

STATES OF JERSEY

Economic Affairs Sub-Panel Jersey Telecom Privatisation (Cable & Wireless)

MONDAY, 18th DECEMBER 2006

Panel:

Deputy G.P. Southern of St. Helier (Chairman)

Senator B.E. Shenton

Deputy J.G. Reed of St. Ouen

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

Witnesses:

Mr. C. Taylor (Cable and Wireless)

Mr. D. Smith (Cable and Wireless)

Deputy G.P. Southern of St. Helier (Chairman):

Thank you for coming, Mr. David Smith and Mr. Chris Taylor, Cable & Wireless. If I can just draw your attention to the notices in front of you, it explains the terms under which you are appearing here. Before we make any start, thank you particularly for agreeing to meet us in public. Our understanding is that should we stray on to material that you think is particularly sensitive, either commercially or otherwise, we will park those questions when we meet them and come to them at the end of the session, when we will hold a private session. If you are happy with that, then that will be good.

Mr. D. Smith (Cable & Wireless):

Yes.

Deputy G.P. Southern:

Just briefly, obviously, we are looking into the proposed privatisation of Jersey telecoms, in terms of its overall impact on the Island. Obviously, you are one of the competitors in the telecoms market, and the starting point, I suppose - really, it sounds naïve - but what has brought you to Jersey? What is the attraction as you see it, of the Jersey market, and in particular, how do you see the market developing in the next 5 to 10 years, or whatever?

Mr. D. Smith:

Thank you for the invite, first of all. Just introductions; I am David Smith, CEO (Chief Executive Officer) for the Jersey business unit here, and this is Chris Taylor, who is part of the C&W (Cable & Wireless) International team, and heads up our regulatory affairs. Our strategy, as far as Jersey is

concerned, our plans encompass both the Channel Islands and the Isle of Man as well, which we see as an important market in its own right. We are the leading provider in Guernsey at the moment, and we intend to pursue the same position in Jersey. Stepping above that, we are a business, for your background, of 34 individual businesses across the Cable & Wireless International Group, which spans many offshore markets, which quite often have the finance industry at their heart as well, and with a lot of similarities across those markets. So, Jersey is a natural part of that portfolio, from our perspective. As far as here in Jersey is concerned, as I said, our intention is to be the leader in that marketplace and to be a full services provider. At the moment, we provide services that span mobile and fixed line, and we are looking very closely at the broadband market as well. We intend to compete in that market also. We have competed here on the basis of providing choice for the consumer; providing better value, innovation and services you would expect us to do, and in those sectors so far, we have been successful in that goal. We announced recently that we had achieved, in fact, just 6 weeks after our mobile launch, 7 per cent market share in the mobile market, which is a very successful launch, and significant improvement since that date over recent weeks. In a number of ways, we have demonstrated that capability to our consumers, and we intend to continue obviously doing that over the coming months and years. So, for mobile, for instance, we were the first provider to demonstrate that innovation for things like: electronic top up; carry over minutes as a concept within pay monthly, which is common in the UK; the ability to buy your phone online, et cetera, et cetera. There are lots of different ideas or strategies I can explain, which demonstrate how we intend to compete.

Deputy G.P. Southern:

Could I ask you to talk a little bit about - we see ourselves as a particularly small market - how that fits in with the philosophy, if you like, of the larger entity, the global entity? In particular, where the control resides for a small entity? Does it reside in London or do you devolve to the local situation?

Mr. D. Smith:

It is an interesting question, because we do not necessarily see Jersey as a small market, because in each of those 34 markets that we compete, they are very important markets in their own right, and each and every one has a value, an important value. So, how do things vary across those 34, and how is the group, I guess, managed, is what you are suggesting here? At the highest level, obviously, we have a Cable & Wireless International Group board, and that board is there to help dictate policy and guide the overall strategy for the group as a whole. It also allows us to command a number of economies, economies of practice, economies of scale, for areas like technology, shared infrastructure, technology platforms, purchasing agreements, and some other areas I could go into in a little more detail, which benefits us as one of those 34 business units, which is good. At the next level down, as I said at the start, we see ourselves competing as part of the Channel Islands and Isle of Man portfolio. So, within that group of businesses, we also have a number of economies and shared practices. For instance, we have a shared billing infrastructure; we have a shared contact centre, shared financial systems, shared

handset-purchasing policies and so on and so forth. So, those are economies and benefits which help us here in Jersey. But then beyond that, here in Jersey we have our own shareholder board, which operates autonomously, obviously independently, with 2 non-executive directors, Sir Nigel Broomfield and Simon Radford. I am sure you will know they are non-executive directors working for us in that role within our board here in Jersey. So, that board is independent, as far as many of the decisions are concerned; in terms of pricing, for instance, branding. I could talk about the launch of our mobile service under the Sure brand just recently. That brand was developed as a concept for the Jersey market, and for the Jersey market alone, and was developed for the unique needs of this market. That has been a successful launch for us, and one aspect which has been uniquely driven by the Jersey business unit alone.

Deputy G.P. Southern:

Would you like to expand a bit more on the synergy between Guernsey and Jersey? You are including the Isle of Man. Can you tell us something about what your involvement in the Isle of Man is as well, to start us off there? But, particularly, concentrating on obviously you are the main operator in Guernsey, and a competitor over here. There is a difference, but how do you see that synergy?

Mr. D. Smith:

A little bit of background. In Guernsey, Cable & Wireless bought Guernsey Telecom a couple of years back so, effectively, we are the full service provider in Guernsey and have been for the last few years. For the Isle of Man, it is a slightly different situation. We intend to launch mobile services. We have a licence to do so, and we will launch our service in the early part of next year. So, that is a new part of our overall international business portfolio. It is interesting that a lot of our customers span those 3 Islands, so we genuinely see a lot of synergy between both the 34 group of islands, where some of our customers operate in many of those countries, but quite a large number operate in those 3 offshore entities around the UK. So, number one, our customers are asking us for shared services and similar services that span across those 3 Islands. So, how does Guernsey fit into that mix? Some of our economies are driven from the Guernsey business unit, and effectively so. I mentioned some areas earlier. For instance, we have a contact centre, which resides in Guernsey, which is used for our customers here in Jersey. We have a billing system, which, again, resides in Guernsey. Billing records are processed in Guernsey; obviously, bills are despatched from here. But that is a big piece of infrastructure, and one of the key operational systems of any mobile phone company, which we rely on, and is a shared infrastructure across the 2 units. As far as the network is concerned, we have an international agreement with Nokia, as one of our key vendors, and obviously, to drive the best possible price from a vendor such as Nokia, it is easier if you are looking for an agreement with many hundreds of base stations rather than one with 10s or 50s or whatever. So, that agreement was structured as an international agreement, but the investment we make off the back of that is for Guernsey and Jersey as a whole. So, we now have a common technology vendor, which is Nokia, for all those 3 Islands across

the piece. A lot of that expertise is driven from our Guernsey business unit as well. The final example is our investment recently in what we have called HUGO, High-speed, Undersea Guernsey Optical Fibre, to give it its full explanation. Effectively, that is our new submarine cable, which links Guernsey and Jersey back to the UK and France. It is a big investment, a £6.5 million investment, which will benefit both businesses and consumers across both Islands, and a huge amount of benefits as well, both from -- it is more access off the Island. It is kind of like turning an A road into a motorway off the Island. It enables us to provide more service at a high speed and a greater variety of services as well. Do you have something, Chris?

Mr. C. Taylor (Cable & Wireless):

If I may, just one thing I would add. David has already referred to it, I think, and that is across all 3 of these markets, so, Guernsey, the Isle of Man, and Jersey, but across the full 34 businesses in Cable & Wireless International as well, our objective really is the same, and that is to be a full service provider, providing competitive services and leading in mobile, in fixed services, and in broadband as well. Mr. Chairman, you drew our attention to the distinction between our position in Guernsey and Jersey. I would just like to stress that our objectives are the same; it is just we start from a different place, having acquired Guernsey Telecom there and being a new entrant here.

Senator B.E. Shenton:

Can I just ask you what your relationship with the regulators on both Islands are, and also, whether you find the regulators operate differently on both Islands? Also, I believe you had some licence issues in Guernsey quite recently, where licences were issued elsewhere, could you just talk about that as well?

Mr. C. Taylor:

Yes, I can speak to our experience of regulators generally, and also both in Jersey and in Guernsey. I think it is accurate to say that there is quite a contrasting approach taken here, between here and Guernsey. We have very broad experience of operating businesses in what we call small to medium-sized economies, and David referred earlier to Jersey not seeming like a small economy to us. That is because if you look across our group, we operate in places as small as Ascension Island, where there are less than 1,000 inhabitants, and other islands that are considerably smaller than here. So, we have wide experience of those businesses and also, of the regulatory frameworks on small islands and in small jurisdictions. One of the pitfalls, I think it is fair to say, for any regulator operating in a small market is that generally, they have a big challenge. They are constrained in the amount of resources which they can employ and so it is very tempting to use practice and precedent from other larger markets. Now, we think there is an inherent danger in simply importing large market regulation and then imposing it in a small market. We feel, for example, that in Guernsey, there has been a tendency for the OUR (Office of Utility Regulation) to look across the water and implement almost the full European regulatory framework, as has been implemented in the UK and France, and in other obviously very large, mature,

liberalised markets. The JCRA (Jersey Competition Regulatory Authority) here, on the other hand, and by contrast, has taken a more pragmatic approach to regulation. I think they are happy in assessing the market on its particular characteristics here in Jersey and they are seeking to apply regulation accordingly. I would add that they also share with all regulators of small jurisdictions a resource constraint, and therefore there are pressures on them to deliver outcomes and to regulate quickly, and deliver good outcomes for consumers as quickly as they can. But there is certainly a contrast between the 2 Islands and I think there is a contrast between any 2 jurisdictions you could name, probably.

Senator B.E. Shenton:

Do you think part of the contrast is the fact that you are the dominant provider in Guernsey and you are the incumbent in Jersey?

Mr. C. Taylor:

I do not believe so. I have been trying to speak generally, rather than just from the C&W perspective, though obviously, naturally I see things from that viewpoint. I think even if you were to take a completely neutral and detached view, you would see differences between the 2.

Senator B.E. Shenton:

What were licence issues that you had in Guernsey recently?

Mr. C. Taylor:

I think you may be referring to the appeal we have made on the decision not to grant us a third-generation mobile licence. It is a very detailed case. The Office of Utility Regulation ran a process to award a 3G licence. They have decided not to award one to Cable & Wireless. We thought about that very, very seriously. I have to say that taking the decision to appeal to the Utility Appeals Tribunal in Guernsey - taking the decision to appeal the OUR's position to the Tribunal - was not one we took lightly, but it is one we felt we had to take because we feel that it was not a good outcome. But, in essence, the market has been created now in Guernsey where there are 3 mobile licensees, 2 of whom have the ability to provide 3G services, and one of which does not, which is us, and we feel that is unfair. It is a bad outcome for Guernsey and a bad outcome for us obviously, and so we have appealed that decision.

Senator B.E. Shenton:

If you do not want to comment, obviously you are here as guests, so to speak, but what was the reason that they did not award you a licence? Was part of that because you were the dominant player?

Mr. C. Taylor:

That is not a reason which they have given, no. The reason was there was a contest, and they found the

application by Guernsey Airtel, which is a subsidiary of Bharti, to win that competition.

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

One thing that intrigues me, obviously, as you said, you want to be the full service provider and, obviously, you want to expand your business in Jersey. I am curious as to how you are going effectively to expand your landline business without purchasing Jersey Telecom who own the infrastructure, which presumably the JCRA would not be too happy about. Because, clearly, laying your own infrastructure would be prohibitive, and buying wholesale from basically a competitor cannot be making you terribly happy.

Mr. D. Smith:

I understand the question. To date, we have launched voice services here in Jersey, targeted at both businesses and residential customers, and those have been successful. But what we are able to do is to offer customers choice in their call charges. We have put in place our own switch, at significant investment, which routes the traffic through our switch and network. But you are right, what we have not done is we have not competed in the local loop, so that is not part of our plans, as of today. But we are able to provide a very good level of choice in the fixed-line sector, which we do, competing both on value and also the quality of service that we provide. A high number of businesses have already gone for that service and we intend to carry on competing, and we will do so over the coming years. A similar market in broadband, we are looking at very, very closely at the moment, with the same intent.

Deputy G.C.L. Baudains:

Surely, it is more efficient for you to look for business, especially around town, where you can link up with fibre optic and whatever, than trying to reach domestic, which is probably less highly used and means, as I said, you have to buy wholesale the landlines of each of those people? I mean, I could never imagine that you would be interested in providing a full service to everybody. There are those lines which are probably used so little that they are a loss making exercise. Are you intending to reach everybody, or are you focusing mainly on business?

Mr. D. Smith:

No, at this moment in time and across both, for instance, voice and mobile services, our services are targeted at the mass market. We also provide corporate data services, which are targeted particularly at businesses, and we have done that effectively to date. So, no, we are, and will continue to be, a mass-market player here in Jersey.

Deputy G.C.L. Baudains:

Another matter, which has been raised by several parties, are economies of scale. Now, you have already enlightened us as to the purchasing power that you have with Nokia. How else do you see your

company bringing economies of scale to benefit Jersey?

Mr. D. Smith:

I think economies of scale can work at a number of different levels, and I think the primary drive from my perspective, and from what I can see here in Jersey, is the common customer set across those different Islands that we operate in. I will say it again. We have a number of customers that span those offshore markets with common interests, common business models, et cetera. So, being able to provide a high quality of service, and to manage and service those accounts on a global basis, is extremely important to them. They are very high-value corporate customers. So, there are economies there. From a technology point of view, there are a vast amount of economies that we can get, being part of the Cable & Wireless International business. Common technology platforms like billing, network, content platforms, roaming platforms and agreements, and so on. There are lots of efficiencies of purchasing we can get for things like handset supply, which span both internationally and locally. Finally, I think there is, perhaps quite difficult to quantify but a lot of economies in terms of our employees and sharing knowledge among our 34 businesses as well. I spent 2 years in the Barbados business unit, which is extremely valuable knowledge for me, and I hope for the rest of my staff and team here in Jersey. Similarly, there are lots of examples of people who will travel and transfer their knowledge across those 34 companies. That is experience which has an economic benefit, which is invaluable.

Deputy G.C.L. Baudains:

Another thing, which you raised earlier on, was the fact that you operate in Islands even smaller than Jersey. What would you say to those people who have expressed concern that a multi-national operator would leave Jersey becoming an irrelevant part of a large business?

Mr. D. Smith:

I am not quite sure I follow the question, to be honest.

Deputy G.P. Southern:

I think if we put it down to a diseconomy of scale. If, for example, central decisions are made centrally, and you have to pass that decision up to your senior management who are elsewhere? There is an argument that the responsiveness and the flexibility that you might have otherwise in a small economy, small jurisdiction, is lost.

Mr. D. Smith:

I see. I think it is always a balance, and I am under absolutely no illusion that within the context of Jersey, when it comes to the important commercial decisions, pricing, which markets we follow, which customers we prioritise, whatever the situation may be, I operate as part of that local operating board, and I have independence on those decisions. So, the decision to launch the Sure brand here in Jersey

was my decision at the end of the day and developed from here. The same principle will apply across each of those Islands to a slightly less or differing degree, if you like.

Deputy G.C.L. Baudains:

I think the concern here has been obviously Jersey relies heavily on its telecommunications infrastructure because of the way our economy is structured. What some people are concerned about is that the Island in future may not get the investment or other services that it really needs because head office is saying: “Well, hey, you know, we have no need to put the money here; we need it over here at the moment.” So, to what extent is the operation in Jersey autonomous?

Mr. D. Smith:

I think perhaps Chris can comment on some of our other companies across the group, but investment is the lifeblood of any telecoms company. Product life cycles change by the week and the month, rather than the year. It is absolutely amazing. I have worked in the industry for 13 years and there is nothing like it. So, since the acquisition of Guernsey Telecom, we will have invested £52 million by the time we have rolled out other services in the Isle of Man, and that is across those 3 business units, Guernsey, Jersey and the Isle of Man. That is a significant investment, but it is one the market warrants, and we are absolutely delighted to continue to make that investment.

Mr. C. Taylor:

I will just add one point again. That is, obviously, we can only speak for Cable & Wireless, and not for other investors or potential investors, and I can speak from the Cable & Wireless International perspective, rather than more directly from the perspective of the local business, which David runs. But for all of our businesses, we understand that those businesses will not be successful unless they are run in partnership with the local stakeholders. Including our customers, obviously, but also local governments, and we certainly have found that it is only by doing that and by having co-operative discussions with those stakeholders on investments, and showing commitment to those economies and those communities, that we can be successful.

Senator B.E. Shenton:

My daughter was going to switch to Sure but when she found out she could not transfer her number, she decided not to. Where are you on number transfer?

Mr. D. Smith:

I would be delighted to comment on that. It is an extreme frustration to a lot of our customers, to a lot of the Jersey public, and to us as well. The process has been too long a process. On 6th June, the JCRA issued a direction to all 3 operators. I quote: “To make the best endeavours to have MNP (Mobile Number Portability) in place by 1st January 2007 and by 31st March 2007 at the latest.” On 9th June,

Jersey Telecom issued a press release. I quote: “We welcome the JCRA’s decision to require all operators to put in place a fair and cost effective number portability system for mobile phone users.” Subsequent to that, there were a number of meetings involving all operators and the JCRA. On 12th October, Jersey Telecom failed to attend a meeting, effectively withdrawing from the process, and after that, we have had a number of enforcement proceedings in the public domain from JCRA directing Jersey Telecom. So, that process is going through. It is frustrating that since 12th October to 18th December absolutely nothing has happened. So, to build on your comments about the regulatory environment earlier, I think the relationships with the JCRA from our perspective are very positive and very good. Sometimes we would like to see them acting a little quicker in the interests of the customer. So, your daughter is frustrated; she would love to join Sure; we would love to have her as part of our service, but we are not able to provide that service. JT (Jersey Telecom) is able to delay the process, and that is what it comes down to, for no apparent reason, as far as we are concerned, and the consumer misses out.

Senator B.E. Shenton:

Do you have number transfer in Guernsey?

Mr. D. Smith:

The market does not have number transfer in Guernsey. It has not formally been requested by anyone in Guernsey.

Deputy G.P. Southern:

Could I take us on to the issue at the heart of what we are investigating, the proposed sale of Jersey Telecom? According to press reports earlier in the year, it seems that Cable & Wireless will be very interested in purchasing Jersey Telecom, should it come on to the market. To start with, is that the case?

Mr. D. Smith:

I think the most important comment to make is that to all intents and purposes, Jersey Telecom is not officially or formally for sale at this moment in time. I think it is important to reiterate that. The comments that were made were by Harris Jones, our International CEO. He heads up that group of 34 business units across the world, and he stated that is the type of opportunity that Cable & Wireless as a company would be interested in. That is as far as the comment has been taken and as far as he is concerned, the JT company, would be a natural fit for the Cable & Wireless portfolio. There has been no more commitment beyond that and I think anything else at this stage would be pure speculation.

Deputy G.P. Southern:

In terms of your aim to be a full service provider, I would presume that that would provide a route to enabling you to do that far more rapidly than competing in the market with the incumbent?

Mr. D. Smith:

It is a route and yes, it would be a quicker route, but with other caveats attached to it. But it is a route to become a full service provider. But this debate, this discussion, does not distract me and my business unit in any way from providing choice to consumers in Jersey, which is our absolute focus at the moment, and we will continue to do that, and we have successfully done that.

Deputy J.G. Reed of St. Ouen:

Following on from that, accepting that no decision has been made yet regarding Jersey Telecom, whether it should be sold or not, how would you see your services developing if Jersey Telecom was to remain State owned?

Mr. D. Smith:

In absolutely the same way at the moment, and we have set out with the intent of being a full service provider and we continue to offer choice to consumers and we will continue to do that across each of those markets, whether it is fixed, mobile, or broadband provision.

The Deputy of St. Ouen:

You speak about full service provider and obviously, we have touched on this area before, and equally, I think, you highlighted that there are certain phases to the provision of the full service. Could you just explain a little bit more about what phases you go through to achieve this full service provision, and what are the last parts that would be classed as the provision of full service?

Mr. D. Smith:

It is quite a difficult question to answer. There is no little handbook or textbook I could pull down off the shelf and say: "This is the route to becoming a full service provider." It will depend on the regulatory environment; it will depend on the current level of service provision, and it will depend on what consumers want. Priority number one for us 2 years ago was to provide data services to corporate customers and that was the quickest route to market. The biggest priority subsequent to that was to provide mobile services. That was an area, which we publicly commented was one of the last monopolies in the world and therefore, was crying out for some choice. So, obviously, that represents, then, the next priority, and a market opportunity for us as a company, which we followed through. In addition, we provided fixed line services as well, which has gone well, and I guess the missing piece of the jigsaw is broadband, which again, as I said before, we are looking at very, very closely for next year.

The Deputy of St. Ouen:

Is it not true that, obviously, with any business, especially if you are in a competition environment, that the temptation and the actual desire is to target those areas where it is financially more lucrative than

others? If we take the mobile phone operation, it is known as perhaps the more lucrative side of the telecommunication market. What reassurances would you give, whether it is in Guernsey or Isle of Man or here, that Cable & Wireless is committed to not just cherry picking, if you like, but is prepared to invest in the non-profit-making or the less attractive parts of that telecommunication market?

Mr. D. Smith:

I think there are several points maybe to touch on there. But I think the better way of looking at it, as far as I am concerned, is when you conduct extensive market research, as we did in Jersey, and you find that 96 per cent of our research sample wanted mobile number portability; 92 per cent were frankly shocked at the level of roaming charges provided on their bill, and 91 per cent on their basic level of mobile service. There is the pressing need to provide choice in mobile service. Irrespective of financial return, if customers are missing out, that is not good for the market. So, that is what dictates our goal and our priorities; it is the customer. Secondly, as far as the level of investment is concerned across the portfolio as a whole, I made the point earlier that our investment level of £52 million spans those 3 markets, Jersey, Guernsey and the Isle of Man, and that is a big level of investment. If you look back at what we have invested in, in Guernsey, in the 2 or 3 years after we bought Guernsey Telecom, the investment has been huge and that business, we believe, has been turned around to everybody's benefit.

Deputy G.C.L. Baudains:

One thing that has troubled me, I cannot really wrap my head around it; clearly, you are seeking to expand your business, obviously, and yet the JCRA wishes to maintain as much competition in the marketplace as possible. I see a tension there, because surely that is likely to cause your firm to remain a minority player. How would that affect your business plans and future investment?

Mr. D. Smith:

The only tension, as far as the JCRA and ourselves is concerned, is we would like just a little more speed and alacrity in some of the decisions. We believe the relationships with the JCRA have been very good, and particularly over the last 18 months with Bill Brown and team on board. They operate with a limited number of resources with a very high level of workload, so we commend them on their work. So, all we ask for is sometimes not necessarily the purely legal route to be followed, but more the spirit of the law to be followed. We are competing against Jersey Telecom, which in economic terms is dominant, and that is not good for customers. So, that is the framework within which we operate.

Deputy G.C.L. Baudains:

It just seems to me that if I was Cable & Wireless, obviously, I would want the entire Jersey infrastructure to myself. But if I was going to be relegated to having only perhaps a third or a quarter of it because other firms are always encouraged to compete with me, I might reconsider my plans. That is basically what I was driving at. This is probably a commercially sensitive answer, but what is your

minimum percentage below which it is not viable for you to remain in Jersey?

Mr. D. Smith:

Sorry, minimum percentage of?

Deputy G.C.L. Baudains:

Of business.

Deputy G.P. Southern:

Of business market/mobile market, et cetera.

Mr. D. Smith:

It is an impossible question. I do not know the answer to the question, but it is a difficult one to answer. Every market has a unique set of circumstances and even if we were competing in just one or two segments, which we do in some of our other markets, we will scale our organisation, our structure and business accordingly. So, you cannot really say there is a minimum level within which to operate. But if one market, for whatever reason, whether it is technical or regulatory, is tough to operate in, obviously, we will not compete in that sector.

Deputy G.C.L. Baudains:

Yes, I have always been curious as to why a multinational company should be interested in a quarter of Jersey's telecommunications market.

Mr. D. Smith:

Our customers asked us to be interested in that market. As I said at the start, this is not a small market as far as we are concerned and it is one we do not see choice in. We do now, and the feedback from our customers over the last few months since launching the mobile service has been absolutely first class. That is the best motivation that we need to continue investing and working in this market.

Deputy G.P. Southern:

I hear the phrase: "Our customers want us to be here", but surely, the bottom line we must always look at is that, as far as your shareholders are concerned, you would only be here if it is at a profit, a reasonable return. If you are investing £52 million in the infrastructure of the Islands then that seems to be saying: "A substantial volume, proportion, of the market, is our aim." It seems to me, following on from that then, and certainly the evidence that we have seen is that particularly in small jurisdictions where things have been liberalised, the incumbent operator tends to remain the dominant operator. Without the sale of Jersey Telecoms, it seems to me, you are almost doomed to be the minority operator. Is that the case?

Mr. D. Smith:

Yes. I will give you some comments and perhaps relate to my experience in Barbados. The definition of dominance in a market is a technical definition underpinned by lots of economic terms and calculations which I would not necessarily be an expert on, so once you are through a liberalisation phase in a marketplace, you can still be the incumbent provider but not necessarily the dominant provider. Once there is a healthy level of competition and an additional number of providers in that marketplace, to a certain extent, the ownership of that company is irrelevant as long as there is liberalisation. As long as there is a healthy regulation, it does not really matter who owns the company, so that is the sort of key driver from what I can see.

Deputy G.P. Southern:

But in terms of your investment, you would far prefer to be the dominant operator in order to make your investment worthwhile.

Mr. D. Smith:

We would prefer to be the market leader, I hesitate to use the term “dominant”.

Mr. C. Taylor:

Can I comment? It seems to me there is an underlying question here which is common to all small jurisdictions and it is how much competition can the market bear, how much investment can the market bear if everyone needs to make a reasonable return and the comment was made, would we be satisfied with 25 per cent of the Jersey marketplace? I think the fact is that we make a judgment and we enter a market based on whether or not we can be successful and we see that we can be successful here as a new entrant - and that is not just a provider. We have absolute confidence in the business and in the mobile business which has been launched, the Sure brand and the development of the business through further products and broadband going forward. So it is not a problem for us.

Deputy G.P. Southern:

I am glad to hear you agree that it is liberalisation; it is regulation and competition which drives the market and not necessarily the ownership of a particular company or otherwise. It is something that is coming over to us from our research and from comments from many directions, it is competition first, that is important, that the prioritisation issue is not irrelevant but it is not a driver of efficiencies in its own right.

The Deputy of St. Ouen:

I wanted to just clarify my own thoughts, I suppose. You made a number of references to, what I call, the 3 Islands - Guernsey, Jersey, the Isle of Man - and you speak about the investment corporately over

those Islands and yet you speak to us and suggest that there is an own board on the Island with its own identity and so on and so forth. Can you just make it clear or expand on exactly what powers do local management have in Jersey over investment and employment and also, how does your view and the comments you make about shared services with regard to the 3 Islands, how does that fit in with this view of independence at Island level?

Mr. D. Smith:

I will try and expand a little bit more on perhaps what I commented earlier but there are clearly some areas where -- for instance, the choice of a billing system. That is not a decision I make. That is made by an IT function which resides across the 3 Islands. I have an input to that decision but that is done, I guess, independently of the Jersey business if you like. So the contribution for me as a customer and a user of that system is very relevant and I need to make sure that our requirements and needs are met for that ultimate choice of billing system if you like or the choice of a technology vendor. When it comes down to things like making pricing decisions for the local market, making decisions on marketing and sales strategies, service propositions for the local market, those are totally down to me to make, obviously with the support of my board and with a wider operating board across those 3 Islands. We have autonomy in that. With recruitment, again, I have full autonomy to bring the right team on board with the right functions, experience and job descriptions and so on and so forth. So again, that is totally down to me to manage.

The Deputy of St. Ouen:

So are you suggesting it is sort of like a tiered approach that you have your local small board managing the detailed Island decision making such as pricing and bits and pieces, and then you have another board that is overseeing the sort of, what I call, the 3 Island investment area, management, so on and so forth and then above that, you have your international, is that how it is?

Mr. D. Smith:

At a very high level, yes, that is how it works.

The Deputy of St. Ouen:

So it absolutely clear for me, is there a board currently that is overseeing the 3 Islands?

Mr. D. Smith:

Yes. There is an operating board which operates across those 3 Islands.

The Deputy of St. Ouen:

Where are they based?

Mr. D. Smith:

Well, different members of that board are based across the 3 Islands. The majority of the people or members of that board are based in Guernsey as that is where most of, for instance, the technology platform resides and so on.

The Deputy of St. Ouen:

There is a, what I call, UK or global interest sitting on that board as well, is there, or is it solely made up of representatives from the 3 Islands?

Mr. D. Smith:

Solely made up of representatives from those 3 Islands.

Deputy G.P. Southern:

If I could take us on to a different issue. It was put to us that one of the reasons why the Government is considering privatisation of Jersey Telecom is that it sees the rapid development of technology in the telecommunications market as such that in 10 years time down the line, no one will be making profit from putting voice phone to phone but from the supply of services and that the additions, if you like, broadband and built on to that VOIP (Voice Over Internet Protocol). How do you see the market per se in itself developing in the next 10 years? Is that something that fits your vision of how things will happen and, thereby, what comment would you have to make on that vision?

Mr. D. Smith:

The things you put out, I think, are very relevant and I think worth discussing. First and foremost, voice telephony is here to stay. It is perhaps declining in terms of revenue and contribution to every telecom company's bottom line but at the end of the day, X will still need to speak to Y and that will continue on. What we are seeing is an increasing use of data services, text based services and so on and an increasing range of content which is passed both over traditional telecoms infrastructure, both from a mobile perspective and from a fixed line perspective. The big driver for us as a company, with that trend, is to think about what we want to be as a business. Do we want to be in a business of purely providing the pipes through which that content passes or do we want to move back in the value chain towards the provision of content and so on and perhaps own some of that unique content? So that type of decision underpinned our desire to make sure that we have the airport arrivals and departures information on our mobile phones and we were the first provider to do that here in Jersey. I think the final sort of trend is this whole convergence of technologies where we are seeing an ever increasing sort of blurring of mobile technologies, fixed line technologies and, over time, I think we will see a lot of those technologies moving very, very close together. Personally, I think mobile will win out at the end of the day. Customers, from what I can see, do want services on demand and wherever they happen to be, so we see in other parts of the world now, a big push for mobile TV, not something I would

personally go for but clearly someone is driving that concept in other areas of the world. So I think, to come back to your question, what we will see over the next few years is in a telecom's environment, a rapidly changing and vastly different telecom's environment, a really exciting one. The pace of change which I have witnessed over the last few years is incredible and I think it is a very exciting market to be in. So the key question is how much, I guess, can a company like Cable & Wireless even, compete with a company like Vodafone which has another degree of economies and benefits which we cannot necessarily tap into.

Deputy G.P. Southern:

Would you like to add to that?

Mr. C. Taylor:

No.

Deputy G.P. Southern:

That was a perfect answer?

Mr. C. Taylor:

I cannot add to that excellent answer.

Deputy G.C.L. Baudains:

Can I raise an entirely separate subject issue because it may be something that only troubles me but as we move away from the one service provider which Jersey has been used to, it seems to me there is one issue that may have been overlooked. It certainly seems to me that way, hopefully you can tell me I am wrong and that is resilience. How resilient is your current business; if it is not now, how will it be in the future? Because it does appear to me that while clearly Jersey Telecom has backup systems and power generation for switching and all that sort of thing, it would be uneconomic for 2, 3 or 4 operators on the Island each to have their own backup system. I mean, that would mean every company would have to have 3 submarine cables and a radio link. How does one get over that?

Mr. D. Smith:

Fully resilient in technology terms, it is fully resilient now and will continue to be so. We have to make sure that resilience is built into our service and our technology platforms and that is absolutely critical to our business. Resilient in terms of how long we will be here, we will continue to be a provider here in Jersey and compete with whoever we are up against and that will continue in the future.

Deputy G.C.L. Baudains:

Thank you for the answer but I am afraid I am not clear on it. Just on a simple matter regarding

submarine cables and things like that, you are in the process of dealing with that issue, I understand. I simply do not believe that it would be profitable for every operator in Jersey to have 2 or 3 cables or radio link as well in case – I mean it is not unusual for a couple of cables to get dredged up. A ship pulling its anchor – I mean it has happened to us several times before.

Mr. D. Smith:

I think that I will perhaps answer your question a slightly different way. Investment in that cable is a major investment. £6.5 million. That provides capacity off-Island which has previously been constrained as I think we and the market have recognized. So our investment decision was based on what return we think we will get from that cable and that provides us both the ability to sell the capacity of that cable direct to customers and also to wholesale it. Other operators may take a different view and decide not necessarily to put in that resilience on their own but obviously to rely on our wholesale service to provide their off-Island capacity so the level of investment and the way that investment is deployed is unique to each operator. It is a very good example to demonstrate how we intend to be part of the Channel Islands market here for many years to come.

Deputy G.C.L. Baudains:

I am just wondering if you have your one cable, presumably as the most cost efficient way for you to operate and you suddenly lose the use of that cable for whatever reason, is there a working agreement between other operators, including the incumbent, that you can get your connection in and out of Jersey?

Mr. D. Smith:

Yes. It is also not a one-way connection so there is a two-way resilience built in as well.

Senator B.E. Shenton:

As a new entrant into the market, one assumes that you bring over seasoned engineers and so on and so forth to get our infrastructure up and running. Do you see yourself, when you become more established, starting apprenticeship schemes or starting to take more from the local workforce?

Mr. D. Smith:

Yes. We have managed to recruit the vast majority of our workforce from the local community here, which I think is excellent. We have one or 2 engineers we have bought across to assist us with our deployment of our mobile network in particular but alongside that, we also have local engineers who work with that resource and skill. So we have 28 staff here in Jersey. It is a small, very focussed team and we will look to develop that in the future.

Senator B.E. Shenton:

That includes your shop staff.

Mr. D. Smith:

Yes.

Deputy G.P. Southern:

Can I take us back on to the hypothetical potential sale of Jersey Telecoms and take us outside of Cable & Wireless as a potential bidder but just examining the market. We are told that a complete sale is the way forward and a complete trade sale is probably the way it is going to be done. Just looking at the market per se, would there be any interest, do you see, objectively, in anyone taking a part ownership of Jersey Telecom, were it to be for sale, and secondly -- let us just ask that question, the value of part sale?

Mr. D. Smith:

To be honest, I cannot comment. It is not a question I have actively considered, so clearly there are a number of different ways the company can be sold and in different ways. I cannot comment any further than that.

Deputy G.P. Southern:

Perhaps your London colleague might have a view on that. He might be taking a wider view.

Mr. C. Taylor:

Well, as David said, there are any number of models for taking a company like JT into private ownership and I do not know what the appropriate one is here, but there are examples around the world where privatisations have taken all the equity of a company into private hands. There are others where private sector owners come in and then work very closely in partnership with local governments with joint shareholdings or where a proportion of the company is listed on local stock exchanges. So there are any number of different models and I really could not say which is the most appropriate for JT, (should it be sold).

The Deputy of St. Ouen:

Does Cable & Wireless have any interest in or partial ownership of any telecommunication networks?

Mr. C. Taylor:

We do, yes. We have referred a number of times today to the fact that the Cable & Wireless International Group has 34 businesses. Many of those are wholly owned subsidiaries of ours. Some of those are operated in partnership with other shareholders and there are a number of examples. If I give you a couple, one example is Cable & Wireless Panama which is owned 49 per cent by our group, 49 per cent by the Government of Panama and 2 per cent by the employees of the company. Another example is Cable & Wireless Barbados which is a different model and the majority share is owned by

Cable & Wireless but with local listing as well.

The Deputy of St. Ouen:

Again I just want to explore this corporate view, and I can understand why there is a requirement to have a corporate view, but is it Cable & Wireless' plan to provide identical levels of service and provision across all the 3 Islands or do you see differences between the individual Islands within the corporate banner or heading?

Mr. D. Smith:

No, it is a combination of the 2 and you probably expect me to say that, Deputy Reed, but a couple of examples; one aspect of our mobile pay monthly price plans is that the bundles of minutes includes calls to the UK. We researched that idea and that was something our customers were especially motivated by. So we have included that and that is a very unique tariff and it is not traditionally done. I do not think it has been done or replicated in any one of our other 34 Islands, so that is a unique tariff which we decided to launch. The structure of our tariffs, our branding is unique here in Jersey as well and they were designed to meet the needs of the market here. Each and every market is very, very different.

The Deputy of St. Ouen:

Just to explore one area, you spoke about broadband. One is aware that, although you sort of group the 3 Islands together, we are 3 individual offshore financial centres, all out there competing for business. One is also aware that currently the Isle of Man, they wanted to promote and develop broadband because they see that to help develop their e-commerce side of the business. How does Cable & Wireless determine and prioritise their investment to meet those sort of demands being made by individual Islands when you are taking the corporate view?

Mr. D. Smith:

I am not sure this is going to satisfy you because taking the example you have, I am not going to go into too much detail on our plans for that market because we have not launched that service here in Jersey but, as I said before, we will take a look at a market and prioritise based on what we think are the priorities for consumers and how we can satisfy more quickly. You know, mobile is a market which is now fully liberalised, which represented that best first opportunity, so that largely dictates how we prioritise the investment. Across the group, it is a completely different circumstance for every single operating company.

The Deputy of St. Ouen:

Within your overall 34 different countries or groups or whatever I can call it, do you have any arrangements whereby government in some shape or form of that particular jurisdiction supports or helps fund certain provisions of services or enters into funding arrangements with you to allow the

development of infrastructure and the like?

Mr. C. Taylor:

I am thinking as I speak, Deputy Reed, I am not aware of any arrangements like that at the moment. There are interesting discussions happening, not just within C&W but in other jurisdictions as well, about exactly how to fund, for example, super fast broadband provision to more remote rural areas in some jurisdictions and one of the models which is discussed is a public/private sector partnership. But I caveat that strongly by saying I am not aware of any of those discussions happening in any part of our group, though many of the governments for the economies which we support are very interested in exploring ways of expanding service and particularly broadband service to less well-served parts of the market. So there are universal service schemes in place to ensure that.

Deputy G.P. Southern:

One of the problems then is it becomes not just population density; we are fairly compact and, certainly for our business community, fairly concentrated.

The Deputy of St. Ouen:

Just regarding sort of residency issue like there was a description of Jersey regarding tax and payment of tax and so on and so forth for Cable & Wireless in relation to the 3 Island network. I presume that, as you said, your major base is Guernsey. Do I equally presume that because that is classed as a sort of Cable & Wireless centre and residency that income taxable or tax paid profits made by the company will be taxed in that jurisdiction?

Deputy G.P. Southern:

Can I come in there, James? You will find, I think, that in the operation of a utility under Zero 10, is that what you are talking about; what is coming in, in the future? 20 per cent tax will be payable on all utilities, so if you are regulated by the regulator, you will be subject to 20 per cent tax, so Cable & Wireless Jersey in running a facility which is regulated by the Competition Regulatory Authority, will be taxed here at 20 per cent.

The Deputy of St. Ouen:

I am aware of that but I think the issue is that if you are going for shared services and the company being resident in a particular jurisdiction, then obviously one would expect that profits or the lion's share of the company profits would possibly and quite rightly be designated to that jurisdiction. Am I right in my thinking?

Mr. D. Smith:

I actually cannot comment. I do not know the answer to the question. It would be something I would

have to research a little bit more. I think, to get behind your question, the main reason why a lot of the shared services to which you refer them are driven from Guernsey, the fact that we bought Guernsey Telecom in May 2002, so we have a larger staff base there which we can call on and the platforms are based there as well.

The Deputy of St. Ouen:

I understand that. It is just for me to get it clear.

Mr. C. Taylor:

If the question is are local services subject to local taxation, yes.

Deputy G.P. Southern:

You referred earlier to the relatively slow speed of the JCRA acting. It occurs to me that even in small jurisdictions, very often, a telecoms regulator, a separate regulator is often established. Is that something that you see as a way forward rather than a joint regulator, competition regulator? A telecoms regulator in its own right with specialists. It certainly happens in most other jurisdiction, I believe.

Mr. C. Taylor:

We have talked a lot about economies of scale and I think regulators, just like ourselves and other commercial organisations and other government institutions and government agencies have to be efficient and, particularly in small places, there is probably a limited pool of talent from which a regulator can draw its resources and recruit its staff. So I think that there is some sense in pooling that resource and creating a regulator to operate across all sectors of the economy. I would add that it is not a one size fits all model. We do not have a particular group position about which is the best way to do it but I can certainly see the sense in having a JCRA model which addresses several sectors of industry with one institution.

Deputy G.P. Southern:

Even though they appear to be a bit stretched at times.

Mr. C. Taylor:

There is a trade-off, is there not but, yes, I agree.

Senator B.E. Shenton:

James was asking you about people living in rural areas, how you are going to cope with them. He is the Deputy of St. Ouen, you see. I think you should charge people more if they live in rural areas!

[Laughter]

The Deputy of St. Ouen:

No, I think we are well aware, as I am sure you have experienced in other jurisdictions, that provision of some services is extremely expensive and could be classed as not cost effective. We are all trying to understand, whether it is yourselves or Jersey Telecom or other competitors, how everything fits in and where I suppose the best provision lies. We all like competition; we all like low prices but how do you see, I suppose is the question, that balance being created to benefit everybody? If you were able to have any influence with the regulators, what sort of balance would you like to see? Where do you think your competition is best? Is it serving customers because you are dealing with 34 different countries, places? Can you cite an example of where you believe competition is best serving the consumer if at all?

Mr. D. Smith:

All we ask for is fair and open competition. That is all we can ask a regulator to facilitate in the right way and as I said before, I think the JCRA has done an extremely good job of setting up the right mechanism to enable that to happen which I think is very good.

The Deputy of St. Ouen:

Is it not true that, in fact, you retain monopolies in a number of the 34 jurisdictions that you mentioned?

Mr. C. Taylor:

The fact is that across the 34, 93 per cent of the business across those jurisdictions operates now in competitive markets. What is true is that we are what is loosely described as the incumbent operator in many of those markets and they have, nearly all of them, been through liberalisation now and our genuine experience is that liberalisation has not resulted in any reduction in our or anyone else's ability to provide services to any customer who wants it.

Deputy G.P. Southern:

A final one you might not want to answer at all; you might close us down and say: "Let us go private on this one." It has been put to us by some that in selling Jersey Telecom, what we will end up with some way down the line is a private monopoly rather than a publicly owned monopoly because with the economies of scale, whoever buys it, providing they can get the right economies of scale, they will see off the rest of the competition. Do you have a comment on that view of the future that has been presented to us by some?

Mr. D. Smith:

I think we are in the early stages of liberalisation here and with the right regulatory environments, as I said before, I think we are heading in the right direction. There is no reason to think that will be the case. As of now, we, as the competitor and challenger to Jersey Telecom, will do our absolute best to

make sure that is not the case for the consumer's benefit.

Deputy G.P. Southern:

So you are around for the long run whatever happens. Obviously, it is an obligatory question; is there anything that you would like to say to us, any issue that we have not touched upon that you feel you would like to make a comment on before we close?

Mr. D. Smith:

I do not think so. All I would say is thank you for inviting us. We appreciate it and thank you for giving us the opportunity to answer your questions. If there is anything else we can provide either privately or publicly, we are always delighted to do this.

Deputy G.P. Southern:

If we can think of a second layer of questions to ask you, do not worry, we will. We will write but thank you very much.

Mr. C. Taylor:

Mr. Chairman, sorry, can I thank you as well but also, can I clarify one of my earlier answers? Senator Shenton asked me about the 3G appeal in Guernsey and I think your question was along the lines of what were the reasons for the refusal to grant C&W a licence and I said: "Well, there was a competition and they found that we did not win the competition." The fact is that they have not made the reasons for that public, so we do not know the answer to that question.

Senator B.E. Shenton:

Are they going to make the reasons public, do you know?

Mr. C. Taylor:

Not as far as I know.

Deputy G.P. Southern:

What a remarkably lax Freedom of Information Act they must have. How behind the times they are. One would expect reasons in a competition, would one not? But never mind. Okay, thank you very much.