Introduction.

I appreciate the opportunity to participate in this year’s SDIA annual program. I have been asked to address one of the major issues on the nation’s business and political agenda – the transformation of Telstra that is occurring in the context of its privatization by the government – the so-called T3 process.

To put things in perspective, let me give you a sense for just how big the Telstra issue is measured by media attention. Last calendar year, in round numbers, media coverage looked something like this:

- 67,000 articles about Telstra
- 49,000 articles about Qantas, the next highest business
- 8,000 articles about SingTel Optus, the next highest telco

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1 Paper prepared as background for an address to the 2006 SDIA Conference meeting in Melbourne on 26-27 May 2006. For a final, fully-sourced copy of this background paper, contact phil.burgess@team.telstra.com

2 Phil Burgess is Group Managing Director, Public Policy & Communications, at Telstra Corp., where he is responsible for public policy, regulatory affairs, government relations, media relations, corporate communications, executive and business unit services, and the Telstra Foundation.

3 Data from MediaMonitor. Telstra’s run rate for 2006 is now over 100,000 articles.
Our Shareholder Centre on the Internet averages about 70,000 unique
visitors a month – more than 1.7 million visitor sessions in the past two
years.

Make no mistake: There is widespread and growing interest in Telstra
among the general public as well as national and global opinion leaders.

The Digital Revolution

Growing interest in telecommunications is driven in large part by the
huge economic and social impact of the digital revolution.

The fact is everything is changing. Technologies are changing.
Consumer preferences are changing. Traditional industry structures are
changing. Even the geographic preferences of people are changing. A
recent ComsDay publication put it this way:

Traditional telecom revenue models are collapsing.
Distance-based revenues are disappearing. Voice and
messaging is going all-IP. But broadband capabilities
provide new opportunities in exciting areas such IPTV,
gaming, content downloads, and video streaming.

The same revolution is transforming the media world.
Print advertising and classifieds are migrating to the Web.
Broadcast television and radio face both challenges and
opportunities from the digital revolution. Even the
compact disc’s days are numbered in the face of amazing
advances in flash memory and broadband capability.

Because I believe all these observations to be true, I came here today to
share my views of how these trends are affecting Australia, the telecom
industry, and Telstra.

Put simply, all media are rapidly converging into a seamless digital
sea that is roiling with change. Even as regulators march boldly into
the 1980s as they try to keep up with the reality of change, the world of
the 21st century is already a digital world – a world defined by bits and
bytes. This digital world has already moved way beyond the thinking of
those who would micro-manage the process.

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4 Which is also leading to a digital definition of economic and social development. See the writings of
Bernard Salt on this point – especially his research on what he calls the “sea-changers” and the “tree-
changers.”
In today’s digital world,

- telephone companies are also Internet service providers (ISPs);
- ISPs have become telephone companies; and
- cable television companies are becoming both;
- broadcasters are moving to digital television
- trying to keep up with computer companies that make television accessible on computer screens;
- satellite providers offer both television and Internet access;
- wireless modems are found all over the urbanized world;
- even electric power companies use their rights-of-way and service infrastructure to enter the communications business; and
- railroads use their rights-of-way to earn fees from communications providers.

On the applications side, electronic commerce – business-to-consumer (B2C) but especially business-to-business (B2B) is growing by leaps and bounds with B2B growing at many times the rate of B2C, which gets all the attention.\(^5\)

The growth of e-commerce creates major opportunities for small and mid-sized enterprises (SMEs) if the SMEs can get access to broadband. If they can’t, they will be greatly disadvantaged as B2B electronic commerce expands.

\(^5\) E-business refers to all the ways enterprises (business, government and non-profits) derive value from the Internet. E-business includes e-commerce—or transactions between buyers and sellers in a wholesale or retail environment. But e-business also includes transactions between teachers and students, schools and parents, doctors and patients, among doctors treating a patient, government and citizens, etc. e-business includes paying bills, trading stock, booking a flight, attending a class.

E-business touches all critical business systems and processes. It includes customer relationship management, back office operations, resource management (from human talent to information and knowledge), supply chain management, and sales transactions. According to e-business pioneer IBM, e-business uses or leverages the Net “to integrate and transform these processes into a single efficient system.”

E-commerce is a subset of e-business and includes the buying and selling of goods and services over the Internet. E-commerce has a retail (or home shopping) component and a wholesale (or business-to-business) component. While home shopping is often the most visible, business-to-business e-commerce is largest and fastest growing.
The growth of e-commerce also often by-passes local taxing authorities while creating new pressures for policy makers to address issues such as:

- encryption technology,
- digital signature and certification authorities,
- gambling, pornography, fraud, and
- the protection of privacy.

In short, a lot is happening on the applications side that has important implications for the future productivity and economic health of the nation, yet very few of these issues are addressed in a consistent way by mainstream media, which seems to be captivated by red herrings and the ethic of “gotcha journalism”. The cost: The level of public dialogue on Australia’s telecoms future is abysmally low and infused with politics.

The Transformation of Telstra

This is the context for understanding the transformation of Telstra, announced by our CEO Sol Trujillo on 15 November 2005. The transformation plan is not just a whim or impulse because there is a new management. There is new management because the Telstra Board saw the impact of these changes on Telstra’s financial and technical performance – and hence, the need for transformation. As we have pointed out in other venues,

- our income growth has been declining dramatically as our revenue is shifting from high-margin to low-margin products, and
- our costs have been increasing dramatically because we have too much of everything – from communications networks to office space in Melbourne and Sydney.

When there is a strategic threat, there are four possible responses:

- sit there and let it happen to you; try to weather the storm and hope for the best;
- fight those who are threatening you, resist, do things that will defeat, by-pass or otherwise negate or defeat the threat;
- join those who are threatening you, try to find a way to work things out, negate the threat by adapting, mollifying, giving in, compromising, adapting to, changing or transforming the nature of the threat; and
- run from the threat by going into new lines of business, taking business or moving investments offshore.
The response of the new management has been to fight…to compete…to win for consumers and shareholders.

We resist by trying to reform regulations that pillage our shareholders and undermine our business.

We want to develop new platforms and new technologies and services that will serve as a magnet for consumers.

We want to restructure the business to remove vulnerability.

Thus, Telstra’s transformation initiatives are designed to:

- implement **market-based management**, to know the customer like never before;
- build **integrated services** that will give the consumer a world of 1-click, 1-touch, 1-button, 1-screen, and 1-step solutions that are simple and easy to use;
- invest to **take out complexity and cost**;
- **win in mobiles and broadband**;
- invest in new **services and applications that differentiate** Telstra from its competitors;
- accelerate opportunities at **Sensis**; and
- target investments where we can **create value for our shareholders** and avoid those where shareholder investments cannot be protected from a “taking” by government or competitors.  

The transformation of Telstra also includes attention to changing the regulatory environment. Reason: Regulation is a part of our business. Regulations affect our ability to increase revenues and decrease costs. Regulations affect our ability to innovate and differentiate products and segment markets.

Every first-year business school student knows that **regulation is an integral part of the business environment of most companies**, so when policy makers say, “Pay attention to business and leave regulation to us,”

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6 We have already achieved major successes in this area, although some – like the *Australian Financial Review* – like the old ways when it took up to two years and old-school ties to make a major procurement. Old ways of doing business die hard, but die they must if Australia is to reap the advantages of advanced telecommunications technologies and services. At some point even newspaper reporters with ball point pens and yellow pads will learn that times have changed.

7 I am indebted to Tarek Robbiati for this summary of the transformation priorities of Telstra.
they are either **disingenuous or uniformed** about how management creates value for customers and shareholders.

So, I want to emphasize, **the attention we are giving to regulatory reform is about the business.** It is not a whim.

Moreover, attention to regulatory reform nor does NOT reflect an inherent distaste for regulation.

**Pro-consumer, pro-investment, pro-innovation, and pro-growth regulations are good** and should be encouraged, but many regulations are bad and should be eliminated or reformed. These include regulations that

- reduce consumer choices,
- discourage investment,
- stifle innovation,
- stunt growth, and
- pillage the wealth of shareholders

These kinds of regulations must be eliminated or reformed – not just for the consumer and the industry but for the national interest.

Make no mistake about it: **The national interest is very much involved here** because Australia’s future will be shaped – for better or worse – by new digital technologies and applications. The question is: Will Australia be prepared to adopt the changes that are already upon us, or will Australia be left behind.

**Put another way,** digital technology has changed; consumer wants and needs have changed; and in most of the world, government regulations have changed – but not in Australia. Not yet, anyway. Here elected leaders say “the rules are set and won’t be reviewed until 2009.”

**That means we are talking about 4-5 years before there are changes. As everyone in this room knows, 4-5 years is an eternity in the digital**

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8 Back in December, 2005, the communications minister said, “If you follow these kinds of things you could be forgiven for believing that the Government is on the cusp of introducing major regulatory changes. Nothing is further from the truth… We will review the regulatory arrangements again in 2009 and until then we expect all companies to plan and operate within the rules that have been set – including Telstra.” See Helen Coonan, Minister for Communications, Information Technology and the Arts (DCITA), “2005 – A Telecommunications Odyssey,” Address to Deutsche Bank, in Sydney, 14 December 2005. These views were also reflected in the minister’s speech to ATUG on 8 March 2006. See Stephen Bartholomeusz, “Telstra holed below the waterline,” *The Age*, 9 March 2006.
space. Think back four years when broadband was only a dream. Today it is a reality to:

- nearly one in four (25 percent) of the households in Korea and
- one out of five (20 percent) in Canada, a sparsely populated country more like Australia.

Even in Australia, despite regulations that discourage broadband deployment, more than **one out of ten** (about 11 percent) premises are broadband subscribers.

Think back 10 years, when the Web, as we know it today, was only a year old. The fact is that a year is a long time in the digital space – and to freeze regulations for 4-5 years is to stick one’s head in the sand, as if changes in technology and/or consumer preferences can be programmed on a computer or fit to a parliamentary schedule.

**The fact is there is something called the law of supply and demand.** There are laws of physics and electronics – such as Moore’s Law.⁹ There are laws of innovation diffusion. Not one of these laws obeys the law of parliament. In fact, most parliaments try to adjust man-made laws to the laws of nature and physics. Somehow, things work better when you do it that way.

Notwithstanding, **regulations in Australia are changing…but in the wrong direction**: They are expanding and becoming more intrusive.

- A new requirement for a local presence plan
- Operational separation between the wholesale and retail elements of the business
- Increasing authority for political and regulatory authorities to intervene in and actually run the business.

Indeed, **in recent months we have seen two major policy statements in the MediaCom space** – one focused on telecommunications and one focused on media. In both cases, we saw the expansion of regulations and a headlong rush into the 1980s, as if the digital revolution had not been happening.

⁹ Moore’s Law refers to the observation made in 1965 by Gordon Moore, co-founder of Intel, that the number of transistors per square inch on integrated circuits will double approximately every 18 months. Most experts, including Moore himself, expect Moore's Law to hold for at least another two decades.
Like many business leaders and punters, when government looks at the
digital revolution, it sees opportunity. But not the opportunity for jobs,
innovation, growth and economic and social development.

Instead, governments too often see another opportunity to impose:

- new taxes,
- new fees,
- new regulatory burdens, and
- new “public service” requirements.

What governments often fail to see – and this certainly applies to
governing authorities here in Australia – is **the need for an even-handed regulatory regime and public policy changes to encourage investment, promote innovation**, and, in general, facilitate the continued progress of the digital revolution and the many benefits it can bring to people, business enterprises, and communities throughout the land.

Let me quickly address these benefits.

1. **Telecommunications underpins Australia’s prosperity.**

   Australia’s productivity growth reached record highs in the 1990s. An acceleration of over one percentage point in our productivity growth shifted Australia from being a laggard to being a frontrunner among OECD countries.

   A **significant element in that acceleration was a commitment to allowing markets to work.** Beginning with the decision to float the Australian dollar, and then to dismantle trade protection, reform labour and capital markets, to corporatise and privatise government-owned businesses, and improve the tax system, Australia replaced a near century of intrusive regulation with an approach centred on letting commercial forces drive better outcomes.

   As the Productivity Commission has emphasized, those changes – or paradigm shifts – created a climate in which new technologies could be deployed quickly and effectively.

   Telecommunications technology is one such example, and the benefits have been huge. Growth in the use of advanced **information and communications technologies has accounted for fully a quarter of output growth and a third of labour productivity growth in Australia over the last decade.**
At the same time, economic growth rates in the “traditional” contributors to our economy have been overshadowed by a new set of service industries. At the heart of productivity acceleration are:

- wholesale and retail trading,
- construction,
- finance & insurance, and
- business services

The impacts of ICT applications in these industries and others have been far-reaching. Most obviously, new information and communications technologies have provided businesses with opportunities:

- To undertake existing tasks more quickly, cheaply and effectively by substituting information goods for other inputs, especially labour (increasing labour productivity); and
- To enable the development and introduction of new value-adding and efficiency-enhancing products, processes and organisational structures (multi-factor productivity).

Evidence of these impacts is all around us. Information technologies have allowed Australian businesses to innovate in processes, products, methods and organisational structures – business both large and small, in the cities or in the country, traditional or advanced.

New processes and organisational arrangements generate many benefits. These include:

- improved product quality, timeliness and customer convenience;
- greater product variety and customisation;
- reduced waste, transaction and coordination costs; and
- increased outsourcing and specialisation.

These ICT-based approaches reduce the need for additional storage and handling and all the associated labour and real estate costs. All of this translates into:

- greater productivity,
- lower prices,
- improved quality and new products, benefiting consumers and shareholders alike, and
- extended periods of strong economic growth.
ICT has also played a role in the very **substantial and sustained productivity increases in those industries that have traditionally been the engines of the Australian economy** – agriculture and mining.

- Advanced telecommunications offer rural and remote Australians new ways of tapping into services traditionally only readily accessible in cities.

- Farming today is a sophisticated and technical business. Rural farming businesses now use the Internet for customs clearance, market research, risk assessment, product promotions and on-line sales, business-to-business trading, and supply chain management.

- Real time access to weather information has transformed crop spraying, harvesting, and stock management decisions.

The gains achieved are substantial.\footnote{The gains achieved, and the value of the potential gains going ahead, are difficult to quantify, and few serious attempts at such quantification have been made.} For example, time savings alone to **Australian farmers** have been valued at $250 million a year, and each 1 per cent increase in farm profitability amounts to an overall annual gain of around $80 million.

Equally, **Australia’s mining industry**, which operates in a highly competitive global environment, has developed new ICT-based ways of improving the utilisation of its assets: by

- using new communications technologies for the management of mines, the transfer of data, mine safety, and
- tracking and tagging systems for the management of equipment.

Today, the Australian mining technology services sector, which relies on ICT, is a significant export industry in its own right.
2. Communities have benefited.

There have been substantial gains to community life. Consider **education and training**, where ICT impacts – for example, in the form of distance learning -- have been far-reaching and widely studied. As broadband access spreads throughout the educational system, there will be further gains, with high speed access already playing an important role in areas such as remote participation in continuing education and retraining.

Equally, in the **health services**, systematic initiatives to encourage and facilitate the use of broadband access have brought early gains in terms of streamlining and improving the transfer of information. The most significant impacts on clinical practice are just beginning to surface, but the direction of the new trends is already clear – “e-health” innovations can support patients remotely, provide improved patient care, and deliver better health and research outcomes.

While these impacts have been felt world-wide, **Australia’s rural communities** are dramatic beneficiaries of new ICT by reductions in the “tyranny of distance”.

**Improvements in access have given new hope to rural communities**, allowing them to market themselves to the world, while also giving those who live in country areas access to information, entertainment, communication and goods on a scale that seemed difficult to imagine a decade ago.

With many services (such as banking) closing their “bricks and mortar” presence in rural Australia, the availability of on-line replacements has been crucial to the viability of country communities.

At the same time, the ability to provide high quality communications links is now essential to retaining young people and attracting professionals to regional areas, and in that way has helped contribute to the demographic, economic and social renewal of non-metropolitan living.\(^{11}\)

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\(^{11}\) See the writings of Bernard Salt on this point – especially his research on what he calls the “sea-changers” and the “tree-changers.”
3. New investment is needed for those gains to be sustained.
The many benefits Australia has derived from new communications technologies have come primarily from using, rather than building, IT goods and services.

It is true that new networks and services have been developed – most notably for mobile communications – but much of the productivity advance Australia achieved in the last decade was secured by adding new uses to existing infrastructure.

Indeed, the spread of the Internet into everyday life happened very quickly following the deployment of the World Wide Web in 1994, primarily because this new way to communicate required little change in our core infrastructure.

Applications that made the Internet so compelling were things like email and web-browsing. The intelligence needed to run these applications could be readily handled by PC’s, which were widely available. And the existing phone network provided adequate connectivity for those applications to get off the ground, however frustrating it may have been when the World Wide Web was known as the “world wide wait”.

That era, however, is now truly behind us. We can no longer take a “cheap ride” on yesterday’s infrastructure (POTS – plain old telephone service) using tomorrow’s technologies (PANS – the pretty amazing new stuff).

Indeed, today we even need new investment in POTS because most Internet users and many mobile phone users depend on the POTS infrastructure for all or part of the connections they enjoy with others. Still, investment in POTS assets used to provide Internet and mobile service has lagged since the late 1990’s.

Occupancy levels in the distribution plant have become unacceptably high, leaving only limited spare capacity to respond to growth.

But it is not only the basic service that needs improvement. The very success of the Internet creates an imperative for higher speed data services to be available to everyone, no matter where they live. This is an area where Australia lags badly.

In terms of broadband penetration, Australia ranks close to the bottom (17th) in the OECD. In percentage terms, in Australia, less than 11 per cent of the households subscribe to broadband, compared with
• the US at 14.5 per cent,
• Canada at 19 per cent, and closer to home,
• Korea at 25 per cent subscribe to broadband.

Moreover, the access speeds in Australia compare poorly to those available internationally. Telstra’s standard offer of 256kb pales in comparison to baseline broadband access speeds elsewhere:

• 2 Mpbs in the US,
• 4 Mbps to 8 Mbps in Korea and Japan, and
• 100 Mbps is now being advanced in a number of OECD countries.

Lifting our game here requires upgrading the first generation ADSL networks that we now have in place. The investment needed is not only in the exchange facilities, but in moving fibre optics ever closer to the home – e.g., Fibre-to-the-Node (FTTN) -- and office, thus allowing order of magnitude increases in transmission speeds.

Finally, we also need to provide for new wireless networks – both for mobility and to extend genuinely high speed broadband services to those parts of Australia where land-lines are not economic. The move to 3G is only a first step in this direction – but even that will require large capital outlays if 3G is to be truly available throughout the areas where Australians live and work.

4. The stakes are high

Whether or not these investments are made has far-reaching implications for Australia’s economic and social future.

This is first and foremost because Australia depends more heavily than other countries on the quality, efficiency and innovativeness of its telecommunications system.

The fact of life is that Australia is exceptionally remote from major global hubs and world economic centres. With the exception of New Zealand, our biggest trading partners -- China, the United States, Korea, Singapore, and the UK – are more than 6000 km away.

No other major OECD economy is so far away from its primary trading partners.

At the same time, enormous distances separate our cities and rural areas at home. As the world’s only island continent, Australia has a land mass similar in size to the US, but its population is barely one fourteenth of that of the US.
Australia’s cities have among the lowest population densities in the world, and no two Australian cities with a population of over one million people are within 600 km of each other.

This is not to understate Australia’s assets, which are considerable. Natural resources are booming. Australia is uniquely positioned to expand existing trade ties and to build trade with the emerging economies in Asia. Other assets include:

- Australia’s geography
- its diversity and international connections through commerce and family ties,
- its high standard of living and political openness and stability.

Each of these, and other assets, mean that Australia is especially well placed to play a leadership role in a Pacific century. 12

But we cannot afford to be complacent.

**Australia still lags behind in terms of productivity.** Despite reforms that have boosted Australia’s productivity growth, Australia’s GDP per capita remains well below that of the US. In recent years the productivity gap between the US and Australia has increased, at least in part because the US has been more receptive to the deployment of new telecommunications technologies – technologies and applications that are especially helpful to small and mid-sized enterprises (SMEs). 13

As much as half of the phenomenal labour productivity growth observed in the US over the last ten years can be accounted for by telecommunications – by the incorporation of innovations in computing and communications technologies into the capital stock and business practices.

**We cannot scoff at international comparisons** because we are operating in an increasingly global economy and global competition is accelerating.

We are observing a continuation of a 20-year-old trend. Already by 1999-2000,

- over one-third of manufactured goods sold in Australia were produced overseas,
- about one-quarter of domestically produced goods were sold overseas, and

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12 On this point, see recent Regents Lecture at UCLA by Telstra CEO Sol Trujillo, “New Centres of Influence: A CEO’s Perspective on the Asia-Pacific Rim from Down-Under. Los Angeles, 1 March 06.

13 The fact is that large businesses take care of themselves. When new technologies come along, large businesses make private acquisitions if they are not available in the open market. Because SMEs don’t have the scale, SMEs have to rely on offerings in the market.
the international integration of our economy has become even tighter since then.

Australia’s trade intensity – the ratio of imports and exports in relation to GDP – has increased from 16 per cent forty years ago, to 25 per cent in 1990, to 40 per cent today.

Over the past 20 years, the Australian economy has fundamentally changed. The Australian economy has globalised.

**Competing in this new global environment requires a telecommunications infrastructure second to none** – to:

- connect Australians to each other;
- connect our exporters (many of which are small and mid-sized enterprises) to their trading partners; and
- create a platform for doing business with uncompromising standards of service and cost.

Take our agricultural exports. In some of Australia’s most productive regions – Murraylands and Western Australia's wheat belt and Great Southern region – less than 10% of the population has access to broadband.

**Increasing broadband coverage in rural areas would translate into increases in gross regional product and employment by 1.4 per cent in Murraylands and 1 per cent in the WA wheat belt.**

The Australian Local Government Association estimates that a $3 billion investment in regional broadband services is needed to improve access and the quality of broadband in regional Australia to unlock its export potential.

Such an investment could create more than 10,000 jobs and provide an annual benefit of more than $920 million a year, or more than $27 billion over 30 years.

5. **But so are the obstacles**

Yet the very factors that make it imperative for Australia to have a world class telecommunications infrastructure also create formidable obstacles to achieving that goal.

**What I call “the DDT factor” – distance, density and terrain – work against Australia.** Australia’s long distances, low population density and hostile geography mean that we face a much higher cost of building, maintaining, and delivering services over our networks (electric power, highway, railway, telecom, etc.) than in most other developed countries.
Australia's four cities of a million or more cover less than one-tenth of one per cent of Australia’s land mass, and the entire population in urban centres and localities live on a land area equivalent to 0.3 per cent of the continent. But Telstra must, and does, provide service wherever Australians live and work.

The result is that Telstra's average line density is approximately 1.3 fixed lines per square kilometer. Compare this to

- Canada, the next most sparsely populated OECD economy, where line density is about two times higher than it is here – and more of the population lives in a narrow geographical belt, or to
- the US, where line density is almost 20, while it is over 140 in the UK and over 150 in Germany…compared to, remember, 1.3 in Australia.

The effect this has on costs has been recognized by the Productivity Commission, whose data show that Australia’s telecom network is structurally more expensive to build and maintain compared to other developed nations.

The Commission found that, in Australia, low density areas, with only 5 percent of the lines, account for 25 per cent of the total cost of providing telecommunications services. In contrast, the less populated areas in the US account for just 10 per cent of total cost.

The cost penalty, however, is not only in the most sparsely populated parts of this vast continent. Even our largest cities are significantly more spread out than similarly sized cities overseas. For example, in US cities with over one million inhabitants, the average distance between dwellings is some 14 meters, compared with 21 meters in Australia. The result is a telecommunications network in Australia that must span longer distances.

Telstra is exceptionally well-placed to meet the challenges this creates. There is in Telstra over a century of experience in connecting Australians to each other and to the outside world. There is also a willingness to make the investments required to provide Australians with the telecommunications network they need and can legitimately expect.

But Telstra cannot, and will not, make these investments if we are subject to a regulatory regime based not on consistent and predictable rules, but on regulatory roulette – where the odds are stacked against our shareholders and our consumers and where the assets owned by shareholders can be pillaged by competitors.
The rules of Australia’s regulatory roulette create huge risks for Telstra shareholders, and the recent expansion of those rules has created a situation where one agency of the government (DoFA) is trying to sell the assets of Telstra while two other agencies of government (DCITA and ACCC) are giving it away. No wonder institutional investors as well as punters here at home are confused.

We have reached a state of affairs where political authorities in Australia have created the worst of all worlds, as they:

- **privatize the assets** of Telstra,
- **nationalize its management** through intrusive regulations that give the minister the power to make management decisions that by-pass the board and management, and
- **subsidize competitors** with below-cost access rates and other regulations, transferring huge sums of wealth – measured in the hundreds of millions of dollars – from 1.6 million mums and dads who own Telstra shares to the government of Singapore, which owns Singapore Tel/ Optus and to some of the world’s largest and most wealthy corporations in Hong Kong, the US and Europe.

6. **Enter the ACCC**

This was the environment we faced back in January. The outlook was not good for Telstra, the industry, or a successful T3.

During the next few months, we opened informal and exploratory discussions with Graeme Samuel and the ACCC. We were encouraged to find that the ACCC chairman and many of his colleagues were also thinking about new approaches to regulation – a new paradigm for the IP digital world.

Our initial agenda was not so much about Telstra. It was more about the need to find a new paradigm for building out and regulating the PANS world that includes Next Generation Networks (NGN).

We spent time exploring what that paradigm might look like and how it could incent the industry, consumers, and policy makers to make the right choices and to advance the national interest in achieving wall-to-wall broadband for every residence and business in Australia, no matter where they live.

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14 Some journalists have called these “secret” discussions, but there is nothing secret about them. Both sides have acknowledged they are taking place and at the end the results will be submitted to full disclosure and to public review and comment.
One thing is clear: **POTS regulations will not work in a PANS world.** I think thoughtful people increasingly understand: Policy makers and regulators cannot impose a POTS regime on a PANS world. If they do, POTS will win and there will be no PANS. We can see that happening in Australia already.

The reason for this is also clear: **PANS requires huge investments and systemic innovation.** PANS requires taking huge risks, and making things work in a very difficult environment. If those risks cannot be safeguarded, they will not be made.

Put another way, while legacy networks and services can be regulated under existing rules, **a PANS world requires PANS regulations.**

We met with the ACCC as recently as yesterday afternoon. **Our talks throughout have been positive and constructive.** They have also been tough and demanding, but from the beginning they have been marked by true give-and-take and a high level of professionalism.

**Both sides, I believe, are striving to define a new way to approach the regulation of the digital space** – one that will serve the industry, consumers and the public interest while safeguarding shareholder investments. We are searching for a PANS regulatory regime that will advance a PANS world.

As we speak, **I cannot say whether we will reach the Promised Land.** **There is still a lot of work to be done** – including close scrutiny of our ideas by the public and by our competitors. But we are committed to pulling out all the stops to try to make this work. If it doesn’t, we have other attractive options – generally known as “Plan B” – but we would like to make Plan A work because it will permit Telstra, its competitors and Australia to enter the digital world with both feet planted squarely in the ground and a lot of headroom for competition, jobs, and growth – and for greatly increased economic and social development, both in the cities and the bush.
7. Going forward

There is no question: Advanced information and communications technology has contributed directly and substantially to Australia’s strong economic growth and social integration over the last decade. It has

- increased productivity throughout the economy,
- allowed the rapid rise of new industries,
- transformed traditional industries – old mainstays, such as agriculture and mining, and
- permitted wide-spread improvements in the quality of life, especially so in regional, rural and remote areas that are far from the centres of economic and social activity.

The potential for further gains going forward is no less substantial. Despite high productivity growth, there is still a large productivity gap between Australia and the world’s most productive economies. Reducing that gap would allow sustained growth in our real incomes.

At the same time, increasing productivity would make Australia more competitive internationally, helping us overcome the cost penalty we suffer as a result of our uniquely great distance from our major trading partners.

Overall, as the only island continent, Australia has especially much to gain from improving and extending the communications infrastructure.

Delivering on those benefits will, however, require sustained investment.

- There is an accumulated maintenance deficit in the legacy networks that needs to be addressed.
- At the same time, new networks and services have to be put in place.
- The DDT factor – long distances, low densities, and inhospitable terrain – means that network costs are structurally higher in Australia than almost any other country. That means that investors who build and maintain these networks need to recover the full costs of construction, maintenance and service provision – along with a competitive return on their investment – or else they will not be built.
There are many, many ways these costs plus a reasonable return can be recovered to safeguard the risks taken by investors, but one thing is certain: network and service costs incurred as a result of the social or regulatory policies of a government cannot be laid at the doorstep of 1.6 million mums and dads who have invested their hard-earned savings in Telstra to send their kids to school, save for a rainy day, or fund their retirement. That approach won’t work anymore.

What will work is respect for the property rights and investments of Telstra shareholders. In terms of current issues, this means finding a way to safeguard all new shareholder investments, including investments required to build-out Fibre-to-the-Node (FTTN) and other new applications.

7. Conclusion

It is to everyone’s advantage to recognize the economic and social gains Australia can make from the wider availability of advanced communications technologies. We all need to work together to provide a framework to achieve those gains, or our neglect will undermine our competitiveness as a nation:

• killing jobs,
• slowing growth,
• creating a divide between large and small businesses and urban and rural people and communities.

But this doesn’t have to happen. For these reasons, Telstra must

• continue to act to protect the interests of its 1.6 million mums and dads who are shareholders,
• continue to oppose regulations that permit the massive transfer of wealth from Australian mums and dads who are shareholders to governmental and corporate interests in Singapore, Hong Kong and elsewhere, and
• continue to serve as an advocate for policy and regulatory reform that is pro-investment, pro-consumer, pro-innovation, and pro-competition.

Our advocacy will continue to

• demonstrate the big stake that Australians have in the comprehensive deployment of a 21st century network;
• highlight the substantial costs in deploying such a network and why investors that make it happen should be allowed to earn a competitive return on their investments; and
• explain the manner in which government policies and regulations currently obstruct, rather than promote, Australia’s common interest in deploying the most advanced telecommunications networks and services.

While such a course may uncover differences and spark controversy with policy-makers and regulators, the high stakes require that we make every effort to streamline public policy and get the regulatory settings right so that we get a win/win for the public interest in Australia – for Australia’s consumers, Telstra’s customers and shareholders, and for Australia’s global competitiveness.

Put another way, we would rather “join” than “fight” – but we will fight if we must to serve our customers and protect our shareholders.

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