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**Funny or Serious?**  
**Telstra's Public Affairs Strategy since mid 2005**

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**Introduction**

We've had some choice moments indeed since Telstra's new management team jetted into Australia in mid 2005.

Senior executive Dr Phil Burgess invited a group of press gallery journalists to dinner and told them, on the record, that he would not recommend Telstra shares to his mother<sup>1</sup> – leading the Prime Minister to call it a 'careless, foolish thing to say.'<sup>2</sup>

A Telstra PR spokesman accused ACCC Chairman Graeme Samuel of misleading a Senate Estimates Committee<sup>3</sup> –

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<sup>1</sup> Michelle Grattan and Jason Koutsoukis, 'Mexican Stand-off', 2/9/05, Age, p 11

<sup>2</sup> Mathew Charles, Geraldine Mitchell, Gerard McManus, 'Telstra boss put in frame', Herald Sun, 3/9/05, p 2

<sup>3</sup> Malcolm Maiden, 'Brawlers go quiet but fight is on', 12/11/05, Age, p 1 Business Money

provoking Samuel to publicly advise him to consider his legal position.<sup>4</sup>

Telstra announced on November 15 that it would build a new \$3 billion broadband network if the Government legislated away Telstra's existing regulatory obligations.<sup>5</sup> Then a bit over a month later, Telstra announced that the build was on hold because the Government had refused to do so.<sup>6</sup>

Entertaining stuff – but is this really the way to manage Australia's largest telephone company and one of this country's most significant national assets?

Today I want to look at Telstra's public affairs strategy since mid 2005 – and argue that it would be funny if it wasn't so serious.

I'll do this in three parts. First, I want to look at the outcomes they've achieved – which are frankly not very much.

Secondly, in the main part of my talk, I will suggest some reasons why their approach has gone down so badly.

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<sup>4</sup> Mathew Charles, 'Samuel; Apologise,' 3/11/05, Herald Sun, p 33

<sup>5</sup> Media Release, Telstra strategy for growth, 15/11/05; Telstra's ASX statement, 'Telstra Technology Briefing', 16/11/05, p 6 – 8

<sup>6</sup> Telstra ASX Statement, 'Fibre to the Node', 22/12/05

And thirdly, I want to talk briefly about why it matters – not just because it’s a grimly compelling case study for the communications profession, but because there is a lot at stake for Australia.

### The outcomes

Since Telstra’s new American management team started their aggressive campaign in mid 2005, what outcomes have they delivered?

Well, firstly, the share price has fallen from \$5.04 as at Friday 15 July, to \$3.82 at yesterday’s close – a fall of almost 25%.<sup>7</sup>

Secondly, Telstra has not gained acceptance of its fundamental argument - that it is overregulated and that the regulatory regime should be relaxed. Minister Coonan, for example, has stated:

‘...if Telstra is relying on it being wound back, that is not an approach that is likely to be successful...Telstra is already one of the most profitable companies in the world.’<sup>8</sup>

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<sup>7</sup> Steve Lewis, James Riley, ‘Telstra’s plea for free hand’, The Australian, 18/7/05, p 8

<sup>8</sup> Belinda Tasker and Jeff Turnbull, ‘Fed government angered by Telstra comment’, Canberra Times, 2/12/05; The Treasurer has also rejected Telstra’s argument – and its campaign – saying ‘The regulatory regime is set by the Government ... There is no point in complaining about the regime all the time,’ Scott Murdoch and Mathew Charles. ‘Costello: Get on with it,’ Herald Sun, 18/11/05, p 49

Comments from backbenchers suggest that Telstra has gone backwards. For example, Senator Gary Humphries had this to say about Telstra's lobbying on wholesale broadband prices:

'I am frankly deeply suspicious that this is about Telstra snookering their competitors in urban areas.'<sup>9</sup>

Telstra hasn't done much better with the media. After a lengthy briefing on Telstra's regulatory strategy, the AFR's Chanticleer Column had this to say in December last year:

"Telstra's entire regulatory case is based on an arrogant belief that it is above the law and should be afforded special treatment to avoid public testing of its regulatory exemption...Burgess's attempts to cry poor at the hands of regulators is, of course, in stark contrast to the fact that it enjoys profit margins of 48 per cent plus."<sup>10</sup>

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<sup>9</sup> David Crowe, 'Telstra target in coalition party-room criticism', Australian Financial Review, 29/3/06 p 5

<sup>10</sup> John Durie 'Arrogant Telstra wants no scrutiny', Australian Financial Review, 2/12/05, p 84. Elizabeth Knight in the Sydney Morning Herald was also unimpressed; 'What is more difficult to understand is why Telstra persists in this public attempt to bludgeon the Government repeatedly with the same two by four when it gets the same answer with each strike.' Elizabeth Knight 'Telstra keeps singing the same sad all tune', Sydney Morning Herald, 2/12/05, p 25. In the News Limited papers Terry McCrann didn't rate it either. 'We haven't heard from ... Phil Burgess for some time. Yesterday he appeared to speak less aggressively, but in compensation he turned up the nonsense quotient.' Terry McCrann 'Telstra declares war', Herald Sun, 2/12/05, p 53

Nor have the financial markets accepted Telstra's core argument – that its profits are falling because it is regulated too heavily.

For example, Morgan Stanley wrote in a research report:

‘The company’s problems are due to increasing competitive intensity and not because Telstra itself is...operating under an onerous regulatory regime.’<sup>11</sup>

Now you might think that when you are getting reviews as disastrous as this, it would be time to pull your head in.

But not the irrepressible Dr Phil Burgess. Shortly after the Chanticleer piece I have quoted, he commented:

‘One of the few things you can do if you’re losing is increase the salience of the issue...When your power position is negative...when the feelings of goodwill are gone, the only thing left to change, to work on, is salience. That’s what we’re doing, that’s our strategy, that’s the way we decide when to turn up the knobs and when to turn them down, and so far in our view it’s worked pretty well to get our issues discussed.’<sup>12</sup>

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<sup>11</sup> Morgan Stanley Research Report, 26/10/05 “Telstra Corporation – There is no magic wand”

<sup>12</sup> David Crowe, ‘Telstra will keep debate alive,’ Australian Financial Review, 12/12/05, p 5

Now, Telstra might say that it does not matter if the Government is cross and the headlines are bad, if gets the regulatory changes it wants.

But the results so far are not promising:

- Telstra proposed a \$6 billion build out of a six megabit per second broadband network in August 2005, if the Government legislated to give it an access holiday<sup>13</sup> – and the Government said no.
- Telstra proposed a \$3.1 billion build out of a 12 megabit per second broadband network in November 2005 if the Government legislated to give it an access holiday<sup>14</sup> - and the Government again said no.
- Telstra threatened to set rural line rentals higher than in the cities if the Government did not overrule the ACCC on the pricing of wholesale broadband services – and the Government in December 2005 imposed new regulations which said to Telstra – ‘no, you cannot do that.’

But Dr Phil isn't worried – he's still twiddling those knobs.

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<sup>13</sup> The Digital Compact and National Broadband Plan: A Summary, p8 (part of Telstra ASX release, 'Telstra releases briefing paper,' 7/9/05, within p11 of pack entitled Telstra; The Path Forward)

## Why Telstra's Approach has Failed

For those of us in closer touch with reality than Dr Phil, it's instructive to consider why Telstra's public affairs strategy has not succeeded.

I'd suggest there are five main reasons:

1. Telstra's style and tone is shrill, hyperbolic and personal.
2. Telstra demands everything be done its way or not at all.
3. The advocacy is not fact based but the opposite – an approach which draws on many unattractive features of the world of partisan US think tanks.
4. They have not sought to understand local conditions, but have assumed that the Australian facts can be force fitted to a US template.
5. Their central argument about the effects of regulation is simply wrong.

Let me give you some evidence to back these claims.

### *1. Telstra's style and tone is shrill, hyperbolic and personal*

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<sup>14</sup> Media Release, Telstra strategy for growth, 15/11/05; Telstra's ASX statement, 'Telstra Technology

My first claim is that Telstra's style and tone is shrill, hyperbolic and personal.

Consider this quote from Dr Phil, for example:

'The consequences of all these proposed regulations would be disastrous. They would destroy the value of Telstra.'<sup>15</sup>

In another interview he claimed that the regulations would mean that:

'Telstra at T3 would be a much smaller company than we see today...it will essentially be a government-regulated infrastructure company.'<sup>16</sup>

Or this from Telstra Chairman Donald McGauchie:

'The proposals that the ACCC have got out there now are becoming almost hysterical in their behaviour to driving down prices.'<sup>17</sup>

When you crank up the hyperbole like this, your credibility suffers.

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Briefing', 16/11/05, p 6 – 8; Media Release 'Telstra seeks investment certainty for IP network', 1/12/05

<sup>15</sup> Colin Kruger and Mark Coultan 'High Noon for Trujillo and his three amigos', The Age, 30/8/05, p 1 Business News

<sup>16</sup> David Crowe, Tony Boyd and Laura Tingle, 'Howard calls rebels into line on Telstra', Australian Financial Review, 17/8/05

<sup>17</sup> Donald McGauchie, Business Sunday Transcript of Interview, 30/10/2005

Making it personal is even less effective. Dr Phil, for example, essentially suggested that the Government – and by implication the individuals who are involved in policy setting – is deluded.

‘We are stunned and perplexed that people do not understand the severity of the damage [the Government] is going to do to Telstra. They are on a dangerous course and somebody needs to pull them back to reality.’<sup>18</sup>

No wonder he apparently can’t get a meeting in Parliament House!

It’s not just Dr Phil. Telstra Chair Donald McGauchie has been at it as well, in his attacks on the regulator.

McGauchie said on Business Sunday that:

‘If I could give a mark to the ACCC on policy on communications, I’d give them a zero.’<sup>19</sup>

He followed this up with a letter to ACCC Graeme Samuel, which he released publicly to the Stock Exchange, accusing Samuel of having subjected Telstra executives to ‘a diatribe of sarcasm, derision and ridicule.’<sup>20</sup> McGauchie also said he would be

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<sup>18</sup> David Crowe, ‘Telstra drops buyback as rift deepens’, Australian Financial Review, 2/9/05, p 1

<sup>19</sup> Donald McGauchie, Business Sunday Transcript of Interview, 30/10/05

<sup>20</sup> Gary Barker, ‘Telstra Backs Off On Samuel,’ The Age, 9/11/05, p 1

making a formal complaint about Samuel to Government Ministers.<sup>21</sup>

Telstra's corporate affairs foot soldiers have quickly followed the lead of their new masters, pumping out a steady stream of ad hominem attacks on the regulator. Consider this comment from Telstra spokesperson Rod Bruem:

'Unfortunately the ACCC is not prepared to let the facts get in the way of its determination to cripple Telstra.'<sup>22</sup>

## *2. Telstra demands everything be done its way - or not at all*

Telstra's second problem is that it demands everything be done its way - or not at all.

We saw that in Telstra's threat to push rural line rental prices up above city prices if they didn't get the outcome they wanted on wholesale broadband regulation. Indeed, when Telstra Chairman Donald McGauchie went on Business Sunday, he really cranked up the scare meter, saying that 'there are people [in the bush] who

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<sup>21</sup> Gary Barker, 'Telstra Backs Off On Samuel,' The Age, 9/11/05, p 1

<sup>22</sup> Katharine Murphy, 'Samuel's year of living decisively', 24/12/05, Weekend Australian, p 23

could pay ten times what they are currently paying for their access.’<sup>23</sup>

Similarly, Telstra threatened that it would not build a high bandwidth fibre to the node network unless the Government legislated for an access holiday – using the ACCC’s existing exemption process was not good enough.<sup>24</sup>

When the Minister for Communications stated publicly that no such legislation would be forthcoming, Telstra announced on 21 December that the network rollout was on hold.<sup>25</sup>

Of course, the problem with this kind of aggressive brinksmanship is that you can look a bit foolish when you step back from the brink.

In April this year, we learned that in fact Telstra was in discussions with the ACCC about using the existing exemption process.<sup>26</sup>

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<sup>23</sup> Donald McGauchie, Business Sunday Transcript of Interview, 30/10/05. Telstra’s spinmeisters later rushed to clarify – he was talking about wholesale prices not resale prices. But the threat had landed out there as he wanted, and featured prominently in news reports the next day.

<sup>24</sup> Telstra Media Release, ‘Telstra seeks investment certainty for IP network, 1/12/05

<sup>25</sup> Telstra ASX Statement, ‘Fibre to the Node’, 21/12/05

<sup>26</sup> ACCC Media Release, ‘ACCC reassures industry on Fibre to the Node discussions with Telstra’, 12/4/06

Those discussions are led by our old friend Dr Phil – the very man who was so adamant in December that the existing process was no good.

But Dr Phil explained the reversal of position by saying that he had found Graeme Samuel to be “a big thinker, a new paradigm thinker”.<sup>27</sup>

Monopolist praises competition regulator – never a good sign.

The ACCC would do well to remember the essential characteristic of monopolists – they want it their way or not at all.

This has been starkly revealed in Telstra’s response last month to a proposal from Optus and other telcos for joint investment with Telstra in the new national broadband network.

This is a self-serving, pick-pocket plan to rip off Telstra's shareholders and taxpayers. What they are doing is becoming the ultimate parasite on Telstra's network.<sup>28</sup>

So Telstra wants generous regulatory concessions but refuses to give anything in return.

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<sup>27</sup> Garry Barker, ‘Warmer climate at Telstra’, Age, 6/5/06

<sup>28</sup> Roz Alderton, AAP Newswire, 21/4/06

These recent comments from Telstra stand in stark contrast to what Sol Trujillo said in August last year. Sounding sweetly reasonable on industry cooperation, he said then:

‘We have to get an industry focus on meeting these challenges. Getting the best possible telecoms service to everyone is not going to be solved by Telstra acting alone. We know Optus or Primus won’t do it alone...All of the industry – Telstra included – needs to work together.’<sup>29</sup>

We’ve seen plenty of other areas where Telstra demands things its way - or not at all.

Late last year, Telstra announced that it will be shutting down the CDMA network which serves rural Australia.<sup>30</sup> No consultation with affected stakeholders – they’re just doing it.

Optus has 40,000 resale CDMA customers. We got no notice of Telstra’s plan. When we asked what it would mean for our customers, we were bluntly told that it was unlikely that Telstra would provide resale services on the replacement network.<sup>31</sup>

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<sup>29</sup> ‘Yesterday, Today and Tomorrow – Telstra’s Commitment to Regional, Rural and Remote Australia’, Statement by Sol Trujillo to the Telstra Country Wide Advisory Board, 2/8/05

<sup>30</sup> Media Release “Telstra’s strategy for growth”, 15/11/05

<sup>31</sup> Letter from Telstra Wholesale to Optus 4/1/06 ‘Telstra’s Recent CDMA Announcements’

*3. The advocacy is not fact based but the opposite – an approach which draws on many unattractive features of the world of partisan US think tanks*

Telstra's new style of advocacy is, unfortunately, long on hyperbole and aggressive claims – and short on analysis and facts.

I'd suggest that we are witnessing the application of techniques which are common in the world of partisan Washington DC think tanks. This is a world very familiar to Dr Phil Burgess who served on the board of the Washington-based Progress and Freedom Foundation<sup>32</sup> for a number of years.

A US website which tracks such think tanks notes that the PFF has various incumbent telcos, such as BellSouth and Qwest, among its supporters.<sup>33</sup>

In the last US presidential election we saw a prime example of the techniques commonly used by such groups. George W Bush was facing in John Kerry someone who earned several medals for his bravery when commanding a gunboat during the Vietnam war.

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<sup>32</sup> About PFF, Who we are, Board of Directors, Directors Emeritus  
<http://www.pff.org/about/board.html#burgess>

<sup>33</sup> [http://www.sourcewatch.org/index.php?title=Progress\\_and\\_Freedom\\_Foundation](http://www.sourcewatch.org/index.php?title=Progress_and_Freedom_Foundation)

Suddenly, a previously unheard of group ‘The Swift Boat Veterans for Truth’, entered the debate. They claimed that John Kerry made up his war record. They simply kept repeating it – and because Kerry thought it was beneath his dignity to respond, a surprising number of people believed it.

In the Australian telecoms debate, we have seen Telstra’s new management consistently claim that they are opposed to regulation because it harms competition.

In August last year, Sol asserted:

‘They are rules that belong to the last century. Instead of fostering competition, they hinder it.’<sup>34</sup>

In September Dr Phil claimed that:

‘The public knows the cost of regulation and how it limits consumer choice, reduces competition, disadvantages rural and remote areas...’<sup>35</sup>

Later that month, Dr Phil’s offsider Dr Tony Warren – known within Telstra as ‘the Aussie doctor’ – was parroting the same

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<sup>34</sup> Jason Koutsoukis, ‘Rural obligations unfair, say Telstra chief’, The Age, 3/8/05, p 6

<sup>35</sup> Garry Barker, ‘Telstra’s float protagonists hampered by a lack of communication’, Age, 3/9/05, p 2

line, asserting that Telstra was opposed to operational separation because it would ‘dull competition.’<sup>36</sup>

This is like the fox saying he is opposed to the chicken coop because the poor little chickens should be allowed to run free.

These guys have zero interest in competition. They have every interest in trying to recapture their monopoly as quickly as possible. But they are using the technique of saying the diametric opposite of what they really mean.

That technique may work in US politics – but let us hope that Australia’s public advocacy culture is not so credulous.

We have seen Telstra’s new approach at close hand in its furious lobbying of MPs over regulation of wholesale broadband prices. Telstra was caught out making not one but two claims which did not stand up to scrutiny.

First, Telstra selectively quoted an OECD report – citing it as supporting an averaged approach to wholesale prices and failing to cite a statement further down the page that the preferable approach is the opposite, or cost-based, approach.<sup>37</sup>

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<sup>36</sup> Mathew Charles, ‘Telstra rejects break up,’ Courier Mail, 21/9/05, p 25

<sup>37</sup> Telstra has repeatedly cited an OECD report as supporting its position that wholesale prices should be set on a national average basis: ‘... if the regulator wishes to preserve the geographically averaged structure of end user prices, it is essential to geographically average ULL prices.’ ‘Access Pricing in

Secondly, Telstra told regional and rural MPs that under its approach wholesale prices would go down in their electorates. In fact, under the outcome Telstra wanted, prices would in fact go up in many regional centres such as Cairns, Townsville, Toowoomba, Shepparton and Albury.

You can imagine the impact when Optus subsequently pointed out the facts to MPs. For example, Steve Ciobo MP was quoted as saying that he was ‘exceptionally uncomfortable’ with Telstra’s arguments.<sup>38</sup>

On this same issue, Telstra also made some very big claims about the loss it would suffer - \$800 million a year – if it did not get its way. Yet when Telstra was challenged to substantiate this number, it engaged in a desperate scrabble to back fill with some vaguely plausible calculations.

Telstra CFO John Stanhope issued a stock exchange statement on 3 November, claiming that \$800 million was the loss Telstra would suffer in *rural* areas from the decision.<sup>39</sup>

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Telecommunications’ OECD Report 2004, p 134. By contrast, Optus is arguing for the opposite approach, under which the wholesale broadband price is set by reference to Telstra’s cost – which varies in different parts of the country. So when we checked the OECD report, we were surprised to find that after the statement Telstra quoted, the report went on to say: ‘A preferable approach...is to set the price for unbundled local loop equal to the ‘cost’ of those loops ...’ ‘Access Pricing in Telecommunications’ OECD Report 2004, p 134 and 135

<sup>38</sup> David Crowe, ‘Telstra target in coalition party-room criticism’, Australian Financial Review, 29/03/06

<sup>39</sup> John Stanhope, Letter to Graeme Samuel, lodged with ASX 3/11/05

Unfortunately, it seems our old friend Dr Phil didn't bother to read this statement before rushing out with his own explanation which appeared in The Age on 4 November.<sup>40</sup> Dr Phil said the \$800 million was the loss Telstra would suffer in *metropolitan* areas – and offered a completely different basis of calculating it.<sup>41</sup>

No wonder that respected columnist Alan Kohler had this to say:

“Actually there are two figures, not one, and neither is \$800 million. They are known as the ‘Stanhope number’ ... and the ‘Burgess number’... Each of these numbers is pure nonsense and will backfire because even cabinet ministers will see through them.”<sup>42</sup>

*4. They haven't sought to understand local conditions – instead they have tried to force fit the facts to their US storyline*

The next problem with the Telstra strategy is that they have not bothered to understand the local conditions. They've simply assumed they can keep using the same storyline that worked in the US.

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<sup>40</sup> Garry Barker, 'Sol's man pleads for lighter touch,' Sydney Morning Herald, 4/11/05, p 25

<sup>41</sup> Telstra gave a different explanation again when it appeared before a Senate Estimates Committee on 31 October. Telstra spokesperson Kate McKenzie first said that Telstra's loss from the wholesale broadband pricing decision would be \$800 million – and then said that the number was in fact for a whole range of regulatory decisions. Hansard, Senate Environment, Recreation, Communications and the Arts Committee, 31/10/05, p 121 and 122

<sup>42</sup> Alan Kohler, 'Here's why Telstra is ridiculous and Samuel is intrepid', Age, 9/11/05

One example is the almighty political fight that Telstra has bought itself by unilaterally deciding to shut down the CDMA network. The briefest study would have shown the similarities with the phase out of the AMPS network in 2000 – and the political difficulties it raised.

Telstra is now exposed to a substantial risk of Government intervention to delay or reverse the shut down of CDMA, especially with a federal election looming in 2007. There is no doubt the Government has the power to do it, by imposing a licence condition on Telstra – and I expect it will come under substantial political pressure to exercise that power.

As the expression goes, those who ignore the lessons of history are condemned to repeat them.

Example number two: for some time, Sol and Dr Phil repeatedly claimed that Optus bears no regulatory obligation to serve the bush.<sup>43</sup> They appeared to be genuinely ignorant of the fact that Optus has a regulatory obligation to contribute towards the cost of the universal service obligation, and last year we contributed over forty million dollars in cash to Telstra for that purpose.

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<sup>43</sup> Mathew Charles and George Lekakis, 'Telstra leader bashes the bush,' Courier Mail, 1/9/05 p1

Example number three: Sol Trujillo frequently complains that Government regulation is hurting Telstra's profitability. For example, when he was interviewed on Business Sunday in October 2005, he said:

... [the] regulatory environment in Australia has treated Telstra in ways that haven't been shareholder value creative. They have been value destroying.<sup>44</sup>

Taking this comment at face value, it seems that Sol is somehow surprised that regulation is reducing Telstra's profitability.

In fact, encouraging competition and hence reducing Telstra's monopoly rents is the Australian Government's explicit and stated policy – as Sol could have easily have found out before he took the job.

In their comments and actions, Telstra's new management have repeatedly revealed their assumption that Australia is just like the US, so they can keep reading from the same script.

For example, Telstra imported a self-described American American expert, Dr Jeffrey Eisenach, who claimed that Optus is running down traffic on its own cable network and shifting traffic

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<sup>44</sup> Sol Trujillo, Business Sunday, Interview Transcript, 30/10/05

across to Telstra's network – the same pattern as he had observed back home.<sup>45</sup>

If he'd bothered to check the facts, he would have found that the number of cable modem customers on Optus' cable network has risen every quarter for the last seventeen quarters, and as at March 2006 stood at 289,000.<sup>46</sup>

Similarly, when Sol Trujillo says that 'there's a big difference between the regulations Telstra faces compared to regulations in other parts of the world,'<sup>47</sup> what he really means is the regulations in the US.

In reality, the regulations in Australia are in line with those of other countries in which the former Government owned monopolist has been privatised and opened up to competition – countries like Britain, France, Germany and New Zealand.

Sol and Dr Phil want to import the American rules to Australia.

But unless they import a whole lot of other features of the

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<sup>45</sup> "If you look at Optus and some of the competitors in Australia, you have the same phenomenon of companies actually moving customers off their own networks, as they were doing here in the United States, and moving them on to a resale regime." Jeff Eisenach, 1/12/05, transcript on Telstra website. Incidentally Eisenach is the founder of the Progress and Freedom Foundation – the think tank that Dr Phil previously served on the board of. See [www.pff.org/about/board/html](http://www.pff.org/about/board/html)

<sup>46</sup> Optus MD&A 31/3/06 p 48. It is true that fixed line voice customers on the Optus HFC network have declined modestly. But this is due to the general decline in PSTN lines which Telstra is also experiencing on its own network; it is not due to an Optus policy of preferring Telstra's network over its own, as there is no such policy and indeed such a policy would be economically irrational for Optus.

American scene to Australia, their case for US style regulation is still born. For example:

- in the US most homes are served by at least two physical networks, the phone company and the cable TV company;
- in the US there is no company with anything like the kind of market dominance which Telstra has in Australia;
- in the US the Government forced the incumbent telco AT&T to be split up into eight different companies in 1982.

*5. Their central argument simply is not true*

I've talked a lot today about Telstra's methods as it has gone about its public communications and advocacy – and argued that flaws in those methods have been a key part of the poor outcomes achieved.

But I've saved the most important problem to the end.

All the sound and fury, all the tub thumping by highly paid Telstra executives, imported from Denver at vast expense, comes down to one central claim. Telstra says its financial position is

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<sup>47</sup> 'Yesterday, Today and Tomorrow – Telstra's Commitment to Regional, Rural and Remote Australia', speech by Sol Trujillo to the Telstra CountryWide Advisory Board, 2/8/05

getting worse because it is regulated too heavily, and hence regulation must be wound back.<sup>48</sup>

This is simply not true.

If they were a year nine debating team, you'd give them 30 out of 40 for manner, 5 out of 20 for method – and 5 out of 40 for matter.

The facts are very clear.

One: Telstra is an enormously profitable company. It earned over \$4.3 billion in profit last year and its overall EBITDA profitability margin was nearly 50%.<sup>49</sup>

Two: Telstra's profit engine room is its local access network. Telstra's secret briefing document, which it was forced to disclose to the stock exchange, showed that EBITDA margins on its fixed line products varied from 52% for line rental up to an incredible 88% for long distance.<sup>50</sup> Just to repeat that, eighty eight cents in

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<sup>48</sup> For example, Don McGauchie told the 2005 AGM: '...Telstra's problems today are systemic – and we believe they are largely a result of the regulatory distortions triggered by the conflict of interest that is inherent in Government being owner and regulator during the sell down of its stake.' Don McGauchie, Address To Shareholders, Telstra Annual General Meeting 2005, p 5

<sup>49</sup> Telstra ASX release, 'Full Year 2005 Results – analyst briefing', slide 4 – FY05 EBITDA \$49.4 billion, PAT \$4.3 billion.

<sup>50</sup> Telstra ASX Release, 'Telstra releases briefing paper,' 7/9/05, p 11 of pack entitled 'Telstra: The Path Forward.'

every dollar that Telstra charges you for a long distance call, it keeps as profit.

Three: the very profitable fixed line business is gradually declining – last year by 3.3%.<sup>51</sup> This is happening at Telstra for the same reason as it is happening at incumbent telcos all around the world – with almost everybody having a mobile, and mobile prices getting steadily cheaper, there is a gradual shift of voice traffic away from the fixed network.

It has nothing to do with the Australian regulatory system.

At the end of the day, if you have a public affairs strategy which is predicated on a central message which is factually wrong – you are not going to get very far.

### Why does it all matter

I hope you'll agree that Telstra's public affairs strategy over the past nine months makes for a fascinating and often grimly entertaining story.

But does it have any broader significance than that?

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<sup>51</sup> Telstra ASX Release, 'Telstra releases briefing paper,' 7/9/05, p 9 of pack entitled 'Telstra: The Path Forward.' Interestingly, the argument in these last three paragraphs comes straight from this briefing pack, which we believe to be based on analysis prepared for Telstra management by Bain management consultants. That is, Telstra's public argument - which blames it all on regulation – is quite different to

I'd suggest to you that it does.

The sound and fury from the boys from Denver might be entertaining – but the purpose behind it is a very troubling one for anybody who cares about Australia's productivity and competitiveness.

These guys want Telstra to be free of regulation – which would be a disastrous result for competition in Australia.

They want to shift the focus away from their own performance as managers – by using the regulatory regime as a convenient scapegoat.

They want to distract people from the anticompetitive behaviour which they are pursuing with enthusiasm – such as jacking up the wholesale prices they charge competitors so they are higher than retail prices.

The fact is, for Australia to perform well economically we need vigorous competition in all sectors of our economy – including telecommunications. That is why the federal Government introduced new rules for all networked industries in the nineteen

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the private advice it has been getting, which is that the problems Telstra faces are the same problems which incumbents all around the world (under many different regulatory systems) face.

nineties – not just telecommunications but also gas, electricity, water and rail to name just a few – to stimulate competition.

Our national economic performance has improved sharply as a result – and we are all better off.

### Conclusion

Ultimately a public affairs strategy must reflect the business strategy – and the values – of a company’s senior management team.

I have argued today that Telstra’s public affairs strategy has been profoundly ill-judged.

As Government prepares to make important decisions about Telstra privatisation – and Telstra’s latest round of special pleading on its fibre to the node network – the public policy process in this country faces an important test.

Will we continue to value rational, fact based argument grounded in an objective of improving Australia’s national economic performance?

Or will we succumb to the hyperbolic pleadings of some self-interested short term visitors.

Time will tell.