Agreed Conclusions of the JT Review Steering Group

1. Private enterprises operating in a competitive well regulated market provide the most efficient operating conditions for telecommunications. Privatisation tends to increase the efficiency of an enterprise already dominant in its market, provided that the enterprise is privatised into a competitive market place or in its absence one where there is a strong and effective state regulation of the enterprise until effective competition arrives.

2. Jersey's current regulatory regime for telecommunications is broadly satisfactory in that it is comparable with a number of other jurisdictions in terms of powers and relative resourcing (although the lack of countries of a similar size to Jersey with a similar type of regulatory regime makes comparison very difficult and this conclusion therefore tentative). However, there are some specific additional powers that should be introduced to make the JCRA a more effective regulator of telecommunications (notably greater powers to levy financial penalties for licence failures from the time the licence failure occurs). It will also be important to keep under constant review the resourcing of the JCRA in terms of manpower and financing to ensure that it can remain an effective regulator. Any additional resourcing costs should be met from telecom operators' licence fees. There should be a review of the effectiveness of the way in which JCRA operates in terms of regulating telecommunications in Jersey and it is understood that this will be undertaken later in the year.

3. Whilst there may be a regulatory benefit in terms of vertical structural separation the risk to efficiency and effective provision of future services is far greater than the likely benefits. Thus it is not an option which could be recommended.

4. In the event of a sale two key pre- conditions are:

    - it should not be sold to a highly geared purchaser and there should be conditions placed on the operator to ensure it does not become highly geared

    - the sale should not be allowed to reduce current competition, thus if an incumbent operator were to purchase they should be required to show how they would divest themselves of current operations in a way which does not damage but preferably enhances actual and potential competition in telecommunications in Jersey.

5. The use of RUDL and licence conditions at time of sale should be structured to ensure that:

    - if necessary the States are able to intervene to prohibit or impose conditions upon any future transfer of ownership or control of Jersey Telecom.

    - employment conditions in favour of locally qualified people continue to be applied.

6. A staged sale, with a first tranche of greater than 50%, may have financial benefits and this option should be further evaluated.

7. Potential purchasers should be required to demonstrate how they will add value to JT, ensure that services keep pace with demand and innovation; and in particular whether they will bring economies of scale.

8. In terms of holding JT as an investment in the strategic reserve, the financial gain in terms of annual returns to the States is difficult to assess accurately and may be marginal. Nevertheless, it is clearly preferable to have a diversified portfolio of assets to the same value of Jersey Telecom if the aim is simply to reduce investment risk by making returns more independent of Jersey's economic conditions, should there be a future sharp downturn in the economy's performance. This is a contributory factor, not an overriding reason for sale.

As a group of individual advisers we recommend privatisation as being in the best economic interests of the Island provided the conditions set out above are met.

Steering group: Bill Ogley, David Parker, Ian Black. Bob Lawrence, with Mike King attending and advising
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