



# C&W takes Optus

*Jock Given reports on the expansion of a very old player in Australia's new telecoms market*

**O**n 2 July, an Englishman and an American held a media conference in a board room overlooking one of Australia's most internationally identifiable icons - the Sydney Harbour Bridge. It was the day after the introduction of open competition into Australia's telecommunications market. Since 1 July 1997, following the commencement of the *Telecommunications Act 1997*, anyone can start up a telecommunications business in this country. Plenty were having a go out there in the rain as the Englishman and the American spoke.

But these two were not there to talk about starting a telecommunications company. They were there to talk, as Chief Executive Officer and Chief Operating Officer respectively, about one that already existed. They were there to talk about their plans for Australia's second telecommunications carrier, Optus Communications.

The Englishman, Peter Howell-Davies, has spent most of his working life with the company which had just taken control of Optus - Cable and Wireless - although more recently, he has been learning the second carrier business at Mercury Communications, the main competitor to the formerly state-owned British Telecom in the UK.

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## Imperialism...

Cable and Wireless is one of the great surviving institutions of the British empire, which cut its global teeth in the days when, as the cliches go, the map of the world in the school atlas was all pink and the sun didn't set. As its name suggests, it was a product of technological convergence long before the term started infiltrating communications conferences. The 'Cable' was the Eastern and Associated Cable Companies; the 'Wireless' was the Marconi Wireless Telegraph Company, formed by the man credited with first demonstrating wireless telegraphy, the Italian Guglielmo Marconi. The amalgamated 'Cable and Wireless' was established in the UK in 1929 with a charter to operate Britain's overseas cable and radio-telegraph services.

The American, Phil Jacobs, who has been with Optus for some time, comes from Bell South, which, in this latest reorganisation, sold its one-quarter stake in Optus to Cable and Wireless. Bell South is one of the regional Bell operating companies in the US - the 'RBOC's' or 'Baby Bells' - formed through the break-up of America's great private sector telecommunications monopoly, AT&T, in the mid-1980s. AT&T is having some problems of its own at present, but it still has over 50% of the long distance market in the US - not a bad basis for a business. It is the direct descendant of the Bell Telephone Company, established by the man credited with inventing the telephone, Alexander Graham Bell.

Up there in the Optus board room a day after deregulation last Wednesday, Peter Howell-Davies and Phil Jacobs were talking about a new world, but they knew plenty about old power in the telecommunications business.

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## ...nationalisation...

Deregulation day in Australian telecommunications came half a century after another significant institutional milestone for the telecommunications business. It was 50 years since the nationalisation by the Chifley government of Australia's international telecommunications assets in February 1947.

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The cables which had carried telegraph messages to and from Australia since the early 1870s had always been controlled by British companies. The imperial cable links were known as the 'all red' route. From the mid-1920s, competition from beam wireless services, including those operated from Australia by the Amalgamated Wireless (Australasia) Company (AWA), began to challenge the dominance and even the viability of the cable companies.



Britain's solution, developed at an Imperial Conference in 1928, was the amalgamation of its private cable and wireless operators into the single private company Cable and Wireless, with a monopoly over Britain's international telecommunications business, underwritten by public charter. An Imperial Communications Advisory Committee supervised C&W's activities and charges, but companies in the 'Dominions', like Australia's AWA, found themselves unable to compete with the British company which had been given the right, for example, to control all beam radio extensions throughout the empire.

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A frustrated AWA proposed several reforms to these arrangements over the next 15 years, but it was a plan hatched late in the Second World War by the Australian and NZ governments that led to the historic nationalisation of Australia's international telecommunications assets. The plan was intended, firstly, to counter C&W's dominance, and secondly, to deliver control of international communications out of the hands of the private sector and into the hands of government. A 'group of autonomous but interlocked government-owned telecommunications entities' would be set up in Canada, Australia, NZ, South Africa and India, with a Commonwealth Communications Board established as a corporate body in Britain. In Australia, the Overseas Telecommunications Commission (OTC) bought Australia's coastal radio stations and international high frequency transmission stations from AWA, and operated Australia's international telecommunications business until amalgamated with Telecom 45 years later.

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**...and deregulation**

That amalgamation was undertaken to provide Australia with, as Minister Kim Beazley put it, 'a world class telecommunications company that has the ability and ethos to compete vigorously in what will be a key industry in a very competitive global environment'. The competition would come particularly from the establishment of a second facilities-based carrier in Australia. The tender for the second licence was won by Optus Communications, which opened for business in 1992. A quarter of its shares were held by the company called Cable and Wireless which, five years on, now controls Optus.

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So on 1 July 1997, as the commencement of the *Telecommunications Act 1997* delivered unprecedented liberalisation of the Australian telecommunications market, and preparations for a float of one third of the equity in Telstra promised unprecedented opportunities for private investment in Australia's major telecommunications business, arguably the most significant news was that the empire was back.

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**Rightful owners**

Nine hours to the north, there was another celebration on 30 June 1997, with Britain's handover of Hong Kong to China. This too was not without its implications for the telecommunications business. Cable and Wireless has been the major shareholder in Hong Kong Telecom, the richest asset in the C&W portfolio. C&W is selling down its interest to 30% to make room for greater Chinese equity in Hong Kong Telecom, as part of an arrangement with China for C&W to get improved access to the Chinese domestic telecommunications market following Britain's handover.

As Terry Cutler noted at the ATUG/CLC/IIC seminar 'Crossing the Boundaries: Reflections on Australia's New Telecommunications Order' in Sydney on 30 June, there was a neat post-colonial symmetry to Cable and Wireless' simultaneous sell down in Hong Kong and buy up in Australia. Optus, he suggested wryly, had taken five years to find its rightful owner.

While parts of Australia's telecommunications industry were celebrating at an 'Open Competition Ball' in the Sydney Town Hall that night, Chris Patten was sailing out of Hong Kong Harbour on the Royal yacht *Britannia*. 'Hong Kong,' he said, 'will be run by Hong Kong people. That is its unshakeable destiny.' □

***This article is an extract from a keynote address given to the ANZCA Conference at Latrobe University on 8 July 1997. With thanks to Anne Moyal for the historical material in this article, drawn from *Clear Across Australia: A History of Telecommunications, Thomas Nelson, Melbourne 1984.****