STATES OF JERSEY

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JT GROUP LIMITED ("JERSEY TELECOM"): PROPOSED SALE (P.153/2007) – AMENDMENT

Lodged au Greffe on 26th October 2007
by Senator B.E. Shenton

STATES GREFFE

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After the words “to agree, in principle, that” *insert the words* “up to a maximum of 49% of”;

after the words “identify a suitable buyer for” *insert the words* “up to this percentage of the shareholding of”;

for the words “the principles set out in tables 1 and 2” *substitute the words* “the principles set out in table 1”; and

at the end of the proposition, after the words “brought back to the States for approval” *insert the words* “and with at least 51% of the shareholding being retained by the States as a strategic asset”.

SENATOR B.E. SHENTON

Note: If the amendment is adopted the proposition will read as follows –

> to agree, in principle, that ***up to a maximum of 49% of*** the States’ shareholding in JT Group Limited (“Jersey Telecom”) should be sold and to request the Minister for Treasury and Resources to take the necessary steps to identify a suitable buyer for ***up to this percentage of the shareholding of*** Jersey Telecom in accordance with the principles set out in table~~s~~ 1 ***~~and 2~~*** of section 9 of the Minister’s report dated 9th October 2007, with the outcomes of the sale process brought back to the States for approval ***and with at least 51% of the shareholding being retained by the States as a strategic asset.***

REPORT

Make no mistake, this proposition, if passed without amendment, will result in the complete sale of Jersey Telecom. The sweetener that “the sale process (will) be brought back to the States for approval” is, in fact, no sweetener at all. By the time it comes back the millions spent getting the Company prepared for sale will effectively make the proposition a ‘fait accompli’.

I am bringing this proposition as an independent member of the States Assembly. The saga of privatising Jersey Telecom goes back 25 years when a proposal by my father, Senator Dick Shenton was put forward but received little support. As a local resident I always felt that consumers were not getting a good deal from the local operator with what I considered to be high prices and poor service relative to overseas competitors. The high consumer price structure could almost be described as a ‘telecoms tax’ as the owner, the Government, took little action to control prices and received handsome dividends.

To provide a better deal for the Island’s residents, competition was introduced. However the method of introduction was heavily flawed and there seemed little intellectual forethought in the process. In fact it is questionable whether anyone in authority really knew what they were doing. Competition seemed to be introduced just for the sake of introducing competition.

If consumer interests and lower prices had been the objective then a regulated monopoly would have achieved this much more efficiently, and we would not have had the proliferation of telephone masts that are creeping up throughout the Island.

If a maximum sale price was the aim then Jersey Telecom would have been sold as an unregulated monopoly – and then competition introduced. There is no doubt that the politicians responsible for this back-to-front fiasco (competition first, then sale) may have cost the Jersey taxpayer hundreds of millions of pounds.

If a combination of consumer interests plus a maximum price was the requirement then Jersey Telecom should have been sold at the very beginning of competition – not after the competitors have had the opportunity to eat into profits. But we are where we are, which is not where we really want to be.

There are a number of issues that need to be taken into account. These include –

- The Staff
- The Shareholder
- The Strategic Importance
- The Competition

The Staff

I brought a proposition to the States in 2006 requesting that the sale of Jersey Telecom was delayed until TUPE equivalent legislation was introduced. Whilst this was narrowly defeated (a tied vote – you know who you are!), it did result in a number of assurances by the Minister for Treasury and Resources. As a result I feel that the employees are protected sufficiently – indeed they have far more protection than private sector workers in similar circumstances could dream of.

The Shareholder

The rationale put forward for sale at this time contains mixed messages – maximise price (too late?), diversification (not argued?), strategic (flawed?).

When the shareholder is the Government then responsibility extends much further than simply treating the shares as an asset to be disposed of at will. Effects on the economy, the staff, the public, and future directions all have to be taken into account. The argument that as part of strategic reserve most assets should be held outside the Island is a simply ludicrous assumption which is further ridiculed by the fact that most of the assets will be held by U.K. investment houses – centralising risk. If a Government is not willing to invest in its own economy then why should anyone else? It is a very weak rationale for sale and the term ‘clutching at straws’ springs to mind.

Figures provided by the Treasury on future rates of return comparing retention and sale are extremely suspect. The methology of calculation was slanted to giving an impression that a superior investment return was guaranteed when, in fact, this is certainly not the case. I would argue that Jersey Telecom could remain a very attractive investment and, as such, a stake in it should be retained.

The Strategic Importance

Jersey’s wealth is built on the success of the finance industry. The success of the finance industry depends on efficient communication with the rest of the world. One of the arguments for disposal is that Jersey Telecom does not have the buying power to achieve the economies of larger organisations. However this could also be achieved through a strategic alliance. The problem of disposal rests with the fact that the rate of investment is determined by the financial strength of the purchaser. A global downturn or financial problems by the purchaser may lead to investment in Jersey Telecom being neglected in favour of elsewhere or debt repayment. In extreme circumstances it may even lead to the purchaser squeezing Jersey Telecom assets in order to divert funds elsewhere. In these circumstances the Government would be powerless to do anything – you cannot invest if you have no money and Jersey Telecom would be such a small part of their global empire that it would not warrant preferential treatment.

Numerous Governments have decided that telecommunications is such an important strategic asset that majority stakes must be maintained. My personal recommendation is that we retain a 51% stake and link up to a strategic partner. In this way we can enhance purchasing power, provide mobile phone content, improve services, and retain control. A full sale would present an unnecessary risk to both our finance industry and the longer term strength of the economy. We would be putting our destiny into the hands of a corporate entity with no affinity or loyalty to the people of Jersey.

The Competition

Competition has been introduced and it must continue to fight to retain market share. As a resident of Jersey and therefore a stakeholder I fully support its stance on number portability. It must be run aggressively as a corporate and stand on its own feet.

There are two competitors in Jersey – Sure and Airtel. I have heard it said that acquisition by these existing operators would be detrimental to the consumer. This demonstrates how simplistically some are looking at composition in the telecommunications market. For a regulator to block a merger inspired by a mistaken ideal of competition is actually blocking the entrepreneurial process by which the optimum scale may be discovered. It is easy for competent government officials to imagine that they know what is good for the economy. But this is likely to mean that in the incredibly complex economies of our time, it is easy for well-meaning individuals not to realize their ignorance in specific instances. In other words I have no objection to Jersey Telecom forming a strategic alliance with either Vodafone Airtel or C&W Sure as competition will remain and economies of scale can be achieved. Furthermore we can reduce the number of mobile phone masts littering our Island.

In summary I am in favour of privatisation as long as a majority stake is retained by Government. I believe a strategic alliance is vital in order to obtain international buying power, branding, and mobile phone content. The argument for a full sale has not been proven and it provides immense risk for the employees, the finance industry, and longer term economic prospects.

Financial and manpower implications

It is difficult to assess the financial implications of this amendment as they will only be apparent with the benefit of hindsight. Whilst the sale of a minority stake will result in a lower level of initial cash generation than a complete sale it also, by its very nature, increases the value of the majority stake which is being retained (i.e. acquisition premium to gain a controlling interest). There is every possibility that the cashflow generated by a Jersey Telecom/Global Strategic Partner will significantly outweigh the returns achievable within the Strategic Reserve investment parameters. Indeed any acquirer of a majority or minority stake will only do so if they believe that a superior return on the investment can be attainted. The model of large telecommunications companies taking strategic minority stakes is commonplace – the complete sale of such a strategic asset is not. There are no manpower implications.