MEGACRUNCH

*The Telecom debate came and went with a splash. The real decisions, though, are now being made without that media attention. **Robert Clark** argues that they make it even more important for the Left to develop a plausible posture.*

Remember 'Megacom'? Remember how telecommunications reform in the form of a contest between Keating and Beazley stalked the pages of our newspapers, with the 'Telecom versus OTC' model staked against 'Megacom' versus a privatised Aussat? Such was the urgency of the reforms that a special ALP conference was called to push through party approval for the Beazley proposal to merge Telecom and OTC and to establish a second network operator around a foreign-owned Aussat.

Despite a great deal of bureaucratic activity since then, cracks are appearing in the grand scheme; deadlines in the fast-tracked implementation schedule are not being met and interest in purchasing Aussat is unexpectedly low.

If the reforms go wrong, the costs could be enormous, though it will be future governments and consumers who will have to pay. The Beazley strategy is to have the new regime up and running before next election; partly to help establish the government's reform credentials, partly to make it hard for a future coalition government to undo them. There may not be many votes to be had in posting 'micro-economic reform' or 'deregulation of telecommunications' on the scoreboard—but there is a lot to be lost if the government gets it wrong.

One danger is that Telecom will be starved into privatisation. On this issue, everyone agrees—without a removal of restrictions on loan-raising, Telecom is fated to be privatised. Private ownership of Telecom is believed to be Keating's preferred option, and is coalition policy. Beazley's defence is that there are more productive ways to spend $20 billion in Australian telecommunications than in buying Telecom. The coalition's 100% privatisation is no more than an ideological exercise, wasteful and impractical given the current scarcity of Australian and foreign capital. Telecom's current application for a two cent rise in local call charges in part reflects nervousness over its capital needs.

Another is that the newcomer will 'cream-skim' from the most lucrative—ie, STD and trans-Tasman—routes and hence make it harder for Telecom-OTC to fund the non-

Graphic: Jock Alexander

commercial services (known in the jargon as community service obligations). For the ordinary user, the only consolation is the dubious Hawke guarantee that "no householder or ordinary subscriber in rural areas will be disadvantaged by these reforms" and some ambiguous price caps.

Last year's telecommunications debate was couched simply in terms of 'competition versus monopoly', and evolved into a two-cornered Cabinet contest between Beazley and Keating, each advocating different models involving network competitors. Beazley's 'Megacom' plan was backed by Telecom; OTC (and, incidentally, Beazley's department) supported Keating.

The pro-OTC forces argued that as the second biggest telecommunications company OTC was better placed than a new competitor to compete with Telecom. They pointed

to a range of statistics which showed OTC to be among the world's best performing network operators.

The Megacom groups saw Telecom-OTC as a national champion, bigger and better able to compete with the giants in international markets. Competitive pressures would push the champion to improve productivity and replace its bureaucratic corporate culture with a service culture. The pro-Megacom camp argued that OTC performance figures were artificially flattering because it did not have to carry out many of the nuts-and-bolts tasks, such as billing.

As we know, the ALP special conference in September last year approved the introduction of network competition, and these decisions were given effect with a policy announcement in November. Between those two decisions Beazley lost a couple of rounds against Keating and Finance

Minister Ralph Willis. They foisted provision for resale of leased capacity and a third mobile network licence, which have somewhat muddied the waters for the newcomer.

On its own, the opening of the resale market looked to be a quite promising option, and the model preferred by Professor Bill Melody, director of the Melbourne based research centre CIRCIT, and public interest groups such as the Communications Law Centre. By allowing groups to lease excess capacity in bulk and "on-sell" it to users, competitive pressures are imposed upon Telecom without the duplication of infrastructure and scarce investment capital. Professor Melody's view would be to allow resale "to work its way through" and review the need or otherwise for full network competition.

What should be emphasised about all the reforms of telecommunications so far is that they have focused on the needs of business—both business users of Telecom services and those of the industry itself, viewed as an important export earner. Telecom-OTC and Australian equipment suppliers will pitch for the Asian contracts. Megacom's hubbing capabilities will lure multinationals Down Under. Far less attention has been paid to the needs and wants of individual consumers.

One of the lessons from last year's debate should be that it is not enough to assert 'public ownership' as an end in itself. Those on the Left who did that last year then looked foolish when Telecom itself changed tack and accepted the notion of competition.

Moreover, Telecom's poor public image is not just because of bad PR. It's because of its inflexibility and lack of accountability in dealing with the public. On quality and range of network services it is deservedly among the world's top five. In customer service it often rates an equally well-deserved raspberry—a point accepted by Telecom manage-

AUSTRALIAN TELECOMMUNICATIONS - A BRIEF HISTORY

Despite its ubiquitous nature, the inner workings of the telecommunications industry are a mystery to most of us.

Telecommunications in Australia has always been a government activity, despite some early initiatives by stock exchanges in Sydney and Melbourne to establish telephone networks in the 1880s. The reasons for this are simple: governments were (and often still are) the biggest telecommunications users; and it was in the interest of governments—for political, strategic and economic reasons—to establish telegraphic and telephonic links between the colonies and between Australia and the UK.

Post and telecommunications services remained under control of the Postmaster-General until the Whitlam government, acting on the advice of the Vernon inquiry, split Australia Post and Telecom into two entities in 1975. It decided to leave the international authority, OTC, which had been set up after the war, as a separate government-owned authority.

The third carrier, Aussat, was set up by the Fraser government in the early 80s, under pressure from Kerry Packer who foresaw the possibilities for news and sport transmission through the satellite carrier. Further pressure came from Telecom which did its best to ensure Aussat would pose no threat to its monopolies.

Through the 80s, other pressures on Telecom and the Australian government began to make themselves felt. The Fraser government commissioned the Davidson Report (1982-83), which recommended the breakup of Telecom. Around the world, changes were in train: the AT&T monopoly in the US was broken up into a series of regional monopolies (known as 'baby Bells'); Japan part-privatised its giant monopoly NTT and introduced competition on long-distance routes; and the Thatcher government invited a Cable and Wireless subsidiary, Mercury, to compete against British Telecom.

But while ideology informed these reforms, the pace of technological change played an even greater role in bringing them about.

Traditionally, managing a national carrier meant merely the oversight of provision of telephone and telex service provisions—an activity that was not profitable until the mid-60s. Signs of change began perhaps in the late 70s when Telecom began to install digital exchanges.Then in the 80s, technology developed by the US military enabled the introduction of cellular mobile telephony; high quality, inexpensive fax machines appeared; with the spread of information technology, governments and large corporations began shifting huge amounts of data between distant locations, often using their own private networks. Not to mention fibre optics, capable of carrying simultaneously up to 100,000 conversations; ISDN, which can carry very high speed signalling in a variety of modes; satellite services; video conferencing; intelligent networks where carriers can provide high level services to individual customers through sophisticated exchange equipment; value-added services, such as Telecom's Discovery network, offering instant financial information and electronic mail; paging; voice mail and so on.

Even the standard phone nowadays boasts software to provide facilities such as number storage and redial.

ment whose excuse is "we are improving". Last month the corporation was on the end of a serve from Labor MP Alan Morris who, as head of a parliamentary inquiry into handling of complaints, accused Telecom of inflexibility and arrogance in dealing with customers.

It is more useful for the Left to focus on outcomes; to demand universal affordable access, a coherent approach to the 'information society' and new technology issues, and to require purchasing and R&D practices which support local industry.

The issue should not have been whether to allow competition, but in what form. Because of the technological advances (see box), a good many telecommunications services are already provided privately. While there are good arguments for not restricting provision of telecommunications services to a monopoly provider, Canberra seems to have gone about this with its usual near-religious fervour for ideal conceptions of 'competition' and 'deregulation'. The first assistant secretary of the Department of Transport and Communication, Vanessa Fanning, revealed recently a goal of the reforms was to "normalise" telecommunications. It's always been an "unusual industry", she said, and "a key theme" has been to get it to the point where it can be treated largely like any other industry. Which, quite bizarrely, seems to suggest for an industry merely to differ from Canberra's idea of "normalcy" is cause enough for the imposition of a major industry restructure.

The overseas experience in licensing new carriers does not inspire confidence. Although service standards in the varied US, UK and New Zealand markets have gone up, so have prices in many cases. There have been positive results, but overall outcomes are mixed, and interpretations of them is a major cottage industry.

Progress on the merger of Telecom and OTC is so far only slightly more than zero. When Beazley and Hawke pleaded for party support seven months ago it was to enable 'Megacom' to breach quickly the soon-to-boom Asian markets. Apart from naming an interim board, no visible progress has been made. The two companies compete still in the value-added services area and even their overseas arms remain separate. Staff at both firms are confused and morale is low. With 84,000 employees, Telecom is Australia's second biggest employer. Many of these employees are waiting for the axe to fall. Up to 8000 line and maintenance jobs might be lost through the use of sub-contractors, while Country Division management talk openly of "down-sizing" from 18,000 in mid-1990 to 12,000 in the next 12 months.

Meanwhile, the world has not rushed to buy Aussat. At time of writing only two consortia are regarded as serious contenders: Bell South-Cable & Wireless and Bell Atlantic-Ameritech-Hutchisons. Some of the would-be bidders doubt that the sale will go through on schedule, by the end of the year. Caucus can be expected to approve a stepped increase in Australian ownership over several years before the 51% level is reached.

Graphic: Jock Alexander

The pace of change makes a traditional monopoly less meaningful

The timing of the Aussat sale could not have been much worse—during a partial international recession, and with 27 other privatisations under way around the world—in Eastern Europe, Korea, Latin America, among others. The UK market is opening up to full competition. Professor Bill Melody, points out that the only criteria used by DOTAC for measuring the success or failure of the reforms are market share and the economic viability of the new carrier. "The judgment is going to be 'how successful is the second carrier?', rather than 'are consumers better off?'" says Melody. "The easiest thing to grab onto is just how well the second carrier is doing."

The gathering pace of change makes the traditional monopoly less mean meaningful: there is no real reason why only a single operator must provide all the basic telecommunications needs. More practically, it is quite difficult for one operator to be the all-encompassing provider. Telecommunications is evolving into a global market. The pundits and the government's main advisers predict it will be dominated by no more than a dozen corporations by the end of the decade. Beazley's ambition is that up there with AT&T, British Telecom and Japan's

NTT will be our own Telecom-OTC. He predicts that by 2000, the company will be the same size as AT&T is now (the US company's 1990 revenues were four times that of the Australian pair).

The first round of telecommunication reforms was announced in May 1988 when Gareth Evans was Minister. These liberalised the value-added services area, corporatised Telecom and OTC and established Austel. Barely 18 months later, telecommunications reform was on the agenda once more, this time driven by the need to extinguish Aussat's burgeoning debt, forecast by some to be more than $700 million by the time it is sold.

The new carrier now will have to cope not only with an entrenched Telecom but also with schools of resellers on its flanks. This, and the granting of a third mobile licence (Aussat's new owner will hold the second licence), won't do much for the viability of the new carrier in the early years—a key government goal. It is quite possible that the new environment will become overheated with competition in the early years.

For now, the task is to get Beazley and his department to establish a broader notion of telecommunications, rather than a means of improving the balance of payments. Whereas the 1988 reforms set our social objectives, such as universal access, this latest restructuring is presented as part of the government's micro-economic reform program.

Telecommunications policy needs to go beyond purely economic issues. It should stipulate basic levels of access to telecommunications services. Presently, basic service is considered to be a standard telephone, but the technological changes through the next decade will outstrip the 80s, requiring a continuous re-evaluation of the question. This might be best done through Austel with a much stronger consumer brief, requiring it to investigate and monitor the evolution of telecommunications. This would also encompass other consumer concerns such as quality and pricing.

Meanwhile, it would be useful to see the government (and, to a lesser extent, Telecom) explain some of these changes to the community. The evidence is that a great deal of confusion and concern exists across Australia, especially among rural and disabled telephone users.

For many on the Left, the Telecom debate was a'sham', a loaded debate with a predetermined outcome. It is better to see the debate as a useful pointer to pressure politics, 90s style. Indeed, the debate included in one aspect or another most of the key economic issues which will confront the Left in the 90s, involving public ownership, employment, consumer issues, new technology, international economic integration, and the development of Australian industry.

As we head into the 'information age', the old monopoly in telecommunications, based around one or two technologies, has had its day. Yet Telecom can and will play the dominant role in the sector. It will be the end-to-end provider for most Australians. It will be able to direct and guide implementation of new technologies and services. Its investment will create jobs in manufacturing and services.

Though the old certainties have disappeared, the basic practical demands of social justice remain the same—but fairness, access, jobs and empowerment are not automatically provided by a publicly owned monopoly. Securing these today requires an ability to argue flexibly from basic principles, without remaining locked in traditional postures.

ROBERT CLARK is the editor of the newsletter Communications Report.

TELEXICON-
Your guide to the telecommunications word-maze.

Austel: the regulator, with responsibility for technical regulation, competition policy and, officially, consumer protection—although it is criticised by consumer groups as upholding the first two responsibilities to the detriment of the third.

Community service obligations: one of the jargon phrases for non-commercial services which Telecom provides, such as for rural customers. Telecom costs the cross-subsidies from other services to fund the CSOs at $800 million; the Bureau of Transport and Communications Economics at $240 million.

Interconnect: simply the connection into the Telecom network by a) the new carrier and b) resellers. Each will be subject to a set of (separate) interconnect arrangements.

ISDN: integrated digital services network. A new 'premium' service from Telecom for corporate and government customers with high transmission speeds which can be used for sending data, very high quality fax and (increasingly common) video-conference pictures. Tariffs are based on timed charging, even for local connections.

Value-added services: literally, any service added on to the basic network capability. However, given the advances in network technology, the distinction is increasingly blurred. An example, however, would be an electronic mail service, such as OTC's Dialcom, or Telecom's Discovery, which is an on-line database service.

Price caps: usually expressed in the form of CPI-x where CPI is the previous inflation rate. Currently set at CPI-2 for local calls--meaning Telecom and OTC price rises must be more than 2% below the annual inflation rate—and CPI-5.5 for STD and IDD.

PABX: Private Automatic Branch Exchange--the local 'exchange' in say an office or organisation which can carry anything from 40 to 10,000 lines.

Resale of leased capacity: the practice of purchasing spare capacity on the Telecom network and selling access to it to third parties.

TELEFUTURES

The present reforms of Australian telecommunications are lacking an overall vision and are based on an uncritical acceptance of notions of competition, deregulation and privatisation, according to a recent report by the Evatt Foundation.

The report, Telefutures, which was released in April, says international experience shows that without a strong interventionist policy local industry would become increasingly dominated by overseas interests.

This paper follows an interim report on telecommunications, released last July, at the height of the 'Megacom' debate. The interim report was very much a case for status quo in Australian telecommunications.

Like the interim report, the final paper was backed by Telecom, L M Ericsson and unions. It has arrived too late to affect the debate for the time being, but the arguments over telecommunications doubtless will whir up again when the duopoly comes up for review over the next six years.

Much of the report amounts to a general defence of the role of the public sector in telecommunications. Its main weakness is the lack of grounding in issues specific to 'information economics' and 'information society' of those who produced it. However, it does offer something by way of setting the overall context, a reminder that the present policies are focused almost entirely on the economic and commercial aspects of telecommunications.

The government's November 1990 statement, unlike the previous May 1988 policy reforms, lacks a coherent overarching vision of telecommunications in the future, according to the report. The decisions were merely a short-term remedy to overcome Aussat's financial difficulties.

"The proposed duopoly does not rest on any basic concern that technology should be kept in balance with economic, political and social considerations," says the report. It argues for the reinstatement of the basic principles informing the 1988 reforms, that access to telecommunications should be regarded as a right, 'more or less as education has come to be a right".

The chapter by former Sydney University political economist Ted Wheelwright on industry policy development provides the best and most pertinent analysis. It points to Telecom's role in building the local telecommunications manufacturing industry and the part played by recent initiatives such as the Industry Development arrangements and the Partnership Programmes. It also recommends that Australia follow the French practice of requiring foreign newcomers to commit themselves to being at least balance-of-payments neutral.

Industry policies should not benefit not only the local operations of transnational corporations, it argues, but also small to medium operators in the information technology sector such as packaged software developers in telecommunications.

Judy Horacek

LEFT BE IN IT presents the CORRECT LINE CALORIE COUNTER