

STATES OF JERSEY

Economic Affairs Sub-Panel (Telecoms Privatisation)

MONDAY, 25th SEPTEMBER 2006

Panel:

Deputy G.P. Southern of St. Helier (Chairman)
Senator B.E. Shenton
Deputy J.G. Reed of St. Ouen
Deputy J.A. Martin of St. Helier
Deputy G.C.L. Baudains of St. Clement
Mr. I. Clarkson (Officer)

Witnesses:

Mr. J. Henwood MBE (Chairman, Jersey Telecom Group Limited)
Mr. B. Lawrence (Managing Director, Jersey Telecom Group Limited)
Mr. P. Ainsworth (Finance Director, Jersey Telecom Group Limited)
Mr. D. McDermott (Associate Director – Corporate Affairs, Jersey Telecom Group Limited)

Deputy G.P. Southern of St. Helier:

This is the Scrutiny Panel and we are investigating the proposed privatisation of telecoms, so good morning and welcome. I recognise that this has been fairly short notice and that we are early on in the investigation, so this is very much exploratory and we are looking to get a feel for your version of what is happening and what the situation is. I will ask you to introduce yourselves in a moment, but before I do, can I just read you out the formal notice to be read to witnesses at the start of each hearing; in particular, those who are not States Members. It is important that you fully understand the conditions under which you are appearing at this hearing. You will find a printed copy of the statement I am about to read you on the table in front of you. The proceedings of the Panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey Powers, Privileges and Immunities Scrutiny Panels PAC and PPC Jersey Regulations 2006, and witnesses are protected from being sued or prosecuted for anything said during hearings, unless they say something that they know to be untrue. This protection is given to witnesses to ensure that they can speak freely and openly to the Panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The Panel would like you to bear this in mind when answering questions. The proceedings are being recorded and transcriptions will be made available on the Scrutiny website. If you would just like to introduce yourselves for the notation.

Mr. J. Henwood (Chairman, Jersey Telecom Group Limited):

Thank you, Chairman. Perhaps I could introduce my team. First of all, for the purposes of the recording, my name is John Henwood and I am Chairman of Jersey Telecom Group. To my immediate left is Bob Lawrence, who is the Managing Director; second left is Daragh McDermott, who is Company Secretary, and in that role he has responsibility for compliance. That means he is the one among us who most regularly has to deal with regulatory matters. To my right is Philip Ainsworth, who is Finance Director.

Mr. P. Ainsworth

Good morning.

Deputy G.P. Southern:

Good morning. If I could start you off with a simple question: how long have you known that this was coming forward, and what was the consultation process that you have been involved in in arriving at this position, proposed privatisation?

Mr. J. Henwood:

There are 2 parts to that question, Chairman, really. How long have we known that this might be coming? Well, I suppose, speaking for myself, I have been anticipating it since the time that I was appointed to this job prior to incorporation. I was appointed in 2002 and, of course, incorporation did not happen until 1st January 2003. But I remember very well the question of the sale of Jersey Telecom coming up at the time that I was interviewed for the job that I now hold and I suppose that the dialogue has been going on pretty well continuously every since then. Certainly, it was sufficiently developed for us to be able to articulate the possibility to our staff from the moment we were incorporated, and indeed, we meet with all our staff on an annual basis. We have an annual staff meeting; every single member of staff is invited, most of them come. For the last 3 years, part of my address for the staff has included some preparation for the notion that the States may decide to sell us at some stage in the future. So, the answer is, from the beginning of my involvement, there has been an ongoing dialogue.

Deputy G.P. Southern:

In this particular case, when were you informed of this decision that we were going to go ahead with the next stage, which was to propose it?

Mr. J. Henwood:

Yes. I do not recall any particular or special meeting with the shareholder. Under the terms of our incorporation, there is a Memorandum of Understanding (MOU), which requires that there should be no surprises between us - on either side - and in order to deal with that, we have regular meetings with the shareholder at a number of levels. In so far as I am concerned, as Chairman, I meet quarterly with the

Treasury and Resources Minister, and during those meetings, there is a dialogue across a whole range of topics, in order that we both are not surprised by any public pronouncement on the other side. Of course, the possibility of the sale of Jersey Telecom was ever-present in those discussions; sometimes it was touched on, sometimes it was not. More often than not, it would be me saying to the Minister: "Any progress here?" More often than not the answer would be: "No, not really." Clearly, in more recent times, the Minister made his thinking clearer, in the sense that he said he was developing his thinking. But we did not have any prior knowledge of the detail of his statement, or indeed, the precise timing of his statement.

Deputy G.P. Southern:

Would you have expected to have some sort of prior information?

Mr. J. Henwood:

Not really, in the sense that it came against the background of a great deal of ongoing dialogue. I am sure it would not have been reasonable, if you would like to put it like this, for us to have said: "Well, you could have told us." He would have said: "Well, I did, but I did not ...". It was not appropriate perhaps, from his point of view, to tell us exactly when he was going to make the statement or the detailed content of that statement. I can understand that. I was not surprised, therefore the "no surprises" bit of the MOU works. As for the timing, well, that was clearly always going to be a matter for him anyway.

Deputy G.P. Southern:

I am prompted to ask one question, before I come to Deputy Reed. It has been put to me that the essential part about Jersey Telecom as it is now - and about any telecoms organisation - is the key to making it efficient is the introduction of competition and that privatisation, per se, is not the necessary factor that goes into making a market work. How would you respond to that? So, incorporation, and hence competition, is the essential ingredient. Privatisation is additional, but not essential to making the market work properly. How do you feel about that?

Mr. J. Henwood:

I do not want to get hung up on language here, but you have twice used the word "privatisation" and I suppose, technically, I would say you are too late to start talking about that. It is something that was talked about as long ago as 1996, and became a reality on 1st January 2003. On that day, Jersey Telecom became a private company; thus we were privatised. The fact that the private company is owned essentially by the people of Jersey does not mean that we are not a private company. We are. As for whether the sale of that private company to someone else is a material issue in terms of competition, I suppose my view is that it is not essential. I mean, I am fully seized of the view that the States has a real choice here. It is not, as I see it, a fait accompli, and certainly the Board is making no assumptions

as to how the States will ultimately make its decision. If it decides, for the reasons that the Minister has set out in his paper, to sell, fine. As we have said in our response - broadly, with lots of caveats - we kind of agree with him. But, equally, if the States decides not to sell, well that is fine too. Indeed, one could see an alternative future for Jersey Telecom in public ownership. It would be a different kind of company, but as far as we are concerned, both options are very much open and available. Perhaps, if I may, Chairman, invite Bob Lawrence to amplify, if he is minded to.

Mr. B. Lawrence (Managing Director, Jersey Telecom Group Limited):

Yes. I think John is right, in such that both options are available to us. Our current strategy is well-known, which is to protect our market share here in Jersey, grow our market share in Guernsey and develop off-Island. I think the whole issue of the company going forward is about the competitive marketplace, and it is not whether it's States-owned or not States-owned, but what we believe is the access to the larger economies of scale; that being associated with a significant player in the telecoms world will allow us to compete more effectively in the market here. Now, clearly, if that is not the case, in our view, the company will change. We will be focusing more on Guernsey, and potentially, a lot more on our off-Island activities, because the economies of scale that the larger operator brings to us brings the ability for us to have lower purchasing prices. It brings the ability for us to bring in the knowledge that these players have. Everything we do, we have to do from scratch, whereas if you are associated with a larger partner, they have done it before, they have the expertise and they can bring these people to the party. We are also aware that, as a small player, we are servicing a market here of about 88,000 people; we are but a pinprick in the telecoms world, and our current competitors here already are addressing markets of millions of customers. They have the ability to negotiate contracts that allow them to purchase equipment, for example, at much, much lower prices than we can ever achieve. In addition to that, they have the - for want of a better word - clout to do deals with what we would call service providers. So, to bring new products and services to the market quickly, they have the ability to get those deals with the suppliers in a way that we cannot. It is not possible for a small operator such as ourselves to get access to those technologies and services, which are the very things we need to compete in the home market against these players.

Deputy J.G. Reed of St. Ouen:

I would just like to explore basically Jersey Telecom's image and vision, because it bothers me that there seems to be a number of mixed messages. On the one hand, in the 2005 Annual Review, you speak of the vision for Jersey Telecom to be the Channel Islands leading provider of communications solutions. You also, Chairman, speak about absence of debt, a strong position to fund investment in the next generation network, seeking off-shore opportunities, aim to maintain shareholder values; an extremely positive view of Jersey Telecom leading into the future. Yet we also read in the consultation document almost: "We give up. The best thing that we can do is to sell the company." I would like to know what has changed between this document, the 2005 Annual Review document, and the response

provided to a consultation document that we are going to sell Jersey Telecom.

Mr. J. Henwood:

Well, in short, nothing has changed, and I would like to know where you read in our response to the Minister's statement: "We give up." Far from it; I feel extremely optimistic about the future of Jersey Telecom. It is an exceptionally good company. If I may say so, it is a well-run company, and I am not just referring to the last 3 and a half years. It has been a well-run company under public management, as well as since it was incorporated, but it has always had a monopoly. If you expect that we think that things are not going to change in the heat of competition, you are wrong. It is going to change. I think what we have tried to do in our response to the Minister is project our vision of the future into a world in which there are going to be probably 4 mobile providers in an area which you might describe as, in UK (United Kingdom) terms, an average-sized market town. That is going to make a radical difference to the future. Now, as I have already said, there is a perfectly reasonable future, in my view, for Jersey Telecom in public ownership, but it will be a very, very different company from the one which you see today. It will -

The Deputy of St. Ouen:

Yet you seem to be signed up in your document, when you speak about the Competition Regulatory Authority, that you feel that there is a sufficiently robust framework in place that the sale of Jersey Telecom can go ahead, but if you are also saying that the way that the competition law is being managed currently is detrimental to not only the company, but possibly to the consumer, how do you justify those 2 views?

Mr. J. Henwood:

Deputy, you seem to be looking for a difference between the interests of the company and the interests of the Island. There is none. The interests of the Board of Directors and the company are entirely aligned with the best interests of the community that we serve. I think what you have to recognise, if I may say so, is that we all have to come from the positions of our obligations. Now, we recognise, for example, that the Minister has a legal obligation insofar as the management of public assets is concerned. Similarly, the board of Jersey Telecom Group - and incidentally, only the Board, no one else - has a legal obligation to act in the best interests of the company. All our pronouncements are designed to be consistent with what we believe to be in the best interests of the company. We believe, on reflection, that the best interests of the company are served by selling the company to an entity which will provide the sorts of benefits that Bob Lawrence has already articulated. All that said, we recognise the sovereignty of the States of Jersey in this, and if, having looked at all the evidence, the States of Jersey decides that they disagree and what they want to do is retain ownership, that is a decision that we will accept, even though we think it may not be the right decision, and we will set about developing Jersey Telecom in a way that is best for the company, as is our legal obligation, and at the same time

best for the community that we serve. There are no differences here. You seem to be looking for differences of position. As far as I am concerned, they are aligned.

The Deputy of St. Ouen:

Forgive me if you think that, but I would like to come back to your comments that I have read. They are published comments --

Mr. J. Henwood:

Yes, of course.

The Deputy of St. Ouen:

-- regarding the competition issues, and some of the issues you have already raised here, regarding how the mobile market is changing, because we are likely to have 4 licensed operators. So, on the one hand, you are saying that it is the competition or the operation of the competition law is detrimental to the company and raises concerns on that aspect of it, and yet, at the same time, you are basically saying that even with all of those issues, which I presume you would not be the only company to face in the telecommunications market -- in other words, if they are the issues you are facing, other competitors must be equally going to face those same --

Mr. J. Henwood:

I am sorry to interrupt you, but that assumption is quite wrong. We face different requirements imposed by the Regulator from everyone else in the market.

The Deputy of St. Ouen:

Would you like to expand on that?

Mr. J. Henwood:

Yes, absolutely. We are determined by the Regulator to have sufficient market power for them to take different views about the way in which we run this business, compared with the way in which the other licensees are run. I can illustrate this very well in a very recent example. We, a short while ago, introduced 18-month rental contracts, and we were told by the Regulator, after a short period of time, that that was anti-competitive and we were told that we could not offer 18-month contracts. Now, we felt very strongly that they were wrong and that we had options in that situation. We could have refused to accept their ruling; they would have issued a direction and we would have said: "See you in court." We judged, however, that the issue of 18-month contracts was not a sufficiently strong issue on which to carry out that confrontation, and we dropped 18-month contracts and introduced 12-month contracts. Now, no one else would be required not to introduce 18-month contracts, and indeed, I am quite sure if Cable & Wireless or - when they get on the air - AirTel wanted to offer 18-month contracts, that would

be welcomed by the Regulator. So, there is a sharp difference between the way the Regulator acts towards Jersey Telecom and the way it acts towards the other players in the market.

The Deputy of St. Ouen:

But you do not believe then that there is acknowledgement within the Telecommunications (Jersey) Law that Jersey Telecom - or the telecommunications operator that is providing the basic services - needs some form of protection and that that is included in this law?

Mr. J. Henwood:

I am sorry. I want to make sure that I understand you. Are we talking about protection for the company or are we talking about protection for the consumer here?

The Deputy of St. Ouen:

Protection for the consumer.

Mr. J. Henwood:

I think there is very adequate - indeed, robust - protection for the consumer within both the telecoms law and the competition law. Competition law is still relatively new, but the Regulator is making rulings under the competition law which apply to Jersey Telecom on a daily basis now.

The Deputy of St. Ouen:

You do not believe that through the protection for the consumer there is a link to offer some form of protection to a telecoms provider, in this case Jersey Telecom as the major provider?

Mr. J. Henwood:

As the major provider, we are the only operator who has, as part of our licence obligation, a universal service obligation; that is to say, it is part of our licence that we provide the sort of services that other operators are not required to provide. Just to use an analogy which I think illustrates it quite well, in postal terms, in the United Kingdom, the universal service obligation for post means that if you post a letter from West 1 to West 2, it costs exactly the same as posting a letter in Land's End to get to John O'Groats. It is that sort of ensuring that the consumer enjoys every aspect of the service that is available to all at a price that can be afforded. That is what our universal service obligation is. In our case, it means that we have to provide, for example, public telephone access, telephone kiosks. No other regulated licence holder has to provide those, or any other aspect of a universal service obligation. They can pick and choose those services that they want to provide, and surprise, surprise, they only pick the ones that they consider to be most profitable and leave us to look after the ones which are either unprofitable or marginally profitable.

Deputy G.P. Southern:

Can I just let Deputy Baudains in there, because I know he is keen on competition issues.

Deputy G.C.L. Baudains of St. Clement:

Yes, thank you. I just wanted, if I may, to go back a step, because I was having difficulty reconciling what I was hearing. Now, we all know that a board is required to always act in the best interests of the company, and indeed, you said so, but what I do not understand is the statement that Jersey Telecom always acts in the best interests of the Island. How is this reconciled?

Mr. J. Henwood:

No, what I said was that the Board of Directors considers that, in acting in the best interests of the company, its views are aligned with those of the rest of the community. I mean, the perfect situation is always to try and ensure that both interests are perfectly aligned.

Deputy G.P. Southern:

What would you use to illustrate that?

Deputy G.C.L. Baudains:

Sorry. The question I was raising is that it need not necessarily be the case. Your legal duty is to ensure that the company is prosperous, regardless really of how that may affect the Island.

Mr. J. Henwood:

That is absolutely right, and perhaps the best way to address your question, Deputy Baudains, is to enlarge on what I said earlier about the option, should the States - in its wisdom - decide not to sell Jersey Telecom. Clearly, then we would have some difficulty in terms of maintaining that alignment as we believe it to be today, in the sense that, in order to survive and thrive without the opportunities of the economies of scale that we have talked about that would be available in a sale, Jersey Telecom would have to become very much smaller. We would have to reduce overheads very significantly. That would mean, inevitably, fewer staff; probably significantly fewer staff. We would have to become lighter on our feet. We would have to, as far as possible, as far as we were allowed to do, eliminate unprofitable or marginally profitable services and seek new business which was not captured by the Regulator, and that would largely be off-Island business. Now, that would be the way in which I believe we would exercise our legal obligation to do the best we could for the company. Now, in that situation, then clearly one looks to the Regulator to ensure that the market, the community, is adequately served by the range of suppliers who exist there. Bear this in mind, Deputy and ladies and gentlemen, bear this in mind: that the States, through the Economic Development Minister, has the power to direct the Regulator in matters of social concern and community service. So, it may be in that circumstance, the States having decided not to sell the company, they would also tell the Minister for Economic Development that he or

she should be - the Minister of the day should be - instructing the Regulator with regard to the best interests of the community.

Deputy G.C.L. Baudains:

Just one final query that I have; again, I am at a slight difficulty to understand. The economies of scale which both yourself and Bob have referred to are perfectly understandable, although the difficulty I have is that the situation which you have just spoken about is that you may find, depending on what happens in the future, you would have to downsize and move into smaller markets in the other Island. It seems to me this is a complete opposite. I find the 2 mutually exclusive. On the one hand, in order to exist, you need to be part of a larger partner to get the benefit of modern technology in everything, but if that does not work, you will then downsize and become the exact opposite; a small company, being the exact opposite of being part of a large company. Can you explain that to me?

Mr. J. Henwood:

Yes, I can. Well, I will try. Whether we like it or not, Jersey Telecom - Bob touched on this earlier - is part of a global business. It is a global business that went through a period of, if you like, break-up, in the sense that fixed and mobile were separated and so forth. It has come around full circle. You will see that those operators who went out of mobile operations -- and BT is getting back into mobile. BT sold its mobile business to deal with its debt mountain. That is coming back. There is a lot of consolidation going on. So, Jersey Telecom is a tiny, tiny player in a global market. It is no good saying it will not be in the global market. It is, and cannot do anything but be in that global market. Now, bear in mind the Regulator says that Jersey Telecom, small as it is, is the one with market dominance, whereas Cable & Wireless, which is a global player, does not have market dominance and thus enjoys the indulgence of the Regulator. AirTel - owned by Bharti - Vodafone recently paid £800 million to buy 10 per cent of, so you see what sort of global clout that has, they are not a dominant player. You see, we, with the largest market share, are judged to be the dominant player, are up against already 2 global giants who are not thought to be dominant. It is an impossible situation for the company. The only thing it can do is to get smaller, to get lighter on its feet, to punch even harder and try and find a niche in that global market which will allow it to remain profitable and make a reasonable return to its shareholder. That is how I see --

Deputy G.C.L. Baudains:

That is also down to good regulation?

Mr. J. Henwood:

Absolutely, Deputy, and that is something over which we have no control; as a former member of the Telecom Board you are all too well aware.

Deputy G.C.L. Baudains:

Yes.

Deputy G.P. Southern:

Is that something that, while you obviously cannot have control over that, and in your response to the proposals, you talk about - in extreme, this is - it is only Royal Court that will be able to consider whether the Board's position on such matters as regulation is appropriate? My thought immediately was should that be an easier process, rather than the expensive one of going to court in order to make sure that you are being treated fairly? Is that right or wrong?

Mr. J. Henwood:

I do not know the answer to that. I am going to invite Daragh to have a word on that in a moment, but what I do know is that the way in which the law is set out, it is really - at the end of the day - the only option we have, and be in no doubt, we will not hesitate to use that option if the issue is sufficiently important, and we believe that the negative impact on the company will be such that doing nothing is not an acceptable option. We have no concerns about challenging the Regulator in the Royal Court if it seems to the Board that that is the right thing to do, but that is the only option available to us under the law. Daragh, can I ask you to amplify?

Mr. D. McDermott (Company Secretary, Jersey Telecom Group Limited):

Yes. The only thing I would comment or add to what you have said is that the framework does allow for all decisions to be challenged. So, notwithstanding that we might have the differences with the JCRA (Jersey Competition Regulatory Authority) on issues like the 18-month contracts that were introduced, it is down to Jersey Telecom itself to make a decision on whether or not it believes it is on a firm footing, and it believes that, in a competitive environment, it wants to go down the road of challenging a particular decision. You know, it may be the case that other issues will arise further down the road where we disagree with a particular decision taken by the JCRA, but the key point is that there is a process and a framework under which it can be challenged and the final decision as to whether Jersey Telecom is correct or incorrect will be in front of the Royal Court.

Deputy G.P. Southern:

I am just wondering whether that is a rather heavyweight mechanism. I mean, a regulator can only be as good as the ease of access to appeal, in one sense.

Mr. B. Lawrence:

Yes, and behind the scenes, there is a huge amount of dialogue that goes on between the company and the Regulator and the only things that I guess the public become aware of are the ones that blow up where we do not reach agreement. But there is any number of things that are in constant debate between

us, both on the pricing of services, on future services and on disputes. The majority are resolved between us, but I think as Daragh said, ultimately there may well be an instance where the company feels strongly enough to challenge the matter, and then the recourse is to challenge it through the court. So, no, I do not think we need a different process. There is a process of good healthy open dialogue between us. The boards of Jersey Telecom and the JCRA meet on a regular basis to discuss issues and, yes, we do have differences, clearly we do. That is a healthy tension. That is all about good regulation, but as I say, I think there is a huge amount of things resolved with proper negotiation and proper discussion behind the scenes. The court is, I guess, the last resort.

Deputy G.P. Southern:

Can I bring you back to your 2005 Annual Review and it is James' point about that. I cannot leave it for the moment without readdressing it. It seems to me, in reading your Annual Report, I read about a company which was in a perfectly healthy position, that welcomed the challenge of competition and was doing great things and providing an excellent service in the marketplace, and yet you seem to be now saying that, if you remain in public ownership and we do not sell off that your future is one of a downward spiral and you are going to disappear. You are going to have to downsize, and some services you are going to have to sell off or get rid off, stop doing, and that you will be producing much less of a service in the future than you might otherwise. So, it seems to me, I did read that there, and yet the impression you are giving is that, without the sell-off, without getting one of the big operators to buy you, you have a grim future.

Mr. J. Henwood:

You do not seriously think that Cable & Wireless can come into the marketplace; Bharti, through AirTel, can come into the marketplace; Colt, already licensed, can come into the marketplace, and the market remain the same. It cannot.

Deputy G.P. Southern:

I did not say that.

Mr. J. Henwood:

There is going to be a massive and fundamental change.

Deputy G.P. Southern:

I said, why the positive nature of this 2005 report, and what seems to be a very gloomy prognostication you are giving now in the light of "unless we are sold off"?

Mr. J. Henwood:

If I sound gloomy, I apologise. I do not feel gloomy. As I said at the beginning, I think there is a future

for Jersey Telecom, whatever the States decides. It is just that those 2 futures are very different, and it seems so obvious to me that they must be different when such a fundamental change to the market is about to happen. We cannot in any way imagine that things are going to go on the same way, that we are going to go on producing the sort of returns that we produced when we had 100 per cent of the market. Just to illustrate it, we are going to fight tooth and nail to maintain every percentage point of the market that we can. But we have 100 per cent, 4 players: let us assume in some future that the market is divided 4 ways, and we all have about 25 per cent of the market, we are all going to lose money. Now, the market is not going to stay --

Deputy G.P. Southern:

Is that a realistic assumption, do you think?

Mr. J. Henwood:

I would say no, because I am not going to let our market share slip to that degree, but I am talking of theoretical futures. Of course, before you get there, consolidation happens. Companies that are losing money either go out of business and their competitors pick up the pieces or they get acquired and a consolidation process occurs. That is a natural market cycle. But whatever happens, things are going to change. I would say I feel optimistic about Jersey Telecom, whatever future the States decides. You know, whatever the States decides about its ownership, it has a future. I would say it has a good future. I hope you will not mind me saying this, but I had some cross words with the Minister when, at a meeting you called, Chairman, he described Jersey Telecom as the corner shop to the opposition's Tesco. I found that - and the Board found that - very difficult, because it is not, in our view, a fair or realistic assessment of the difference. You know, if we are the corner shop and they are Tesco, then we cannot compete with them on quality or price, but as events are showing in the last week or 2, we are certainly competing on quality. In fact, we lead the market on quality and we are leading the market on price as well. So, we are pretty bloody good corner shop, if that is what we are. I am sorry about the expletive.

Deputy G.P. Southern:

It is perfectly acceptable.

Senator B.E. Shenton:

Are you happy to be sold to the highest bidder, regardless of who they are?

Mr. J. Henwood:

Absolutely not.

Senator B.E. Shenton:

Absolutely not? I thought you might say that.

Mr. J. Henwood:

You would have read our submission, and our support for the Minister's proposition is clearly conditional. We have set out those conditions in our response and there are a number of factors here. I suppose what I would talk about broadly is fit, and when we have talked about economies of scale and the global marketplace, what we would not want to do is to be owned by an over-centralised global player who would reduce all decisions back to some remote point, and run the company, as it were, by remote control. In our view, the ideal situation is to be acquired by a company who has the clout in the marketplace, but recognises the benefit of running the company with all the local knowledge and experience of the marketplace that it has. I think that would then speak for the benefit of everyone, including the community, and not least, of course, our staff, who have made the company and continue to make the company what it is.

Senator B.E. Shenton:

But what is to stop whoever takes you over having a reorganisation and then selling you on to an over-centralised global player? You will not have any say in the matter.

Mr. J. Henwood:

No. One has to accept that. However the company is sold, the States has to recognise that it has to take its fingers off the control button. There is no question about that, but I do think that, if you go about the process in an appropriate way, you have a much better chance of ensuring that the future is secure and that is all about the selection of the purchaser and not the price ticket.

Senator B.E. Shenton:

But the risk is there that you might end up being owned by someone that you do not want to be owned by.

Mr. J. Henwood:

There will always be a risk, but there would be a much greater risk, in our view: for example, one of the options that was kind of rehearsed and discarded by the Minister is private equity. The whole purpose of private equity is to acquire a company, to fatten it up and to sell it on. Now, you know what is going to happen in that situation, and we would advocate very strongly that that is a route that the Minister should discard almost automatically.

Deputy G.P. Southern:

But in terms of that control, that is neither a regulator nor the States of Jersey, the Island, can have any control over which company comes and buys you, in that sense.

Mr. J. Henwood:

The Regulator does, of course, because the Regulator has a remit to consider the effect on the marketplace of mergers and acquisitions, and the Regulator has exercised that in a couple of circumstances already. The Regulator will have a say, and I am quite sure that if the Regulator felt that a prospective purchaser would be detrimental to the competitive marketplace, he has the power to veto that position.

Deputy G.P. Southern:

But in terms of the way you were describing, a decentralised operator running you remotely and not paying attention to local needs, the Regulator cannot control that.

Mr. J. Henwood:

After the event, you mean?

Deputy G.P. Southern:

Yes.

Mr. J. Henwood:

No, once the --

Deputy G.P. Southern:

They can say what they like: "Of course we are going to be hands-on and local."

Mr. J. Henwood:

That is quite right, but what they have is an ongoing responsibility to regulate according to the law that they are operating by. But, as I said, the States continue to have the ace card up their sleeve, in the sense that they have reserved the right, through the Economic Development Minister, to direct the Regulator in terms of social policy.

Mr. B. Lawrence:

There is just the point that we should also make you aware of in our licence. There is change of control terms within the licence issued to Jersey Telecom, so the Regulator has a part to play there, in terms that the licence is not directly transferable. So, both there and through the Competition Law, the Regulator does have some say, clearly a very significant say, in the Competition Law through the mergers and acquisitions part of that, but there are also clauses within the telecommunications licence issued to Jersey Telecom.

Deputy G.P. Southern:

Can I come back to the nature of competition, and excuse me if I am asking a stupid question, but I think that is what I am paid for. As a layman, can you explain to me where competition is occurring, where you are healthily competing and where the pinch points are? Is it in terms of lines and access to lines? We hear about mobile competition obviously, but it must be elsewhere as well, it seems to me. Can you tell me about what is happening in this today?

Mr. J. Henwood:

I will invite Bob to go into some detail on this, but broadly - and this touches on something we said before - you would expect competition to bite in all areas where Jersey Telecom is most profitable, and they are very happy to back off and not get anywhere near the services that are either unprofitable, subsidised or marginal. But, Bob, in detail - as the Chairman asks - where are the pinch points right now?

Mr. B. Lawrence:

Firstly, we are competing all over the place, pretty much across the whole of the business now. I think the only area there probably is not competition, as we have talked about previously, is the provision of payphone service, and I do not think anybody is going to want to come and compete on public payphones. Mobile is well-known, clearly we have the mobile competition here, which is very visible. We compete fully and we have done for many, many years in the supply of equipment and that is a market that is changing. It is moving from what we would call the traditional telecoms equipment, switchboards in customers' premises, and that is aligning much more with the technology. ICT (Information, Communications and Technology), everything is being run on servers, so whereas there was competition in the provision of switchboards, we are now competing with all the IT (Information and Technology) players. That has all merged together. So, there is strong competition there, from within and without the Island. The other area is in the fixed lines, and what we would call "voice calls", ordinary voice calls on your standard telephone from home. There is no competition in the provision of the access network, the cables to the home, but the competition that is in that market is coming from what we call international simple resellers, who offer cheaper long distance calls. There are 2 local service providers here, Cable & Wireless provide a service, and a company called Speedial provide another service. But, of course, the market is open to all of the players who provide those services in the UK. So people in Jersey can access these ISR (International Simple Resellers) type services and have access to lower priced long distance calls. Alongside that, of course, we have all probably heard of Voice over IP, which a couple of years ago, we would have said: "That was sort of for the anorak brigade who would be working on their computers and it would not necessarily be very good quality and you would not always connect." Things are changing in that respect. The telecoms industry is moving solely to a Voice over IP infrastructure, indeed we are investing in our own, so the quality of those types of services has improved, and I am sure there are many, many people in the Island who are using

services such as Skype or Vonage or the Tesco service. Those companies can provide services over the internet to customers here without having to make any investment at all. So, the services are carried on our lines, on our broadband network, but there is no investment here and all the profits that are made from those services are taken by companies who exist outside of the Island, so there is no tax take either for the Exchequer. Now, I do not think many of these companies are making a profit at the moment. In fact, many of them are burning huge amounts of cash and I am sure there will be casualties along the way, but the technology is now reaching a stage where it is well proven. So, that is a very real threat to the fixed line revenues that is going on in the background. In the broadband market, there is competition here. Newtel provide a competitive service to the Jersey Telecom service. That is on a wholesale basis, so they wholesale services from us and repackage it and push it out to customers, and there is very healthy competition there and we are seeing prices coming down, and that is another example where the prices are now being pushed down towards the point where the services become unprofitable because of the scale and the scale of the customer base. I think, as you look forward into the future, what we are seeing is a convergence of technologies, based on the IP world, the internet, where people will have the single device, and we have probably all been hearing about this for 10 or 15 years, but this is becoming a reality now, where your mobile phone will work in the home, it will connect to the network over your broadband line, and you will have access to the Voice over IP services I have talked about. When you go out and about, it will link on to the mobile networks, probably a 3G network, giving you access to calls and services while you are out and about; and when you are stationary, but not at home, in places like airports you will access Wi-Fi networks, and you will log on to those networks and make your calls in that way. So that is where the industry is going and, of course, those services that are reaching out over the internet do not have to be provided by an operator based in the Island. They can come from pretty much anywhere, anywhere on the planet. So, other than the mobile competition, which is very fierce - and you are all seeing it on the high street currently in St. Helier - there are those other competitive impacts on the business that are going on underneath and every area of the business is being subject to competitive threat.

Mr. J. Henwood:

Can I just add a point to Bob's very comprehensive review there, and he did, of course, say that VoIP is a significant threat and you do not have to have a presence to operate a VoIP service. Another important point though, VoIP is not regulated, it is not captured by the Regulator, so you have the prospect of a Voice over Internet Protocol service operating out of any corner of the world, operating a service for residents of communities elsewhere unregulated.

Deputy G.C.L. Baudains:

Thank you. It has been very interesting. Bob was referring earlier to services possibly heading towards unprofitability. We have now heard that there are services which could be in competition which are unregulated. Clearly, we do not want to end up in another southern sea route scenario here, and what

does concern me is that it is appearing that competition may not, in fact, have been perhaps the best choice for our telecommunications, because Jersey Telecom have traditionally returned quite sizable sums to the Exchequer. The pricing to customers has been reasonable, as we see now, compared with competition. Control of our communications is vested in the Island, which surely must be important, given the nature of our main business, finance, in relying on telecommunications. To what extent is the company concerned, as it is concerned when I raised the matter earlier about the quality of the telecommunications in Jersey generally, as opposed to the company's aspect? To what extent is the company concerned that another company buying out Jersey Telecom - or whatever arrangement came about - that that company might either asset strip or allow the infrastructure to deteriorate to such an extent that, in some years to come, the Island has to buy it back and build it up, rather like Malta did many years ago?

Mr. J. Henwood:

That is a very good question, but you referred at the beginning of your question, Deputy, to ferries, and I don't know enough about that to go there, but let me say that it would not be good for Jersey to allow a fight to the death in the telecoms market. That would serve no operator any good and it would ill serve the community as well. Why Jersey has such a high quality service is, of course, a factor of the marketplace. Jersey enjoys a quality of service unmatched in the world, I would hazard, by any community of this size, and the reason for that is, of course, that Jersey has developed over the last 40 years as an international finance centre, and the tracks that a finance centre run on are telecommunication tracks; it is the requirement of that market clearly that has driven the investment programme that the company has made and Mrs. Ecobichon in St. Ouen has benefited from the requirements of the big players, there is no question about it. This also goes to the Senator's point earlier, it is all about choice of buyer. We certainly do not want asset stripping; we do not want the company to be hollowed out, leaving just 1 or 2 key bits of the business there. I am not saying that this is easy, but there will be - I am confident - prospective purchasers who will recognise that the virtue of this business is that it is extremely well-placed to go on being profitable; perhaps not as profitable as present levels into the future, but with the sort of clout that we have talked about, the sort of research and development that is available, the sort of capital in depth that would be available. This company can go on being much more like the company it is right at this minute than if it were not sold, when it would, without doubt, have to become a very different company as competition bit. The ability to invest would diminish, and ultimately, the company would be a very, very small - I would hope and clearly intend it would be profitable - company, but not at the scale that it is now.

Deputy G.C.L. Baudains:

I remember Bob, on many occasions in the media and elsewhere, welcoming competition. Does he now regret those comments?

Mr. B. Lawrence:

No, we --

Mr. J. Henwood:

Loaded question.

Deputy G.P. Southern:

We expect nothing else from Deputy Baudains!

Mr. B. Lawrence:

No, I mean, competition has always been coming into the market, and clearly, we welcome the competition, and clearly we are fighting that competition. You know, if one looks at the situation today, you look at the situation this year, we are very successful and we will continue to be successful in the shorter term. My concern is when you look forward 5 years' time - a bit difficult to look forward 10 years' time, I think, in terms of this industry - to see where the world of telecoms will be, then I think it is very hard to see a place for the small traditional, local telecom operator. You will see in the evidence around the world, we are one of the last few operators of this size operating in the marketplace. All the other governments have moved in the way that is being proposed here. We have talked about the impact of the Voice over IP, and it is those things, the technology is bringing the competition. Even if we had been left as a monopoly provider in Jersey, the technology, the technological changes, would bring the competition into the market. You cannot stop it and you cannot regulate against it and you cannot prevent it. Even the Chinese have not been able to prevent the internet and Voice over IP crossing into their borders. You cannot stop the technological drive that is changing the whole economic scale of this industry.

Mr. J. Henwood:

If I may, Chairman, one other point, which I believe is relevant to Deputy Baudains' question - and possibly goes to the heart of it - he sort of implied that, given the chance to do it again, maybe there is merit in recognising that there are some natural monopolies. I do not think I am with that. I am naturally a competitor and I do think there are advantages in competition, but what is absolutely vital, and I keep stressing this - I stress it today as I do to the Regulator when the boards meet - we are a very small community and I am concerned about the need for proportionality in the way in which the Regulator exercises his responsibility. Forgive me, but I feel that there is a tendency on the Regulator's part to reach for a ready-made solution which has been applied somewhere within the EU and say: "Well, that does it." Maybe it does, but maybe it does not. There is not another community within the EU that is as small as this, and I would like to see the Regulator straining to create solutions which are designed to do what the States had in mind when it decided to go down this route. I am deeply concerned, as you see from remarks that I have made on behalf of the Board, about what I perceive as a lack of proportionality in the approach of the Regulator regulating this market. It is too soon to say about other markets.

Deputy G.P. Southern:

In simple terms, in terms of what we have now in the mobile market, 4 is too many, in your opinion?

Mr. J. Henwood:

Time will tell. In my opinion, a market of 90,000 people cannot sustain 4 viable mobile services. It is highly questionable whether, in my opinion, it can sustain 3; highly questionable.

Deputy G.P. Southern:

Would you back that up?

Mr. B. Lawrence:

Yes, I would agree with that.

Deputy G.P. Southern:

I mean, you are on the inside. The layman has been saying that to me all week.

Mr. B. Lawrence:

I think anybody looking at a population of this size and the industry and the market would agree with that statement, particularly when you are seeing 3 infrastructure builds. I think when we went through the incorporation process, the Board - Deputy Baudains will recall - argued strongly for one infrastructure with wholesale type services being provided over that. Clearly, operators have a choice whether to build their own network or to go that route, and indeed, in Guernsey we have built our own network. So, yes, I would agree with John's views on that.

Deputy G.P. Southern:

You mentioned when you were talking about Voice over Internet provision that that can take place anywhere, and you were saying there is already a loss in tax take effectively through that mechanism.

Mr. B. Lawrence:

Effectively, it impacts on the profitability of the company. Voice services are being commoditised and, in fact, in the future, I do not expect there will be charges for voice calls, or if there are, they will be incredibly small because people will be using the internet, the broadband services. What is interesting about that is, of course particularly in the UK, there is an absolute bloodbath going on in terms of provision of broadband services, and again, I would suggest that all of those players are not going to survive. They cannot survive at the prices they are charging. But we are seeing similar, that pressure is on the marketplace here, so broadband networks are being provided which enable people to carry the voice calls pretty much for free. So, as an operator, it is sort of like cutting your own throat, really. But that is where the industry is going and you have to ride the tide and you have to look for new

opportunities, new markets, new services. In our case, we have to look for new opportunities outside of the Island, because the traditional revenues are going to come under extreme pressure.

Deputy G.P. Southern:

Can I just narrow that down a little: I mean, we are told that utility providers will be taxed at 20 per cent under the Zero 10 proposals coming up. If Voice over IP is unregulated, it will not come under that particular net, and it is going to be, if it is a foreign-based operator that is providing this, then there will be no tax take at all.

Mr. B. Lawrence:

I think that is the point, it is generally foreign-based services. We have experimented with some of these services, and indeed, we have a line installed in our offices, which has one with a Cambridge number and one with a US number. So, effectively, customers ringing that believe we are located in Cambridge, or indeed, I think we have one somewhere down in Florida. That service is provided by a company running out of Canada, and the payments that are made over the internet go to that company, and I am sure if they were making a profit, they would pay their taxes in Canada. But the other point is, from the regulatory perspective, you do not even know it has happened, because it is going over the internet and over the broadband, and you cannot see it. That is the reason you cannot control it and regulate it, but it is where technology is going and you cannot fight that tide.

Mr. J. Henwood:

Those signals of course end up running around our network. That is how they are distributed, our infrastructure. Now, as VoIP extends and profitability of fixed line operators goes down all over the world, you then come to the issue of ability to invest. We are about to invest many millions of pounds in replacing System X with an internet protocol network, to be at the leading edge. We can do that because we have the resources to do it, but in another 5, 10, 15 years, there will be a need to reinvest again. If all the profitability has been sucked out of the business by VoIP, where is the money going to come from to invest in developing those new networks? Now, the answer to that question is in bigger, more powerful companies and that is what is driving the consolidation of the telecommunications industry worldwide. That is what we are facing, and that is what one will be concerned about for little Jersey Telecom trying on its own to find the money to reinvest in the next new network, the next new infrastructure, when all the profits have been sucked out by VoIP players.

Deputy G.P. Southern:

These big organisations, the 3 or 4 that we are going to end up with when it is all boiled down, world global operators, where are they generating their profits from?

Mr. J. Henwood:

They are looking increasingly away from pure telecommunications and into the so-called triple play.

They are becoming media players. All communications systems, all communication types are merging and we are seeing the emergence of a completely integrated communications system. Sky is a good example. Sky starts out as a television company, it is now into broadband; it is into telephony; it is a rights owner of sports material which it will put into its broadband, it will put on its mobile telephones and so on. Massive integration and consolidation is the way in which the telecommunications industry is moving.

Mr. B. Lawrence:

Unit costs: the ability to drive down your unit costs when you are purchasing bandwidth - because this industry is all about bandwidth now - is a critical factor. That comes down to the economies of scale. The amount of bandwidth coming out of the Channel Islands is incredibly small. We could provide it many, many thousands of times over on the existing infrastructure that we have. The global players will leverage those economies and get their unit cost for transporting bandwidth and services around the globe to very, very low levels. That is some of the issues that we see coming with the competitors. For example, coming into the mobile market, Bharti in India have 22 million customers. They can get a very, very low unit cost on their infrastructure build, and that is the challenge for the smaller operator, if you are staying in the provisions of those sorts of services.

Deputy G.C.L. Baudains:

It seems to me there might be a bit of an imbalance here, because you talk about the lower infrastructure costs of these larger companies but, of course, as we all know, operating in Jersey is another thing where, because of the scale of the market - never mind anything else in the actual operating costs, the cost of living and everything else - is that it probably costs more per mile to repair cable than maybe anywhere else. But what really concerns me is to what extent is the driver behind contemplating sale the fact that these other companies could - and I regret having to use the analogy again - use a southern sea route situation and simply drive unprofitability at a level until Jersey Telecom goes bust and then take over the market? To what extent is that a driver?

Mr. J. Henwood:

It is a very important issue, of course. I think a monopoly, privately owned, is about the worst solution that you could achieve. It does not matter who the monopolist is, but if the market decides - and it would be a decision of the market - that it can only sustain one operator, and that operator was a public company, not a private company, but not the government, that would be a pretty poor solution. Bob, in terms of detail --

Mr. B. Lawrence: The way in which --

Deputy G.C.L. Baudains:

Yes, competition has to be fair. I am getting the feeling from you that with the JCRA, it is not quite a

level playing field.

Mr. J. Henwood:

Well, I would say that, would I not? No doubt you will hear from the Regulator, but I come back to this point, which just seems so anomalous to me, that Bharti and Cable & Wireless are licensed and given advantages over us, because we are the ones with significant market power, it is judged, whereas they have global reach. It is bonkers. I just feel that the Regulator is taking a purist regulatory view. Look at the little market in Jersey and say: "Jersey Telecom is the big guy in this market, therefore we have to be vigilant and make sure that they do not hurt those poor little guys, Cable & Wireless and Bharti." It just does not square for me, and I talk as someone who has spent a career working in a regulated industry; admittedly regulated not locally, but in a national and international sense. This is a source of regulation that is outside my experience. It just seems strange to me.

Deputy G.P. Southern:

I suspect you might have the headline with the use of the word "bonkers".

Mr. J. Henwood:

Oh, but it is not an expletive, Chairman, it is not an expletive.

Deputy G.P. Southern:

No, no, absolutely, absolutely. Can I just explore when you were incorporated? We just mentioned cable layers. Tell us for the record what that arrangement was when you incorporated and formed a separate company. I do not know whether you get rid of the cable layers to another company.

Mr. J. Henwood:

We were incorporated as a number of companies. Jersey Telecom Group is the holding company. Jersey Telecom Limited is the company which operates the Jersey network, then there is Wave Telecom Limited, and I think there are 5 property holding subsidiaries which, for various reasons outside my knowledge, the States decided that those properties which had to stay within the portfolio for technical reasons, because they had the network equipment, would all be in separate companies. So, that is how we are structured. In terms of operationally, every decision after incorporation has been made by the Board. Are you referring to the fact that we outsourced some of our --

Deputy G.P. Southern:

Yes. That is just what I call that area. That just may or may not be important, but it is something I have a question on.

Mr. J. Henwood:

No, indeed, you are absolutely right, we did outsource to an international specialist company some of

our work. Bob will tell you in detail what it was.

Mr. B. Lawrence:

Yes. This was the outsourcing of our cable jointing and cable laying works, which we outsourced to a company called CH2M Hill - but Frontline is the better known name - which is a Jersey company, is registered as a Jersey company and they seem to employ local people; in fact, indeed, are working with the Islands and suchlike to encourage people to come through into that part of the industry. That was all part of us looking at the business and focusing, to say: "What are the core activities of a telecoms operator going forward, and who is best placed in terms of providing those services to us in the most efficient and most cost-effective way?" These things have happened - we were reflecting on this this morning - over very many years. I am going to show my age, but even when I joined the company, we had probably more than 100 operators, and previously to that, we had had 200 to 300 operators. Technology changed, and indeed, at that point in time, all those people left the company.

Mr. J. Henwood:

When you say "operators" you mean -?

Mr. B. Lawrence:

Yes, the "number please", yes. Again, when we moved from mechanical exchanges to electronic exchanges, we lost a lot of staff through that period, and clearly we could run an exchange with a couple of people, whereas we needed 20 or 30 previously with the mechanical exchanges. So these things happen in the industry and it is all about foreseeing where those changes are coming. We have the Next Generation Network coming in and that is going to change the way in which we work. Now, it is not such a big step change as going from "plug up girls" to electronic switches, but nevertheless, the skill base changes and the business will continue to flex. We are employing about 425 staff here in Jersey; 3 years ago, that would have been about 485. Now, the majority of those did not leave through that voluntary redundancy programme, they left through a process of natural wastage as the technology changed the way the business works.

Deputy G.P. Southern:

So, publicly owned or privately owned, do you see that trend continuing, in the sense of it has to?

Mr. B. Lawrence:

It absolutely has to, it has to. It absolutely has to.

Deputy G.P. Southern:

Come what may.

Mr. B. Lawrence:

We keep saying: "You cannot fight the march of technology." If we are to continue to seek to make the sorts of returns we are making, then we do have to flex and adjust the business. That is something that we are very used to. I say "we", I mean the employees themselves are familiar with a process of ongoing change.

Deputy G.P. Southern:

Just for the sake of my clarity, the company that you outsourced to is not part of your group?

Mr. B. Lawrence:

It is not part of our group, no, it is an entirely separate company --

Deputy G.P. Southern:

It is not regulated?

Mr. B. Lawrence:

No, they provide "civil works" would be a sort of good description, although they do not do the road digging, what they do is pull the cables through the ducts and we pass a works order to them that says: "Join this wire to this wire" and they do all of that work in the network. If we have to run fibre optic cables and join them up, they do that work on our behalf. They are not owned by us and there is no requirement for them to be regulated.

Deputy G.P. Southern:

They were your employees?

Mr. B. Lawrence:

I would say about half of them were our employees who moved across. Frontline has been operating here for 5 or 6 years in different ways, and this is no different to if we were building a mobile network. For example, we do not go around putting up the aerials and masts ourselves, we use specialist providers. When we install a telephone exchange, our people do not do the installation work, the Alcatels or Ericssons or whoever, they just let their teams come in and they provide all of the equipment. It is a very common way of working.

Mr. J. Henwood:

Am I right in saying that CH2M Hill - they do not work exclusively for us?

Mr. B. Lawrence:

No, not at all. They have done work for other operators here, and indeed, I think they were doing some mobile network build here, and they certainly have done in Guernsey. So they do not work solely for us.

Deputy G.P. Southern:

Can I take us on, because I am aware that we have not talked at all about employees and their concerns, and we appear to be beyond that. Can I start us off by saying when you are talking about outsourcing and possible importation of particular skills, you have a highly skilled workforce, you have just talked about retraining; it is a new discipline, is it not? To what extent is it a risk that this highly skilled skill base that we have at the moment will be watered down over the years if, for example, one of the companies with their multinational base, a global company, says: “Hang on, we do not need these people in this small island, but we will import them, we will bring them in”? Do you see that as a threat to this?

Mr. J. Henwood:

I think the staff and the skill base that has been built up is a leading asset, and putting myself in the position of a prospective purchaser, the last thing I would want would be to dissipate that. That would be a good part of the value that I would perceive attached to the business. The last thing you do is buy a business and then throw away the best bits. But, in terms of the future, I have to say - and this will come as no surprise to our staff with whom we have been having a dialogue over many years - the business is inevitably going to have a requirement for fewer people as technology advances. It is no surprise, is it? That is not unique to the telecommunications industry, it is a worldwide phenomenon; as technology advances, the requirement for human intervention declines. That will occur regardless of ownership, in my view. I am sure you share that view, Bob, but you might have some different perspective.

Mr. B. Lawrence:

Yes. I would also put, from a personal perspective, a slightly different spin on it. I joined this company from school as an apprenticed 16 year-old, who did apprentice training in a technical background. I would have loved to have had the opportunity to go and expand and develop my skills and work elsewhere around the world; the opportunities you get associated with the bigger players, so there are some advantages in terms of career development. Yes, it would mean I would have had to have left the Island for a period, and one hopes one will come back and hopefully do the job I am doing, but what a fantastic career opportunity for young people; something that is going to be increasingly difficult for us to provide, because the investment in the training and the breadth of knowledge that they have to have is now immense, it is huge.

Deputy G.P. Southern:

Can you envisage that depth of knowledge and that training being invested in the Island? It seems to me, if I am a global operator and I need 10 experts in this area, I am going to house them in the place that is most convenient to me and not necessarily move one to Jersey just because he is on tap.

Mr. B. Lawrence:

That is pretty much the way it works now. If we need to draw up a specification to provide a new submarine cable, for example, that is not something that we have the skill base and knowledge to do. We buy that skill in from BT Marine or Cable & Wireless Global or somebody who does that job for us. Where we are really good is at looking after the systems that are here, and I do not think that really changes. It is that local knowledge of knowing how all the technology is integrated and how it is bolted together. That is where we have the experts and our experts will be across the breadth of services, mobile, broadband, fixed networks et cetera. But we certainly have very, very little research and development people. We cannot afford to run an R&D arm; it would be madness for us to do so. We are very reliant on our suppliers, other operators, in what is going on generally within the business. Those days are sort of long gone, because we simply cannot run in that way, so we are bringing in specialists all of the time. What we are really good at is managing that local network, the local infrastructure and, of course, the front end customer service, which is critical.

The Deputy of St. Ouen:

As the labour is obviously one of the major costs of any business - and I presume it is no different with Jersey Telecom - it is an issue, if you are going to be a viable business, and as you already said, you need to keep an eye on the balance sheet and the cost of labour, which I can fully understand. You also speak about the possible advantages of selling Jersey Telecom to a larger company, the economies of scale. But equally, the economies of scale, if you are going to realise the best economy, obviously it has to affect one of your largest costs, which is your labour force. However, with regard to the consultation document, you have been quite clear to underline what you believe the shareholder, who is the States, should maintain and carry through to end of the sale of any company, which includes the pension rights of existing employees continuing within the PE CRS (Public Employees Contributory Retirement Scheme). Obviously, we already know the ongoing costs associated with it and Jersey Telecom has had to face those. You speak about terms and conditions of employees being transferred with no material change. You speak about how collective agreements between the company employees should equally be maintained and binding on any new employer, and a minimum set of employer-related obligations incorporated into any sale agreement. Well, obviously, I am starting to struggle with, if we are going to do all that - and I quite understand the reasons for doing that - where then are the main advantages to the economies of scale that you speak about and others do?

Mr. J. Henwood:

There are 2 kinds of economies of scale, are there not? Let me talk first about the vision of the future in which the States has decided to sell Jersey Telecom and has been successful in selecting what we, the board, would consider to be the right buyer. When we talk of the economies of scale there, we are not talking about head count. Basically, we are talking about clout in the global marketplace. We are talking about research and development. We are talking about access to huge amounts of capital. We are talking about infrastructural support. It is those economies of scale that we are talking about which are not available to a small, locally owned company. Now, if you then look at the vision of the future in

which the States has decided not to sell Jersey Telecom and the Board continues to run it, when you have 100 per cent of the market, there is only one way to go and our market diminishes. But we have an absolute responsibility to the company, and indeed, to our shareholders to make sure that it makes an adequate return. Well, if your top line is diminishing faster than your expenditure, then very soon, your profit dwindles to nothing. Without the ability to look to a parent for research and development, commercial clout, infrastructural support, all those things we talked about, where do you make those economies? You can only make them in your own overheads, and as you quite rightly say, Deputy, the principal cost associated with running this business is the human cost; the staff cost. That was what I was saying earlier. What the Board would have to do is try to develop into a different sort of company and, in my view, it would not be a company that could support about 450 employees. Those are the 2 different futures that the States have been asked to decide upon. If I were an employee of Jersey Telecom, I would feel more secure in my future prospects with the company were the former of those 2 scenarios to become a reality: that is to say, if the company were acquired by a large entity which had been carefully selected for the benefits that it would deliver.

The Deputy of St. Ouen:

I would just like to follow that, because, in my view, there are some gaps in the information and the discussion that we have had, because we are saying that there are 2 alternatives: Jersey Telecom stays, restructures, small, so on and so forth; alternative, large trade sale to one company. But we have also raised the competition issues. Well, I am certainly no expert in competition law, but you have already mentioned about mergers and acquisitions. Obviously, it is an issue we have to take up with the JCRA, but I would love to know their view - and certainly we will be asking it - on replacing a public company, for want of a better word, with a private one, because even you flagged that up as a definite wrong turn. Also, I am interested to find out a little bit more in regards just with what I call the “partnership route” which is obviously, as I understand it and with the limited material that I have had and been able to read at the moment, that Jersey Telecom has obviously already entered into and is developing. Maybe you can explain, but I see that you have roaming agreements with over 200 operators in 100 countries with regard to the mobile network. You have other developments happening with other different companies. Maybe you can elaborate on that aspect of Jersey Telecom and why or whether that development of partnerships may be an alternative approach to the sale on the one hand, and a tiny, diminished Jersey Telecom on the other.

Mr. J. Henwood:

What you have just described is what we would categorise as punching above our weight. I am going to ask Bob to say more about this, because it predates my involvement with the company. Indeed, going back to pre-incorporation Boards, who had sufficient vision - I should say unlike their counterparts in Guernsey, who did not invest in their Telecom infrastructure - successive States Boards invested in the infrastructure, recognised the needs of the finance industry, and the finance industry needed roaming agreements with countries all over the world and so on and so forth. So, all these developments that we

are referring to here are not particularly new. They have been part of our firmament for some considerable time. I do not think that they are, in any sense, a route or a replacement for the fundamental choice which I think does exist, which is you either keep us or you sell us. But, Bob, would you amplify on all those - literally hundreds - of agreements that we have?

Mr. B. Lawrence:

Each one has to be, in this instance, negotiated separately between Jersey Telecom and the other network players, and 200 in 100 countries sounds impressive, and indeed, we are in all of the major territories that we need to be. But it is still very, very hard for us in comparison to a global player who will take some sort of frame agreement and have agreements with every operator in the world in every country and deploy those across all of its subsidiaries. So, again, it is that clout. Suppliers are quite interesting. I mean, we talk about our suppliers, and there are fewer and fewer key suppliers of telecoms equipment, because those companies are consolidating in order to address the global market. We have seen one of our suppliers, Alcatel, now merging with 2 others, because they need to get the economies of scale to get their unit cost down. Alcatel employ twice as many people that live in Jersey. That is the sort of scale that these guys are working with. Now, if I am a very big player, a Telefónica or a Bharti or a France Telecom, when I work with these suppliers, I can literally get them to deliver equipment at almost the price point I decide instantly; tomorrow. When you are Jersey Telecom, quite often the answer you will get back when you are dealing with the suppliers is: "Yes, we can do that and it is going to cost you £X million, but can you talk to us some other time, because we are busy. We are busy serving these global players." It is those changes in the market that are even impacting on the types of partnerships that traditionally, in a monopoly world, worked for you. So, the whole industry has shifted and changed. I am sure there are going to be many, many suppliers who will not make it as well, because everybody is struggling to supply the global market.

Deputy G.C.L. Baudains:

At the risk of being a nuisance, could I press you slightly on the actual tangible economies of scale, because we hear about economies of scale; we have been talking about it this morning. While most people understand the sort of wider aspects of economies of scale, and of course in the telecommunications market, again we heard earlier this morning research and development will be available to global companies where it is not to Jersey Telecom, access to larger capital bases and that. Bob has just told us about the equipment being able to be purchased at extremely competitive prices, which may not be available to us, but it does occur to me that of course those systems which can be bought at prices we can only dream about may not themselves be suitable for a tiny infrastructure that Jersey wants. Also, as I have mentioned previously, there is the high cost base of operating here. You know, if it costs twice as much to erect a firm mast or satellite dish or something as it does in the UK or elsewhere, I cannot see how a global company are going to make any difference to that. Where exactly do we plug into those economies of scale?

Mr. B. Lawrence:

I think you are right in terms of the local infrastructure. It might be slightly cheaper for the global player to put up his mast. He may have more negotiating power in terms of leases or purchase of the mast itself, but it is when you get into the core equipment. We have a mobile network here that is duplicated, because of resilience in terms of providing protection to customers, and our mobile network, if I include the roamers, is probably catering for something around about 120,000 users at any one time registered on the network. The same network we have could provide the service to many millions of customers. There is no difference in terms of the processing power, the computer power, the storage and the capability of the equipment. So we quite often have to buy equipment that is too large for our requirements, but you do not have any choice, because that is all that is available and you have to buy to the relevant ETSI (European Standards Telecommunications Institute) standards or relevant signalling standards. The larger players have 2 advantages. They can quite often deploy that network in a different way, so you may not have your backup switch located here, as we have to do, because it is our only market. You might have it in some other part of the world and it may be serving several other million customers, wherever that would be. Plus, the point that the frame agreements and the negotiating power when you are buying equipment on a truly global basis brings the price point to a point that is, frankly, way out of our reach. It is those economies that really have the impact, not your operational costs; it is in a capital investment. Of course, going forward, you talk about returns on capital, so the actual investment in providing the services by these players and by our competitors is less than ours. Therefore, that affects their price in relation to ours. So it is those issues, more than the operational costs on the ground here, because if you are competing on the ground here, I am sure all the shops are going to be in the high street. We are all going to be paying broadly the same. If we want to deliver great customer service, we are going to have broadly the same ratio of people to customers. That is a fact of life of operating here in the local market. But it is not that; it is not those economies of scale that have the bigger impact. It is those outside of the Island that these guys bring to the party.

Deputy G.P. Southern:

The Minister has come out very firmly in favour of a 100 per cent sell-off, and in fact, you have supported him. Is there any benefit in a 49 per cent or a 51 per cent sell-off and forming a partnership, rather than a parent company which is to be controlling?

Mr. J. Henwood:

It is a good question, and it is one we have asked ourselves and considered. There are a number of technical problems associated with that, but let us deal with those before we look at the merits of that approach. I am going to invite Daragh to refer to some learning here, but it is a requirement of the Regulator that he has due regard - that is not quite the right language - for EU (European Union) precedent. There are significant problems under EU competition law about golden shares and government involvement and, in particular, government investment in businesses that have been partly sold. Indeed, there are some specifics in telecoms which I will invite Daragh to refer to in a moment,

but our view of that was the process is more expensive and the benefits are less. So we cannot find any particular advantage to outweigh the fact that people discount the price for buying a minority share, and you do not achieve the benefits of scale and clout that we talked about. But, Daragh, on those --

Deputy G.P. Southern:

The benefits of scale could still be there, surely, if you are working with a global partner?

Mr. J. Henwood:

Well, it depends on the partnership.

Deputy G.P. Southern:

Because you have offered them 50 per cent of the company or whatever.

Mr. J. Henwood:

But if I was the global partner and I was in danger - let us put it no stronger than that - of being second-guessed by the person who held the golden share or the other half of the shareholding, I would be less inclined to make the decisions that I would make if I were sole owner.

Deputy G.P. Southern:

Nonetheless, I would suggest that might meet some of the balance problems between, if you sell out, what type of owner you have and what control do you have on the way in which that company is managed, and is it stripped, is it split up, whatever. Those issues then become perhaps more balanced; I do not know.

Mr. J. Henwood:

Now, Philip, you wanted to --

Mr. P. Ainsworth (Finance Director, Jersey Telecom Group Limited):

Just in terms of control, I think it is a bit of an illusion to say that if you retain 49 per cent of the shares, you have an element of control. No investor is going to pay for 51 per cent of the shares and not have control of the board, so this whole question about retaining control by maintaining a minority interest is an illusion. That is my first point. My second point is the history of the relationships where these sorts of sales have taken place is not a good one. Investors or investing companies do not like dealing with government, so they will certainly discount the price. As I said before, they will have control of the board, so the shareholder does not really have any control at all, apart from its being able to call an extraordinary general meeting and, by that time, things are really bad. So it just does not have any plus points going for it, in my view.

Mr. D. McDermott:

In regards to that issue on the golden share, we have seen across Europe, like our Chairman has pointed out, because the Competition Authority here is obliged to consider the precedent of the EU when applying any of its decisions, golden shares essentially would be ruled out. So you would have to maintain at least 51 per cent in order to have any control over what the company would do, and that links in with our point that if you are going to sell, and if the Minister is going to achieve best value for any sale of the company, the 2 do not necessarily go hand in hand.

Deputy G.P. Southern:

But that now returns us to the issue you were talking about before, where the Regulator or the level of competition in a small company is perhaps different to that which applies on a large scale: I mean, the argument you were having before about what is appropriate levels of competition. Anybody else have anything coming up? I have some more. Before I do, we have touched on the pension scheme and touched on the employees, and we have not explored that in any depth whatsoever, and I think we must before we go any further. For example, in one of the Amicus responses, it points out in the proposal: "In order to avoid jeopardising the favourable taxation position enjoyed by PECRS as a result of there being no private company participating in the scheme, the Committee of Management may be obliged to require the new company to exit the scheme." So we have problems with what is allowable as an admitted body with PERCS. Can you tell us a bit about that?

Mr. J. Henwood:

That is PECRS?

Deputy G.P. Southern:

Yes.

Mr. J. Henwood:

Yes. I am not an expert on this, but as it happens, one of my regular quarterly meetings with the Minister of Treasury and Resources occurred last week. He advised me that the advice he was presently receiving - and that is the way he put it; I am not sure whether this was definitive or not; this was an exchange under the "no surprises" - was that it was likely that a minor change in the pensions law would be required in order that the employees of Jersey Telecom would be retained within PECRS or, in other words, whether PECRS were to be allowed to be an admitted scheme to an entity which was not owned by the States. Presently, our employees, although not States employees, are admitted on the basis that the company is owned by the States. Now, the Minister gave me the understanding that his understanding at that time was that a minor change of the law would be required in order that a company other than that owned by the States could continue to have PECRS as an admitted scheme. Now, whether that is a change by regulation or whether it requires legislation, I really have no idea. But our view is very clear on this: our view is that it should be part of a sale and purchase agreement, that those employees employed at the time of any sale and purchase agreement should be allowed to remain in the

PECRS scheme, and it should be an admitted body to the new owner of the company. We do not see any difficulty with that from the Board's point of view. Any difficulty there may be, as far as we are concerned, is entirely technical and is within the States' ability to deal with.

Deputy G.P. Southern:

So this is something we have to explore with the Minister, because --

Mr. J. Henwood:

That is absolutely right. I am really kind of giving you what he told me, but it is second-hand. But that is the latest position, as I understand it.

Mr. B. Lawrence:

Can we be absolutely clear, just for the record, that the Jersey Telecom part of PECRS is a ring-fenced scheme that we contribute to, that any employees who had retired or had left and frozen their pensions, those pensions are dealt with within the body of PECRS, so that the funds are transferred from the ring-fenced fund across into the main body. Those employees with past service are not affected in any way whatsoever. It is the ring-fence scheme where that is, where we contribute to as an admitted body.

Senator B.E. Shenton:

Can I just ask what your contributions are, your employer contribution?

Mr. B. Lawrence:

Yes, 11.25% is our current contribution, employee contribution, and we are 6.2%, depending what scheme you are in. That is because our ring-fence fund is deemed to be fully funded, because we made the contribution on incorporation and at the last review, end of 2004, it is deemed to be broadly fully funded. In fact, it is slightly in surplus.

Mr. D. McDermott:

Yes, and the employees of Jersey Telecom pay the same rates as the employees of any other States department that they operate in. So the benefit of having a fund in surplus, as the Jersey Telecom fund is, is reflected on the employer's side, and a reduced contribution from Jersey Telecom on the back of the £14-odd million that is paid into that fund on incorporation.

Deputy G.P. Southern:

You talked about building it into the agreement, the takeover, that there was some protection built in for employees in terms of current employees. You could not possibly build in protection for pension schemes that a company decides to adopt for its new employees, could you? That is not possible.

Mr. J. Henwood:

Yes, go ahead.

Mr. B. Lawrence:

No, that is not possible, but I think the Board has certainly made it publicly known, and it is certainly in our annual reviews, that the intention would be to foreclose the PECRS scheme to new employees. So, irrespective of any ownership change, that is something the Board wishes to do, and indeed, amend the Telecommunications Law, which contains the 90 per cent requirement. So that has always been the intention. We have been very open and clear about that. But certainly for existing employees, there is no intention to force them to exit the PECRS scheme.

Deputy G.P. Southern:

Certainly, one has the impression from Amicus that they are happy to talk with you about future developments, but they are very unsure about whoever comes in.

Mr. B. Lawrence:

Yes, we have been very open with Amicus about our intentions and about talking to them about future intentions. But we have also been absolutely clear that we have no intention of affecting the pension rights of the existing staff who are in the part of the ring-fence scheme.

Deputy G.P. Southern:

I noticed in the JCRA report, I think it was, that you were asked at some stage this year - I think by the third quarter - to publish a detailed breakdown of your accounts so you can show clearly the profit levels in various aspects of your accounts; the annual report just contains a broad sheet. We found this with the Post Office as well. It is interesting reading.

Mr. J. Henwood:

It is an issue, I have to say, of some contention between our company and the Regulator. From their perspective, in order that they can regulate effectively, they wanted to know what all the individual elements of our business were and how they were performing. They determined that there were 30 different separate sets of accounts to be provided. We could not quite understand that, because that is a higher degree of disclosure than required by any other regulator of any other telecom company, and we come back to this issue of proportionality. Nevertheless, we did last year produce and submit to them, as we were required to do, separated accounts. It is a requirement that is imposed on us every year. They do with those accounts what they will, but if you can imagine, it is a relatively small business and you can imagine it broken down into 30 segments. There is a very significant cost associated with producing 30 different sets of accounts. I will invite Philip to talk on that for a moment, but that is what we do. We still seek to persuade the Regulator that that is unnecessary and that a lot of that information is of no practical use to them whatsoever in discharging their duties. Philip, would you like to pick up the thread for me?

Mr. P. Ainsworth:

There is not too much to add really, Chairman. I mean, it is an obligation placed on us. It costs us a considerable sum of money. I have a team of 2 people who work at it full-time all the time, and we also employ consultants to help us, particularly with the allocations, and we have a system of sign-off. That is really all I have to say, apart from the fact that we are not minded to have any of this information published. It is extremely sensitive.

Deputy G.C.L. Baudains:

I presume that the other competitors in the marketplace are not subject to the same vigour?

Mr. J. Henwood:

No, they are not, because they are not deemed to have significant market power.

Senator B.E. Shenton:

Have you raised this issue with the Regulator of the Regulator?

Mr. J. Henwood:

I have, Senator. On behalf of the Board earlier this year, I wrote at length to the Economic Development Minister setting out a number of concerns including the separation of accounts, but we come back under pretty well every heading to this issue of proportionality. But I made the Board's position very clear to the Economic Development Minister.

Deputy G.P. Southern:

Can I ask whether you have had a reply?

Mr. J. Henwood:

At this time, I have not had a reply.

Deputy J.A. Martin of St. Helier:

Can I ask a question, Geoff?

Deputy G.C.L. Baudains:

I am sorry, Chairman, my colleague wants just to --

Mr. P. Ainsworth:

Just for the record, the JCRA have moved slightly on the number of sets of accounts that we need to talk about, so we are meeting with them fairly shortly to see if we can get those reduced. So they are moving.

Mr. J. Henwood:

There may be some movement.

Mr. P. Ainsworth:

Just for Deputy Baudains' information, the primary purpose of these accounts really is to do with the determination of what they call "margin squeeze." That is their primary objective.

Deputy G.P. Southern:

Can I ask just briefly, before we finish on that, when you wrote to the Regulator or the Minister?

Mr. J. Henwood:

That is a perfectly fair question, Chairman, but -

Deputy G.P. Southern:

You can let me know that later if you wish.

Mr. J. Henwood:

I am happy to do that. I mean, I will ask one of my colleagues just to look that information up. Daragh, would you do that and pass the information, the date that we wrote that?

Mr. D. McDermott:

I will do that and pass it on, yes.

Deputy G.P. Southern:

We will be contacting you anyway with follow-ups and bits when we are not clear anyway.

Mr. J. Henwood:

Indeed. It was earlier this year. Deputy Martin, sorry.

Deputy J.A. Martin:

It is basically going back to what you said earlier about the Regulator and when they asked you or directed you not to use your 18-month licence. As the morning has gone on, you seem more and more critical of the Regulator. I see where you are coming from. Surely, to bring this out in the open in how they are using the letter of the law, being that you are small against big in the global market, in hindsight, do you not think you should have tested the case in court?

Mr. J. Henwood:

Not on this occasion, Deputy. I mean, we have to act in the best interests of the company and we looked

at this very carefully because, naturally, there is a resistance. You know, if a rule is handed down and you cannot see any good reason for it, you resist it. But in the interests of the company, we decided the cost and the time expense on senior management in challenging this issue was not justified by the amount of income, if you like, at stake. If you were to say: "Well, on that basis, you will never challenge anything" I would simply say: "No." On the first occasion that an issue occurs where we deem that the cost and time associated with a challenge is less than the potential damage to the company by accepting the ruling, we will push it.

Deputy G.P. Southern:

Can I...?

Mr. J. Henwood:

I am sorry, Deputy Martin is absolutely right when she says she detects that we are concerned about some aspects of regulation, and this is where I come back to something else I said this morning about having the best interests of the community in mind. We take a view which you might say is over-simplified, but I believe there is a great truth in it. We have a regulator and we have regulation under the competition law. Now, in my view, there must be a net benefit to the community at large in all this. If the cost associated with regulating is greater than the benefit received, then you have to say: "Why are we doing this?" Now, if you like, that is the rubric which we keep coming back to when we are testing in our own minds whether the Regulator is being reasonable or unreasonable; where is the net benefit to the community? If the cost of regulation of Jersey Telecom is more than £2 million over the last 2 years - which I can tell you it is - can you show me, or can the Regulator show me, where the community has benefited by £2,000,001? I cannot see it, and that is why you detect some frustration in my answers. That is why I bang on about proportionality. I am in favour of competition, I am a competitive creature; that is the whole of my background. I know when you have competition, you have to have it regulated, but there is regulation and regulation.

Deputy G.P. Southern:

Absolutely, and I think you have just struck a chord with me. That is a possible topic for a future investigation; what benefit we are getting from these fees that we are paying. Nonetheless, again, one of our terms of reference is about comparison with other small jurisdictions, because again, we are back to this: "We are a small jurisdiction; what is appropriate?" I am hearing that the sell-off in Guernsey was somewhat of a disaster and has been regretted since. Could you tell us something either about Guernsey and your view of what happened there and what was right or was wrong about it, and similarly, what you know of the Isle of Man and the situation there? If you do not mind, I will leave to go to the loo, but please talk to my Vice-Chairman, who is over there.

Mr. J. Henwood:

I am going to ask my colleagues to talk more about Guernsey and the Isle of Man, because they may know more about it than us, but I think it is important to acknowledge here the difference of approach to

telecommunications traditionally by the States of Jersey and the States of Guernsey. In Jersey, Deputy Baudains and his colleagues and his predecessors who have sat on the States of Jersey Telecommunications Committee - and the Board it became - did, in my view, a good job of recognising the requirements of the market and of the community, and recognised the absolute need to make a very significant investment in telecommunications for and on behalf of Jersey. My observation, both as someone who ran a business in Guernsey as well as Jersey, was that the States of Guernsey did not take a similar view, and failed to make the investment to the degree that Jersey deemed necessary. Consequently, when they faced the decision of whether to dispose of their telecommunications asset, they were looking at an asset which was - perhaps "rundown" is too strong a point to make - impoverished, in the sense of lacking in investment. It certainly was a poor example of a telecommunications service for a small community, set alongside that which we have enjoyed in Jersey. Hence, it was not worth very much when they came to sell it. But, Bob, they were your colleagues, and indeed, I know you have worked very closely with colleagues in the Isle of Man, so you can talk in much more detail about both.

Mr. B. Lawrence:

Just one additional point on the Guernsey situation: I think it is worth reflecting on the way the companies were run commercially. Jersey Telecom, if you wind it back through its history over the last, I guess, 15 years, we were funded through the States of Jersey, in terms that we vied for all of our capital in the same way as everybody else did from the capital fund - and I think it was £55 million in those days - we used to borrow our money and return all profit to the States and had to make repayments of the capital with interest on the loan. So, very, very harsh commercial situation in terms of the way you would run any business. In fact, we were racking up debts to the Government that would be at around about £30 million we owed the States. In Guernsey, they never returned any cash to the Government, and indeed, piled up cash in the bank to the point where -- let us say they had £10 million. Now, all of that affects tariffs and charges, so in Jersey, we were operating in a much more realistic commercial environment, therefore our charges reflected that. In Guernsey, that was not the situation and therefore the tariffs to the local consumers there were very much cheaper. It was more of a social service, whereas we were a trading committee and we had targets to hit. So, we came at it from different ends. Certainly, there is an issue you would recognise in Guernsey where the tariffs are not rebalanced in terms of their association with the costs of providing the service in the way that they are here. In fact, it was the Telecommunications Board that restructured and rebalanced tariffs throughout the 1990s in Jersey. So, very, very different commercial aspects, and that was reflected in the value of Guernsey Telecom along with the issues about investment. The Isle of Man is very different. Manx Telecom has never been owned by the Manx government. When the UK de-regulated in 1984, BT (British Telecom) provided the services in the Isle of Man, and indeed, they applied for a licence and continued to own and run the service. So it is run, if you like, as part of the UK network, a separate company; Manx Telecom, wholly owned by British Telecom. When BT sold off O2, the mobile - or Cellnet, as it was then - by sort of a quirk of chance, the Isle of Man went with that half of the business, because they were piloting

a 3G network for Cellnet at the time. So Manx Telecom became part of the O2 group subsequently owned by Telefónica. Manx Telecom is therefore a subsidiary of a global giant in terms of Telefónica, and it is run in that way, almost in a way that we have been talking about this morning, describing here in terms that they have access to the economies of scale. They have access to the R&D (Research and Development). They have access to the purchasing power that their parent brings to them; an entirely separate and different model to the one we have seen here in the Channel Islands.

Deputy G.P. Southern:

A useful model for us?

Mr. B. Lawrence:

Yes. I mean, Manx Telecom is very successful in the way it operates. It is very similar to Jersey Telecom in terms of the types of services and things that are provided, but where it does have an advantage over us is when they need to perhaps face up to the Regulator or they need some expertise in terms of drawing up the specification for a new mobile network. That is delivered to them from the parent, and that is clearly the way that it works there.

Deputy G.P. Southern:

Do you have an impression of how their Regulator is working?

Mr. B. Lawrence:

There is not that much competition in the Isle of Man at this stage.

Deputy G.P. Southern:

Seriously?

Mr. B. Lawrence:

Yes, but Cable & Wireless have acquired a licence to provide mobile services that they really have not pushed and rolled out yet. So I think their regulatory framework and regulatory structure is not as advanced as here; certainly not as mature as here. But as competition comes into the market, I am sure that is what we will see. That is what we will see develop.

Deputy G.P. Southern:

This is the last one from me; this is the last one on this list of things. Somebody was suggesting to me the other day that, and I say this in just total openness. I suspect it is not valid. What we should do is keep hold of the bit that contains the universal service obligation and the network, the lines, and sell off the profitable bits, if that is what would be one way to achieve the aim that the Minister wants. I float that to you.

Mr. J. Henwood:

You have been talking to Cable & Wireless, obviously! They want the sexy bits. They would like to buy those and leave the Island with all the bits that do not make any money. Yes, that would be them.

Deputy G.P. Southern:

In terms of what the Minister is trying to do, which is realise his asset and stick it in the bank, is that workable? Is that a goer at all?

Mr. J. Henwood:

It is not a goer. He would not realise what he needs to realise, but more important, in my view, he would be failing in his duty to the Island were he to dismember the business like that. I mean, it just would not work. It would not hang together. You would have the worst of all worlds in that situation. You are helping to create a non-publicly owned monopoly and leaving the public with all the bits and pieces that do not make any money. Bob, do you want to add to that?

Mr. B. Lawrence:

No, because we know the bits we will be left with. I think the only thing to say is when one looks at where the industry is going, you are seeing that there is an advantage in being a fixed-line broadband and mobile operator, and I think we have seen that with Vodafone. The truly mobile only company is now into fixed lines and broadband.

Mr. J. Henwood:

BT is going back into mobile.

Mr. B. Lawrence:

BT is back into mobile, and everybody is sort of making that play, because they can see that the money is not going to be in carrying the signal. The money for them is going to be in the content services and how they derive the total service to their consumers. That is what is going to make people buy their services. The actual carrying of the bits over the lines, there really is not going to be much money in that in the longer term.

Deputy G.C.L. Baudains:

That has been the major change in the market, has it not, over the last couple of decades possibly, the change from income from proving a service, to income coming from certain areas?

Mr. B. Lawrence:

Yes, I think that is right. Everything is digital now, so it is probably cheaper in global terms to send digital bits from the UK to Australia than it is to send them from the UK to Jersey, simply because of the volume of bits you are sending down the fibre optic cable, which is the same piece of fibre optic cable

that will come here. That is what is changing, so the price of transporting bits is a commodity now, and I think there is even a futures market in it if you want to play in there. The value is in the services, and just to elaborate on that, we talked about the types of services that Sky will be providing and Vodafone live! are providing now and others are developing. Because of the competitive nature of the market in the UK and globally, we do not have access to those services, and why would they provide us access, because we are a competitor of theirs. So you are seeing the competition developing in such a way that each operator will develop their own range of services in a walled garden for their customers only. As a small operator, to access the types of content services to make our offering equal to those of the global players, that is a very, very tough call for us now.

The Deputy of St. Ouen:

To carry on in that light for a minute, you made comments in your consultation document regarding the heavy dependency of the finance industry or the finance industry places upon yourselves regarding demands on the infrastructure. Also, you made the claim that some investment is only justifiable because of the customers' requirements. What message are you going to be presenting or are you presenting currently to your existing customers regarding protection of service or even the message that: "Well, if you want a future, go to one of our competitors, because they are the ones that are the global players"?

Mr. J. Henwood:

No, I mean, we have an absolute responsibility to act in the best interests of Jersey Telecom and, believe me, we are out there competing tooth and nail. Clearly, when there is a new kid on the block, if you were running a business, you would go and talk to them. You know, you would go and talk to the new providers to see whether you can do a better deal. We have to be very vigilant in the way in which we protect our market and that is what we are doing. As I said right at the beginning, we make no presumption whatsoever about how the States might make a decision on this issue, and I keep saying we are running a business and we have to assume the status quo and develop a business plan on the basis that things will continue. We are doing that, and we will fight tooth and nail to retain every single customer if we possibly can. Yes, we are going to lose some. We understand that, but it will not be for want of trying that we lose a single one.

The Deputy of St. Ouen:

I am not suggesting that you are wrong to provide a consultation document, but do you not believe that by highlighting the fact that Jersey's best interests would be served on economies of scale, that Jersey Telecom should be sold off, that the message that you are portraying to the customer is: "We cannot do it anymore; go and look elsewhere"?

Mr. J. Henwood:

It is a fair question and, I mean, all we have done is respond to the Minister, saying: "I think I am going

to do this.” We would not have put that into the public arena of our own volition, because it clearly raises questions in people’s minds: “Well, is this a good business or is it not?” But we felt we had to respond and, having decided that we should respond, we just thought very, very carefully about what we believed was in the best interests of the company and of the community, and came to the view that, with all the caveats that we have put in there - and there are plenty - we do think that a sale to a trade purchaser, carefully selected -- and I keep emphasising that is vitally important, and the Board wants a role in this, by the way. I mean, with the best will in the world, the Treasury does not have the blood and guts commercial experience that the Board has. I would respectfully submit to the shareholder that the board probably would know more about recognising the right purchaser than the department might. But, as I say, we thought very carefully and we believe that, given the choice, the right option is a sale to the correct purchaser. Bob, sorry.

Mr. B. Lawrence:

I think you are absolutely right. The only point I would make is this is about, the way I see it, look out into the future and how things are changing. It is a very complex argument that is going on here in terms of the shareholder and maximising the return and the duties of the Minister in that respect. Looking out into the longer term, with the impact of competition and technology on the market, clearly today - and clearly in the short term - we are providing excellent services to our customer and that is recognised by the level of business. But they too can see services and products being offered by other players that are coming into the market now. So, yes, it is a very difficult position for us. There is no threat to the immediate services that we are providing to the industry. There is no question that we cannot continue to provide those services. But if you look at it from the Minister’s point of view, the prices of those services are coming down. Competition is forcing prices down, margins are getting squeezed, and we are seeing some very, very aggressive pricing in the marketplace. So, in the longer term, that position of the company, will it be able to financially support the same levels of services and investment that it has done in the past? So, to me, that is not today’s issue, but it is the issue that is coming in 5 years’ time. But let us not wait 5 years and address it then. Now is the time to address those issues, and I think that is what the Minister is putting forward in the consultation document.

The Deputy of St. Ouen:

Can I ask, when did you last - or when did the company - produce a 5-year business plan/financial projection?

Mr. J. Henwood:

We have a rolling plan and we refresh it every year.

The Deputy of St. Ouen:

Right, so that information would be available if we asked for it? I mean, starting at 2003, 2004, 2005, that information would be available?

Mr. J. Henwood:

I would not want to disclose that in the public arena; I cannot emphasise how acutely sensitive this information is to those who are entering the market. I mean, basically what we would be doing is rolling over and showing our soft underbelly and they would know exactly where to go. Of course, we have a rolling business plan and we share that with the shareholder, as we are required to do under the Memorandum of Understanding that exists between us.

The Deputy of St. Ouen:

As you say, the States will be making choices, and although there are 2 options, there could be 3, 4 or more, and therefore it would be equally important for people to know that Jersey Telecom is bullish. We have read 2 articles recently, one that says: "Let us sell Jersey Telecom" and the other says: "We are investing £30 million in the business."

Mr. J. Henwood:

No, we feel very optimistic, as I said.

The Deputy of St. Ouen:

You know, for everyone, customers and all the politicians, we really need to fully understand what the opportunities that exist are there for Jersey Telecom as a stand-alone company, as much as the opportunities exist for a trade sale.

Mr. J. Henwood:

Indeed.

Deputy G.P. Southern:

I thought I was on my last question, and I have just thought of 2 more. I am aware that time is ticking on.

Mr. J. Henwood:

Fine. No, I am not concerned about time.

Deputy G.P. Southern:

Good.

Mr. J. Henwood:

I do not feel personally that we have spent enough time on the issue of staff, because it is something that is very close to our hearts, and I would be very happy to talk more about that if I could have the opportunity to do that.

Deputy G.P. Southern:

One of those questions is about staff. In your submission on page 7, you have 5 reservations, if you like, around the sale saying: “The States should do this.” Certainly (3) and (5) relate to it partly. So, in (3): “The States should consider requiring a commitment from any preferred buyer to maintain investment levels.” Again, something that you can probably obtain, but not guarantee to follow through with, it seems to me. If the company comes back in a year’s time or 2 years’ time and says: “Oh, the market has changed; we can no longer afford this investment” it is not something you can guarantee, is it?

Mr. J. Henwood:

That really goes to the heart of what I wanted to say about the staff issue, and it is exactly the same.

Deputy G.P. Southern:

That then comes back down to (5), where you are saying: “Terms and conditions will be fully safeguarded.” I just wanted for you to approach it from the line of, in the absence of any proper modern pensions law or pensions regulator - pensions are difficult to reinforce - and certainly in the absence of any TUPE (Transfer of Undertakings (Protection of Employment)) regulations, transfer of undertakings are certainly difficult to guarantee; I would say impossible.

Mr. J. Henwood:

Well, I think there are ways of dealing with that and, of course, I am mindful that Senator Shenton is bringing a proposition this week. I do not set myself up in any sense as an expert on UK TUPE legislation, but I think I have a working understanding of it. It is far from clear to me that, even if UK TUPE legislation were enacted in Jersey today, that the sale of Jersey Telecom would be captured by it. Indeed, I think it would not be. In any event, it seems to me that TUPE is not a particularly strong protective mechanism. It is very rapidly time-expired and it has a number of inherent weaknesses. I have some experience of negotiating sale and purchase agreements from both ends of the telescope, incidentally, as a purchaser and as a vendor, so this issue has come up before and, in my view, you can build into a sale and purchase agreement a number of requirements which deal with things like investment. Let us talk about staff for the moment. Those key things that we think are important - and we have talked about them all this morning - can be clauses in a sale and purchase agreement. Now, if I were to put myself in the place of the purchaser when the Government of Jersey is the vendor, and the sale and purchase agreement might say, for example, for a period of 3 years - and it is difficult to look much beyond that, because then you know that you are deeply discounting the consideration against the possibility of some amazing technological intervention in that period - but you could say in the agreement for a period of 3 years: “The following will obtain --” and you would put in your staff protections and your investments et cetera. I am the purchaser and I am going to sign that agreement, and the other party to that agreement is the Government. I would think very, very carefully before renegeing on any of those agreements, in the knowledge that the Government would be likely to say:

“We have a binding agreement here and if you break it, I will have you in court, mate.” Now, that is a much greater protection for the employees of Jersey Telecom, in my view, than any amount of TUPE legislation which is, by comparison, pretty weak. That is my view.

Deputy G.P. Southern:

Except that I believe we have come across similar before when we were talking about 10 per cent of the company being worth £800 million, and now total turnover is £400 million. We are talking about a big player, and if we threaten them, it might not be as responsive as we would expect a --

Mr. J. Henwood:

Yes, I mean, I do not know; I offer it as my thought. As a purchaser, I do not know that I would want the reputational risk of being taken to court by the Government of Jersey for reneging on an agreement in which I had entered into.

Deputy G.P. Southern:

No, not necessarily for reneging it. It would not be presented as reneged; for reinterpreting or for amending.

Mr. J. Henwood:

Well, the effect is the same. The effect is the same. You are on the case; you know what is in the agreement. If it looks as though their agreement has been breached, you would blow the whistle and say: “We are taking out an order of justice to make you comply with what we agreed.”

Deputy G.P. Southern:

I am not here to argue the case.

Mr. J. Henwood:

No, no, I am offering --

Deputy G.P. Southern:

That is one of the rules. Do not get drawn into arguments.

Mr. J. Henwood:

I am not going to argue.

Deputy G.P. Southern:

It is not the debating chamber. We are here to listen to you. I accept what you are saying.

Mr. J. Henwood:

I think we are at one, Chairman, I think we all agreed. I do not see any difference in the Minister's view, that crucial to whatever happens is that the staff are treated properly, and that is very important to us.

Deputy G.P. Southern:

Can I take you on to what might be a final point? You talked earlier about if you can get access to these markets, scale economies, then you can plough on and you see a healthy future. But you talked, in the absence of remaining in public ownership, about shrinkage. Is it not the experience that we have seen in the recent past, where competition has been involved and private companies have come into the telecoms market, that as the number of products and services that are available become available that the whole market expands?

Mr. J. Henwood:

I think that is a reasonable generalisation, but we are bounded by the size of this particular market, and it is tiny, which is why I said in a future in which the States has decided to retain us, we would be looking to opportunities outside the geographical boundaries of this market, outside the reach of the Regulator, doing more sort of things that we have started doing now. You know, I think it is not well-known how enormously successful we have been in, for example, SMS (Short Message Service), texting. In August, Jersey Telecom handled one million texts a day. Now, these are not texts from Jersey to Jersey or Jersey to Guernsey. These are texts which come into Jersey, are aggregated; we take a tiny fraction of a penny on each message and sent them out again. That is a business which has been developed by the enterprising nature of the people who are managing it. You probably know we have invested in providing GSM (Global System for Mobile communications) mobile services to entities like cruise ships and so forth, plying their trade in the South China Sea and in the Baltic. It is those sort of areas that we would seek to develop this business as, if you like, a way of trying to maintain our return on investment as the inevitable decline in the local market occurs.

Mr. B. Lawrence:

I think, Chairman, we must also reflect on the position in the local market, where the market here is incredibly saturated in terms of the level of penetration of service. One only has to look at the mobile where - and I hate it when percentages go this way - how you can have 116 per cent penetration, I do not know, but that is how the mobile guys count that. That is the level of penetration. I doubt you will find very many homes in Jersey that do not have at least one phone line, and the broadband network, we are up to 46 per cent, 47 per cent penetration; very, very highly saturated market. So, the scope to grow that market in terms of numbers of services really is not there. Yes, you need the value add-ons, the content, and all the things that are happening. Those are areas that everybody is going to have to vie to supply.

Deputy J.A. Martin:

It was just something John Henwood said: let us say the States did decide that they wanted to go ahead and sell. You said the Board wanted to be in after on that. The Treasury have put in their own advisors, have they not? At the moment, I can see where you are coming from. You are teaching us. I mean, you are the experts.

Mr. J. Henwood:

We have the commercial knowledge, is what I am saying.

Deputy J.A. Martin:

Of course, but how is it coming from them? Are you getting the feeling you would be involved in an ongoing decision if we decide, or are they going to just rely on their outside advisors?

Mr. J. Henwood:

We have not really discussed that. They made it clear to us that they were preparing the ground in case the States decided to go with the Minister's recommendation. They wanted their advisor in place against that possibility. We have not been consulted about the choice of advisor. I do not suppose we would have expected to be consulted, but all I was really trying to say is, you know, we see the Treasury as the shareholder and we have a dialogue with the Treasury. I talk to the Minister. Bob and Philip and Daragh will sit down on a regular basis with the Treasurer and the Deputy Treasurer and senior officers, but all the commercial knowledge is this side of the fence, and all I am saying is, you know, rather than take a decision, however well-meaning the advisors may be, they are professional advisors. They are giving that advice for the money they are being paid. We are the people with the commercial nous, and it is in the best interests of the Minister, the Treasury and the States of Jersey, if it decides to sell, that the Board is intimately involved with the sale process. We know the questions to ask. We know what to look for. We know what parts of the agreement that we want to secure. We know what warranties we are not prepared to give. You know, it is that commercial --

Deputy J.A. Martin:

I was not disputing that at all. I would say you probably are, especially in Jersey, the best people; and for the staff, you know, the ongoing conditions and what the --

Mr. J. Henwood:

Who better knows that?

Deputy J.A. Martin:

I totally agree. My concern was that at the moment you might not be in on those talks, and I just wondered where you were in talking with the Minister on that.

Mr. J. Henwood:

We will seek to persuade the Minister that we should be absolutely cheek by jowl with him, should the States decide to do this. In fairness, as I said, we have not discussed it with the Minister, but I have no reason to suppose that that is not what the Minister would want as well. If I were him, I would be looking to the Board to be very close to that.

Deputy J.A. Martin:

Thank you.

Deputy G.P. Southern:

Finally, I was looking through some documents yesterday, I do not know where it was, but I was coming across reference to France Telecom. Can you tell me what went wrong there?

Mr. J. Henwood:

What went wrong?

Deputy G.P. Southern:

Yes.

Mr. J. Henwood:

With France Telecom as a business?

Deputy G.P. Southern:

France Telecom, their current situation. Are they not about to be bailed out, having serious heavy debts?

Mr. J. Henwood:

Not that we are aware of. They are very successful company. The last I saw, involving headlines in financial papers about France Telecom, is that there was speculation about them being buyers of one or 2 other major entities, including Cable & Wireless.

Mr. B. Lawrence:

I think the issue you are probably referring is pretty much like all of the major incumbent telcos, that they have significant debt on the balance sheet, as did BT. BT cleared its debt by selling Cellnet and Yellow Pages et cetera. So I think there were some issues about the level of debt, that France Telecom were simply carrying on the balance sheet. No, but they are huge global player, but they were nowhere near the top of the tree, in terms of they are nothing of the size of the Telefónicas of this world, and France Telecom owns Orange. Orange Mobile is theirs as well. So, that is probably all about the restructuring of their balance sheet going forward but, no, I do not think there are signs of the entity

disappearing. It will be there for a while.

Mr. J. Henwood:

They are constrained about what they can and cannot do under EU legislation, are they not?

Mr. B. Lawrence:

Yes, very much so. They have significant market power and are clearly dominant in the French marketplace, so all of the issues we wrestle with here, they have to deal with in that market, which has become very competitive in the last 5 years, you know, to how it probably was.

Mr. P. Ainsworth:

They are getting hammered on VoIP. France is a particular VoIP country, and they are getting hammered.

Deputy G.P. Southern:

Have we finished? Unless there is something you want to add, that you feel we, as a whole, should have covered?

Mr. J. Henwood:

No, I do not think so.

Deputy G.P. Southern:

I have no doubt we will be in touch with you: (a) with follow-ups; and (b) this is very much a preliminary meeting. It is our first toe in the water, really. So, I have no doubt we will be in touch with you over various details at some stage.

Mr. J. Henwood MBE:

Chairman, it had occurred to us that you might use this first session with us to frame your questions for other people, and we hope we have been helpful in that regard. Indeed, if you felt, having taken evidence elsewhere, that you wanted us to amplify on anything we have said, of course we would be very happy to do so.

Deputy G.P. Southern:

Thank you. Thank you for your time.