WRITTEN QUESTION TO THE MINISTER FOR TREASURY AND RESOURCES BY DEPUTY G.C.L. BAUDAINS OF ST. CLEMENT

ANSWER TO BE TABLED ON TUESDAY 17th JANUARY 2006

Question

Given that Jersey Telecom is wholly owned by the States, would the Minister advise whether the value of that shareholding or its return has been adversely affected by recent competition and, if so, is the Minister considering disposing of the asset before it reduces further?

Answer

It is generally the case that the introduction of competition and regulation into any market will have an impact upon the value of and dividend streams arising from an incumbent monopoly supplier, particularly in a mature market such as the Jersey telecommunications industry.

Despite this, the introduction of a successful and commercially focussed Board of Directors has improved the net turnover, maintained profitability and increased revenue streams flowing to the States in the guise of dividends and taxation. That Board has mitigated the effects of regulation and increased competition through efficiency measures, developing strategies to meet the threat of competition and the expansion of other markets.

However, as the regulatory framework matures, competition will pose a greater threat over the coming years. Whilst I have full confidence that the Board will continue to be successful, there will undoubtedly be a loss of market share in the local market.

This loss in market share and other pressures that may be brought to bear by the regulator will undoubtedly reduce the value and revenue streams arising from Jersey Telecom from the levels they would have experienced had Jersey Telecom continued as an unregulated monopoly.

This is an inevitable cost accompanying the significant benefits to consumers arising from the introduction of regulation and competition.

The Treasury and Resources Department is currently concluding the development of a proposed strategy in respect of the continued shareholding in States-owned utility companies, in particular Jersey Telecom, in accordance with the existing States Strategic Plan.

The threat to the value of Jersey Telecom arising from the advent of increased competition is one of several reasons why it may appear advisable for the States to sell all or part of its holding in Jersey Telecom. A mature regulatory framework as well as a choice of suppliers would enable the States to do so whilst leaving the consumer with adequate protection.

Whilst competition and regulation will have an impact on the value of and the future revenue arising from Jersey Telecom to the States as shareholder, the value of future dividend streams is the key factor in determining the amount that a prospective buyer will be prepared to pay for the company. For this reason, whether or not it sells Jersey Telecom, the States will suffer any impacts of competition on the profitability of the company, although the degree to which it does so may well vary.

Any disposal of the shareholding of Jersey Telecom will require the approval of the States Assembly in accordance with the terms of Article 32(5) of the Telecommunications (Jersey) Law 2002.