

Competition and privatisation

Warwick Smith argues the Government's draft telecommunications bill is a disappointing attempt to realize its objective of greater competition

The Coalition does not agree with the industry structure proposed by the Government, which merges the domestic giant Telecom with OTC, links the sale of debt-ridden AUSSAT to the second carrier and disallows further entrants until 1997. We believe that this will create an inferior market structure.

Where's the competition in all of this? The duopolists are the main beneficiaries. Even then, the merged Telecom/OTC will present a formidable challenge to the second carrier, which may limit its activities to sections of the market.

The folly of the AUSSAT decision is now clear. Mr Beazley should have put AUSSAT to auction after granting the second licence. Then we could see whether 'Megacom' or the second carrier, or anyone else for that matter, really wants it and whether it is prepared to pay a premium for it.

Mr Beazley has been forced to look for some added frills to 'dress up' the value of the debt-ridden AUSSAT. Consideration is being given to the following fillips:

- Pay-TV long denied by Labor may be delivered by AUSSAT on an exclusive basis. Are we to see the establishment of another monopoly? What will be the roles of the ABC, commercial television and so on?
- The automatic sunset of the duopoly in 1997 may now only become a vague promise to 'review' the situation.
- The third mobile licence which the Minister promised would provide necessary competition and which AUSTEL recognised as essential to the development of competition.

The regulatory regime

The draft bill gives the Minister considerable control and, while giving AUSTEL wide regulatory powers over a whole range of issues, concerns have been expressed about AUSTEL's strength and real independence. These factors are bound to increase the risk profile of the second carrier, which may itself be a barrier to entry.

Also, despite the ministerial admission on 8 November that the distinction between 'basic' and 'value added' services was becoming increasingly artificial with the march of technology, the draft bill continues this distinction; a distinction which affects interconnection arrangements in particular. It is these arrangements and charges that will



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determine the success or failure of the Government's stated commitment to the emergence of strong competition between the carriers.

Legislative proposals reintroduce a class of basic carriage services with privileges so that terms are different and it advantages the duopoly rather than resellers. Reintroducing the distinction between basic carriage services and 'higher services' is possibly unsustainable and unnecessary. It is economically inefficient as it opens the way for distortion in pricing.

This may make it even more difficult 'down the road' to open up the market which is supposedly the Government's long term goal. As the Department of Transport and Communication's Vanessa Fanning has said:

"We have also had to keep 1997 at the back of our minds while drafting. While we have not attempted to describe the post-1997 world, we have attempted to frame legislation in a manner which does not prejudice the development of a more competitive regime."

In my view, the legislation fails to achieve this.

The Opposition supports the introduction of competition in the telecommunications industry. The threat of competition has already lifted Telecom's game. It is now in the process of shedding staff: a consequence of former 'featherbedding'. Telecom, formerly an engineering-driven organisation must now become market-driven.

Also, greater productivity and efficiency will 'save' capital shortfalls. The better utilisation of the existing capital stream and competition is as important as anything else to capital shortfall and loans council restrictions. The capital crisis facing Australian Airlines and Qantas must be avoided.

The privatisation of Telecom/Megacom should take place after full and effective competition is achieved. However, the timing, pace and conditions of that privatisation will take account of all the relevant circumstances and the capital markets' ability to provide the funds required.

The Opposition's policy is that Australians will retain majority ownership and control of the privatised Telecom and employees will be given preference in acquiring shares.

Community service obligations will be paid for by direct and specific appropriation made in the Budget. Rural, regional and remote areas can be assured they will be provided with comprehensive, reasonably priced telecommunications services.

Privatisation must, however, have as its prime objectives:

- the empowerment of the consumer;
- increasing choice;
- improving competition;
- extending market disciplines; and
- increasing efficiencies.

In other words, privatisation must maximise net benefit to the consuming public. It is an essential element of micro-economic reform in this country.

The future

The future of telecommunications is global. Markets and production are interdependent throughout the world. We must not allow ourselves to become marginalised.

The ALP model for telecommunications reform is holding to the present at the expense of the future. The convergence of new technologies in broadcasting, telecommunications, computer, electrical products and so on, means that Australia is uniquely placed to avoid the UK duopoly problems and to avoid the current US intermediate transition problems following the divestiture program there.

Managing change in our post-industrial society and those of the fast moving economies of the Pacific basin is the challenge of the '90s. The Opposition, and I as its telecommunications spokesman, want to play a constructive and positive role in achieving this goal.

Warwick Smith MP, is the Shadow Minister for Communications. This is an edited version of a paper given to a CIRCIT conference in Melbourne on 15 March 1991