Reportage: Knowledge nation, states and the pork barrel

Reporter: Jock Given

One of the biggest changes Federation made to Australia in 1901 was the joining of six separate post and telegraph administrations into a vast, single national enterprise: "Brothers in One Service", as one observer called the new Postmaster General's Department. A century on, the siblings are back in the communications game.

Queensland is the Smart State, NSW the Connected State, Tasmania the Intelligent Island. Victoria is seeking a Better State of telecommunications. State government websites drip with strategic visions and funding programs aimed at strengthening the local information and communications industries.

This has happened because these industries are critical to the economic and social future. Any state government sensibly considering its future has to be thinking about them. It has also happened because some think the increasingly distinctive characteristics of local telecommunications markets mean state governments might be better placed to support their development than Canberra.

The main tools available for governments to influence what happens in these and other industries are the ownership of enterprises, the regulation of behaviour and the funding of activities.

For most of the 20th century, the Commonwealth did a lot of owning and some regulating in telecommunications. In the mid-1990s, it started spending as well. It also hugely increased the regulating but halved the owning. The states, too, began spending and thinking more strategically about the way they allocated the money they already budgeted for telecommunications services.

The Commonwealth had owned Australian telecommunications since March 1, 1901. It hadn’t run all the wireless systems, it hadn’t manufactured all the equipment and it hadn’t controlled the undersea cables that connected Australia to the world. But the wireline network that joined Australians to each other was the Commonwealth’s responsibility.
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The constitution that gave the Commonwealth the power to take Australian telecommunications from the states also gave it the power to make laws about “postal, telegraphic, telephonic or other like services”. And so it did. Since the late-1980s, it has made more laws about telecommunications than ever before, completely overhauling the regulatory regime in 1989, 1991 and 1997. The 1989 changes introduced an independent regulator, AUSTEL, and a little bit of competition into the telecommunications market. The 1991 legislation allowed a second fixed-line (Optus) and second and third mobile-telephone carriers (Optus and Vodafone) to be licensed, and the 1997 laws allowed anyone to set up business as a telecommunications carrier.

This much would have happened whichever party was in power federally. But the election of the Howard Government in March 1996 started the new federal telecommunications policy trends, to own less but spend more. Of course, these trends were related. The Government’s capacity and desire to spend more were a result of its determination to own less.

Selling off Telstra was to provide a bucket of money – $14.3 billion for the first third sold in late 1997 and $16.4 billion for the next sixth sold in late 1999 at the height of the telecommunications and dotcom boom. Most was used to pay off government debt but some was very handy to help meet the cost of ensuring the Senate support needed to get the legislation passed.

The growing importance of the communications and information industries gave the states their own reasons to get more involved. But federal policies also exerted important influences. If the Federal Government, not just a federally controlled commercial enterprise, was spending money, the states wanted to know where it was going and what it was being spent on. If the newly part-privatised Telstra was behaving differently from its wholly public predecessor, Labor administrations whose federal counterpart had opposed the privatisation were particularly interested. And as the new game of telecommunications competition evolved and Telstra proved surprisingly resilient, state governments wondered if they could play a role in stimulating a level of competition that the open market alone was not generating.

Since 1997, the Federal Government has provided more than $1 billion to improve the accessibility, reliability and affordability of basic communications services. The first $250 million for the “Networking the Nation” program came from the initial Telstra sale. More than $650 million was promised from
the sale of the second block of shares, including a further $174 million for Networking the Nation. Then another $145 million was committed in response to the inquiry into Telstra’s service levels, chaired by Tim Besley, which reported in September 2000. The Government had indicated it would not proceed with the further privatisation of Telstra until country service levels, as assessed by an independent inquiry, were adequate. The Government responded to a further regional telecommunications inquiry, conducted by Dick Estens, with $181 million, some of which was unspent money from previous schemes.

For a government that came to office in 1996 promising to let the telecommunications market rip, finding more than a billion dollars represented intervention on a truly grand scale.

Still more troubling was what happened to the money. Networking the Nation's political origins were never a secret. The first $250 million was allocated to states and territories according to the proportion of the population who lived outside the major city. By this formula, Tasmania, home to a tiny population but a crucial senator, Brian Harradine, got 22 per cent of the $250 million - the largest share of any state and more than twice the shares received by South Australia, Western Australia and Victoria. Queensland got 20 per cent. Of the $174 million allocated to Networking the Nation programs from the “Social Bonus” initiatives funded from the second Telstra sale, $40 million went to support Tasmania’s plans to strengthen its information and communications technology industries – the Intelligent Island strategy. The five-member board of the Networking the Nation program was chaired by former Country Party leader and one-time deputy prime minister Doug Anthony.

Networking the Nation reported that by 2002-03 its money had supported the installation of computers and internet access in more than 1400 schools, libraries, councils, telecentres and community facilities. These 1400 facilities had had more than 610,000 users. The 111 websites/portals supported by the program had been visited more than 27.5 million times. The 220 training projects assisted had provided places for 172,000 people. Evidence of long-term impacts may be clearer when the departmental review is completed.

But many thought the consultants who swept through the bush selling “regional telecommunications strategies” off the rack did much better than consumers from the early rounds of funding.

In a November 2003 report, the

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Australian National Audit Office complained that there had been no qualitative and quantitative assessment of the needs of clients for the initial allocation and no quantitative assessment for the next round funded from the second Telstra sale. The Government's program objectives were not translated "into operational objectives that would have helped to establish an appropriate performance-management framework to monitor the efficiency and effectiveness of program delivery".

According to the Audit Office, the Department of Communications, Information Technology and the Arts tried for three years but eventually abandoned its attempt to evaluate the initial $250 million fund "as a result of methodological and data-collection problems". Another review is under way, with a report due early this year. But since no baseline data on the state of telecommunications infrastructure in country areas was collected before the program began and no targets were set, it will be difficult to demonstrate its success or otherwise, says the Audit Office.

The most spectacular failure was Greenphone, a venture set up by regional councils in the "Greater Green Triangle" covering south-west Victoria and south-east South Australia. Networking the Nation awarded the Greater Green Triangle Association $2.3 million in 2000 to establish a regional telecommunications network, a regional portal and six public-access facilities. Greenphone got $1.6 million to build the network-access points, the regional portal and a multimedia centre in Mt Gambier. In June 2001, it was awarded another $930,000 directly from Networking the Nation to test wireless local-loop data and telephone services in the Wattle Range Shire. Just four months later, an administrator was appointed to the company. In December 2001 it was put into liquidation.

Greenphone, however, was only the worst example of a type of scheme that struggled everywhere. Despite persistent optimism about small, regionally based carriers, very few have managed to establish themselves solidly in the openly competitive market since 1997. The National Bandwidth Inquiry, published in April 2000, reached the sombre conclusion that carriers other than Telstra were unlikely to provide ubiquitous national networks. That meant some rural and remote areas might continue to see little or no competition. The National Bandwidth Inquiry wanted to ensure there were suppliers who were practically focused on serving regional communities. It recommended that Telstra consider outsourcing or "franchising" some of its regional networks or operations to local
operators or local communities and that proceeds from the sale of Telstra should be directed to “encouraging new market models for entry by infrastructure competitors”.

The supporters of this model appear to have underestimated both what was involved in creating new entities and the strength of Telstra’s response to any competitive threat. Senior research officer in the communications division at the Communications, Electrical and Plumbing Union, Ros Eason, asks: “What’s the objective here? Is it competition for competition’s sake or is it to provide services as efficiently as possible? What do we do about the money we’ve handed over if, in a few years’ time, these new players turn out to be unable to sustain their business cases?”

For state governments, the possibility of regional or community telecommunications companies providing locally focused competition to the incumbent Telstra was tantalising. Greenphone, however, showed how big a risk it was. In 2002, the Victorian Government made support for new regional or community telecommunications companies one of seven “streams of activity” it would pursue under its “regional connections” strategy. But the assistance it offered was a series of conferences and the establishment of a panel of experts to address skills and management issues and support longer-term planning, acknowledging the paucity of serious, affordable options for state governments to support these enterprises.

More successful for consumers were the much larger amounts of money allocated from the Federal Government’s billion dollars for major infrastructure projects. These included $150 million to extend untimed local calls to the most remote parts of the country and about $100 million eventually to expand mobile-phone coverage, including to 16 of the country’s busiest highways and to all towns with populations of at least 500. These delivered solid and obvious outcomes.

New entrants in the telecommunications market, however, criticised the fact that most of the money, including the whole extended zone contract, went to the incumbent Telstra. It seemed odd that a government intent on cutting the old monopolist loose was writing very large cheques to pay for the expansion and upgrading of its network, they argued.

Optus proposed a satellite solution to extend untimed local calls. It argues this would have provided a once-in-a-generation opportunity to get competition in the bush. It lost the tender to Telstra. Others note the shortcomings of Optus’s reliance on a single technology –
satellite – to address a wide range of different local situations. They point out that satellite-phone services were unpopular with customers accustomed to using land-based cable or radio services because of the transmission delay as signals bounce to and from the satellite. Telstra won, it says, because it offered a better solution to a difficult problem that the company had had years of experience in trying to fix.

State governments, fired with the possibilities of communications and information industries, have watched the Commonwealth’s telecommunications policies with some frustration. Miffed from the outset about the overtly political allocation of Networking the Nation funds, some were further irritated about what they saw as inadequate consultation about the specific projects supported in their states. Others, however, stress the efforts made by the Commonwealth to involve the states and the difficulties facing any applicant whose proposal did not have state government support.

Another approach adopted by the states was to use their powers as buyers of telecommunications services and controllers of other infrastructure to get companies to invest in ways that supported a state’s policy objects. The Queensland Government used this approach to secure a second fibre link along the coast between Brisbane and Cairns. The link, opened in August 2001, was laid by Leighton Holdings’ subsidiary Visionstream (previously owned by Telstra), trading as Reef Networks. Leighton was granted an exclusive right to lay optical fibre in the rail corridor maintained by the government-controlled Queensland Rail. Optus then entered into a 10-year lease of 2.5 Gbit/sec-transmission capacity from Reef – a kind of “anchor tenancy”. The Queensland Government has committed $23.5 million of its $170 million annual telecommunications spending to Optus for five years as part of the deal. It claims a reduction of 70 per cent in wholesale broadband prices on the coastal route. For Optus, the facility effectively completed the fibre trunk it had already constructed from Perth to Brisbane, but using operational rather than capital expenditure.

Queensland Innovation and Information Economy Minister Paul Lucas says his government has also secured from Telstra and Optus a commitment to build up to 89 new mobile-phone towers in return for the government’s $18 million annual mobile-phone business. The tension for states in this kind of arrangement lies in balancing their own agencies’ desire to manage their telecommunications spending as they see fit, with the capacity to use the aggregated
spending power of the public sector to negotiate better deals and particular investments. Rather than trying to lever such investments, the NSW Government has concentrated on securing a panel of competitive telecommunications suppliers for individual government agencies to choose from. Research commissioned by the Victorian Government found that just 5 per cent of the state’s total telecommunications spending was incurred by the State Government, highlighting its limited capacity as a policy tool.

Broadband is the next big issue. The term generally refers to services offering high-speed access to the internet and data transfers. The constant complaint is that Telstra has been too slow to deploy it and it is still too expensive, resulting in a low level of take-up in Australia by international standards. OECD figures show total broadband access per 100 inhabitants in Australia in 2002 was 1.9 – less than half the OECD average of 4.9 and well behind the leaders South Korea (21.4) and Canada (11.7). Victorian Government research forecasts a rapid increase in unmet demand for broadband services in that state over the next four years. A failure to increase broadband coverage would result in a substantial loss of economic activity.

Telstra provided research to the current Senate Committee Inquiry into Competition in Broadband Services, questioning the constant refrain about the state of broadband in Australia. The Network Economics Consulting Group says that when “basic economic variables” such as the age of the broadband service, per capita income levels and the supply of complementary goods, particularly pay TV, are taken into account, Australia’s broadband penetration “is not significantly lower than the OECD average in a formal statistical sense”.

The Federal Government’s response to the Estens inquiry, however, has a National Broadband Strategy as its centerpiece. It stresses the need for partnerships between industry and all levels of government and will support the health and education sectors and local government to aggregate their demands in particular areas to function as anchor tenants for new broadband networks. An incentive scheme is also being established, offering one-off per-customer payments to high bandwidth service providers in areas where a defined basic service is not likely to be made commercially available in the immediate future. Labor is also grappling with other ways to get Telstra to make higher bandwidth services available, not only in country areas but also around the edges of major cities where rapid
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Urban expansion has tested the dimensions of existing infrastructure at least as much as in the more politically visible "bush".

If the Government succeeds in getting legislation to complete the sale of Telstra through the Senate in 2004, the landscape may change radically. With no more legislative support needed and nothing left to sell, the policy trade in place since 1996 will cease. Less owning, more spending, may become no owning and much less spending.

The states, still without regulatory powers and limited ability to influence telecommunications markets exposed by eight years of experience, might find that although they are back in the telecommunications game, they will not have much to play with.