

DRAFT
SUBJECT TO LEGAL REVIEW FOR ACCURACY, CLARITY, AND CONSISTENCY
MARCH 1, 2004

The Hon Robert B. Zoellick
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Zoellick:

The current Australian Government has a long-standing public commitment to the full privatisation of Telstra as announced by the Prime Minister on 15 March 1998 as part of the Government's policy platform prior to the 1998 elections. This commitment was made subject to certain service criteria being met.

Telstra was established as a corporation, subject to all relevant corporate law and business regulation in 1991 and its board and management are responsible for the day-to-day running of the company's operations. The Government's role is to establish the legislative framework within which all telecommunications service providers (including Telstra) must operate. Decisions about how Telstra carries on its business reside quite rightly with its board.

Telstra was partially privatised in 1997 when one-third of the Australian Government's equity in Telstra was listed for sale on the Australian Stock Exchange. In 1998 the Government introduced legislation to fully privatise Telstra. However the Government was unable to gain sufficient support in the Parliament for full privatisation. Subsequent legislation set a minimum Government equity of 50.1 per cent, and the Australian Government currently owns around 51 per cent of Telstra.

Any further sale of the Australian Government's shareholding in Telstra would require the passage of legislation through the Australian Parliament. The Government introduced new legislation to allow the sale of the Government's remaining shareholding in Telstra on 26 June 2003. The relevant Bill was passed by the House of Representatives on 21 August 2003, but defeated in the Senate on 30 October 2003. The Government has stated publicly that it will reintroduce the legislation in early 2004.

Clearly the Government's ability to successfully pass the necessary legislation into law is dependent upon gaining the majority support in each of the elected Houses of Parliament. The timing of the further sale of Telstra has also been conditioned by the need to provide satisfactory service levels to rural and remote Australia and the need for market conditions that are conducive to achieving an appropriate return for tax payers. It remains the policy of the current Government to sell its remaining equity in Telstra as soon as practicable.

Notwithstanding the Australian Government's current majority holding of equity in Telstra, Australia's telecommunications regulatory environment is open and competitive and all telecommunications carriers are subject to the same regulatory scrutiny by independent regulatory agencies. The Government will continue to ensure that its interest in Telstra does not affect this regulatory independence. Telstra is also subject to Australia's policy of competitive neutrality as set out in the 1995

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Competition Principles Agreement between the Australian Government and the state and territory governments. Competitive neutrality requires that significant government business activities do not enjoy a net competitive advantage simply by virtue of their public ownership.

Yours sincerely,

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