Australian government rams through Telstra privatisation

By Terry Cook
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After weeks of political turmoil, the Howard government pushed legislation (Transition to Full Private Ownership Bill) through both houses of parliament on September 14-15 authorising the sale of its remaining 51.8 percent share in the communications corporation Telstra.

The realisation of this long-held ambition is, however, not the resounding political triumph the government had expected. The protracted and messy process, which sparked sharp divisions in the Liberal-National Party Coalition and an open public clash with the Telstra board, earned little praise in corporate and media circles.

After the legislation cleared parliament, the *Sydney Morning Herald* declared, “for such a political milestone, there was relatively little fanfare”. Earlier commentator Alan Kohler remarked on ABC Online: “Standing in a blizzard of opinion about Telstra... one conclusion is crystal clear—it has been a disaster for John Howard.”

The political tensions surrounding the legislation right up to the last minute were an expression of the underlying problem dogging the government. Howard has been under pressure from big business not only to sell off the highly profitable telecommunications carrier, but to abolish regulations and subject it to market forces. At the same time, the privatisation has provoked widespread hostility from people who recognised that their services will inevitably suffer.

Opposition to the Telstra sale was reflected—albeit in distorted form—within the parliament. Howard had to agree to a $3.1 billion dollar package to improve rural services to placate his National Party allies who faced a backlash in their electorates. While the legislation easily passed the lower house, where the government commands a large majority, it cleared the Senate by only one vote after right-wing Family First Party senator Steve Fielding decided at the eleventh hour to vote against it.

Even though the government had a majority in both houses (control of the Senate passed officially to the government on July 1), it was in unpredictable territory with National Party Senator Barnaby Joyce wavering. Fearing a last minute hitch, the Coalition used its numbers to gag debate in both houses so as to ram the legislation through.

An editorial in the *Age* on September 16 voiced a certain nervousness in ruling circles that such methods could engender further public resentment and make other “reforms” such as changes to industrial relations legislation more difficult. Entitled “Contempt for parliamentary scrutiny only adds to the public’s concern,” the newspaper questioned the wisdom of “ramming through” the Telstra legislation and warned: “This was a telling moment that betrayed the insincerity of promises not to abuse the government’s power in the Senate.”

On the eve of the vote, new assurances were needed to lock in the vote of Barnaby Joyce as details of the $3.1 billion rural package were publicised. Federal Treasurer Peter Costello revealed that $2 billion of the package would not start to flow until after 2008. The distribution of the Telstra sale proceeds, Costello said, was dependent on the Regional Telecommunications Independent Review Committee set up to examine every three years the state of rural telecommunication services.

The comments spooked Joyce who is relying on the package to salvage some credibility with rural voters. With only days to go, Joyce again put a question mark over his vote declaring, that the wording in the Bills “has got to be changed and there are other issues”.

Joyce’s difficulties were compounded by a leaked Telstra report revealing that the company had massively under-invested in infrastructure over an extended period. Aging equipment had not been replaced, 14 percent of all phone lines were faulty and IT systems were inadequate. The report estimated that an additional $2 to $3 billion should have been invested over the past three to five years to provide adequate services.

The report caught the government in another lie. Just months ago it claimed that it had brought rural and regional services “up to scratch”—in line with its promises prior to any Telstra sale. The report, however, clearly showed that the $3.1 billion package will barely address the past neglect, let alone provide adequate funding for ongoing improvements into the future.

Even though he was eventually hauled into line and voted for the legislation, Joyce declared he was only “65 percent happy about it”. He added nervously: “You’ve always got you know, a feeling in the back of your head that maybe there’s... there could be problems in the future”.

Even as he was attempting to ensure that Joyce and Nationals were on side, Howard confronted criticism from corporate circles that he was pandering unnecessarily to rural voters and compromising the perceived benefits for the economy and big business.

In a similar vein, Telstra management mounted an aggressive campaign to demand an end to government restrictions on its operations. Telstra CEO Sol Trujillo and his deputy Phil Burgess called for an end to regulations that inhibit Telstra from using its monopoly of national phone line infrastructure to maintain a competitive edge over its rivals.

Burgess remarked that without reregulation he would not recommend Telstra shares to his mother. Trujillo chimed in by declaring that government regulations cost the telco $850 million a year, sending the company's shares to two-year lows. In fact, Telstra share value has fallen more than 14.5 percent since Trujillo took over earlier this year, wiping out more than $9 billion from the company's market capitalisation.

Howard retaliated by stating that executives should "talk up the company's interests, not talk them down"—a view he said he intended to put directly to the Telstra board. But his remarks only landed the government in more hot water. Sensitive to recent scandals involving the manipulation of share prices, *Forbes.com* warned that Howard's remarks "were a green light for executives to be liberal with the truth".

An editorial in the *Australian Financial Review* declared: "Just when you thought the Telstra farce could not sink any lower, along comes the prime minister urging the carrier's new American management to flout the Corporations Act."

The rebukes came in the wake of another revelation: that Telstra management had briefed the government, but not other shareholders, on August 11 that the company needed to borrow heavily to pay its dividends. Howard denied that the government had kept the information secret to avoid a further fall in share prices, claiming that it would have been illegal to make any public disclosure. He declared rather unconvincingly that it was "up to Telstra, not the government, to inform the market of its financial details".

The Australian Securities and Investments Commission announced it would investigate the circumstances surrounding the briefing and the proposed method of funding the dividend. Corporate lawyers warned that by failing to inform all stockholders Telstra could be in breach of continuous disclosure rules with penalties of "$1 million for a company and $200,000 for individuals. Jail terms could accompany serious breaches."

Even with the privatisation legislation passed, the Telstra sale could continue to be a millstone around the government's neck. Speaking on ABC radio, Howard confirmed that share prices would determine the timing of the public share float and "also determine whether we sell them (Telstra shares) in one lump or in stages". With share prices hovering around $4.29—well below the value needed to realise the government's $30 billion price tag—its preferred deadline of next October is looking increasingly unlikely.

Sections of big business have become increasingly impatient with any further delays. On September 17, *News.com.au* warned Howard that "with more than a decade of political wrangling out of the way", it was time to start "warming up the markets" for the sale. What was needed, the web site stated, were "major job cuts, cost savings, asset sales and more effective capital spending ..." It is estimated that up to 10,000 jobs could be destroyed in the lead up to the final share float.

The government is also under pressure to push ahead with other aspects of its economic restructuring agenda regardless of the political consequences. An article in the September 19 issue of the *Australian* slammed Howard for "dithering on workplace reform" for "taking months to come to grips with a planned remodeling of Australia's industrial relations system."

But as the Telstra debacle demonstrates all to well, the demands for the unfettered operation of the market inevitably come into conflict with the social needs of ordinary working people. Two decades of "reforms" have provoked deep suspicion and hostility towards both the Coalition and the Labor opposition and their attempts to carry out the demands of big business. Even though Howard effectively faced no opposition from Labour over Telstra, the discontent was reflected in the government's own ranks.

Howard confronts similar political dilemmas over his proposed industrial relations laws, plans to slash welfare and contentious changes to media ownership regulations. Ironically, only a few short months after its crowning achievement—winning control of the Senate to clear the way for the economic reform agenda—the government is increasingly divided and looks decidedly fragile.