



Selling Telstra will free it to negotiate properly with the ACCC, maybe for more regulation

IF THERE is one thing that is true in the debate over the privatisation of Telstra, it is that regulation matters.

As Henry Ergas pointed out (Business, 30/9), setting up regulatory regimes without careful evaluation and consideration is likely to be detrimental to consumers and companies — including Telstra. Mr Ergas then calls for a light-handed regulatory approach for Telstra, a company supposedly suffering from lack of investment incentives.

This picture of a suffering investor is not borne out by the data. Telstra remains the single largest telecommunications investor, spending more than all others put together. Moreover, its share of investment expenditure has increased over the past four or so years. Telco investment peaked about four years ago and has declined since. So Telstra's decline is part of an industry trend for reduced investment. But while Telstra's expenditure has fallen by about a quarter, its largest rival has halved its spending. This is hardly a picture of Telstra suffering at the expense of newer entrants.

The problem, therefore, is to find a way to improve investment, by a diverse range of players, in the industry. The evidence is that regulation cannot do that job alone. The structure of the industry matters, too. As Professor John Sutton of the London School of Economics pointed out last week at the very conference Mr Ergas spoke at, large companies are likely to stay large even in the absence of underhand behaviour. But in an industry where investment means large fixed costs, smaller companies will have problems.

Breaking up Telstra would have been one way to achieve more balance and diversity in would-be infrastructure providers. The time for the Government to have sensibly done this in the context of micro-economic reform appears to have passed. But there is a ray of hope that Telstra may move in this direction itself.

The apparent cost of the proposed operational separation is that it places an undue regulatory burden on Telstra. But it is that very cost that gives Telstra every incentive to find ways of changing the regime.

And what easier way than proposing real structural changes to itself in return for lighter regulation.

It seems to me that the Government, rather than the ACCC, has been the impediment to this type of negotiation. Political and short-term pressures make giving Telstra a free hand too hard. But a full sale of Telstra leaves the Government out of the picture, leaving Telstra an opportunity to negotiate with the ACCC. It is a basic insight that getting rid of a player with veto power can improve outcomes for others.

Privatisation gives us that.

So the good news about operational separation is that its cost to Telstra is precisely the thing that will put the ACCC in a strong negotiating position with Telstra in respect to future "structure for regulation" deals that might be proposed.

Thus, while it may seem like an oxymoron that better regulation can occur without Government intervention, here that may well be the case. One can only hope.

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