

Defining the Regulatory Barriers to a Broadband World for all Australians... and How To Make Things Work

Intro to the Telstra Regulatory Workshop by

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The Background

Hardly a week goes by that we don't read in the paper that Telstra should "get on with the business" or "manage the company" and "leave regulation to the government."

Or we read that "Telstra complains a lot but we don't know what they want" in the way of regulatory reform.

Purpose

The Regulatory Workshop is the final event of the "Investors' Review" which began on 15 November 2005 . The Regulatory Workshop has **three purposes**:

First, to show as clearly as we can:

- the scope of regulation in telecommunications industry, some of which applies only to Telstra,
- how regulations have reduced investment in Australia's telecom future
- the negative impact of regulation on Telstra's business
- how over-regulation destroys shareholder value

Second, to provide a clear map for:

- fixing the regulatory regime in Australia
- positioning Australia for increased growth, productivity, and competitiveness in the 21st century.
- creating a pro-consumer, pro-investment, pro-innovation and pro-jobs business environment for Australia.
- Expanding choices for people, enterprises, and communities in the 21st century in Australia.

Third, to clearly outline the regulatory reforms that Telstra needs to execute all the elements of its plan for the future as detailed by CEO Sol Trujillo at the “Investors’ Review” on 15 November 2005.

Put another way, this session is not about politics. This session is about business and our ability to serve customer needs and create wealth for shareholders – more than 1.6 million Australians, many of whom have a stake in Telstra shares to help fund their retirement. We want Telstra to prosper. They need Telstra to prosper, and it is one of our duties to help them meet their needs.

Taking Care of Business

As every first-year business student knows – and as Sol pointed out repeatedly during the “Investors’ Review” – there are only two ways to improve the financial performance of a company. These are to:

- Increase revenues
- Decrease costs

Revenue growth and cost take-outs are shaped by many factors, but three of the most important are the management of resources (people, technology, information, systems), quality of the workforce, and the business environment. In Telstra’s case,

- the Board hired in new management, which started on 1 July and presented a plan for a new Telstra on November 15.
- the Telstra workforce is strong and with good talent at every level.
- but owing to the burden of over-regulation, the business environment for Telstra is not favourable.

The Burden of Over-Regulation

Yet today, Telstra and the telecommunications industry as a whole is being damaged by regulations that can only be described as onerous, draconian, and intrusive.

In the case of Telstra, the expansion of regulatory authority that has been proposed but is still being considered is among the most intrusive in the OECD countries. It is as if public policy is being used to privatize the ownership, nationalize the assets, and subsidize the competitors of Telstra. This is not good for Telstra shareholders, the industry or the nation.

Over-regulation reduces investment

- Competitors prefer reselling to building because it is cheaper
- Delay in FTTN owing to regulatory uncertainty
- Australia in bottom quartile in OECD

Over-regulation reduces consumer choices

- Stalls responses to changing customer needs
- Slows or stops price reductions, bundling

- Undermines competition

Over-regulation stifles innovation

- Discourages investment where successes can't be harvested
- Discourages facilities-based competition
- Discourages differentiation

Over-regulation creates competitive imbalances

- Imposes financial burdens on some but not on others
- Imposes restrictions and requirements on some but not on others
- Results in asymmetric regulations that violate the principle of competitive neutrality.

Conclusion & Introductions

Getting on with our task, my colleagues today – Kate McKenzie (deputy director of Public Policy & Communication and our lead negotiator on regulatory reform) and CFO John Stanhope and deputy Tarek Robbiati – will show how the Australian regulatory regime, including key proposals that are still awaiting a decision by regulatory or governmental authorities:

- increase our costs
- decrease our revenues
- destroy shareholder value
- require Telstra shareholders to subsidize our competitors, many of which are large, multinational companies who send their profits back to Singapore, the UK and the US.

Their presentations are supplemented by a summary of “lessons learned” in the US – about investment patterns, bankruptcies, the declining health of the telecoms industry, and other economic and business pathologies -- as the US travelled down the path of mandatory unbundled local loops. This summary is by Dr. Jeff Eisenach, chairman of US-based CapAnalysis, highly-regarded telecoms expert.

Like Eisenach, deputy CFO Tarek Robbiati, who has broad experience as an telecoms executive in nearly a dozen countries, will summarise “lessons learned” from the European experience.

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