

**ADDRESS BY
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Ladies and gentlemen, colleagues in the telecommunications industry.

It is a pleasure to be here today, and to have this opportunity to participate in this important event, and to contribute to the development of thinking on competitive issues at this important time.

Telstra also has been looking forward to this opportunity to address the topic of competition in telecommunications – particularly competition in rural and regional areas.

So much of what is said and heard about competition – right across the spectrum, from policy makers, industry bodies, consultants and competitors – is increasingly at odds with my daily experience and reality.

Be in no doubt, there is a genuine commercial war going on out there in the market place – a hard fought, sometimes-bitter battle for the rural and regional telecommunications customer.

While we at Telstra Country Wide fight hard to keep our customers in this competitive market, we fight fair.

Today I will address some of the myths about competition in the bush, and the positions of the various players.

But firstly, and importantly, I want to emphasise the real and positive contribution Telstra Country Wide has already made, and continues to make, to telecommunications services and general advancement in rural and regional Australia.

In just a few weeks, on June 4, we celebrate our fifth year of operation. Telstra Country Wide has put management presence back into rural, regional and outer metropolitan Australia. Our on-the-ground staff, our business model and philosophy, have taken decision-making closer to the communities we serve.

That change has transformed our operations in rural and regional Australia.

Telstra Country Wide is a relatively small management, sales, service and marketing operation, building on the capabilities of Telstra. We help ensure best value for our customers and for Telstra, by prioritising infrastructure, products and services based on improved and intimate customer knowledge. We do this by working with the larger Telstra organisation, leveraging existing processes, systems and products, not by replicating them.

In addition to improved customer services, our recent focus has been on improving internet access, particularly to broadband internet, and better mobile phone coverage.

Telstra Country Wide has shown leadership by developing innovative, effective and commercial approaches to opportunities offered by the government to the industry to further improve regional telecommunication services. We have achieved this by keenly competing for, and sometimes winning, available infrastructure funding.

The Australian Government's HiBIS program, open to competing ISPs, has been operating for just 12 months. Telstra has used the incentive to so far upgrade more than 460 exchanges in rural areas, providing ADSL access to more than 398,000 additional lines as a result.

Already, and significantly, ADSL access is now available to 85% of customer lines nationally.

Again through our innovation and application, and facilitated by the various Besley mobiles funding initiatives, we have significantly increased CDMA mobile coverage in Australia, with coverage now being available to more than 98 per cent of the population and one-fifth the continent.

And we are now in the process of providing coverage to some 62 remote centres through the \$15.6 Million Estens' mobile project, including a number of Indigenous communities.

Last year we completed the \$31 million full upgrade of the CDMA network to make high-speed mobile data (1xrtt) available throughout the CDMA footprint. This is a major investment in a technology with wide and beneficial application throughout rural and regional Australia, and including health and education sectors.

In 2002 we introduced Telstra Mobile Satellite for customers beyond even the extensive reach of our terrestrial mobile services.

We have introduced two-way satellite internet services, now at significantly reduced prices as a result of HiBIS, and the very popular Broadband Regional Connect, a combination of ISDN and 1-way satellite.

And we continue to find innovative solutions to uniquely rural telecommunications issues.

As one of many examples, at present we are trialling with a company called Allflex a package that combines a Bluetooth reading wand with our I-mate PDA, cleverly providing a one-stop solution to allow farmers, pastoralists or graziers to easily read and record livestock ear-tags and transmit data in response to the new National Livestock Identification program.

In addition to the product and service side, there are other benefits of Telstra Country Wide's presence in, and commitment to, rural and regional Australia. These include our involvement in hundreds of community-based sponsorships, and support for regional development bodies, chambers of commerce and other grass roots activities.

In spite of all this, with T3 looming, and the battle lines more tightly drawn, many competitors and would-be competitors have

stepped up their rhetoric in an attempt to win a range of regulatory concessions and positions before a sale.

Let us look at some of the great myths afoot.....

The first claim is *Telstra will behave much differently when privatised.*

An example of this can be found on record in the recent SingTel Optus submission to the Senate inquiry into the performance of Australia's telecommunications regulatory regime. Let me quote it:

1.4) It is likely that Telstra is on its 'best behaviour' while a full sale is on the agenda in an effort to maximise support for the sale. As a provider that faces Telstra in the market every day, we expect that Telstra will become a more aggressive competitor after privatisation.

Lets be clear. That such a position could be put on the public record is indicative of attempts to win business by fiat not performance. We do not apologise that, we have a business to run, customers to service and shareholders to satisfy. Our customers and thoughtful stakeholders know that ultimately, the sustainability of our business, and to be complete, those of our

competitors, is best guaranteed by a regulatory environment that rewards investment and innovation.

Telstra develops products and offers which are intended to be as competitive as possible. Our customers deserve and demand nothing less. And we do it within a comprehensive and – we would argue – robust regulatory regime. And we do it within the letter and spirit of the law of the land!

Nothing about that changes with ownership. The regulatory and legislative regime that governs Customer Service Guarantees, the Universal Service Obligation, provision of 000 services, price caps, and the various license conditions that control Telstra's activity will be the same. It is not a matter of being well behaved for some short time objective. We are driven daily by an effective combination of commercial and competitive objectives, backed by a strong regulatory and licence framework.

A second claim is that: *There is no or ineffective competition west of the Blue Mountains because Telstra owns the copper network.*

Recently it seems common to pick up the newspaper and see a story claiming that there is no or ineffective competition in Australia's telecommunications market.

It is clear to me that the main motivation for claims of lack of competition, certainly from competitors, or their associations, is to try and extract further regulatory concessions and controls on Telstra with the aim of boosting their market share relative to Telstra, and thus, increasing the value of their Australian operations.

It is hard to believe, given some of the "cry poor" rhetoric from our major competitors that many of them are huge and successful foreign multi-nationals. The so-called "lack of competition" is a stalking horse for the additional concessions they seek in terms of regulatory breaks to minimise their own spending and maximise profits, at the direct and indirect expense of Australian shareholders, Australian customers and Australian taxpayers.

Claims about so-called anti-competitive behaviour go unsubstantiated – all the jockeys are cheering in the stands as one regulator recently noted.

Let me give you an alternate view of the competition landscape.

The fact is, there is a highly regulated access regime in Australia that requires Telstra to make its infrastructure, and declared products such as the telephone service, available to any competitor with the appropriate licence, at a regulated price. There is a fundamental framework put in place to ensure fair access by other carriers to customers on Telstra's networks.

This type of "resale" competition ensures that consumers have a choice of suppliers, whether they live in Nunawading or Nhill, Mosman or Manangatang, Granville or Gulargambone.

There are few, if any, customers in rural and regional Australia who have not received a call, or more likely, calls from AAPT, Primus, Optus, Southern Cross or a myriad of smaller players, offering a range of inducements to switch carrier.

In fact, looking at customer movements in and out of Telstra Country Wide in the first eight months of this financial year, I estimate that around 17 per cent of our customer base will have been affected by "churn" in this full financial year. While that is total customer movements in and out, how can anyone say there's no competition in rural and regional areas?

Thankfully, we are pretty effective at winning customers back – no doubt helped by customers realising, after they move, that the grass isn't always greener in another telco's back yard.

However, in this context it is hard to accept the proposition that there is no or insufficient competition for services provided over the customer access network....nor the blithe assertion the situation "would" naturally be even worse in rural and regional markets.

This flawed proposition has given oxygen to the startling and unworthy suggestion from some competitors that, where they have won a customer from Telstra, we should not be able to market to them for 18 months!

Let me provide further evidence of the existence of vigorous and extensive competition on the CAN, particularly in rural and regional Australia.

Telstra Country Wide does regular market surveys tracking the effectiveness of our promotional campaigns and market activity generally.

We recently asked our team to provide an analysis of the nature of marketing activity being experienced by telephone users in

the remote areas called the Extended Zones. Being analysed by post code, this also captured phone users in associated service towns with which they share a post code.

Figures were drawn from surveys conducted in the period April 2004 to March 2005.

- 30% of remote phone users had received outbound contact from one of Telstra's competitors in the previous three months – a slightly higher figure than metropolitan customers.
- As their most recent contact, 32% could recall being outbound telemarketed to in the past three months by a competitor – compared with 18% for metropolitan customers.
- As you would expect, there was a lower rate of face-to-face contact in the previous three months – at 3% compared to 6% for metropolitan customers, but clearly this is a less utilised marketing form overall in this market, and the gap is not dramatic.

I don't know if many of you are surprised by this level of market activity and competition for services, most of which would have been provided, and are maintained by Telstra under the USO – but it certainly focussed my attention on ensuring we

have very competitive offers in the market place. But it also reveals some very important insights into the level of competition that exists in reality, not in theory, in this market. It also indicates the attractiveness of these customers to our competitors, evidencing the success of the regulatory arrangements.

To anyone who has really analysed the impact of several regulatory measures IN COMBINATION, this level of market activity should not seem unrealistic.

Lets look at the facts:

- It costs a competitor no more to connect a re-sale customer in rural and remote Australia – those connections are covered by Telstra’s obligations under the Universal Service Obligation.
- It costs no more for a competitor have a fault fixed for a customer on Telstra’s network in rural and regional Australia – after all, that is also done by Telstra under the Universal Service Obligation.

So for a competitor, there is no greater cost in servicing this customer, though there is undoubtedly a significantly higher underlying actual cost to, for example, have a Telstra tech drive four hours to a remote customer.

And yet you hear competitors continually complain that the USO is a burden on the rest of the industry!

And of course, these connections and repairs are done in accordance with CSG timeframes, regardless of who their carrier is. Further, accounting separation reports show there is no pattern of favouring retail customers over wholesale customers.

The fact that Accounting Separation reports have not revealed any systemic discrimination has not quietened critics.

Let me put something to you here today. Could it be that the current regulatory regime is already working as intended?

There are sound national economic reasons to have infrastructure working at optimum utilisation. Any arrangements that distort this compromise the national interest, and may well, in the longer term, suppress investment, reinvestment, and technology renewal.

Which brings me turn to a third claim: *That competitors will build new infrastructure in rural and regional areas if there*

were just tighter regulation on Telstra (or more breaks for them).

SingTel Optus has argued in its submission to the Senate regulatory inquiry that it needs a 10 cent local call resale rate in order to develop a sufficient resale customer base (and bundle of money) to justify it investing in its own DSLAM infrastructure.

For them, that larger resale base, it is argued, would provide the economy of scale to allow it to migrate customers away from resale arrangements onto its own network – *as it achieved with the forced closure of the analogue AMPS.*

It would be pretty reasonable to argue that the SingTel Optus migration strategy to GSM may not have been so successful without the mandated closure of AMPS.

The Singtel Optus CEO elaborated on his plan in *The Australian* on May 4.

He says Optus has its own ADSL equipment in 150 exchanges, they are preparing to provide access in another 150 to 200 exchanges and claim their cable coverage is equivalent to broadband coverage in another 200 exchanges. However, to reach what he claims would be 95 per cent of the population,

competitor equipment would need to be installed in 800 Telstra exchanges.

However, 12 months ago, even before the commencement of the HiBIS program, Telstra had already installed ADSL services in more than 1000 exchanges.

From many of these 1000 or so exchanges, which at the time provided access to round 80 per cent of customer lines, SingTel Optus has been able to, and has been, re-selling Telstra-installed ADSL services.

Beyond this number of exchanges you are generally talking about reaching smaller regional centres and rural communities with fewer than 1500 telephony services in operation, maybe somewhat fewer taking into account the transmission limits.

With the assistance of HiBIS funds Telstra is investing to establish ADSL in towns like Mallacoota, with 850 PSTN lines at the exchange; Violet Town Vic, less than 600; likewise Fern Tree Tas; and Gunning nearby Canberra, less than 500 PSTN lines. Others could, but we are.

We have now invested in ADSL at more than 1600 exchanges in total, around two thirds of which are in Telstra Country Wide areas. Real investments, real results, for real customers.

From the more than 460 exchanges we have enabled since HiBIS, resale ADSL access is available to competitors.

With the suggestion that Optus could provide its own ADSL plant in somewhere between 350 and 800 exchanges – with additional assistance, Mr O’Sullivan is not really elevating more Australians from what he called the “electronic flatlands”, but making a bald-faced grab for a subsidy to build infrastructure in the lucrative provincial cities and major regional centres.

If SingTel Optus were serious about serving rural and regional Australia, it would have applied for direct access to HiBIS funds for ADSL rollout in small communities.

In an industry sector rich with regulatory safeguards, a dozen or more that apply only to Telstra, there are already rules to ensure effective maintenance of the already vigorous competitive telecommunications market.

I want to comment on today's article in the Financial Review quoting Michael Cosgrave.

Backhaul transmission is a declared service. Last year the ACCC thoroughly investigated and found there was sufficient competition on some routes to lift the declaration there.

Even on routes which remain declared, generally there are competitive offerings available.

Of course, transmission prices are based on volume and distance - the lower the volume and the greater the distances over which data is transported - the higher the cost.

If a wholesale customer does have a problem with any aspect of the service, we would be happy to talk to them about it.

Being a declared service, a customer could also complain to the ACCC who have the power to arbitrate disputes. We are not aware of any impending access disputes for the service, and there haven't been any since 1999.

But returning to where I started regarding the role of Telstra Country Wide. We are very proud of what we've achieved, but our pride is not important. What is important is that our customers have judged us by our actions, and have honoured us

with their business. And this has allowed us to further develop and refine our activities in rural and regional Australia.

It has allowed us to make the investments that have brought mobile telephony, widespread broadband, high speed internet, extensive wireless data, and competitive prices to our customers. It has allowed us to continue to improve provision and repair times. It has allowed us to contribute to the growth and aspirations of our customers collectively and individually.

The true game in rural and regional competition is played in the customers' world. While I am here today engaging in this important forum, I am pleased to know that my team, all the teams in Telstra Country Wide are out there making a difference, which is what matters to customers.

Competition is good. It is in the customers' best interests, and in the interests of economic efficiency. But we oppose proposals that seek to transfer, not to create, national value.

The reason for the success of Telstra Country Wide, and its real competitive advantage, is its commitment to rural and regional Australia.

Our local presence – our decision to invest in a decentralised management model and put teams back into regional Australia – *this* is what sets us apart from the competition.

The local management model allows us to better serve our customers, and excellence in customer service is our ongoing goal.

However, we recognise that there is always more than we can do, and we are implementing further service improvements through the Telstra Country Wide office network. This will always be true in our industry.

Telstra Country Wide is about delivering an outcome for our customers by being out in the community, understanding issues, understanding the infrastructure, taking ownership of issues.

And an important thought. With the real, effective and increasingly intense competition Telstra faces daily in these markets, if Telstra Country Wide didn't exist, we would have to invent it.

That is because, regardless of the myths that circulate, competition is not only alive and well in rural and regional

Australia – supported by the current regulatory regime – it is vigorous, real and growing.

Thank you.