



Australian telecommunications services: a new framework

**Summary of Statement by the
Minister for Transport and Communications
25 May 1988**

Foreword

In introducing the Government's telecommunications agenda, the Prime Minister has stressed the importance of

Australian telecommunications services: a new framework Summary

The Australian telecommunications industry is being placed in a new framework to make a major contribution to the goals of efficiency and trade competitiveness in the telecommunications services. This framework is set to be implemented in the next few months and will be the result of a major review of the industry in the Australian Parliament.

While this is under way, the Government has had a fundamental review of telecommunications policy in September 1991.

This review has been carried out in close consultation with the Government's review of the telecommunications industry and Government's government telecommunications, the results of which are being presented in a separate document 'Shaping the Transport and Communications Government's Future Direction' also being published in booklet form today.

The present booklet is a summary of a report 200 pages in length, which is being presented to the Parliament in the next few days. The report is the result of a major review of the telecommunications industry in the Australian Parliament.

**Senator the Hon Gareth Evans QC
Minister for Transport and Communications**

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Senator the Hon Gareth Evans QC
Minister for Transport and Communications

Australian Government Publishing Service
Canberra

Foreword

In describing the Government's third-term agenda, the Prime Minister has given greatest emphasis to micro-economic policy: the structural adjustment of key industries, and the relationships between them, with a view to establishing and sustaining longer term growth. The Government's goal is to ensure that the manufacturing and service sectors in particular become more efficient and so improve our trade competitiveness, reduce our reliance on imports and ensure the Australian economy has the versatility, adaptability and resilience necessary to take advantage of the rapid changes this nation faces in the years ahead.

The Australian telecommunications services industry is well placed to make a major contribution to these goals of efficiency and trade competitiveness in the information economy, while continuing to serve the important social objectives associated with the central role of the telephone in the Australian community.

With this in mind, the Government initiated a fundamental review of telecommunications policy in September 1987.

This review has been carried out concurrently with the Government's review of the major Transport and Communications government business enterprises, the results of which are being announced in a separate statement 'Reshaping the Transport and Communications Government Business Enterprises' also being published in booklet form today.

The present booklet is a summary of a major 230 page statement that is being issued concurrently. That statement explains in detail the consideration given by the Government to the complex set of issues involved in reshaping arrangements for the telecommunications services industry. This summary records the decisions the Government has made to bring about structural reform, and gives an outline of the reasoning behind those decisions.

Gareth Evans
25 May 1988



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Australia's advanced satellite system will provide a wide range of services, including strong communications and financial structures, and high quality connectivity. The system will be operated and controlled by the Australian Government.

Since 1996, the ACCC has been working to ensure that the telecommunications market is open to competition. This is done by removing barriers to entry, promoting competition, and providing a level playing field for all participants in the market. The ACCC has also been working to ensure that the telecommunications market is open to competition.

The Commission has identified a number of key issues that need to be addressed in order to ensure that the telecommunications market is open to competition. These issues are:

- increasing competition for the provision of services to the wide providers of basic services, including the provision of basic services, including the provision of basic services, including the provision of basic services.
- allowing for competition in the provision of services to the wide providers of basic services, including the provision of basic services, including the provision of basic services.
- increasing competition for the provision of services to the wide providers of basic services, including the provision of basic services, including the provision of basic services.
- establishment of regulatory arrangements that are independent of the carriers and directed towards ensuring compliance of carriers with regulatory standards, but not efficient competition beyond the regulatory framework, and improved efficiency and accountability for the regulatory system, and

Background and introduction

1. In 1975 Australia took what was then a pioneering step in telecommunications by separating its public service postal and telecommunications administrations and establishing each as an independent statutory authority. This step worked well in the succeeding years. In 1981/82 the Davidson Inquiry reviewed these arrangements for telecommunications and made recommendations for further development. However, these recommendations failed to give sufficient weight to the central social importance of telecommunications and were judged to risk leading to an unacceptable degree of instability in social policies relevant to telecommunications. Since the Davidson Report recommendations were set aside in 1983 it has become increasingly apparent that, while the 1975 arrangements have served Australia well, they have been overtaken by events. There is a need to introduce considered change to enable the industry to continue to respond to changing technological and market imperatives, and provide the full range of telecommunications services required in the latter years of the 20th century.
2. The Government has therefore decided to restructure the regulatory environment of the telecommunications services industry to provide for:
 - continuing authority for the existing carriers to be the sole providers of basic network facilities and services, subject to greater commercial and external regulatory discipline;
 - full scope for competition in the provision and operation of value added services;
 - increased scope for competition in the provision of network terminal equipment for connection within customers' premises;
 - establishment of regulatory arrangements that are independent of the carriers and directed towards ensuring maintenance of minimum necessary standards, fair and efficient competition beyond the monopoly boundaries, and improved efficiency and accountability for the monopoly carriers; and



Telecom Australia

|||||OTG|||

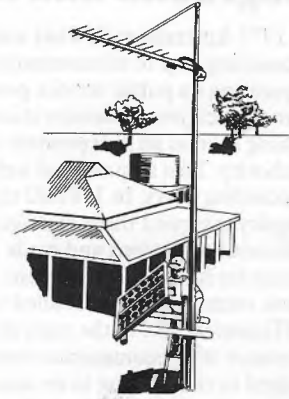
AUSSAT

Australia's National Satellite System

- an improved environment of government control and accountability for the traditional monopoly carriers, including strengthened corporate and financial structures, clear lines of accountability, firm performance targets and increased commercial scope and management freedom.

Objectives and issues

3. Australian telecommunications services are presently provided principally on the networks operated by the three fully Commonwealth Government-owned instrumentalities, Telecom, OTC and AUSSAT (the carriers).
4. The principal policy objective that has been pursued in delivering telecommunications services in Australia has been the provision of telephone services throughout Australia on a non-discriminatory, uniform basis at affordable prices. This objective has generally served Australia well over past years. While the traditional objective remains important, it is no longer sufficient, by itself, to meet Australia's future needs for telecommunications services.
5. The definition of a wider range of telecommunications policy objectives is required to meet new pressures on the existing monopoly and regulatory arrangements. The three major factors creating pressures on the telecommunications system are technology, business community needs and the changing world economy.
6. Technological developments are revolutionising the telecommunications industry in terms of the number and quality of services available and are leading to an integration of computer and communications technologies. The current regulatory arrangements, devised mainly for a single-product, voice-telephone industry, cannot cope effectively with these new developments. The needs of business increasingly require full access to the growing information economy. If firms are to secure and maintain a competitive advantage, they must cope with rapidly increasing needs in terms of information processing and, in turn, of telecommunications. International competitiveness will depend increasingly on the efficiency of information access and use. This in turn depends on the relative efficiency of telecommunications serving Australia compared to its competitors and its trading partners, as well as the efficiency with which telecommunications links Australia to its global markets and global competitors. Therefore, how we provide and regulate our services must be influenced to some extent by how such services are provided and regulated globally.



7. In response to these pressures the Government has decided that policies should be developed against a background of the following newly articulated objectives.

The objectives of Government telecommunications policy are:

- (1) to ensure universal access to standard telephone services throughout Australia on an equitable basis and at affordable prices, in recognition of the social importance of these services;
- (2) to maximise the efficiency of the publicly-owned telecommunications enterprises — Telecom, OTC, AUSSAT — in meeting their objectives, including fulfilment of specific community service obligations and the generation of appropriate returns on investment;
- (3) to ensure the highest possible levels of accountability and responsiveness to customer and community needs on the part of the telecommunications enterprises;
- (4) to provide the capacity to achieve optimal rates of expansion and modernisation of the telecommunications system, including the introduction of new and diverse services;
- (5) to enable all elements of the Australian telecommunications industry (manufacturing, services, information provision) to participate effectively in the rapidly growing Australian and world telecommunications markets; and

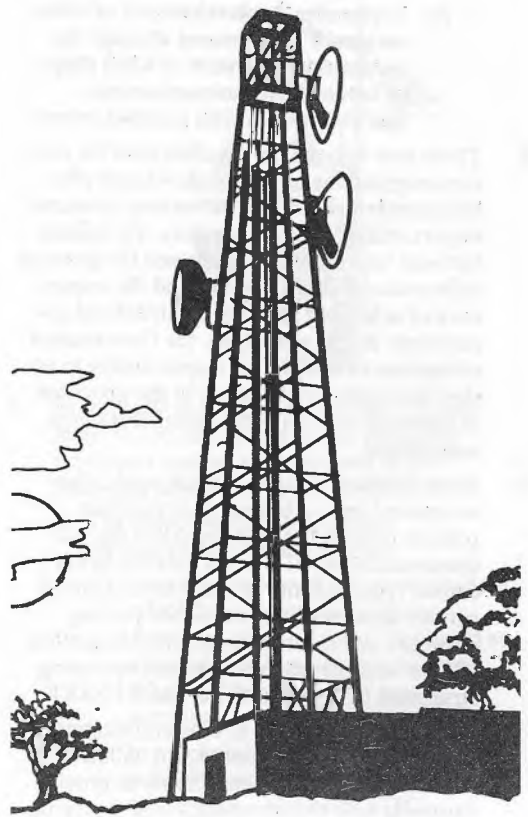
- (6) to promote the development of other sectors of the economy through the commercial provision of a full range of modern telecommunications services at the lowest possible prices.
8. These new national policy objectives for telecommunications have been developed after full consideration of the increasing economic importance of efficient services, the linkage between telecommunications and the growing information industry sector, and the importance of achieving appropriate structural adjustment. At the same time, the Government recognises its continuing responsibility to ensure that appropriate equity in the provision of essential telecommunications services is maintained.
 9. Some fundamental constraints need to be recognised and addressed in developing policies to meet the new objectives for telecommunications. These include the heavy capital requirements of many telecommunications activities, the established pricing structure and community service obligations (CSOs) and the management and operating structures of Telecom, OTC and AUSSAT.
 10. Capital funding of the telecommunications sector is already substantial, but will need to continue to increase significantly to provide Australia with the advantages that emerging technology can offer in global markets. (Telecom alone anticipates its annual capital program will increase to around \$4,000 million by 1990/91.) At the same time, the risks involved in introducing new services are much greater than in the past, which could discourage the necessary investment, unless appropriate policies are in place.
 11. A second constraint on policy change is the established pricing pattern for telephone services that has evolved partly because of the national objectives that telecommunications carriers have been required to meet. To encourage a wide customer base — for both commercial and social reasons — customers have been provided with access at prices which are often below the direct costs of provision, with an offsetting increase in the price of usage of the network. The pressures for adjustment of prices to reflect costs better are real ones, but there are also far-reaching social concerns regarding such changes, and these will not disappear in the years to come.

It is important that policy responses to the rapidly changing telecommunications environment do not undermine the legitimate community service obligations, or inadvertently place them at risk.

12. The third major constraint in responding to pressures for change lies in the present corporate environment of Telecom, OTC and AUSSAT. This telecommunications policy review, and the Government's concurrent development of a management reform program for its government business enterprises generally, have provided an opportunity to make the enterprises more commercially oriented and less constrained by unnecessary government controls. In addressing these changes, the Government will retain all its rights and obligations as the ultimate owner of Telecom, OTC and AUSSAT, and will ensure that they operate consistently with the long term national interest.
13. The Government recognises that reform of the basic structural and regulatory framework for telecommunications is required if Australia is to meet the challenges and to take advantage of the opportunities created by recent developments. The Government's aim is to establish a framework in which appropriate adjustments can take place without undue government intervention, while ensuring that the new overall policy objectives meet both efficiency and equity criteria.
14. Therefore, this policy statement has been directed to resolving the following five fundamental structural questions:
 - the extent to which existing monopoly arrangements for the provision of the *basic network* facilities and services need to be maintained;
 - how the boundary lines between monopoly and competition should be drawn in the provision of *value added services*;
 - how the boundary lines between monopoly and competition should be drawn in the supply and installation of *customer premises equipment*;
 - the need for a *new independent regulator* to carry out necessary new economic and technical regulatory functions; and
 - the need for the telecommunications carriers to be significantly relieved from *government managerial constraints* to enable them to perform more effectively.

The basic network

15. The basic network essentially comprises the links from customers' premises to local exchanges, together with the inter-exchange network and related switching and network intelligence facilities within the various levels of exchanges. A key question addressed is the extent to which the basic network infrastructure is best provided on a reserved or monopoly basis by a single carrier, or by a designated group of carriers.
16. There are two fundamental considerations in answering this question. First, the infrastructure itself, or parts of it, may possess natural monopoly elements such that competing providers could introduce overall inefficiencies. Second, competitive provision of certain services may be inconsistent with the Government's goal of maintaining and extending universal services.
17. The natural monopoly element of particular network components has been the rationale for continued monopoly provision of the basic infrastructure. Where economies of scale to particular network components are very large, or there are widespread economies of scope between the facilities needed to provide different services, the market may not be large enough to sustain more than one supplier in the long term. Current and emerging technology still exhibit economies of scale and scope, as well as high sunk costs.
18. The existing monopoly has permitted pricing structures to embody the internal cross-subsidies that have been used to sustain the important general policy of providing universal access to standard telephone services at uniform affordable prices. It is still not possible sufficiently to disentangle the current accounting arrangements to enable a reliable calculation of the costs or levels of these cross-subsidies or to enable proper consideration of possible alternative service-delivery arrangements in these areas.



19. Nonetheless, given the importance of the community service obligations (CSOs) that are reflected in the first of the new policy objectives set out above, and the related importance of cross subsidies, the Government has recognised a need to ensure that CSOs are met to standards that are subject to government scrutiny, within cost parameters that are determined by government in a national resource allocation context. It has therefore decided as follows:

Telecom will be required to obtain the approval of the Minister for Transport and Communications for its plans to meet its community service obligations, including the associated levels of costs and cross-subsidy that will be involved. The approved plans will then be set out explicitly in Telecom's corporate plans.

20. In order that work can proceed quickly on this important issue the Government has decided that an immediate study will be commenced in the context of preparation for Telecom's corporate plan.

The Bureau of Transport and Communications Economics with appropriate assistance from consultants and in conjunction with Telecom, will prepare a report on the costs and cross-subsidies associated with meeting identifiable community service obligations now met by Telecom. The report will be available for consideration in the context of developing Telecom's corporate plan for 1989/90 and beyond.

21. Following from these considerations the Government has decided that the regulatory regime for the basic network will be as follows:

The monopoly provision of the basic public switched voice network by Telecom within Australia and by OTC internationally will continue.

The shared use and resale of simple carriage of all traffic over private networks will continue to be restricted. This restriction will apply both to facilities leased from Telecom and OTC and to services obtained from AUSSAT.

Telecom and OTC will be provided with continued regulatory protection of their monopolies in specific services where opening them to competition at this time would impose excessive adjustment burdens on the carriers or their customers. These services are:

- public switched data;
- public switched text and video;
- public switched Integrated Services Digital Networks (ISDN);
- leased circuits; and
- mobile telephones.

22. Where 'non-core' services are provided that use the basic network but do not compete with it, there may be scope to permit competition in their provision. This has applied successfully since 1981 in the provision of radio paging services, which have developed from basic alarm systems into one-way information services carrying text messages. It has been suggested that a logical extension of

this development may be to permit competition in the provision of cellular mobile telephone services. There is of course, already competition in the supply of terminal equipment for this service. Further competition would mean permitting an additional operator to provide associated switched services for interconnection to Telecom's public switched network. While this would not appear likely to affect Telecom's capacity to fund its community service obligations by cross-subsidy, because the services in fact provide additional traffic to the basic network through interconnection, it would require careful consideration of a range of factors. These include how to continue to ensure maximum geographic coverage and full mobility; the need for possible changes to radio frequency spectrum planning and allocation; the avoidance of inappropriate bypass of the basic network; and the implications of other related developing technology (e.g. digital cellular radio, possible land mobile satellite radio services). In view of these present uncertainties the Government has decided that:

On its establishment the new independent regulatory authority will be required to report on the implications of licensing an additional operator of cellular mobile telephone services with rights of interconnection to Telecom's public switched telephone network, having regard for the implications that such services may have for the orderly and efficient development of the national telecommunications system, and for the continued capacity of Telecom to provide the cross-subsidies required to meet its essential community service obligations. The Government will, after receiving that report, review the case for licensing such an additional operator.

23. The adequacy of Telecom's provision and maintenance of its 32 000 public telephones has been a source of considerable community concern. But public telephones are an essential component of Telecom's community service obligations and need to be provided in line with community need, with the costs of efficient provision being recognised in assessing enterprise performance. The Government has therefore decided as follows:

Telecom will continue to have the exclusive right to provide payphone services.

Telecom will be required to provide and maintain public telephones in line with community needs.

(The regulatory arrangements relating to public telephones are covered in paragraph 54 below.)

24. The continued regulation of these services will be accompanied by new mechanisms to protect consumers, to provide alternative incentives for efficiency and to ensure carrier accountability and responsiveness (see paragraphs 51 to 54 below). The Government will also continue to monitor the appropriateness of the boundaries of the monopoly.
25. During this review the Government has also considered the appropriate future relationship between its three carriers — Telecom, OTC and AUSSAT. The Government's aim is to ensure that the structural arrangements are clearly directed towards the national interest. Therefore, it will keep the question of structural arrangements under close consideration in monitoring the effects of other changes it has decided on in this policy review. Accordingly the Government has decided that:

There will be no changes in the present ownership arrangements or structural relationships among the three carriers (Telecom, OTC and AUSSAT) at this time, but these will be subject to review after the main elements of the reform package embodied in this statement have been put in place.

26. In respect of international telecommunication arrangements the Government has also decided:

OTC's monopoly on the provision of the basic international network facilities will continue.

27. The current prohibition on AUSSAT operating between countries, while being allowed to operate within other countries, is a regulatory barrier to the optimum use of the satellite technology that is in place, and proposed. As a consequence, some services that are provided directly by satellite within Australia and that could also be provided directly in other countries — e.g. New Zealand — may not be provided there at all under present arrangements. These would principally be private network and point-to-multipoint services. Since they would largely reflect new traffic, and would not carry public switched traffic, such services would not affect OTC's position other than marginally; they would complement OTC's monopoly facilities and services in much the same way as AUSSAT complements Telecom's facilities and services within Australia. Accordingly the Government has decided:

AUSSAT will be allowed to extend its provision of private network facilities internationally to the limits of its present satellite footprint.

Value added services

28. Value added services (VAS) are a key growth area in the future role of telecommunications in the economy. A value added telecommunications service is one delivered or accessed by telecommunications means and involving the addition of significant value to the basic switching and transmission functions, in the form of information processing, delay, re-direction or other intervention. Examples of present types of VAS are secretarial and personalised answering services, and information providing services such as recorded information, electronic mail and electronic databases. The full development and penetration of VAS by a range of public and private sector services is important for Australia's transition to an internationally competitive information society.
29. A key regulatory issue is how to continue to delineate the boundaries between VAS (which are currently open to competition) and basic switched-voice and other reserved services (which are to continue to have monopoly protection). Clear definitions are required so that the reserved services are not undermined and there is regulatory certainty. A related consideration is the method by which boundary delineation is to be effected. Other important issues relate to ensuring that regulation is not capable of being used to favour the monopoly network operator, and the promoting of active competition in VAS provision.
30. The Government recognises the need to simplify and clarify the current regulatory procedure, for the approval and introduction of VAS services. Accordingly, it will change the regulatory arrangements to provide a more competitive market environment, with the arrangements for reserved services being implemented within the regulatory regime for VAS services.
31. The Government has therefore decided as follows:
- Value added services will be open to full competition.
 - There will be a licensing arrangement administered by an independent regulatory authority to ensure that value added services do not intrude on the monopoly services reserved to Telecom and OTC.
32. A new independent regulatory authority will be established to take responsibility for administering the precise definition of services



- that are reserved to the carriers. In addition, this regulator will be responsible for policing the boundary between monopoly services and VAS. Close monitoring is necessary to protect Telecom's ability to meet the acknowledged community service obligations and to ensure that competitors do not impinge on the various reserved services. (These matters are addressed further in paragraph 49.)
33. In order that VAS providers have the maximum commercial scope to determine the appropriate carrier for their services, consistent with the reservation of basic services to the carriers as outlined above, the Government has also decided that:
- Restrictions on the use of AUSSAT facilities for the provision of publicly-offered value added services will be removed.
34. Telecom, OTC and AUSSAT are well placed to compete as efficient providers of value added services in conjunction with their reserved network and services role. However, a key role of the independent regulatory arrangements will be to establish fair competition between the public and private VAS providers, and to seek to prevent practices such as preferential access and predatory pricing. The Government has decided that:
- Telecom, OTC and AUSSAT will be free to participate commercially in the value added services market.
 - Telecom, OTC and AUSSAT will be required to maintain separate accounting records for their value added services and their VAS charges will be required to reflect the standard tariffs for associated use of monopoly facilities and services.
35. The nature and characteristics of the VAS sector make it particularly suited to global service provision. The Government's actions will help to provide a favourable environment for Australia to exploit available opportunities. However, it is VAS providers who must take initiatives to lead market development.

Customer premises equipment

36. The customer premises equipment (CPE) market covers equipment that may be attached to the telecommunications system and includes such items as telephones, telex terminals, facsimile machines and cellular radio telephones. Installation, maintenance, alterations, enhancements and additions to CPE hardware and software all form part of this market.
37. The current regulatory arrangements give Telecom widespread powers to set the boundaries between CPE and the public switched telephone network and the authority to decide whether specific equipment may be attached to the system. Telecom's approach to these arrangements has developed from a position where in 1975 authorised attachments were almost exclusively provided by Telecom, to a position today where different degrees of competition are accepted for different items of equipment. Some questions have arisen over the consistency between these regulatory arrangements and the restrictive business practices provisions of the *Trade Practices Act 1974*.
38. The CPE markets in which no competition is currently allowed include first telephones, telex terminals, small business telephone systems (SBS), cabling and wiring of domestic and small business premises and lead-in wiring across property. Some degree of competition, ranging from limited to open, is permitted in the provision of additional telephones, modems and computer terminals, facsimile machines, cellular radio telephones (CRTs), supply of private automatic branch exchanges (PABX) and the cabling and wiring of large commercial premises. PABX maintenance is reserved to Telecom. These arrangements are used to provide a level of protection above that afforded by tariffs to the Australian communications equipment manufacturing industry in its manufacture of PABX, SBS, standard telephones and cellular mobile telephones.
39. Important customer-related objectives sought in reviewing CPE were to assist domestic and business users by minimising costs, ensuring adequate choice, encouraging innovation and providing for efficient maintenance arrangements and a customer-oriented approach to service. Other objectives included the need to facilitate continued structural adjustment by



manufacturers consistent with the Information Industries Strategy, and the need to achieve efficiency gains within Telecom. However, the benefits of present arrangements, including assured quality of end-to-end services and clarity of maintenance responsibilities for standard residential telephone services also need to be recognised.

A new independent regulator

40. The Government, after examining the opportunities which exist for CPE markets and carefully weighing the experience of policy change in a number of countries, including reported benefits and costs, has decided to adopt a measured approach to future CPE regulation. The approach adopted is designed to:
- reduce CPE-associated costs for users;
 - avoid increases in other costs or a decline in service standards;
 - provide a carefully staged program of liberalisation and industry development support in CPE to assist industry restructuring to meet competition from imported products, while taking advantage of market growth and increased technological diversity;
 - improve the capacity of Telecom to at least retain and possibly increase its market by a concurrent managerial reform package; and
 - avoid uncertainty for customers.
41. Against this approach, it is apparent that separate regulatory regimes for PABX and SBS are now technologically and commercially inappropriate, as is a continuing reservation to Telecom of the maintenance of PABX equipment that is supplied competitively. However, any liberalisation of the supply of CPE must also have regard for the degree to which present regulatory arrangements provide support for the Australian communications equipment manufacturing industry, and the implications for structural adjustment. The supply and maintenance of CPE will be liberalised as far as is consistent with a framework of continued support for industry, and with Telecom's capacity to respond to the changes.
42. Telecom's present exclusive right to provide the first telephone with every exchange line raises particular issues. Given that the existing largely competitive market for additional telephones is already served by imports, it would be impractical to retain any Australian content provisions for the first telephone without retaining Telecom as the sole provider. However there is scope to increase efficiency and diversity in this area, while avoiding unnecessary confusion and demarcation over maintenance responsibilities.

43. In view of these considerations the Government has decided as follows:

Telecom's regulatory responsibility for approving equipment for attachment to the telecommunications system will be transferred to an independent authority.

The present Australian preference arrangements administered by Telecom and relating to approval of supply of PABX, SBS, cellular mobile telephones and standard telephones will be replaced by new industry development arrangements. These will be established by 31 December 1988 in consultation with the manufacturing industry, unions, users and Telecom, and will be consistent with the Information Industries Strategy, and with other industry policy decisions announced in the May Economic Statement. The objective of the arrangements will be to build a dynamic, export oriented industry which is effectively integrated into opportunities presented by world markets. In seeking an enhanced capability for the information industries to realise growing opportunities, the Government recognises the need for an adequate transition period for companies to assess and respond to new opportunities by the adoption of appropriate business strategies.

Regulatory approval for the supply of PABX, SBS and cellular mobile telephones for connection to the telecommunications system will be opened to all suppliers complying with the new industry development arrangements.

Telecom will be permitted to continue its role as sole provider of the first telephone for three years through an appropriate exemption from the operation of the *Trade Practices Act 1974*, terminating on 30 June 1991.

Telecom will be required to obtain its range of standard telephones from suppliers complying with the new industry development arrangements.

As a condition of its retention of its role as sole provider of the first telephone, Telecom will be required to improve its efficiency, introduce a cheaper alternative for first telephones, and address the pro-

Customer premises equipment

vision of supplementary exchange lines for non-telephone use outside this reservation.

At least six months prior to the termination of the Trade Practices Act exemption in respect of the first telephone, there will be a review to determine whether there is then a case for its continuation.

44. These, and related, changes will require phasing to ensure orderly development. The Government has therefore decided as follows:

Revised regulatory arrangements will be introduced in accordance with the following timetable:

- (1) An immediate exemption will be provided from the application of the Trade Practices Act for Telecom's requirement that a Telecom-supplied telephone be provided with residential exchange lines, but this exemption will be subject to a sunset clause taking effect on 30 June 1991.
- (2) From 1 January 1989 PABX maintenance will be open to all service providers.
- (3) From 1 January 1989 requirements precluding competitive supply of standard feature telephones for second and subsequent telephones will be removed.
- (4) From 1 January 1989 the boundary between the monopoly network and CPE will be either the first telephone socket in the customer's premises, or the building main distribution frame, whichever is applicable, and supply, installation and maintenance of premises wiring/cabling and attachment points beyond this network boundary will be open to all service providers with appropriate qualifications.
- (5) By 1 January 1989 Telecom will be required to report on the introduction of a cheaper alternative for first telephones, and on providing supplementary exchange lines to existing customers for non-telephone use, without including telephones.

- (6) By 1 July 1989 regulatory provisions relating to SBS supply and installation will be aligned with provisions for PABX, and will be open to all authorised providers (and therefore SBS maintenance will also be open to all service providers).
- (7) From 1 July 1989 regulatory approval to supply PABX, SBS, standard telephones and cellular mobile telephones will be conditional upon the supplier complying with the new industry development arrangements.
- (8) The regulatory requirements on all other CPE (except those noted above), beyond type approval for safety and network integrity, will be removed by 1 July 1989.
- (9) By 31 December 1990 the review of the continuing exemption of the first telephone monopoly from the Trade Practices Act will have been completed.
- (10) By 30 June 1991, consideration will have been given to the need for renewal of the Trade Practices Act exemption for the first telephone monopoly.

The new regulatory provisions will be administered by the independent regulatory authority upon its establishment. Pending its establishment Telecom will continue to administer regulations under specific Ministerial direction to ensure that non-discriminatory administration is seen to be in place as soon as possible.

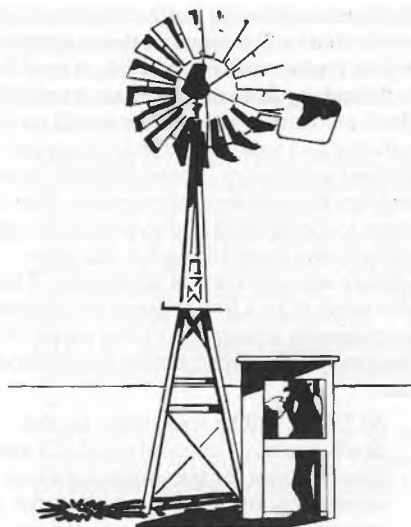
A new independent regulator

45. Telecommunications in Australia is presently subject to a diverse, largely uncoordinated set of regulatory arrangements. Telecom has the primary regulatory function, although no formal mechanism is in place to support or authorise this reliance other than the general provisions of the *Telecommunications Act 1975* and related instruments.
46. The regulatory obligations placed on Telecom are now inappropriate in areas where Telecom itself is a commercial service provider, and are inconsistent with the increasingly commercial nature of the telecommunications industry. At the same time, this review has indicated a need to retain significant monopoly areas for the publicly-owned carriers, thus requiring a considerable degree of continued regulation.
47. The Government has examined a variety of arrangements for telecommunications regulatory administration, including existing administrative law, generalised administrative agencies, the role of the courts and methods adopted overseas. These considerations have led to the Government's decision to formalise future regulatory arrangements in telecommunications within a single specialised agency, independent of the carriers and answerable to the government.

An independent regulatory authority — to be called the Australian Telecommunications Authority (AUSTEL) — will be established. It will be administratively responsible to the Minister for Transport and Communications.

AUSTEL will have five major functions:

- (1) technical regulation: AUSTEL will have statutory responsibility for ensuring that quality and safety are protected and that inter-operability is maintained throughout the public network;
- (2) protecting the carriers' monopoly: AUSTEL will have the authority to administer the provisions which define the boundaries of the monopoly over specific facilities and services;
- (3) protecting competitors from unfair carrier practices: where competition is permitted AUSTEL will promote fair and efficient market conduct, including administration of the



requirements for separate accounting arrangements for carriers' competitive activities and identifying possible breaches of the Trade Practices Act provisions, in so far as they relate to telecommunications, and referring them to the Trade Practices Commission;

- (4) protecting consumers against misuse of the carriers' monopoly powers: AUSTEL will administer monopoly price control arrangements and specific universal service provision conditions. It will also provide a specialised avenue for monitoring consumer complaints concerning the monopoly telecommunications service providers; and
- (5) promotion of efficiency: AUSTEL will monitor and report on the efficiency and adequacy of monopoly operations by Telecom, OTC and AUSSAT, in particular with respect to Telecom's fulfilment of its community service obligations.

AUSTEL will be a non-business Commonwealth Statutory Authority, established in line with the Government's 1987 Policy Guidelines for Commonwealth Statutory Authorities and Business Enterprises. It will be headed by a Chairperson and two other full or part time statutory office holders.

48. Technical regulatory functions are currently performed by Telecom, but this responsibility will be transferred to AUSTEL. A need for technical regulation exists to set standards (both mandatory standards imposed on the industry and voluntary standards agreed within the industry) where different carriers and service providers interconnect, to avoid harm to the network and to protect the safety of users and those engaged in the maintenance and operation of equipment. There also needs to be a link between the industry development arrangements and supply of equipment. The Government has decided that:

AUSTEL will be responsible for the development of national standards and specifications for telecommunications equipment, and for arrangements for approving equipment for attachment to the telecommunications network, subject to compliance with these technical requirements and with the provisions of the new industry development arrangements.

49. Protecting the carriers' monopoly against intrusion, by policing the boundaries of the monopoly services, is required to ensure that other telecommunications suppliers and users do not infringe the monopoly services and thereby undermine the ability to meet community service and other obligations. AUSTEL will administer the boundary policy which has been determined by the Government.

AUSTEL will administer value added services and private network licensing arrangements to safeguard the boundaries of the reserved facilities and services.

AUSTEL will review present arrangements for allowing joint use of private networks by closed user groups and will report to the Government.

50. AUSTEL will have a specific duty to promote competition in areas outside the monopoly boundaries, which will involve AUSTEL in the administration of specific legislative or regulatory provisions, as well as liaison with the Trade Practices Commission in the application of Trade Practices Act provisions.

AUSTEL will be responsible for approving the separate accounting arrangements

adopted by the carriers to ensure that their competitive activities are conducted fairly with respect to their monopoly position.

AUSTEL will have an appropriate number of its statutory office holders concurrently appointed as part-time Associate Members of the Trade Practices Commission (TPC). Telecommunications matters will be considered by a Division of the TPC comprising up to two AUSTEL members and two other members, one of whom — usually the TPC Chairperson — shall preside. Subject to existing quorum provisions, absence of any particular member from the division would not prevent a decision being made.

Arrangements will be developed which ensure a complementary relationship between the Trade Practices Commission and AUSTEL. AUSTEL will have the authority to refer appropriate telecommunications matters requiring resolution to the TPC, to attend TPC conferences held pursuant to notifications and authorisations under the Trade Practices Act and involving telecommunications matters, and to participate with the TPC in the preparation of relevant guidance material for the telecommunications industry. Similarly, the TPC will be able to refer or delegate matters, as appropriate, to AUSTEL.

51. The complexity and scale of Telecom's operations is such that Ministerial oversight alone can no longer provide the level of support for consumer interests that is necessary within the continued monopoly arrangements. The Government is determined to ensure that Telecom is an efficient, customer oriented organisation fully responsive to customer needs. Telecom's corporate plan will include targets for the delivery of services and the Government will require adherence to these targets. Consequently, AUSTEL will be given explicit legislative authority to oversee the relationships of the monopoly telecommunications service providers with their customers. The general oversight arrangements will be augmented with specific functions in respect of price control, customer service standards, and consumer complaints. In carrying out these functions AUSTEL will establish consultative

links with consumer and other relevant interest groups.

52. In respect of consumer complaints the Government has decided that:

AUSTEL will have authority to investigate complaints received that fall within its range of responsibilities. AUSTEL will have a capacity to refer to the Ombudsman complaints it receives which are more appropriately dealt with by the Ombudsman. As a general principle, the Ombudsman will deal with matters affecting individuals while AUSTEL will be concerned with complaints which raise wider regulatory policy considerations. Arrangements will be developed between the Ombudsman and AUSTEL to avoid duplication of effort and to minimise confusion over responsibility for responding to complaints. Arrangements will also be developed between the Ombudsman and AUSTEL to ensure that, subject to confidentiality provisions, AUSTEL is advised of complaints that may raise regulatory implications. AUSTEL will report to the Minister on the overall regulatory implications of consumer complaints.

53. The price control arrangements will be designed to ensure that, in the absence of competition, Telecom and OTC will be subject to pressures to realise maximum efficiency gains and to pass these on to customers through continued reductions in average prices in real terms.

Telecom and OTC prices for standard services will be regulated by formulas determined by the Minister for Transport and Communications, limiting average price rises to a minimum annual percentage below the rate of inflation, with provision to ensure that the benefits are shared equitably among customers and that there are no adverse implications for provision of community service obligations.

There will be separate price control formulas for residential and business customers. The residential formula will limit both the increase in the average price of all standard services and the change in price of standard access charges.

AUSTEL will monitor the carriers' compliance with the price control formulas and report to the Minister for Transport and Communications on prices and efficiency generally.

Monopoly prices for non-standard services not covered by the formulas will normally be a matter for determination by the carriers. The Minister will retain an authority to apply price control to specific services in the public interest, whereupon price changes will be notifiable to AUSTEL and subject to disallowance by the Minister after receipt of a report by AUSTEL.

The price control arrangements for monopoly services set out above will replace present provisions for consideration by the Prices Surveillance Authority.

54. Telecom's community service obligations will be more clearly specified as a matter of government policy. Action will be taken to specify the precise objectives of a non-commercial character which the Government requires of the monopoly service providers, and to indicate the means by which they are to be pursued. In addition, Telecom will be instructed to maintain accounts so that the costs associated with pursuing these objectives can be identified. AUSTEL will be vested with the responsibility of monitoring CSO costs and assessing whether Telecom is fulfilling its non-commercial obligations in an efficient manner. AUSTEL will also be empowered with other functions, such as fulfilling the role of an arbitrator in disputes over Telecom's obligation to provide a universal service.

AUSTEL will be responsible for approving the accounting arrangements adopted by Telecom in reporting the costs of meeting community service obligations.

AUSTEL will be responsible for determining specific disputes over Telecom's meeting its community service obligations in respect of standard telephone connections to the network and of provision of public telephones. It will be responsible for reporting on Telecom's efficient fulfilment of its community service obligations overall.

Freeing the carriers from government constraints

55. From the foregoing discussion it is clear that fundamental changes have already taken place in the environment in which the telecommunications authorities operate, both domestically and internationally. Technological development and convergence with technologies in computing, entertainment and broadcasting mean that more rapid change is inevitable.
56. The carriers will, in future, increasingly have only specified service delivery and commercial roles, with their previous regulatory and de-facto policy roles subsumed by AUSTEL and by the government directly. They will increasingly carry out their important community service obligations as direct agents for government and these obligations will be given explicit expression.
57. These developments have stimulated a fundamental re-examination of the government's shareholder and commercial control relationships with Telecom, OTC and AUSSAT. The Government has decided on a reform package to be implemented for each enterprise, in line with the *Policy Guidelines for Commonwealth Statutory Authorities and Government Business Enterprises* tabled in the Senate on 4 November 1987.
58. Packages to reshape Telecom, OTC and AUSSAT have been developed during the process of improving the efficiency of all government business enterprises (GBEs), as part of the Government's micro-economic reform strategy. These packages have been formulated after considerable scrutiny of the financial structure and commercial performance of each enterprise, and the need for detailed controls and accountability.
59. Up until now, the boards of these three enterprises have been hampered to varying degrees by a confusion of unclear objectives — both social and commercial; by a high level of ministerial and bureaucratic involvement in day-to-day management conduct; and by an absence of any real externally-monitored accountability framework covering both conduct and results.
60. The Government's solution is to fundamentally change its arrangements for these three GBEs, largely through replacing detailed controls with accountability provisions. In essence what the Government has



- decided to do is focus mainly on the 'bottom line' performance or output of these enterprises rather than continue with centralised controls on the input stages of business decision-making — in essence to let the managers manage and to ensure that where the enterprises are required to face competition, they must be able to do so on a comparable basis to their competitors. A 'level playing field' needs to be established.
61. A full account of the GBE reform process is contained in the Ministerial Statement of 25 May 1988, *Reshaping the Transport and Communications Business Enterprises*, which contains details of the individual reform packages for Telecom, OTC and AUSSAT, as well as the other GBEs within the Transport and Communications portfolio (Australia Post, Qantas, Australian Airlines, Australian National Line and Australian National).

Revised corporate and financial structures

62. The Government has addressed the important issue of structure: the structural relationship among the three enterprises; the appropriate corporate and financial structure for each of the enterprises; and the relationship of government, boards and chief executives. There will be no changes in the present ownership arrangements or structural relationships among the three carriers (Telecom, OTC and AUSSAT) at this time, but these will be subject to review after the reform packages embodied in this statement have been put in place.

63. Since the Whitlam Government's decision to establish Telecom as an entity separate from the Public Service in 1975, significant changes have occurred in community and government expectations and in the nature of the markets within which Telecom operates, but Telecom's enabling legislation has not been adapted. However, in view of its significant community service obligations over and above its commercial obligations, but also because of the accountability requirements of its continuing monopoly:

Telecom will continue as a corporation established by statute. But it will be provided with a new enabling Act, tailored to the new environment, embodying the reduced direct controls and increased accountability arrangements, and re-named the Australian Telecommunications Corporation.

64. Telecom's Act need now only focus on operational matters, and not be confused with regulatory issues, and in recognition of this, and to reflect the Government's expectation of a more commercial approach, a Board of Directors will be appointed to replace the pre-existing Commission.

The directors of the Telecom Board will be appointed by the Governor-General and be subject to removal by the Governor-General on grounds which shall be expanded to include ongoing underperformance. The Telecom Chief Executive Officer (CEO) will be appointed by the Minister after receiving a recommendation from the Telecom Board and be subject to removal by the Board. The

CEO will be an ex-officio member of the Board. The statutory position of the Chief General Manager will be abolished.

65. On establishment in 1975, Telecom's liability for funds provided by the Commonwealth as at establishment was determined by the Treasurer under the Telecommunications Act at \$3 894.2 million, representing the difference between the historical cost of assets and liabilities.

The new financial structure for Telecom will involve the conversion of 25% of Commonwealth loans (which totalled \$4 352.2 million, at 30 June 1987) to equity, revaluation of assets according to prevailing commercial practice and retiring remaining Commonwealth loans progressively over the next 10 years and their replacement as appropriate with private sector borrowing. Following revaluation of assets, the Government will determine an appropriate debt to equity ratio and overall financial structure on a basis comparable to leading telecommunications companies in other parts of the world.

66. The Government has also considered the appropriate future tax arrangements for Telecom. Recognising that Telecom as an increasingly commercially oriented enterprise should be subject, so far as possible, not only to the same freedoms but to the same disciplines as enterprises in the wider business community, the Government has decided that:

Telecom's subsidiaries and joint ventures will be subject to all taxes;

Telecom will be liable to meet State payroll taxes from 1 July 1988;

Telecom will become liable for other State and local government taxes and charges from 1 July 1989; and

Telecom will become liable for income tax from the 1990/91 income year.

67. The need for OTC to be a statutory authority in order to provide a public service does not allow it to emphasise sufficiently commercial criteria in its operations, and does not provide the maximum flexibility needed to cope with rapidly changing technology and industry development. The Government has decided that:

OTC be established as a 100% Commonwealth-owned company and renamed the Overseas Telecommunications Corporation.

The OTC Board will be appointed by the Minister and will be subject to removal by the Minister on grounds to be expanded to include ongoing underperformance.

The Chief Executive Officer will be appointed by the Minister after receiving a recommendation from the Board and be subject to removal by the Board.

68. AUSSAT will remain a company, incorporated under the Companies Act.

The members of the Board of AUSSAT will be appointed by the Minister and subject to removal by the Minister on grounds which shall be expanded to include ongoing underperformance.

The Chief Executive will be appointed by the Minister after receiving a recommendation from the Board and be subject to removal by the Board.

Modification of major strategic controls

69. There are four major 'strategic' controls of a macro-economic management or broad policy nature that presently impact significantly upon the carriers' management: borrowing through the loan council; superannuation; industrial relations coordination; and executive remuneration. The Government has made a number of significant modifications to each of these controls.

70. The annual borrowing programs of all government business enterprises have long been subject to specific approval in the context of annual Loan Council considerations. These Loan Council controls serve important macro-economic objectives and have been a significant factor in Australia's improved economic position, through the restraints placed on total public sector

borrowings within this mechanism. However their method of administration has not necessarily also served the specific objectives or needs of Telecom and the Government has decided that:

The Loan Council processes presently applying to Telecom will be developed to:

- take into consideration the on-going and longer term nature of capital expenditure proposals by adopting a three year rolling borrowing program (subject to annual review by government) which would allow Telecom and its subsidiaries and joint venture companies to proceed with major investments without the uncertainty inherent in annual borrowing allocations;
- ensure sufficient flexibility to enable additional borrowings to be considered in a year where new commercial opportunities for Telecom, its subsidiaries or joint ventures are identified; and
- allow Telecom to increase its market borrowings to convert part of Commonwealth loans to private sector loans, in the context of its capital restructuring.

The appropriate Loan Council treatment of private sector involvement in joint ventures and subsidiaries will be considered further.

OTC and AUSSAT will remain within current Loan Council processes given that their investment programs can be accommodated within current levels of retained earnings or the existing Loan Council mechanisms.

71. Superannuation for Telecom employees must be provided through the Commonwealth Superannuation Scheme (CSS) and about 1800 of the 2100 OTC employees have become members of the CSS. In contrast, AUSSAT already has its own superannuation schemes formed following approval from the Minister for Finance.

72. In line with the emphasis in the 1987 Policy Guidelines on increased GBE efficiency, the Government has decided that:

Subject guidelines to be developed within the course of the review of the Commonwealth Superannuation Scheme (due by March 1989), Telecom and OTC will be permitted to establish their own superannuation schemes, with any subsequent movement beyond the guidelines subject to approval by the Minister for Finance.

Any additional costs borne by Telecom or OTC due to remaining CSS members will be taken into account in setting their financial targets.

AUSSAT's future superannuation arrangements will be consistent with guidelines to be agreed from time to time between the Ministers for Finance and Transport and Communications, with any proposed movement beyond the guidelines subject to approval by the Minister for Finance.

73. Industrial relations co-ordination arrangements have applied since 1948. The enterprises are required to consult with the Department of Industrial Relations on a wide spectrum of industrial relations issues from major wages and conditions matters to initiatives on occupational health and safety and industrial democracy. The Department can oppose initiatives and proposals which it believes do not accord with government policy. The consideration of these matters inevitably involves greater delays than if the enterprises could settle them without the requirement to consult, and has also been criticised for diminishing the negotiating status of GBE managers. The Government has decided that:

The present industrial relations co-ordination arrangements will be substantially altered by devolving to the enterprises greatly increased responsibility and autonomy to develop wages and employment conditions proposals.

Standard guidelines on government wages and industrial relations policy will be established by the Minister for Industrial Relations in consultation with the enterprises and the Minister for Transport and Communications.

Enterprises will be free to manage their industrial relations within the scope of these broad guidelines without being required to refer matters to the Department of Industrial Relations.

74. Under current arrangements, the Remuneration Tribunal determines the salaries and allowances of full-time and part-time statutory office holders in Telecom and OTC. AUSSAT is not subject to this requirement.
75. The effect of unrealistic capping of chief executives' salaries restrains and distorts the salaries of other executives to a non-competitive level, and affects the recruitment, retention and movement of such staff. It also does not allow the enterprise boards to reward and motivate key executive management.
76. The Government has now decided that:
- For the Chief Executive Officers of Telecom, OTC and AUSSAT:
- the boards will be given the responsibility for determining remuneration;
 - the boards will be required to consult with the Remuneration Tribunal prior to negotiation on remuneration packages and advise the Tribunal of the terms of the packages once they have been concluded;
 - the Remuneration Tribunal will be required to advise government in circumstances where it considers a proposal inappropriate, having regard to the particular commercial environment in which the enterprise concerned is operating;
 - the Remuneration Tribunal will be required to report annually to government on the general operation of the arrangements;
 - the new arrangements will be introduced only where the present incumbent agrees to vacate the position or where the position otherwise becomes vacant;
 - vacant positions will be widely advertised in Australia and internationally; and
 - future appointees will not have security of tenure.

Chief executives will be members of the relevant boards.

Boards will be able to determine remuneration of all senior executives consistent with the arrangements for fixing remuneration of statutory positions and having regard to existing award coverage, there being no security of tenure for those to whom the new arrangements apply.

The remuneration of members of boards will continue to be determined by the Remuneration Tribunal.

Removal of day-to-day controls

77. The Government will remove virtually all of its remaining direct controls on the day-to-day operations of the three enterprises, replacing them where appropriate with strategic controls and oversight in the context of the new regulatory arrangements. The changes for Telecom are:

The requirement that Telecom obtain ministerial approval to enter into contracts will be removed.

Telecom will no longer be required to obtain approval from the Treasurer to the terms and conditions of individual borrowings.

Telecom will be free to enter into banking arrangements and to make investments without gaining approval from the Treasurer.

Ministerial control over establishment of subsidiaries, joint ventures, and share purchases will be removed subject to the provision of prior advice to the Minister on any proposals and Telecom will be obliged to report in a special section of its annual report on the establishment of subsidiaries and joint ventures.

The costs of any additional auditing incurred as a consequence of Commonwealth ownership will be taken into account in setting financial targets.

Telecom will no longer be required to comply with the *Lands Acquisition Act* 1955, except where land is compulsorily acquired in the public interest, when the Department of Administrative Services will make acquisitions on Telecom's behalf.

Telecom will be no longer required to use the Construction Group of the Department of Administrative Services for building construction and maintenance programs.

Telecom will be exempt from compliance with the *Public Works Committee Act* 1969.

Continued application of the offsets policy to Telecom's competitive activities will be reviewed prior to the end of 1990 (in conjunction with the review for the aviation industry), by the Minister for Industry, Technology and Commerce and the Minister for Transport and Communications, with the intention of exempting Telecom for its competitive activities, to the extent that Telecom's competitors are exempt from offsets policy.

The review of the National Preference Agreement (to be completed by 1 June 1989) will examine whether Telecom's competitive activities will remain subject to the NPA.

Telecom will adopt normal commercial purchasing practices, the key elements of which will be set out in the corporate plan.

The *Telecommunications Act* 1975 will be amended to remove the current employment conditions provisions and the Telecom Board, in consultation with relevant unions and in accordance with normal commercial practices, will determine employment conditions.

Telecom will not be subject to other personnel, general or administrative policies, unless a specific decision is made by government that a policy should apply. Where this occurs, the additional costs of complying with a policy designed to achieve non-commercial objectives will be taken into account in setting Telecom's financial target.

78. For OTC the controls removed are:

Contract controls will be removed.

OTC will be exempted from the requirement to obtain the approval of the Treasurer for short-term borrowings and the requirement for the Treasurer's approval of specific borrowings will be removed.

OTC will no longer be required to seek approval for its investment and banking arrangements.

Ministerial control over establishment of subsidiaries, joint ventures, and telecommunications activities in or for foreign countries will be removed, subject to provision of prior advice to the Minister on any proposals to create or acquire subsidiaries or to purchase a major shareholding in another company.

Ministerial approval will no longer be required for: cessation of existing services; introduction of new services; or substantial additions, extensions or alterations to any part of the telecommunications system operated by OTC.

Continued application of the offsets policy to OTC competitive activities will be reviewed, prior to the end of 1990 (in conjunction with the review for the aviation industry) by the Minister for Industry, Technology and Commerce and the Minister for Transport and Communications with the intention of exempting OTC for its competitive activities, to the extent that OTC's competitors are exempt from the offsets policy.

The review of the National Preference Agreement (to be completed by 1 June 1989) will examine whether competitive activities of OTC will remain subject to the NPA.

OTC will be exempt from compliance with the *Lands Acquisition Act 1955*, except where land is compulsorily acquired in the public interest when the Department of Administrative Services will make acquisitions on OTC's behalf.

OTC will be exempt from compliance with the *Public Works Committee Act 1969*.

OTC will be empowered to recommend an auditor of its choice and will not be confined to the Auditor-General as at present. The costs of any additional auditing incurred as a consequence of Commonwealth ownership will be taken into account in setting financial targets.

OTC will no longer be subject to other personnel, general or administrative policies unless a specific decision is made

by government that a policy should apply. Where this occurs the additional costs of complying with a policy designed to achieve non-commercial objectives will be taken into account in setting OTC's financial target.

79. AUSSAT is already free of a number of the controls which have applied to Telecom and OTC. The changes for AUSSAT are:

AUSSAT will no longer be required to obtain ministerial approval to enter into contracts.

AUSSAT will no longer be required to obtain the Treasurer's approval to the terms and conditions of individual borrowings. Major borrowings, as for satellite replacements, will remain subject to scrutiny within the Loan Council process.

AUSSAT will be exempt from compliance with the *Public Works Committee Act 1969*.

AUSSAT will be empowered to recommend an auditor of its choice and will not be confined to the Auditor-General as at present. The cost of any additional auditing incurred as a consequence of Commonwealth ownership will be taken into account in setting financial targets.

The continued application of the offsets policy to AUSSAT's competitive activities will be reviewed, prior to the end of 1990 (in conjunction with the review for the aviation industry), by the Minister for Industry, Technology and Commerce and the Minister for Transport and Communications with the intention of exempting AUSSAT for its competitive activities, to the extent that AUSSAT's competitors are exempt from the offsets policy.

The review of the National Preference Agreement (to be completed by 1 June 1989) will examine whether competitive activities of AUSSAT will remain subject to the NPA.

AUSSAT will not be required to comply with any personnel, general or administrative policies unless a specific decision is made by government that a policy should apply. Where this occurs, the costs of complying with a policy designed to achieve non-commercial objectives will be

taken into account in setting AUSSAT's financial target.

New planning and accountability mechanisms

80. A key element of the enterprise reforms lies in the arrangements for accountability which are detailed in the Government's Policy Guidelines, involving corporate plans, financial targets, new dividend policies and improved reporting. The particular arrangements that will apply to each of Telecom, OTC and AUSSAT are set out in paragraphs 81, 82 and 83 below. They will be augmented by a retained power of ministerial direction as an ultimate safeguard, exercised directly in the case of Telecom and through the shareholder's role in the case of OTC and AUSSAT. This power is not expected to be used other than in the most exceptional circumstances.

The ministerial power of direction will be retained as an ultimate safeguard.

Telecom

81. In addition to accountability for commercial performance, Telecom will be accountable for its efficiency in meeting community service obligations and in meeting performance targets established in the corporate plan. The general accountability arrangements for Telecom are:

In accordance with the Policy Guidelines of October 1987, Telecom is to provide the Minister for Transport and Communications with, at not less than 3 yearly intervals, a strategic corporate plan for consideration and response.

The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by government may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions.

The Minister will be advised of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the Corporation.

Telecom will work towards an overall financial target agreed in advance by the Minister for Transport and Communications.

The Board will ensure that revaluation of Telecom's assets, in accordance with prevailing commercial practice and as agreed between the Minister for Finance and the Minister for Transport and Communications will be carried out at least once every five years.

Telecom Board will recommend, after consultation with the Minister on the dividend proposed, a dividend payment and this may be accepted or varied by the Minister. Consistent with the objectives of the GBE reforms, Telecom should aim to achieve a level of profitability comparable with those of the leading telecommunications companies in other parts of the world.

Telecom's Annual Report will give an account of performance against previously established goals, including financial and operational targets and the performance of comparable telecommunications companies to the extent practicable, together with assessments of the cost of meeting community service obligations and observing residual non-commercial controls which adversely affect profitability.

Overseas Telecommunications Commission

82. The accountability arrangements for OTC are:

In accordance with the Policy Guidelines of October 1987, OTC is to provide the Minister for Transport and Communications with, at not less than 3 yearly intervals, a strategic corporate plan for consideration and response.

The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by government may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions.

The Minister will be advised of any matter which significantly affects the outlook as established in the corporate plan as soon

as possible after such matters become known to the Corporation.

OTC will work towards an overall financial target agreed in advance by the Minister for Transport and Communications.

The OTC Board will ensure that a revaluation of OTC's assets, in accordance with normal commercial practice and as agreed between the Minister for Transport and Communications and the Minister for Finance, takes place at least once every five years.

The OTC Board will, after consultation with the Minister on the dividend proposed, recommend a dividend and the Company at a general meeting may accept the recommendation or declare a higher or lower amount.

OTC's Annual Report will provide an account of performance against previously established goals, including financial and operating targets, together with assessments of the cost of observing residual non-commercial controls which adversely affect OTC's profitability.

AUSSAT

83. The accountability arrangements for AUSSAT are:

In accordance with the Policy Guidelines of October 1987, AUSSAT is to provide the Minister for Transport and Communications with, at not less than 3 yearly intervals, a strategic corporate plan for consideration and response.

The Minister will provide the Prime Minister, Treasurer and the Minister for Finance with information from the corporate plan on matters for which they are responsible or where consideration by government may be necessary, and in particular information on the overall investment strategy and associated borrowing intentions.

The Minister will be advised of any matter which significantly affects the outlook as established in the corporate plan as soon as possible after such matters become known to the Company.

AUSSAT will work towards an overall financial target agreed in advance by the Minister for Transport and Communications.

The Board will ensure that revaluation of the Company's assets takes place in accordance with normal commercial practice and as agreed between the Minister for Transport and Communications and the Minister for Finance.

The AUSSAT Board will, after consultation with the Minister on the dividend proposed, recommend a dividend and the Company at a general meeting may accept the recommendation or declare a different amount which does not exceed the amount recommended by the Directors.

The Annual Reports of AUSSAT will provide an account of performance against previously established goals, including financial and operating targets, together with an assessment of the cost of observing any residual non-commercial controls which adversely affect AUSSAT's profitability.

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