades and exchanges. I am referring to a situation outside Toowoomba at Hodgson Vale. ADSL was originally advertised for roll-out there in March. It was put back to April, then to May and then it was dropped altogether, much to the frustration of potential ADSL customers. Can you explain what happened there? Does that kind of scenario where you advertise but then change your decision about ADSL—

Mr Mullane—What was the name of the place? Was it Hodgson Vale?

Senator LUNDY—It is Hodgson Vale, outside Toowoomba.

Mr Scales—I think we are probably going to have to get you that information on notice.

Senator LUNDY—I am happy for you to take that on notice. I would like to know the reason for the delays and the eventual postponement of the upgrade. An answer to a question on notice indicates that Telstra Wholesale discriminates against ADSL customers living outside metropolitan areas and those living beyond 165 kilometres from their state capital. Can you tell me how much ADSL customers in each zone have to pay?

Dr Paterson—I would need to take on notice what the differential is. I do not know off the top of my head. There is some differential between metropolitan and regional prices for wholesale services.

Senator LUNDY—Why?

Dr Paterson—Because of the costs involved. The way the service is provided is that the traffic is routed back to the capital city in each state. Hence, there is an additional haulage cost from the regions.

Senator LUNDY—But there is more copper or fibre to go across for a longer distance. I do not understand. It is pretty arbitrary, the old metropolitan and regional cost structure, isn't it? Didn't we go through this?

Dr Paterson—We talked about this in relation to Queanbeyan last time, you might recall.

Senator LUNDY—Yes. Is it \$15 a month?

Dr Paterson—The differential? I do not know. I would need to check it. We can find that out quickly.

Senator LUNDY—Does anyone here know ADSL pricing structures?

Mr Scales—We will get the details for you.

Mr Rix—It is probably better if we take that on notice.

Mr Pinel—I think there are three different ones there. There is a metro and two non-metro bands.

Senator LUNDY—Yes, I think that is right. I think the last one is the 165 kilometres. I have one more question for Dr Paterson, which relates to an article in the *Australian Financial Review* of last Friday. You were quoted as saying:

Regulatory director Paul Paterson said while Telstra believed the recently implemented regulations—
and this is relating to the new accountancy transparency—

would prove wholesale customers were treated fairly, requiring the company to provide greater transparency was very expensive.

In fact, you said:

It requires about 120 people a year to implement—costs that are ultimately borne by consumers and Telstra shareholders.

Are you telling me that, to manage an accountancy transparency system, it takes 120 people and that it would take more when this legislation is enforced?

Dr Paterson—What is required there is the implementation of some new measurement that we do not actually do at the moment relating to our assets in the field. It involves a substantial number of staff to do that. That measurement is what I was referring to there as to the costs involved.

Senator LUNDY—So you stand by that figure of 120?

Dr Paterson—There would be 120 people involved. Not all of them would be on a full-time basis.

Senator LUNDY—That is more than you have maintaining the CAN in a given area. That is amazing. It is nice to see Telstra has its priorities right—120 people.

Mr Scales—I think there is quite a difference between regulatory accounting and standard accounting. This point may not have come through in that article. It does require a lot more

very detailed measurement of the assets that are involved and very detailed calculations of the value of the assets at a particular point. You cannot make generalisations about that when you are involved in regulatory accounting.

Senator LUNDY—Can I make a suggestion. If Telstra had more people on the ground, there would be less pressure on the regulatory transparency thing anyway and you would probably make a saving in that area. I will leave it at that.

CHAIR—That is something you can take on board. Thank you all for appearing.

Committee adjourned at 11.05 p.m.