

NRHA Submission to the Senate Inquiry:

**Telstra (Transition to Full Ownership) Bill 1998,
May 1998**

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NRHA SUBMISSION TO SENATE INQUIRY

Telstra Bill 98 - Transition to Full Ownership

May 1998

Summary

The National Rural Health Alliance (NRHA) is concerned to ensure that country Australians are in a position to take advantage of the full range of telecommunications services. These services relate not only to voice telephony but also to a range of data services available at present - such as facsimile and the rapidly developing Internet - and also to services (including specialised health services) that rapid technological change will make available in the future.

Telephone services are of fundamental importance to many aspects of quality of life in rural and remote areas and, because of relative geographic isolation, more so than is the case in major centres. Currently there is a serious deficit in telephone services in rural and remote areas for a combination of service infrastructure and organisational reasons. For instance, it is not possible for some health professionals to access an STD line, even for some working in country hospitals.

For these reasons the main thrust of the NRHA Submission is to seek cast-iron guarantees that government will place permanent and absolute requirements on any organisation which in the future owns, runs and/or (if it is possible for government in this last respect) *uses* the Telstra network to meet its community service obligation (CSO) to people in rural and remote areas. The NRHA would like to see this CSO strengthened compared with the one that currently exists so that rural and remote people can make up the service deficit that currently exists and so that there is no risk that the current level of services will be jeopardised.

Two particular developments we would like to draw the Committee's attention relate to telemedicine and distance education.

Telemedicine - NRHA prefers the term *telehealth* - could substantially improve rural access to many health services. The NRHA is watching developments in this area with interest, and is keen to promote promising applications. There are a number of examples of successful operation of telehealth services emerging at present, such as in mental health, family reunion, psychiatry and in training for health professionals (not to mention the well-publicised case of the ambulance officer called to a home in southern Queensland via Michigan in the US).

The delivery of *distance education* via new information and communication technologies has the potential to transform access to education and training in this country. Already there are some country people undertaking courses over

the Internet from the comfort of their own homes. There are likely to be increasing opportunities to undertake courses in this way - be they from Australian-based or overseas-based institutions.

For both of these services, and others, accessible, high quality communications are obviously required. There is a concern among many rural Australians that, far from improving the currently inadequate telecommunications services many of them receive, the full privatisation of Telstra could result in a diminution of those services. A particular concern is the cost at which the services are available in future; affordable price is a key part of accessibility.

NRHA accepts that the universal service obligations the Government intends to impose on Telstra and other carriers could result in an improved service.

We are concerned, however, about the *risks* to rural access inherent in full privatisation. Privatised organisations can be expected to be more demanding of a commercial rate of return from all their assets - and so more willing to close down low return assets such as many of those in rural Australia. We have already seen such a process occur in the banking sector. Second, the managements of privatised organisations can be expected to be more resistant to perceived intrusions into their managerial autonomy, as represented by the universal service obligations. Consequently, we fear that the Government's proposed obligations, both in respect of universal service and customer service, could become maximums to be achieved grudgingly rather than minimums to be exceeded.

It is essential, therefore, that any 'social bonus' from the proceeds of the full privatisation of Telstra be targeted in a way to prevent a net 'social penalty' to any group, rural and remote Australians in particular.

1. Background

The National Rural Health Alliance is the peak national body working to improve the health of Australians living in rural and remote areas.

The NRHA is comprised of nineteen Member Bodies, each of which is a national organisation in its own right. The nineteen represent both the consumers of health services and the health professionals providing service to non-metropolitan areas.

The NRHA has a strong multi-professional focus. In its work it emphasises the point that 'health' is much more than the absence of disease. Good health is mental, physical and social well-being. Given this definition, it is clear that a large number of functional areas impact on health outcomes. They include having access to good food, rewarding employment, a comfortable home and positive self-esteem.

One of the corollaries of this is that the work of many agencies has an impact on health outcomes. At government level the relevant agencies include those involved with transport, housing, water and air quality, employment, and

indigenous, women's and veterans' affairs. For rural and remote communities in particular, the relevant authorities include those with responsibility for regional development, primary industries, and access and entitlement to land.

Part of the NRHA's core work is to organise the biennial National Rural Health Conferences. It has been clear from the recommendations produced at these and at the other national meetings that transport and communications are still among the first and most worrying issues for rural and remote Australians. This Submission is made by the NRHA as part of its work to enhance and protect those interests of country people which are related directly to their health.

As well as its health implications, access to telecommunications is a key contributor to the commercial and social well-being of rural and remote people.

2. Telecommunications and Country Australians

The importance of quality, accessible telecommunication services to country Australians does not need to be emphasised.

What does need to be recognised is that this importance is *increasing* as a result of globalisation and the new opportunities opened up by technologies such as the Internet. Indeed, the Internet has the potential to bring substantial benefits to many rural areas and, if unavailable, to further degrade the standards of rural life and increase the differential between the information-rich and the information-poor.

The potential economic benefits of the Internet include:

- improved access to information of benefit to business management decisions - already there are examples of primary producers in Australia using US-based information they wouldn't otherwise have access to improve their business management decisions;
- marketing opportunities - already there are examples of primary producers using the Internet to directly market their produce to export markets;
- more competitive sourcing of supply - rural Australians appear to be at least as willing as any other people, if not more willing, to use the Internet to make online purchases;
- new Internet-based businesses, some examples of which are already in existence in rural areas; and
- the growth of telecommuting - already, there are examples of members of farm families telecommuting to workplaces in capital cities hundreds of miles away.

There are also major potential social benefits, from:

- cheap, rapid communications, such as by email or 'net phone;

- helping to make rural areas more attractive to service providers (including doctors and other health professionals);
- telehealth; and
- improved access to education and training.

These benefits take the form of both improved access and reduced need to travel or re-locate to access services.

The important point about many of these benefits is that they are largely *social* in nature. Some of the benefits take the form of what economists call "externalities"; that is, they provide benefits over and above those recognised in purely commercial transactions.

We accept that a number of initiatives are underway to improve rural telecommunications. Chief among these is the digitisation of Telstra's exchanges. However this:

- leaves a significant gap for those more than 5 kilometres from an exchange. For many of these people, poor quality lines - including frequent dropouts and transmission rates inadequate for data purposes - will remain a problem. The Farmwide project estimates that some 5% of primary producers have telephone lines that are incapable of supporting an Internet connection, and a further 22% have line speeds that are far too slow for accessing the multimedia capabilities of the World Wide Web, for example; and
- does not necessarily address the need for more broadband links to many smaller country towns necessary for many applications such as in telehealth.

The mobile phone network

Rural and remote interests have had to push to retain the mobile analogue service they have had, and some of them are now being replaced by digital services with a far smaller 'footprint'. This effectively results in a lessening of service.

Maintenance of the existing mobile network, and expansion of the new one, could be threatened if the provider is driven only by commercial soundness, with no consideration of the social consequence. One third of 000 calls are currently being made from mobile phones.

Partial privatisation has so far not been successful from the point of view of rural and remote users, as it has led to some centralising of the services of Telstra services. (When reporting a service difficulty now the first response is sometimes "Where on earth is that?!" This is little consolation when one has to wait days for repairs, while the former local technicians remain local, but unemployed!)

3. Communications and Health Services

Communications have been identified at National Rural Health Conferences and in the National Rural Public Health Forum as being critical issues for health services.

Much is expected of information and communications technologies in health services. In particular there are hopes that *telehealth* may reduce the current inequality of access to health services. (NRHA prefers to talk of *telehealth* rather than *telemedicine*, because of the multi-disciplinary nature of the health services that can be delivered in this manner.)

The Alliance is following developments in telehealth with interest. Already, valuable activities are conducted in relation to

- training and other information services for rural and remote health staff;
- family reunion, as in when a mother can see her baby in a far-away intensive care unit;
- direct delivery of psychiatry services;
- provision to some country towns of selected high level specialist medical services previously confined to larger cities; and
- emergency evacuations being judged necessary or not necessary with the assistance of a video conference link.

There are a number of barriers to the more widespread adoption of telehealth services. These primarily relate to funding arrangements which provide insufficient incentive for the adoption of most cost-effective technologies where the cost savings are reaped by the patient, such as in reduced travelling time, rather than the service provider.

However, a second set of barriers also exists in a lack of reliable bandwidth for many telehealth applications in many smaller country towns. Many of those applications can be quite demanding of bandwidth, and obviously many require not only sufficient bandwidth but absolute reliability of that bandwidth.

There is an important additional possibility raised by the new information and communication technologies for rural health. This is that they can help to attract and retain service providers such as doctors to country areas because they enable such practitioners to keep up more easily with professional developments and other aspects of their lives in the cities.

4. Distance Education

Telecommunications are an important part of distance education, and becoming increasingly so. Already, many students use email, for example to communicate with their lecturer/teacher. Some courses are becoming available on the World Wide Web, and there are examples of rural Australians

undertaking such courses. In addition to students, teachers in rural and remote areas must have access to both their students and their institution. The devolution of teaching to rural centres, for instance to the new University Departments of Rural Health, depends absolutely on 'communications equity' if they are to succeed.

As noted by the recent 'West' report on higher education policy and funding, the potential for the Internet to deliver education and training services is enormous. A wide variety of courses can be delivered via the Internet, using the World Wide Web and email for delivery of course materials, return of project work, online conferencing systems such as Internet Relay Chat for seminars etc, and bulletin boards and email for asynchronous "classroom" discussions and direct communication. Improving technology in this area and the potential advantages of cost-effective delivery means that this is likely to be an increasing component of the education and training system. Moreover, such courses can be delivered globally.

The very real prospect is raised of a revolution in access to, and delivery of, many education and training courses. Fewer country Australians will have to leave home to undertake effective study - indeed, they will have the choice of courses from all around the world. Adult education and training can be similarly transformed, as Internet-based courses can be delivered asynchronously and hence in a manner much more convenient for busy people.

Telecommunications are obviously the crucial requirement if country people are to access such possibilities - both sufficient bandwidth to schools, colleges etc, and sufficient line quality to individual households.

Most Australian Universities now do much of their curriculum and also research checks via their own websites. Students are expected to access them daily. Some may have to stay in their urban locations rather than do some of their study from their rural homes which they could do if they had better Telsra Services.

Rural health workers are already accessing such research organizations as the Cochrane Collaboration and Medline, for the first time, not ever having access to a local library with this sort of up-to-date information. Rural and remote health professionals need Telstra far more than their metropolitan cousins do, and the NRHA is keen to ensure that they are well looked after in future.

5. Implications of Privatisation

The issue of concern to NRHA is whether full privatisation will help or hinder the provision of the required telecommunication services to non-metropolitan Australia. This requires both the maintenance of existing service standards, and improvements to those standards given that sub-standard services are still quite widespread - albeit not universal - in non-metropolitan Australia.

Deregulation of the telecommunications market has already occurred. Naturally, we hope that the Government's objectives in deregulating the market

- of improving service and reducing costs through the introduction of new competitors and the operation of market forces - are met.

Privatisation, however, works differently to deregulation. Deregulation changes the market environment in which an organisation such as Telstra functions; privatisation changes the organisation itself. It is in these changes to the organisation that NRHA believes lie the greatest risk to rural Australians.

NRHA recognises the Government's commitments in respect of universal service, untimed local calls, customer service guarantees and price caps. We recognise that privatisation accompanied by strengthened community service obligations could provide a net benefit to rural Australians, and that clearer and more transparent obligations raise the standard of accountability on the carriers.

That raises the question, however, of the strength of those obligations. For example, the Government has yet to decide on upgrading the definition of the Standard Telephone Service to encompass data transmission, as recommended by the report of its Review of the Standard Telephone Service, released in December 1996.

Similarly, while we accept the Government's commitment to retaining untimed local calls, at least for voice telephony, history shows that commitments that become purely political, unsupported by institutional structures conducive to their achievement, tend to be of only temporary duration. NRHA - like all rural Australians - is concerned about the impact on rural quality of life - for example, on access to health, financial, counselling etc advice - of any retreat from the commitment to untimed local calls.

Moreover, NRHA is concerned that privatisation poses *risks* to the fulfilment of those community service obligations.

These risks arise from the impact of privatisation on the management and organisation culture of Telstra. Senior Telstra management supports privatisation at present, presumably because of the increased autonomy, and possibly remuneration, that privatisation will provide to it. Management of the privatised organisation will resist any incursions into what it sees as its legitimate areas of autonomy in pursuit of corporate objectives as prescribed under companies legislation - and will receive support from other private sector firms and organisations in doing so. Community service obligations are likely to be perceived as such an intrusion.

The Alliance is concerned that this change in management attitude and corporate culture could manifest itself in four undesirable ways.

First, a privatised organisation will be more concerned to ensure a full commercial return from every asset employed in the organisation. Certainly management of a privatised organisation will be under market and shareholder pressure to place commercial rates of return above other considerations.

To the extent that many rural communications assets are perceived as providing a low return, there will be pressure to 'rationalise', including through closing assets down, regardless of social concerns. We have seen this process in relation to the banks, and would be concerned if that were extended to Telstra.

Moreover, there is a concern that normal commercial asset valuations may fail to reflect some of the differences between metropolitan and non-metropolitan assets, such as the longer economic life of rural assets as a result of less intense competition, resulting in a bias against investment in rural assets.

Second, removing the informal avenues for influencing the activities of the organisation inherent in government ownership - not the least being accountability requirements before Senate Committees - will have the effect of narrowing the range of obligations the organisation is required to meet. In particular, less quantifiable obligations are difficult to effectively transfer to the more formal environment of legislation and regulation, and so could well be lost.

Third, management of a privatised organisation with its prime objective lying elsewhere - viz, profitability - will come to see externally imposed standards such as the universal service obligations and the customer service guarantee as *maximums* to be met grudgingly, if at all, rather than minimums to be exceeded if at all possible.

A cynical management might, for example, ensure that the standard of telephone connection within three days is always just met, but not that it is lifted to within 48 or even 24 hours, as performance at this level creates pressure to lift the standard itself.

- and under privatisation, of course, the government loses all capacity to ensure that no such cynical management emerges.
- If it is argued that competition will enforce higher standards of customer service then, logically, this means that the customer service guarantee is meaningless - the guarantee is only required precisely because competition in the market is insufficiently developed to enable the abolition of such external requirements.

Fourth, the inherent inflexibility of formal obligations creates an avenue for their avoidance in a context of rapid technological change. Indeed, rapid technological change means that one way in which the guarantees can be relaxed *de facto* but not *de jure* is simply through not updating the guarantees in line with technological developments.

6. Proceeds of Privatisation

NRHA is not in a position to comment on the fundamental proposition underlying the rationale for privatising Telstra, viz, that the assets currently tied up in public Telstra ownership will be better used for debt reduction and the proposed 'social bonus'.

The other issue we do want to raise, however, is the nature of that 'social bonus'. The first requirement for such a 'bonus' is to ensure that it is used to prevent any 'social penalty' arising from privatisation. As discussed above, there is a risk of a substantial social penalty for rural and regional Australians.

This was, at least implicitly, recognised in the first round of Telstra privatisation through the creation of the Rural Telecommunications Infrastructure Fund. The NRHA is not in a position to comment on the effectiveness of this Fund to date. The logic, however, of ensuring that measures are taken to ensure that any possible disadvantages of privatisation are offset by explicit policy measures is impeccable. We believe that it should be applied even more strongly to the next round of Telstra privatisation.

7. Further NRHA Submission

The NRHA would welcome the chance to provide its views to the Senate Inquiry through appearance at a Hearing, should that be possible.

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