# 6 Reform of public monopolies

**Public enterprises which were, or still are, monopolies — such as rail and port businesses, Telstra and Australia Post — have also undergone reform. While many of the reforms began before the National Competition Policy (NCP) agreements were signed, the reforms since then have been guided by the Competition Principles Agreement (CPA) of the NCP. While there have been some adverse effects in certain locations, the reforms have resulted in gains across the community, including country Australia.**

## 6.1 Introduction

Government monopolies other than those engaged in the provision of electricity, gas and water (discussed in the previous chapter) are not covered specifically under the Council of Australian Governments (CoAG) agreements on infrastructure services. However, if governments choose to expose their other public monopolies to competition or privatise them, under the CPA, they have agreed to follow some broad reform principles (see chapter 4). This chapter considers reforms to government rail and port businesses, Telstra and Australia Post.

### NCP and the reform of public monopolies

NCP did not initiate structural reform of government monopolies. These reforms were well advanced before NCP commenced. The CPA does not *require* governments to introduce competition or privatise their monopolies, although many of them are now subject to competition. However, if governments decide to introduce competition or privatise a public monopoly prior to undertaking such action, they agreed to separate regulatory and commercial functions to prevent a public monopoly from enjoying any regulatory advantage over existing or potential competitors.

As noted in chapter 4, the Commonwealth, States and Territories also agreed that they would review the commercial objectives, the effective implementation of competitive neutrality, industry regulation, the financial relationship with the government owner of the business and allow access by other businesses to significant infrastructure in public ownership. Importantly, the jurisdictions also agreed to assess the merits of any community service obligations (CSOs) provided by the public monopoly and the most effective method for their delivery. Reform of public monopolies does not mean, however, that governments are unable to maintain CSOs to pursue social, environmental or welfare goals (see chapter 12).

## 6.2 Progress with the reform of government monopolies

This section discusses the effects of reform of the Commonwealth and State government GBEs which are subject to the principles outlined above.

### State and Territory reforms

*Rail*

Government owned enterprises operate 85 per cent of Australia's 40 000 kilometres of rail track (PC 1998e). The importance of railways to country Australia is reflected by the fact that rail transports around 40 per cent of Australia's agriculture and livestock production, 64 per cent of mineral production and 14 per cent of fertiliser, cement and timber production (PC 1999e).

Governments began reforming their railway departments and associated businesses in the early 1980s to improve service and lower costs. This involved commercialisation, improved management, technological improvements and reductions in staff. Further reforms at a national level, to address broader issues such as separate operating systems, different track gauges, communication systems and operating standards began during the 1990s.

In accordance with the national access regime provisions of the NCP (see chapter 4), the National Competition Council (NCC) to date has received eight applications seeking access declarations for rail infrastructure. These include applications by:

- Specialised Container Transport for access to rail services provided by the New South Wales rail network and by the Western Australian rail network; and
- the New South Wales Minerals Council for access to rail services provided by the New South Wales rail services in the Hunter Valley.

In addition, New South Wales, Queensland, South Australia, Northern Territory and Western Australia have requested the NCC to consider the effectiveness of their regimes, including whether they can be 'certified' as effective under the national regime. All these applications, other than Queensland's, are still under consideration. Queensland withdrew its application in February 1999 and subsequently applied to the Queensland Competition Authority to have it deemed effective.

Realising the need to improve interstate rail freight services — not just intrastate services — the State and Commonwealth Ministers of Transport confirmed the need for a national approach to rail reform in late 1997 and agreed to work towards achieving specific goals within a given timeframe (NCC 1998a). They agreed to implement a package of reforms to the track connecting the State capitals and their ports, as well as to the track connecting the major regional ports of Whyalla, Port Kembla, Newcastle and Westernport. An important outcome of the Ministers' agreements is the establishment of a corporation to act as a 'one-stop shop' for national rail operators seeking access to interstate track and other infrastructure facilities.

In spite of the often slow progress and diffuse nature of the process, rail reforms at Commonwealth and State levels have produced some significant gains in productivity, cost savings and service quality. Over the period 1989-90 to 1996-97, annual average labour productivity growth in Australian rail freight was 13 per cent, while wagon productivity increased at a rate of 9 per cent and locomotive productivity at 7 per cent per year over the same period (PC 1999e). Costs per net kilometre of transporting freight by rail have declined by 25 per cent over the past ten years (Australasian Railway Association 1998). Despite the somewhat limited progress in implementing access regimes, the competition already generated — coupled with the threat of future competition — has provided rail customers with lower freight rates and improved service quality. For example, following the introduction of competition on the Melbourne to Perth route, rail freight rates declined by 40 per cent (NCC 1998a). National real freight prices declined by 16 per cent between 1991-92 and 1996-97 (PC 1998e).

However, as highlighted in the Commission's recent draft report on *Progress in Rail Reform* (PC 1999e), there is substantial scope for further gains. The report identified an increased commercial focus through the franchising and privatisation of services as the key to further productivity gains and to facilitate the investment required to consolidate rail's position in the transport market.

Rail reforms will (and already are) benefiting the cities, but the biggest beneficiaries are likely to be in country Australia where rail transport is used significantly, especially for the transport of commodities. For example, 70 per cent of grain production and 80 per cent of coal production is transported by rail. Consequently, reductions in rail freight rates assist in increasing the competitiveness of commodity producers.

Reductions in rail freight rates will also provide indirect benefits to producers and consumers in country Australia. For instance, the lower rail freight rates can, in turn, reduce the cost of inputs to those industries indirectly supplying producers in country Australia (eg suppliers of agricultural machinery). Furthermore, lower rail freight rates place pressure on the road transport sector to improve performance.

These price benefits reflect impressive achievements at the enterprise level. For example, a recent national benchmarking study of National Rail by Ernst and Young indicates improvement in productivity, fuel consumption, locomotive utilisation, wagon maintenance costs and costs in net ton per kilometre, yielding an overall reduction of 42 per cent in average costs since 1989-90. Similarly, efficiency improvements by Tasrail, which was privatised by the Commonwealth Government in late 1997, have enabled it to make a profit (of $1.2 million) for the first time in 127 years, while expanding its services.

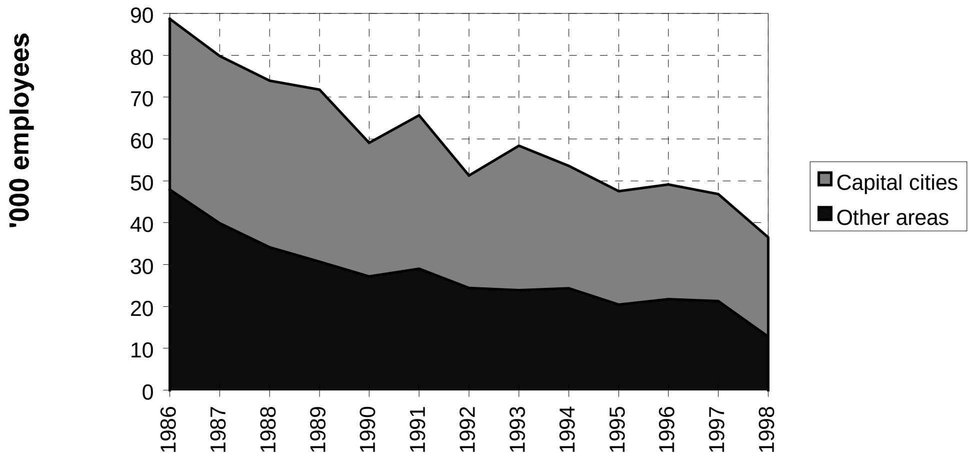
Although there is some recognition of these price benefits to country Australia, rail reforms have also had adverse impacts, particularly the loss of railway employment in country Australia. In part, this reflected the acknowledged need to reduce over-manning in the industry, a process which commenced prior to the implementation of the NCP reforms.

Restructuring and rationalisation of rail enterprises has resulted in railway employment declining more rapidly in country Australia than in capital cities. In 1986, more than half (49 000) of Australia's full-time railway employees were located outside Australia's capital cities, but by 1998 this proportion had declined to around one-third. Over the same period, full-time railway employment in capital cities declined from nearly 41 000 to around 23 000 (see figure 6.1).

This decline has had a negative impact on some rural and regional communities where there was a concentration of rail employees. For example:

- the Commission was told during its consultations in country Australia that the closure of the railway workshops in Port Augusta had created major employment problems for the community;
- in Rockhampton, the Commission was told that around 2000 local rail jobs had been lost; and

Figure 6.1 **Full-time employment in the rail industry, capital cities and other areas, 1986 to 1998**




*Source:* Unpublished *ABS Labour Force* Survey data.

- the Shire of Jeramungup (sub. 1) in Western Australia said that many rural towns have suffered losses of population due the withdrawal of local railway staff or their relocation to regional centres.

**FINDING 6.1**

*Rail reforms have produced significant benefits for the economy in general and particularly for users in country Australia. This has involved job losses. Full-time employment in the rail industry has declined more rapidly in country Australia than in the capital cities, with adverse effects on certain rural communities.*

### *Ports*

The management of ports in Australia has traditionally been undertaken by State government authorities. The reform process has involved corporatisation, separation of the regulatory elements from the commercial elements, the provision of dividends and tax equivalent regimes and the contracting of some functions.

Port authorities in New South Wales, Victoria, Queensland, Western Australia South Australia and Tasmania have been corporatised. This has involved the creation of a statutory corporation with a commercial focus. The Darwin Port Authority has been partially corporatised and several ports in Victoria have been privatised.

Most port authorities have moved to a 'landlord model' where the authority is involved in the provision of core activities only and the more contestable elements such as pilotage, dredging and stevedoring are provided by private contractors.

Benefits of the reform process are already evident. Port authority charges declined by more than 23 per cent in the five year period to 1996-97 (PC 1998e). These reductions in port authority charges represent a significant saving to port users. For example, port authority charges for a bulk (wheat) ship accounted for 49 per cent of combined port charges at the port of Geelong and 75 per cent at the port of Adelaide (PC 1998c). Reductions in these charges are of significant benefit to country Australia, given the high level of export orientation in Australian agriculture.

Employment in ports has been declining since 1988-89. In the three year period to 1991-92, employment declined by 40 per cent from around 6000 to just over 3500. Between 1991-92 and 1996-97, employment fell to 1677, a reduction of just over 50 per cent. Employment has fallen in all jurisdictions except in Queensland, with most of the decline occurring through voluntary redundancies as non-core activities have been transferred to the private sector (PC 1998e). However, to the extent that these jobs may have been absorbed by private firms undertaking the work contracted out by the port authorities, the employment losses cited above are overstated.

**Given the significance of mining and agricultural exports, the reforms to port authorities and the subsequent decline in the charges levied by these authorities are of considerable benefit to country Australia.**

## Commonwealth reforms

### *Telstra*

Major structural reforms in telecommunications commenced prior to the NCP. These included the corporatisation of Telecom and the introduction of limited competition.

Telecom (now Telstra) was corporatised in 1989 and an independent regulatory body, AUSTEL, was established to regulate telecommunications. Telecom maintained a monopoly over all telephone services in Australia until limited competition was introduced in 1991 with Telecom/Telstra competing with Optus in the fixed services market and with Vodafone in the mobile telecommunications market. The limit on carrier licences has been lifted.

The regulatory control over competition in telecommunications is the responsibility of the ACCC, with the Australian Communications Authority (ACA) administering technical matters and CSOs. An industry-specific access regime has been developed to promote competition in telecommunications.

Telstra is the carrier designated by the Minister for Communications to provide the universal service obligation (USO). As the USO provider under the *Telecommunications Act 1997*, Telstra is required to provide a standard telephone service, payphones, digital data service and prescribed carriage services to all people in Australia on an equitable basis, wherever they reside or carry on business. A standard telephone service includes access to untimed local calls, emergency calls, directory assistance and operator services. The standard telephone service should also be available for voice telephony, equivalent services for users with disabilities and new services as prescribed by the Minister (PC 1998e; Telstra, sub. 110).

The USO is funded by an industry levy, with each carrier competing in the telecommunications market required to cover the loss made by the USO provider (Telstra) in supplying these services. In 1996-97, Telstra funded around 90 per cent of the total cost of the USO — it receives no budgetary funding and relies on cross-subsidies by consumers to fund the USO. The current cost of providing the USO has been ‘capped’ at $252 million by the Commonwealth Government.

The Commonwealth Government has parliamentary approval to sell a further 16.6 per cent of Telstra and is seeking to sell the remaining 50.1 per cent, provided that an independent review certifies that Telstra’s standard of service meets prescribed criteria (NCC 1998a; PC 1998e).

Concerns relating to Telstra services and its operations in country Australia were raised constantly with the Commission during this inquiry. The introduction of competition into telecommunications and the partial privatisation of Telstra were seen by many as benefiting urban areas, but of little benefit to country Australia. For example, the Murray Regional Development Board and Riverina Development Board said:

> Deregulation of the telecommunications industry and the partial privatisation of Telstra has provided impetus for significant changes. By design this has led to an increased level of competition in service provision in major populated areas such as the capital and provincial cities, but has led to little or no change in rural and remote areas. (sub. 109, p. 9)

Such views imply that the bulk of the benefits have flowed to larger urban centres at no cost to country Australia. However, others considered that competition has had a negative impact. For example, some argued that country Australia faces:

- slower response times in responding to faults and longer delays in connecting to new services as a result of the rationalisation of depots;
- employment losses from the closure or reduced size of Telstra depots; and
- a lesser commitment to the provision of adequate services, particularly mobile phone coverage and Internet access.

*Telecommunications costs and service quality*

Telephone charges have declined since the introduction of competition in telecommunications. The real price of STD calls has declined on average by 25 per cent over the past five years. International calls fell in real terms by 30 per cent over the same period. Overall, Telstra's retail telephone call prices fell, on average, by 30 per cent between 1991-92 and 1996-97 (PC 1998e; Telstra, sub. 137). In addition, the introduction of arrangements to allow other carriers to gain access to Telstra's local loop will help to reduce local call prices.

Falling telephone prices are not unique to Australia, they are common to most countries as new and improved technology is introduced. However, in Australia the reduction in prices has been greatest in those areas (eg international and STD calls) where there has been greatest competition.

While all consumers have benefited from the decline in prices, the fall in the price of long distance calls is of particular benefit to country Australia as a means of lessening the 'tyranny of distance'. Furthermore, there have been initiatives to provide country Australia with access to cheaper phone calls. For example, the use of local call areas provides untimed local calls to all customers within an extended area. Remote area customers who do not have access to a local call zone in rural or remote locations receive a $160 a year rebate on their pastoral call expenditure. In addition, community call rates are provided to rural and remote locations to provide concessionary STD rates to the nearest community service town (Telstra, sub. 137). In the same vein, the establishment of extended charging zones under the countrywide calling scheme provides calls to all customers within the zone at the concessionary pastoral call rate. However, the Commission was told that the arbitrary nature of the boundaries for local call zones had created situations where some customers were paying STD rates to make a call to a telephone service that was actually in sight.

Many participants felt that the decline in prices was mirrored by a similar decline in service standards, particularly in country Australia. Tumut Shire Council said:

> It is undeniable that telephone charges have reduced across Australia as a result of competition. Unfortunately, the full benefits of competition are not available to rural

> areas, as Telstra remains the only telephone provider in most of these areas. This coupled with the severe reduction in service standards which resulted from substantial staff reductions and woefully inadequate community service obligations means that rural Australia is enjoying cheaper communications at the cost of poor service and low service standards. (sub. 43, p. 4)

One example of poor service cited was Telstra's slow response to rectifying faults. For example, Canegrowers said:

> Most sugar cane growing areas are close to major regional centres however there are frequent occurrences of cane growers being without telecommunications services for a week or longer. (sub. 46, p. 16)

The Country Women's Association of New South Wales said:

> The phone might work for a few days a week or whatever. The next minute it's out again for another 10 or 12 days and it's just promises, promises, promises and nothing happens. (trans., p. 191)

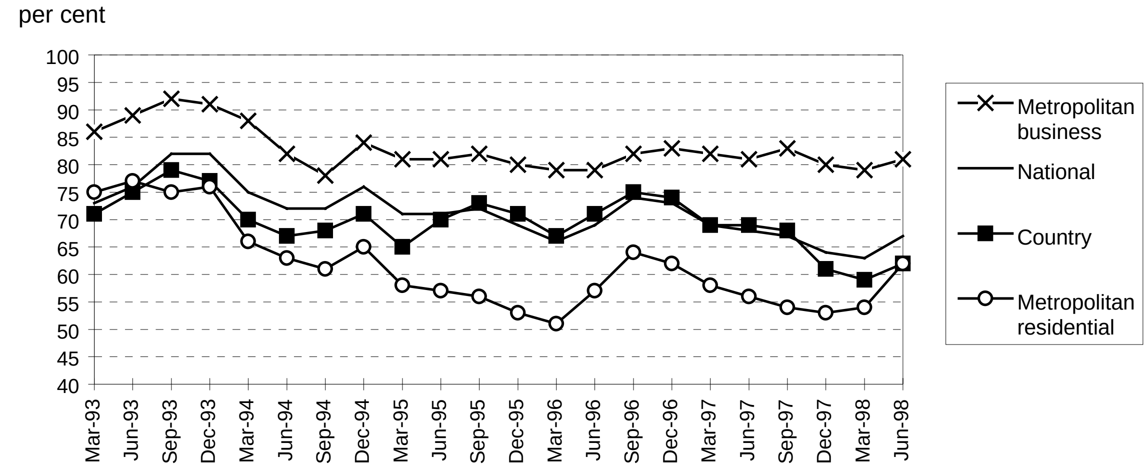
This slow response to repairing services (and connecting new services) was commonly attributed to staff reductions. Cabonne Council said:

> Telstra has dramatically reduced staff right across Australia, with particular negative impacts in rural areas where there are less staff to carry out the functions that were previously attended to. Council cites the example of its Director of Engineering and Technical Services Officer who had to wait some 50 days to get the telephone connected. Clearly in this instance the lack of staff impacted upon service delivery. (sub. 56, p. 7)

The PC (1998e) reported that service quality over the period 1991-92 to 1996-97 was mixed, with improvements in some indicators and a deterioration in others. Information collected by AUSTEL (the predecessor of the ACA) and the ACA supported this finding. For example:

- the proportion of operator calls answered (eg directory assistance, international operator and service difficulties and faults) improved and service quality in payphones was fairly constant between 1991-92 and 1996-97;
- the proportion of country customers connected to new services on or before the customer required date improved from 65 to 79 per cent between 1991-92 and 1996-97, but for metropolitan residential customers the proportion declined from 91 to 89 per cent and for metropolitan business customers from 83 to 74 per cent; and
- Telstra customers experienced an absolute decline in fault repair service between March 1993 and June 1998. Country customers experienced a better fault repair than metropolitan residential customers, but not as good as that provided to metropolitan business customers (see figure 6.2).

Figure 6.2 **Faults repaired by Telstra within one working day, March 1993 to June 1998**




*Sources:* ACA (various); AUSTEL (various); *Quality of Service Bulletin, Telecommunications Performance Monitoring Bulletin.*

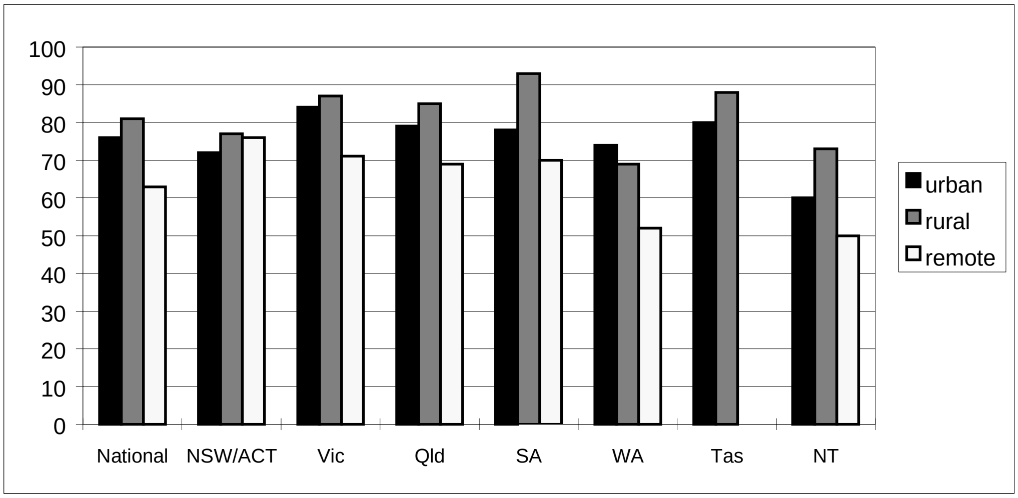
Since March 1993, Telstra has introduced a number of changes which have had implications for fault repair indicators. For example, the introduction of 'a customer participation' system in June 1996 enabled consumers to exchange faulty equipment at nominated Telstra depots and Australia Post outlets. Consequently, the time taken to clear the fault sometimes depended on the customer (AUSTEL 1996). Telstra also cited adverse weather conditions, such as the effect of storms, and an increasing demand for new service connections requiring the allocation of staff from fault repair duties to service connection as factors contributing to a declining standard of fault repairs (PC 1999b). Furthermore, according to Telstra, the progressive reduction in timeframes for service has led to its performance being measured against a constantly rising standard (sub. D278).

Minimum standards for fault repair based on urban, rural and remote areas were introduced in January 1998 as part of the customer service guarantee (CSG). During 1998, the proportion of faults repaired within the minimum service standard times was higher in rural areas than it was in urban areas. However, the corresponding proportion of faults rectified in remote areas was below that in urban and rural areas (see figure 6.3).

Fault repair data covering the March quarter 1999 show that in urban areas 69 per cent of faults were restored within the minimum time frame. The corresponding figure in rural areas was 70 per cent and 63 per cent in remote areas (ACA 1999). This represented an improvement for both urban and remote areas, but a decline in the level of fault repair service for rural areas compared with the standard of fault repair service in the March quarter 1998.

Figure 6.3 **Telstra fault repair performance, 1 January to 31 December 1998**

Per cent of service standard




Minimum service standards for geographic areas: *Urban* (areas with population greater than 10 000); fault must be repaired by the end of the next working day after the fault is reported. *Rural* (areas other than urban and remote areas); fault must be repaired by the end of the second working day after the fault is reported. *Remote* (areas with less than 200 people); fault must be repaired by the end of the third working day after the fault is reported.

*Source:* ACA (1998).

Interpreting these service quality indicators requires some caution. They do not cover the full range of quality issues such as billing accuracy or voice quality. Also, connection times for new services are likely to increase as the network expands into more remote areas. In addition, the minimum service standards specify different periods in which faults are to be repaired in urban, rural and remote areas.

In summary, the available information suggests that:

- prices in real terms declined for both country customers and metropolitan customers;
- service standards in connecting new services to country customers improved over the period from 1991-92 to 1996-97, but declined for metropolitan business and residential customers;
- there was an absolute decline in Telstra’s fault repair performance between 1993 and 1998. Over this period, country customers fared better than metropolitan residential customers, but not as well as metropolitan business customers in having faults repaired within one working day; and
- based on the minimum service standards introduced in January 1998 for specific geographic areas, the proportion of faults repaired in remote areas within the minimum service standards was well below that for rural and metropolitan areas.

The introduction of the CSG standard in January 1998 required all carriers to compensate customers when they fail to meet minimum service levels (see box 6.1). The penalties under the CSG were increased in August 1998. Since the introduction of the CSG, Telstra has paid out $3.6 million to more than 52 000 customers (ACA 1998). However, at present, the ACA does not have information on the CSG payments specific to metropolitan, rural or remote areas.

The South West Development Commission welcomed the use of financial penalties as an incentive for carriers to improve service standards to rural and regional Australia:

> The Federal Government's general requirement of all phone carriers to improve the telephone service needs of regional and rural customers, with a proposed hefty fine if a company does not comply with directions of the Australian Communications Authority, is also a welcome initiative. (sub. 31, p. 5)

However, minimum service levels need to be achievable. Otherwise, service providers may opt to withdraw from providing services or not enter the market to provide certain services for fear of facing financial penalties. Telstra said:

> … the progressive ratcheting up of service performance standards and increasing the penalties for performance breaches acts as a disincentive for competitive entry into higher cost markets such as rural and regional telecommunications markets, because it directly adds to the costs of doing business. (sub. D278, p. 6)

As the CSG applies only to basic services (ie fixed line services not connected to customer switching services eg PABX), it is unlikely that new competitors would be willing to compete with the USO provider in rural and regional markets to provide basic services at a loss. As a result, raising the CSG would most likely add to Telstra's costs, rather than those of the other carriers, as it is the major provider of basic telephone services through its role as the USO provider.

Through the ACA, the Commonwealth Government has scope to set minimum service levels and use fines or compensation to influence directly the standards of service provided to country Australia. In doing so, it needs to have regard to the additional costs likely to be placed on the USO provider. The impact of the USO on competition is discussed below.

**FINDING 6.2**

*Competition in telecommunications has seen prices fall for both country and metropolitan customers. However, service quality outcomes in all areas have been mixed.*

## Box 6.1 Standard of telecommunication services

The *standard of service* that is to be provided to consumers for installation and repair of telephone services is covered by the customer service guarantee (CSG). The *level of service* that is to be accessible to all Australians irrespective of location, such as standard telephone services and payphones, is set out in the USO. Telstra is the designated provider of the USO.

The CSG standards apply not only to Telstra, but to all carriers. Furthermore, the CSG is limited to fixed line standard telephone services and is aimed specifically at residential and small business customers. Services connected to customer switching systems (eg PABX) are not covered by the CSG.

The CSG sets out minimum service standards for installations, repairs and the appointments required to carry out these services.

**Installations**

Where there is an intact and in-place connection, services are to provided within 3 days of application.

Where there is available network infrastructure:

- community of 10 000 people — within five working days of application;
- community of between 2500 and 10 000 — within 10 working days of application; and
- community of fewer than 2500 people ––within 40 working days of application.

Where there is no available network infrastructure:

- community of more than 2500 people — within one month of application;
- community of between 200 and 2500 people — within six months of application; and
- community of fewer than 200 people — within 12 months of application.

**Repairs**

Faults are to be repaired:

- in metropolitan areas within one working day (population greater than 10 000 people);
- in rural areas within two working days (population between 200 and 10 000 people); and
- in remote areas within three working days (population fewer than 200 people).

**Appointments**

Carriers are required to keep agreed appointment times with customers and provide at least one working day's notice of any change. Carriers are to pay compensation when a customers lodges a valid complaint relating to a carrier failing to meet the CSG standards.

*Source:* ACA (1998).

*Employment*

The loss of Telstra staff was seen by many participants as not only affecting service standards, but as also having economic and social impacts on the local community. For example, Circular Head Council said:

> The Telstra reforms have resulted in considerable reduction of staff employed in the Circular Head area. Council notes that this reduced employment is contributing to a substantial loss of social capital. Maintenance standards are also falling, evidenced by recent unprecedented outages of telephone services to the Marrawah area. (sub. 24, p. 2)

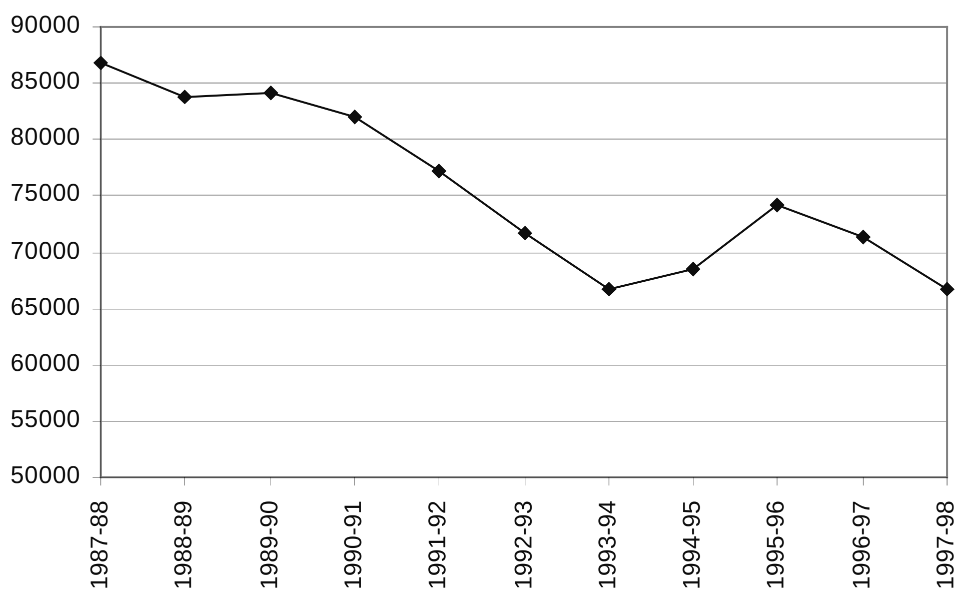
Gwydir Valley Irrigators said:

> … reduction in [Telstra] staff reduce population in town, which affect small business ... (sub. 114, p. 3)

Dick Adams MP said:

> … the changes that take place now is that there used to be people that lived on the coast that worked for Telstra. Nobody lives there now so every morning if your staying at Orford you'll see people come up from Hobart in a van and drive around the corner — whether to go and do the work on what has to be fixed up there, where in the past there was somebody up there that knew the system and was there. (trans., p. 410)

Figure 6.4 **Telecom/Telstra employment, 1987-88 to 1997-98**
Number of employees



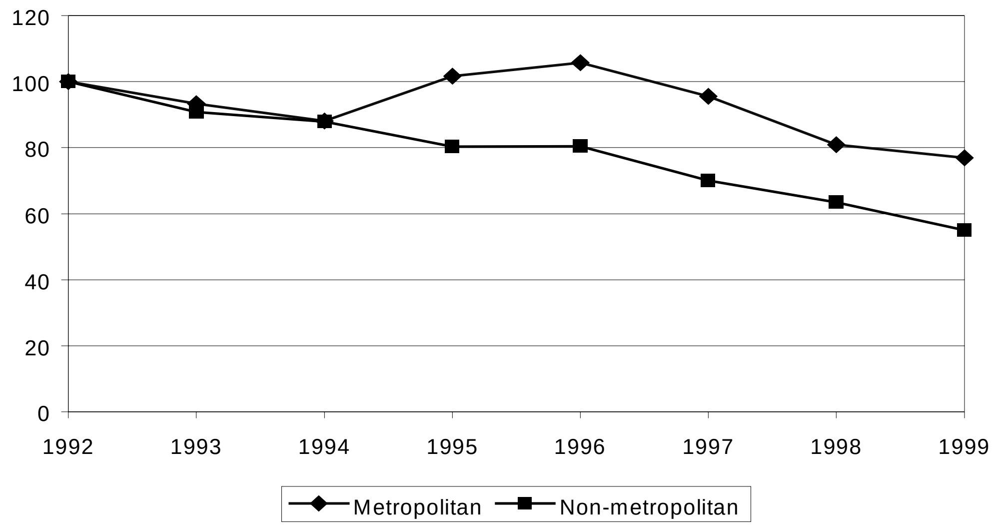

*Sources:* PC (1998e); SCNPMGTE (1993).

Employment in Telecom/Telstra declined from more than 86 000 in 1987-88 to around 67 000 in 1997-98 (see figure 6.4). However, it is unclear to what extent this decline has been (or will be) offset by higher employment with competing carriers or by contractors providing services to the carriers.

The decline in Telstra employment between 1992 and 1999 was larger in non-metropolitan than in metropolitan areas (figure 6.5). As at June 1998, 23 per cent of Telstra's workforce was located in regional areas with the remainder in metropolitan areas.

Figure 6.5 **Indices of Telecom/Telstra metropolitan and non-metropolitan employment, 1992 to 1999**

Index (1992=100)




*Source:* Telstra (sub. D278).

The reduction in employment and incomes from the closure or reduced size of a Telstra depot is likely to represent a larger share of total employment and income in a country town than in a metropolitan centre or larger town. For example, the loss of 70 Telstra jobs in the town of Narrandera represented nearly 3 per cent of the shire's total workforce (Narrandera Shire Council, sub. 196).

### *Call centres*

The use of call centres dealing with a range of services — not only Telstra, but banking, electricity and government departments as well — staffed by people with limited knowledge or understanding of the local community was of particular concern to some participants in country Australia. The Commission was told that, in the past, a local depot with local knowledge could easily identify from where the caller was reporting the service failure. With the shift to State-wide or national call centres, it is claimed that those receiving the call often cannot even identify the town or region from which the individual reporting the failure is calling from, let alone where the actual problem is in the town or region. This lack of familiarity with the local area was seen to be compromising safety, particularly in relation to emergency services. Ambulance services, for example, could be directed to a town of the same name, but in a different State.

These problems, and the sense of frustration felt by consumers in dealing with distant call centres in relation to a range of services provided by both the public and private sectors, are not unique to country Australia. While residents in urban areas may have an electricity, gas or Telstra depot located in their immediate neighbourhood, in most cases a central call centre in another location will take their call regarding service failure, connection to services or even a basic service inquiry. Of course, people living in country Australia may not as readily be able to exercise the option to deal directly with, and if necessary confront, the staff of the service provider.

On the other hand, call centres can provide employment benefits to some country communities. For example, as call centres do not need to operate in any specific location, the establishment of a call centres in country communities provides employment within that community. Participants pointed to call centres established in Burnie and Albury as an example of this.

### *Lack of access to adequate services*

While many participants raised concerns about job losses and declining service standards, the most common concerns related to their apprehension about the future development of telecommunications in country Australia, particularly with government policy focussing on the commercialisation of Telstra. Many considered that commercial disciplines will lead Telstra to abandon its commitment to improve standards to enable country Australia to participate in the new technology necessary for the ‘information revolution’.

The United Dairy Farmers of Victoria said:

> With deregulation and increased competition the imperatives for good farm business practices will require farmers to have access to high quality telecommunications services. The current services are antiquated and do not allow farmers to use those systems to the same degree as their urban business counterparts. (sub. 78, p. 10)

The lack of access to mobile phone services and adequate and inexpensive Internet services was seen as an impediment to a competitive rural and regional Australia.

Surf Coast Shire said:

> In Surf Coast, Torquay has at least 3 mobile phone service providers, however over half the shire would have NO mobile phone capacity (digital or analogue). (sub. 123, p. 1)

The Cattlemen's Union of Australia said:

> With global markets changing rapidly and depending on a multitude of factors, it will be vital for best marketing practice that rural producers have access to the Internet so that they can follow world trends in their commodity or commodities. Many rural services are not presently of a high enough standard to be able to access this service. (sub. 89, p. 4)

The need for access to adequate and inexpensive telecommunication services was seen as important not only for commercial reasons, but also as a means of reducing the sense of isolation felt in parts of country Australia. The National Farmers' Federation said:

> Investment in regional telecommunications infrastructure, is also critical to rural and regional communities. For these communities, affordable access to the latest information technology is an important aspect of reducing the tyranny of distance. (sub. 144, p. 2)

The use of information technology by rural producers —in particular, Internet usage — is not widespread. ABS data show that only a small proportion of Australian farms, around 12 per cent, were using the Internet as at March 1998 (see table 6.1). This is similar to the proportion of all Australian households with access to the Internet from home as at February 1998 (12.6 per cent), slightly lower than the proportion of households in capital cities (15.8 per cent) and higher than the proportion of households (7.2 per cent) outside capital cities with access to the Internet from home (ABS 1998b). In the following twelve months (to February 1999) access increased to 23 per cent of households in capital cities and 11 per cent of households outside capital cities (ABS 1999b).

The proportion of Australian farms using other information technology was higher with 44.8 per cent of farms using a computer, 47.2 per cent using a facsimile machine and 45.7 per cent using a mobile phone.

Table 6.1 **Use of selected information technology by farms, March 1998**

| | *Computer* | *Internet* | *Facsimile machine* | *Mobile phone* | *Total no. of farms* |
|---|---|---|---|---|---|
| | % | % | % | % | |
| NSW | 45.7 | 13.2 | 48.1 | 46.1 | 33 384 |
| Vic | 42.3 | 10.6 | 35.2 | 47.2 | 28 825 |
| Qld | 41.4 | 11.2 | 47.5 | 46.5 | 24 897 |
| SA | 47.8 | 13.0 | 51.2 | 46.3 | 12 773 |
| WA | 53.4 | 10.2 | 70.9 | 39.0 | 11 593 |
| Tas | 41.1 | 13.0 | 42.0 | 43.1 | 3396 |
| NT | 55.7 | 23.6 | 81.6 | 45.8 | 212 |
| ACT | 59.4 | 20.3 | 50.0 | 59.4 | 64 |
| Australia | 44.8 | 11.8 | 47.2 | 45.7 | 115 144 |

*Source:* ABS (1998f).

The slow take-up of Internet use may not only be due to a lack of access to technology. An Australian Bureau of Agricultural and Resource Economics (ABARE 1998c) survey found that 41 per cent of farmers with computers stated that the main reason for not having a modem, which is necessary for access to the Internet and other online services, was that it was not useful to them (see table 6.2). Cost was the main reason for not having a modem for 22 per cent of those farms surveyed, while an inadequate phone systems was considered to be the main reason for 12 per cent of the farms surveyed. This suggests that the quality of the phone service is not the major reason for farms not being connected to the Internet.

Table 6.2 **Main reasons for farms with a computer not having a modem, 1996-97**

| | *Not useful* | *Too costly* | *Problems with phone service* | *Not technically familiar* | *Other* |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Crops | 42 | 20 | 19 | 6 | 13 |
| Mixed livestock-crops | 44 | 16 | 8 | 6 | 26 |
| Sheep | 27 | 41 | 8 | 7 | 17 |
| Beef | 44 | 21 | 11 | 7 | 17 |
| Sheep-beef | 37 | 22 | 22 | 2 | 18 |
| Dairy | 52 | 12 | 5 | 6 | 25 |
| **All industries** | **41** | **22** | **12** | **6** | **19** |

*Source:* ABARE (1998c).

While the standard of existing services can be addressed through the CSG, it is more difficult to address access to new technology in telecommunications services, such as mobile phone and Internet service, and to determine what is an adequate level of telecommunication services for country Australia.

The USO could prescribe that a certain level of technology and services is to be available to all people across Australia, irrespective of their location. However, it may not be technically feasible to provide certain services to every location and the cost of providing a service at a prescribed level in some locations may outweigh the benefits. For example, the cost of the service may substantially exceed the value of the enterprise being served and any additional value the service could add.

In relation to upgrading the Customer Access Network (CAN) to provide high speed Internet access, Telstra said:

> After a thorough analysis, the ACA concluded that the costs of upgrading the CAN to ensure uniform high speed internet access would outweigh the benefits. (sub. 137, p. 15)

The Commonwealth Government has decided to amend the USO to ensure that all Australians have access to suitable services to enable faster downloading of material (at 64 kilobit per second) to provide access to the Internet, the digital data service obligation. It is presently subsidising a rural satellite Internet trial to provide information on providing such a service. The amended USO, effective from August 1999, will make available a 64 kilobit per second international subscriber dialling network (ISDN) service on demand to at least 96 per cent of the population and a comparable 64 kilo bit per second data service using satellite technology for the remaining 4 per cent of the population (sub. D278).

The Hunter Economic Development Corporation claimed that this service would be unsatisfactory in certain regional areas because, while data could be received at sufficient speed via the satellite, it could not be sent at sufficient speed through the telephone service:

> So what Telstra and Optus have done is provided a service whereby you receive information from the satellite and the technology is such that it doesn't cost very much, maybe $1500 for a dish and whatever. But to send the information to the Internet service provider you still use your telephone service. In a lot of regional areas the telephone service — the course to that customer or access network back to the telephone exchange is unsatisfactory for sending high-speed data. (trans., p. 129)

However, the cost to overcome this problem would be considerable:

> … if you could use a satellite in both directions, very fast access to send data and receive data via the satellite to an Internet service provider, it's a terrific fix. It's hugely expensive and not really feasible for all of these people. …[to overcome this problem] you would realise that it is not cheap. It is something like $1.5 billion, I think, they estimate it. (trans., p. 129–130)

While governments can extend the scope of the USO to improve access to services in rural and regional Australia, there is a cost. For example, the satellite dish and equipment cost between $1200 and $1600 for each participant in the Internet satellite trial (Alston 1998). In extending the USO, government has to decide how to meet the cost — whether through industry levies, direct budgetary funding or cross-subsidies.

To improve telecommunication services in country Australia, the 'social bonus' from the sale of a further 16.6 per cent of Telstra is to be used to improve access to untimed local calls, providing Internet access at local call rates and extending mobile phone coverage.

The level of service that should be accessible is determined by governments as a social, rather than a competition policy issue — this is discussed in chapter 12. However, the method of funding the USO can have an impact on competition. In 1996-97, Telstra funded around 90 percent of the USO through cross-subsidies from its customers. The remaining 10 per cent is raised through a levy on the other carriers. While Telstra is required as the USO provider to provide unprofitable services, the other carriers, Telstra's competitors, are able to 'cherry-pick' the profitable services. This may disadvantage Telstra if it requires Telstra to 'tax' the profitable areas in which it provides services— the areas in which competition or the threat of competition exists — to fund the USO services it provides. Also, competition may need to be restricted in the provision of certain services or in certain markets at the expense of consumers to provide Telstra with the monopoly power necessary to fund the USO services. Furthermore, raising the level of service that should be accessible increases the costs of the other carriers through the levy and may act as a disincentive to new players entering the market. The Commonwealth Government has recognised the potential for the current funding arrangements to cause uncertainty and deter investment and is currently undertaking a review of the funding arrangements with new arrangements to be introduced in 2000-01 (Alston 1999).

**The Commonwealth Government can provide access to new and future telecommunications technology for country Australia by extending the USO. NCP does not preclude the Government from using or extending the USO, but the cost of providing such services needs to be assessed against the benefits derived from the use of these services.**

### *Australia Post*

Australia Post was corporatised in 1989. It operates a legislated monopoly in certain markets. The restrictions to competition — set out in the *Australian Postal Corporations Act 1989* — reserve certain postal services to Australia Post. For instance, only Australia Post is able to carry a standard letter (a letter weighing less than 250 grams) for less than $1.80 and deliver international mail in Australia. However, since 1984, around 50 per cent of Australia Post's revenue has been derived from contestable markets (eg parcels and express mail) (NCC 1998a).

As part of the legislative review process, the Commonwealth Government commissioned the NCC to undertake the review of the above Act. The NCC recommended that Australia Post continue to provide the Australia-wide standard letter service at a uniform rate in line with minimum performance standards. This is in contrast with the common, but incorrect, impression that uniform pricing is not allowed under NCP.

In July 1998, the Government announced its response to the review. It decided that:

- the standard letter rate would remain at 45 cents until 2003;
- the standard letter service would continue to be funded by cross-subsidies;
- the scope of Australia Post's monopoly on domestic mail would be reduced (to mail weighing less than 50 grams);
- incoming international mail would be open to competition; and
- it would give an undertaking that no rural and regional post offices or mail centres would close (Commonwealth Treasury 1998b; NCC 1998a).

A review is to be completed by 2003 to assess the impacts of these measures.

The Commonwealth Government's undertaking that no rural or regional Post Office would close was welcomed by participants. Tasmania's North West Councils said:

> The recent promise from the Federal Government regarding the ongoing operation of Australia Post in a number of areas has been welcomed by North West Tasmania as a refreshing change from the announcements of closures of government services that we have become used to. (sub. 45, p. 9)

The Tamworth City Council said:

> The government's recent assurance that Post Offices in regional Australia will NOT close as a result of the reforms flowing from NCP recognises the cumulative negative impact that is occurring as a result of reform of government monopolies in regional areas. (sub. 57, p. 6)

Concerns expressed to the Commission about a perceived decline in post office services in country Australia are not supported by the available statistics. These show that the total number of retail postal facilities in rural and remote areas increased between 1993-94 and 1997-98. This reflects a decline in the number of corporate post offices (ie these post offices operated by Australia Post) in rural and remote Australia, offset by an increase in the number of licensed post offices or agencies and community post offices or agents. In metropolitan areas, the total number of retail postal facilities declined slightly over the same period. In 1997-98, more than half of Australia Post's retail outlets were located in rural and remote communities (see table 6.3). The cost of providing these services is discussed in chapter 12.

Table 6.3 **Australia Post retail facilities by type and location[a], 1993-94 to 1997-98**

| *Retail outlet and region* | *1993-94* | *1994-95* | *1995-96* | *1996-97* | *1997-98* |
|---|---|---|---|---|---|
| | no. | no. | no. | no. | no. |
| Corporate post offices | | | | | |
| metropolitan | 754 | 741 | 715 | 658 | 636 |
| rural | 389 | 341 | 322 | 305 | 281 |
| remote | 60 | 50 | 47 | 46 | 40 |
| total | 1203 | 1132 | 1084 | 1009 | 957 |
| Licensed Post Offices and agencies | | | | | |
| metropolitan | 1140 | 1151 | 1188 | 1219 | 1240 |
| rural | 1383 | 1395 | 1408 | 1433 | 1452 |
| remote | 266 | 276 | 277 | 273 | 273 |
| total | 2789 | 2822 | 2873 | 2925 | 2965 |
| Community post offices or agents | | | | | |
| metropolitan | 19 | 16 | 19 | 25 | 25 |
| rural | 245 | 244 | 279 | 336 | 350 |
| remote | 86 | 103 | 119 | 173 | 184 |
| total | 350 | 363 | 417 | 534 | 559 |
| All retail outlets | | | | | |
| metropolitan | 1913 | 1908 | 1922 | 1902 | 1901 |
| rural | 2017 | 1980 | 2009 | 2074 | 2083 |
| remote | 412 | 429 | 443 | 492 | 497 |
| total | 4342 | 4317 | 4374 | 4468 | 4481 |

**a** The geographic categories are sourced from the Department of Primary Industries and Energy, Rural, Remote and Metropolitan Areas Classification – 1991 Census Edition.

*Sources:* Australia Post *Annual Report* (various years) and information supplied by Australia Post.

The real price of posting a standard letter anywhere in Australia fell by 8.7 per cent between 1991-92 and 1996-97. The PC (1998e) found that indicators of service standards and quality for Australia Post had remained high over the same period in rural and remote areas as well as in metropolitan areas. For example, the percentage of articles delivered in the advertised time never fell below 92 per cent over the five year period and delivery frequencies were maintained. Furthermore, of the estimated 2.35 million delivery points in rural and remote Australia, 94 per cent received five deliveries per week in 1996-97. The remaining 6 per cent received between one and four deliveries per week.

Nevertheless, there was concern that service would decline if changes were made to the mode of delivery by Australia Post. Ernie Bridge MLA was concerned that the mail service was at risk if mail was no longer delivered by air into towns in the Kimberley in Western Australia.

> … it relates to the discontinuation of an airmail delivery service into the towns of Fitzroy Crossing and Halls Creek.
>
> It's another one of those decisions that Australia Post has made which has been essentially in the business of cost cutting, cost efficiency, accountability and the need to streamline their operations, in that general category. What we now have in Halls Creek and Fitzroy Crossing, for the first time in almost 100 years … is the discontinuation of a mail delivery into those towns. (trans., p. 219)

The Commission's investigations of this specific instance reveal a change in delivery methods which enable the service to be maintained at lower cost to public funds. For example, the discontinuation of the air mail delivery service to Halls Creek and Fitzroy Crossing did not lead to the loss of mail services to these towns or even lower service standards. The mail service was put out to tender and the winning tender was able to meet the service standard by a mixture of air and road services. This mixture of air and bus delivery provides the same standard of service (two days delivery from Perth) as the previous air mail services into Halls Creek and Fitzroy Crossing in the Kimberley. The mail is transported by air to Port Headland and then distributed by the bus network through the Kimberley. These centres have a five day a week mail and parcel service. The Western Australian Department of Transport maintains a subsidised air service into this region for passengers from Broome, but this service was unable to compete against the winning tender for mail services.

The House of Representatives Standing Committee on Transport, Communications and Microeconomic Reform also found that Australia Post's service to rural and remote Australia was satisfactory (HRSCTCMR 1996).

Australia Post's employee numbers have remained fairly stable. In 1987-88, total employment in Australia Post was close to 39 000. As at June 1997, there were 31 000 full-time and 6200 part-time staff (SCNPMGTE 1993, PC 1998e).

**The impacts on country Australia from the changes to Australia Post have generally been positive. The cost of posting a letter in both country Australia or in metropolitan areas remains the same, the real price of posting a standard letter has fallen, nearly all of country Australia receives the same number of deliveries as in metropolitan areas, service standards remain high and the number of retail post outlets in non-metropolitan areas has increased.**