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Response to Discussion Paper on Proposed Sale of JT

The following are the IOD Jersey's response to the States proposed sale of Jersey Telecom. We wish to make clear at the outset that two members of the Committee have an interest/involvement in Jersey Telecom and Cable & Wireless respectively. Whilst their views have been sought this response is submitted by members who have no direct involvement.

Consumer protection / regulation of the market

The Minister for Treasury & Resources is of the mind that the above (being the role played by JCRA) 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.

Whilst there are some misgivings as to the effectiveness of the JCRA we do believe the framework is sufficiently robust to allow Government to relinquish control of JT.

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 we

Agreed but need to ensure that there are not too many parties allowed to enter the market, the danger being that owing to the size of the marketplace no participant will be able to achieve a reasonable return on their investment. Possibly would have been better to restrict say to 3 rather than 5 parties.

Competition in Jersey's telecommunication 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 am not aware of any barrier preventing the sale of JT.

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?

There is considerable consolidation going on in the global market demonstrating that scale is important to deliver the new technologies. Without scale it will be impossible to compete in the future and it is inconceivable that JT's size would enable it to provide the sort of competitive products that will be necessary to ensure Jersey remains competitive.

Jersey Telecom as a States investment

We agree that this should not be a debate about "selling the family assets" but rather how to protect the value of those assets. The longer a sale is deferred, the lower the value of those assets.

Investment strategy of the States of Jersey

It is 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.

We agree the proceeds should be placed in the Strategic Reserve and vested in other assets. We would support the view that this is a Strategic asset and as such support the proposal.

As far as investing the proceeds then agree a diversified (international) portfolio should be established. Whilst this should include global equities and gilts should not rule out investment in investment grade bonds, commercial property funds and commodities.

Pensions

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.

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.

We do not believe that the obligation that 90% of JT employees participate in PECRS, be transferred to the buyer. We note the preference of the JT Board in this matter and would concur with their view that the scheme should be closed to new members. This is in line with the vast majority of private and public companies in the UK and Europe. It is a view held through necessity as the potential drain that benefits schemes have on value is such that those companies can be severely damaged. Indeed in some instances the presence of such a scheme and its often related substantial pension deficit makes such companies almost un-saleable. The fact that the pension deficit of JT is not large at this point in time, does not negate this argument as the assumptions on which these calculations are based are changing, affected by people living longer and the worsening demographic position.

It is therefore most important that whatever deal is agreed there is no ongoing liability by States of Jersey (i.e. the Taxpayers) even if this meant accepting a lower price.

Transfer of undertakings 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.

We believe that standard protection should apply equivalent to TUPE.

Sale process

The Minister's view is that best value will be obtained by the States authorizing 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.

We would agree that the way to obtain the best value would be for the Minister, with due specialist advice and support, be empowered to enter into binding agreements which are not contingent on a States debate. The key to this is a clear set of parameters which should be debated and agreed in the States.

Form of sale

The Minister's current preference is for a Trade Sale but he would be interested to hear opinions on this view.

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.

Whilst it would appear likely that a Trade Sale is most likely to achieve best value, private equity should not be ruled out.

Conclusion

We would like to stress the urgency with which this process needs to proceed as undue delay will undermine confidence in the Company and hence effect its value in this rapidly changing marketplace.

Ross Willcox
Vice Chairman