

THE PROPOSED SALE OF JERSEY TELECOM

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Respondent: Tim Langlois

30th August 2006

These are the views of the respondent. Not the views of Jersey Telecom or Amicus
The Union.

My views are based on 22 years in the telecommunications industry and having listened to many
experts in this field I would like to think my facts are correct having used their advice.

Because of time, I have given Scrutiny the same response I gave to the Treasury & Recourses
Department hence, the Minister's questions have been left in.

Jersey Telecom

Trends in the telecommunications market in Jersey

Regulation in Jersey's telecommunications market

Consumer protection

The Minister for Treasury & Resources is of the mind that the above represents a more than adequate safeguard for successful regulation of Jersey's telecommunications industry such that the interests of consumers are secured. However, he is keen to hear the views of interested parties on whether the framework is sufficiently robust to allow the government to relinquish control of Jersey Telecom.

The short term answer is **no**. With four licences now having been given out you could end up with one sole operator. There is only a £12 Million profit cake to go round, this will get smaller. It's down to economies of scale. 89,000 consumers in Jersey, 63 million mobile subscribers in the UK. You will end up with one operator charging what they want or they will leave Jersey and ask the States to buy their company back with a network infrastructure that needs a lot of investment. A 'for profit company' will be here for one reason.

The sale of JT will put a tier of more costs onto the new company's operations, and we will end up with control from outside the Island, these costs will be passed on to the consumer.

The JCRA does have 'teeth' however, they lack the financial clout should consumer protection be at stake, these obligations must be maintained at any cost, should a company, worth many billions, decide to take the regulator on in any legal battle, they will employ the lawyers at any cost and win. The JCRA when put into this scenario will have to cave in and back down. The regulator could try removing the operators licence – this could prove even more costly, so I doubt they would even consider this.

This very situation has happened in other jurisdictions around the World.

*Lord Kingsland Chairman of the JCRA:

'Although there were instances where competition in a small island might be foolish – for instance in the provision of telecoms infrastructure'.

*Source: Jersey Evening Post

We now have three operators installing their own infrastructures.

Does the JCRA get properly audited? We all remember what they got up to a few years ago, paying them selves large wages, money that could not be accounted for, such as Christmas parties, meals and many more misdemeanours.

Maintenance of essential telecommunications infrastructure

It is therefore the Minister's view that any decision to divest of the States ownership in Jersey Telecom will not impact on the continued provision of essential telecommunications facilities on the Island. Views from interested parties on this opinion, and its basis, would be welcomed.

Most of my previous answer would apply to this question though I will add the following:

A large company worth billions could easily not invest in the infrastructure the JCRA would have no idea what's going on. A large company with clout could take Jersey to the EU courts. I remember going to a presentation a few years in Jersey and large Telco company said the following. 'We operate all around the World and are very experienced in taking on opposition, regulators and competition'.

Competition in Jersey's telecommunications market

Given the development of a competitive marketplace and the powers currently available to the JCRA, the Minister is unaware of any barrier, in relation to market structure, that should prevent the sale of Jersey Telecom. He would be interested to hear whether respondents also subscribe to this view.

I do not subscribe to this view for the following reasons:

JT is a part of Jersey's Heritage and is here to stay. The market structure is not large enough to support four operators. We all know what competition did to Emeraude. Now we are paying the price. What is the JCRA doing about the sole boat operator, and their high prices, nothing. The powers the JCRA have would be no match for a large multi international Global Telco Giant.

THE GLOBAL TELECOMMUNICATIONS MARKET

Given the pace of technological change and the requirement for economies of scale brought about by the consolidation in the world's telecommunications industry, the Minister is interested to hear whether stakeholders believe that Jersey Telecom would be better equipped to compete successfully if, under independent ownership, it could benefit from access to such scale economies?

Why should Jersey follow other jurisdictions? It would seem for financial gain only. It would have been nice if the COM had thought about the employment laws first before discussing this sale. JT would be worst off under independent ownership. They are generating new revenue streams (off Island) have a dedicated work force and a union who works with them. Most of this, or all, would go if a 'for profit only company' came in.

You need to look at Guernsey and see how they feel with their current situation. A possibility could be a share transfer then access to resources from a large share holder could then be utilised.

All this new technology that keeps coming up in this paper - consumers are going to want we are told, is just a niche market. Jersey is not the UK.

Voice over IP is now becoming very standard and now requires no new technology, because it goes over the broadband (ADSL) standard home copper pair of wires. The complicated bit works via the end to end user. It could come down to more bandwidth possibly in the future, JT will be able to provide this. They have already started by installing the Next Generation Network (NGN) all the technologies are now converging into one.

* John Henwood, Chairman of Jersey Telecom:

'Clearly we face a challenging future, but we remain optimistic. In spite of some misleading public announcements by competitors, we continue to welcome competition, believing that our unique combination of local market knowledge allied to world class services will be more than a match for newcomers. We intend to continue to provide the very best service to the Channel Islands, serving individuals and businesses with the latest technology, the most dependable service and the most economical prices. We are committed to introducing the technology of the future to the Channel

Islands today, so that we can enable our customers to have the same level of service as other larger jurisdictions. It is also very important that we are able to support a resilient off-island network so that we and our customers can compete globally. Serving our local community is paramount and forms the basis of our continued effort to create wealth for our shareholder and run our business successfully into the future.

Jersey Telecom Group is a strong and successful local business at the heart of which is an able and dedicated team of people. My thanks go to our staff and management and not least to our customers for their loyalty'.

**The Jersey Telecom Group 2005 Annual Review*

**Bob Lawrence, Managing Director of Jersey Telecom:*

'We maintained a strong sales performance in both the Residential and Business sectors. In our retail outlet we have a wide range of products designed to serve the integrated communication needs of our customers. To meet the requirements of our corporate customers, we have continued to invest in our infrastructure and in keeping our people at the forefront of relevant technology. We have more Cisco Certified Engineers in Jersey than any other company and it is this strength in data applications that has helped us secure a number of key contracts for the supply of IP telephony in 2005'.

**The Jersey Telecom Group 2005 Annual Review*

Reading these views, then we are suddenly told 'JT must be sold' I find totally confusing. Who knows the market best? I feel the money in the Bank is clouding judgment.

Jersey Telecom as a States investment **Investment Strategy of the States of Jersey**

It is therefore the view of the Minister that as the continued ownership of the shareholding in Jersey Telecom represents a risk that is inconsistent with the profile that he wishes to maintain for States investments, the shareholding in the company should be sold with the proceeds placed in the Strategic Reserve to be invested in a balanced portfolio of international equities and gilts. The Minister would welcome views from interested parties on whether they also subscribe to this view.

I do not agree with any of these views. You only have to look at some of the States past investment, their performance has been pitiable. By keeping this investment (JT) as it is, you diversifying your risk and assets. The most basic rule when investing is spread your risk, selling off all the utilities over a period of time will leave Jersey with no tangible assets, just cash, stocks shares and other investments, by starting this course of action you are breaking this most basic rule. If there was an economic catastrophe, a balanced portfolio of international equities and gilts would suffer too

If a private Telco company was the sole survivor they would have two options. Push prices up or sell back to the States. A company worth billions would have no interest in Jersey. All they would care about is their bottom line. Most of their remaining staff would not be from the original company, the morel would be low and the union/management relations would be at rock bottom.

By then JT, if not sold, would have probably cut back on staff costs, given a fantastic return to Jersey still employing local staff and ready to meet the challenge. The Union would have worked with JT to make it survive, albeit leaner slimmer and probably not returning such a very high returns to the States. JT would carry on keeping the Islands phone service going for another 100 years.

EMPLOYEE RELATED MATTERS **Jersey Telecom employees**

While the Minister for Treasury & Resources is of the view that pension matters are best dealt with by the company itself, he is cognisant of the concerns that may be raised by respondents on this issue. The Minister is therefore keen to establish whether interested parties feel that any new owner should be obliged to meet the current pension arrangements for existing employees either by

way of membership of PECRS as an admitted body (if that is possible), or by replication with an identical scheme should the continued membership of PECRS not be possible.

If TUPE – employment protection laws were in place, as they should be by now. States pensions would be protected as they are in UK however, if JT was ever sold the terms of sale for any buyer would have match or better the present pension arrangements. This must be underwritten and guaranteed by the States. There can be nothing less.

The Minister is also interested to know whether respondents are satisfied that the sale price would be reduced to reflect the cost of placing such an obligation on any company that expresses an interest in purchasing Jersey Telecom.

Undecided.

Transfer of Undertakings (Protection of Employment) ('TUPE') obligations

The Minister is interested to hear whether respondents believe that any minimum set of employee-related obligations (over and above those that would normally be expected) should be considered as part of any future negotiations.

The SS Minister should have done his best to stop this sale even being discussed till the Employment Protections laws were in place. I am quite frankly lost for words. I do hope the SS Minister has raised this with the COM. No sale must move forward till legislation is in place. The UK TUPE adopts the EC minimum requirements and does not follow most of Europe, who have far better employment protection laws. I would hope Jersey will go one step further than the UK.

It is not a case of future negotiations, terms of sale, memorandum of understanding or conditions of sale this must be statutory law/legislation – full TUPE.

** **Our people** 'We are committed to ensuring that our people enjoy job satisfaction, good working conditions and good terms and conditions of employment. Our aim is to engender an environment where individuals can flourish and be recognised and rewarded for their achievements. We have consistently sought to recruit and retain the best employees in our market, as this is key to delivering services to the highest standards. The Group has a policy of equal opportunities, which applies to the recruitment of all new employees and to the management of existing personnel. We offer all of our staff training relevant to their roles and we believe that this has contributed to an increase in employee motivation and satisfaction. The health and safety of our people is extremely important and we maintain excellent standards. The number of days lost through accidents is well below recognised industry averages'.*

* Source: The Jersey Telecom Group 2005 Annual Review

MAXIMISING THE RETURN **Sale Process**

The Minister's view is that best value will be obtained by the States authorising him to enter into binding agreements for the sale of Jersey Telecom through a transparent sale process and clear criteria agreed by the States. He is keen to hear the views of interested parties on this point.

It should not indeed, never be the Minister who has sole control when it comes to any part of this sale, the same would apply to the COM. It should be a full States house decision. No one person can be responsible for this.

Form of sale

On the above basis, the Minister's current preference is for a Trade Sale but he would be interested to hear opinions on this view.

One option The Minister fails to mention in the question is 'not to sell JT. The best option.

Accordingly it is the Minister's view that a full sale is the preferred option as it will maximise the value that can be obtained from the disposal of Jersey Telecom and involves a clear and transparent way forward on the part of the States. Any opinions on whether this is the best course of action would be welcomed.

Once again I disagree, a full sale is the worst possible option, the JEC model works well, so should a sale take place, a part share transfer could be an option.

Should JT have to be sold an option that could be explored is the Initial Public Offering (IPO). There must be many local based companies who could see this sale process through. Shares could be offered to the employees, the people of Jersey, private investors and other institutions. They would have to be listed on the Channel Islands Stock Exchange. It is a fact that the interests of all stakeholders are best served by having a local company, largely owned by local shareholders, serving the interest of local customers through a highly motivated local workforce who are also shareholders in the company.

A highly motivated local workforce is a key competitive advantage, which will be lost by ownership within a major global group.

Other points

1. Should the network infrastructure continue to be owned by the States as some guarantee for continued telecommunications if the purchasing company pulls out of the island?
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2. What guarantees can be given to the Finance Industry on which the island is so dependent and who in turn are dependent on a secure, well maintained and resilient network?
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3. The unique geographic location and size of Jersey would suggest that the security and continued provision of telecommunications and other utilities would be best achieved through their ownership by the island.
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4. The sale of Guernsey Telecom resulted in redundancies despite reassurances and has the sale of Guernsey Telecom proved to be the best move by the States of Guernsey? Wave Telecom (owned by JT) within a few years have gone into Guernsey and against hostile competition, have already started making profit, which will only go up, beating a giant at their own game.
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5. Non transferable skills of many staff i.e. trained in telecommunications Staff are Jersey residents who have Jersey dependents and they will also be affected, 2,000 people +
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6. Is JT a test case for the sale of other utilities? Once JT is sold it's gone forever.
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7. An off-Island company will have no loyalty to Jersey, in it for profit only. If a business can make a better profit by providing a poorer service, then they will. The fundamental difference between a public and private company are the public sector provide services with public in mind, whereas the private sector only care about making a profit.
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8. People are under the illusion that what they read in the UK press ie: mobile phones to give away, free broadband, free rental and many more give a ways will happen in Jersey. The fact is it won't, things will get worse. JT have around 10,000 broadband customers, BT fit 10,000 a day. There are 63 million mobile customers in the UK, Jersey has a potential maximum of 89,000. It's all down to economies of scale. Large companies will not cross subsidise to Jersey so you won't get the benefits customers enjoy in the UK, the regulator would not allow it. The OAP's will lose out too.
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9. I was recently talking with someone from Guernsey and they said the following: 'You would have thought by now Jersey would have learnt from Guernsey's mistakes. The same thing is happening to you which took place over here. A consultation paper went out telling everyone, what a good thing it was to sell Guernsey Telecom (GT), the politicians fell for it. C&W gave job guarantees, promised Guernsey the World. They got GT for next to nothing, 70 Staff had to go 50 walked the rest were made redundant. The MD was told to resign. They have done nothing for this Island. The people of Guernsey don't like them. The only reason they have been proactive is because of Wave Telecom. More and more people are moving over to Wave. I agree there was some dead wood that needed moving, but don't make the same mistakes as us.'

When we had this conversation we were not aware C&W were even interested in JT. Should C&W buy JT this would cause major problems in Guernsey, you would end up with a monopoly, though other companies are showing an interest. The OUR would not like this. The OUR decisions seem to be far more balanced than the JCRA. One major point to remember is Guernsey has employment protection laws in place.

I have also had the following statements from Guernsey States members:

1) *'The States gave away Telecoms it was the worst decision ever taken, I fought long and hard with amendments in the States but lost however it was wrong and we will regret It for years to come, what has Cable and wireless provided that Guernsey Telecoms did not "NOTHING".'*

2) *'I believe the States 'gave' away Guernsey Telecoms - just look at how much Jersey are asking for their telco. We had bad advice, in my opinion. The give away has cost this island enormously for very little gain.*

It's amazing how many of the States Members who are still in the States that tell me they made a big mistake'.

10. As I am sure you are aware the JEP and ITEX are all part of the Gution Group of Companies. I have been informed ITEX and C&W do a lot of business together. It therefore would not be in the JEP's best interests to write anything to alienate C&W. (That's the problem with having one newspaper.) A large company would be much more in favour of selling JT off in parts, that way they could cherry pick, asset strip and for get the rest.

11. *In 2002 C&W commissioned a report on how it was positioned against an aggressive rival. Some points that came out in the report were: 'company falls short on customer service' 'cell coverage is patchy' 'a retarded ability to develop and execute strategy' 'inexperience in open (liberalised) market' and 'diminished motivation of sales team due to lack of ability to deliver promised services'.

*Sources: Cable and Wireless West Indies Internal document.

12. There is the moral and ethical question, should JT get sold will the Board of Directors get large bonuses and golden handshakes?

13. Large corporations have large overheads and incentive bonuses are paid to their executives, which are paid for by consumers. They have to meet unrealistic targets, to do this they have no respect for what they are doing, putting it bluntly there ruthless, they don't face the people and are answerable to no one except their board. Presently JT put the consumers first and work to their memorandum of understanding, which they fully respect.

14. The fact so many companies are showing an interest in JT must give credence to the fact what a good professional and well run organisation they are. These companies know a bargain when they see one. This must serve as testimony to the fact you don't get rid of a golden asset, the 'Jewel in the crown'. JT is good long term investment with assured returns of income. Leave this asset as it is.

15. *The Lieutenant-Governor officially opened a new state-of-the-art Data Centre in September 2005 the facility will enable businesses to continue trading in the event of a disaster or crisis.

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Paul Patterson MBE Chairman of the Business Continuity Institute. (Channel Islands):
'The significant investment made by Jersey Telecom in this world-class facility demonstrates considerable confidence in Jersey's business continuity industry. It's without doubt one of the finest services offerings of its nature I have seen.'

* Source: The Jersey Telecom Group 2005 Annual Review

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16. It is my opinion should JT ever get sold this will be a big mistake for Jersey, The States, the finance industry, the staff and the consumers will all suffer in time and that's a fact.

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