No. 6

Irish CONGRESS of Trade Unions

Summer 2005

BRIEFING PAPER

A New Governance Structure for State Companies

The proposal for the establishment of a State Holding Company would allow those companies which seek to expand to have ready access to capital (provided their investment proposals were robust). It would also allow those companies to operate commercially and to fulfil non-commercial roles - where they would be explicitly and transparently compensated by the state; it would separate state ownership from policy formulation; and would largely de-politicise the commercial state sector.

The importance of access to capital for expansion and of strengthening the commercial ethos of the state companies must not be underestimated in the existing, highly competitive environment.

CONTENTS

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Foreword

The semi-state companies played a vital role in the development of the Irish economy. Governments of all complexions tended to deal with them on a pragmatic basis and their individual establishment was to fulfil a perceived need at the time. Political ideology played little or no part in this process.

In recent years, however, things have changed. Liberalisation and de-regulation of certain industrial sectors, mainly in pursuit of single market objectives in Europe, have created pressure for restructuring. Competition law has restricted the capacity of governments to support state enterprises and the advocates of liberal economics have mounted a trenchant and sustained case for privatisation of state assets.

Nevertheless, even the OECD, which is a liberal institution, has recently recognised that state owned enterprise will continue to play an important role in the economies of member countries. The OECD has put forward guidelines for the governance of these companies in the evolving situation.

From the perspective of Congress, we are in an era of politics in which the State has become a poor shareholder. Although it is possible to do so under the EU 'Prudent Investor' protocol the state will not invest in state companies even when they are doing well. As such many of them have difficulty in gaining access to capital for development purposes without risking the health of their balance sheets through inappropriate levels of borrowing. This is a regrettable subjugation of public policy to orthodox liberal economics but it is a fact of life that has to be dealt with. In short, the reality is that within this policy framework semi-state companies cannot prosper and in some cases privatisation will be inevitable simply to access capital.

There is an alternative. It is set out in this policy statement. It will both allow the semi-state companies to remain in public ownership and to access all the capital they might need in the future. Moreover, it is fully consistent with the OECD governance policy guidelines.

One thing is certain; the present unsatisfactory state of neglect of the semi-state sector cannot continue. There needs to be some clarity on the role of the state in the economy. Our purpose is to bring that condition of clarity about.

David Begg,
General Secretary, Irish Congress of Trade Unions

Introduction

In spite of a number of privatisations, there is widespread recognition that the state should continue to be involved, directly and indirectly, in certain commercial areas of Irish society. The commercial semi-state company is the vehicle for direct state involvement in commercial operations.

All political parties have stated that a certain number of state companies will continue in state ownership. Equally, it is recognised that the status quo is having an increasingly negative impact on the ability of these companies to operate. Even the OECD[1] has stated that in spite of extensive privatisation, it holds that "state owned enterprises are likely to remain important in many OECD countries."

This paper puts forward proposals that would allow the state companies much easier access to capital and would allow them greater commercial independence to operate, while maintaining ownership within the state sector and more importantly, within Ireland.

The areas where the state continues to be involved commercially are as follows:

- Natural Monopolies
- Critical infrastructure
- Strategic areas.

There is no disagreement that the state should maintain a controlling interest in natural monopolies.[2] However, there sometimes exists an overlap between certain companies which are both natural monopolies and operate in competitive markets, for example, the ESB and Bord Gas. The international trend to break-up vertically integrated utilities (VIUs) is being reversed. Congress is of the view that such break-ups of VIUs is inappropriate in a small island economy. The integrated utility generates economies of scale and scope and is a repository of expertise.[3]

Companies that operate in the area of critical infrastructure would include Dublin Port and the Dublin Airport Authority. The definition of what is crucial infrastructure is fairly clear-cut, but there are areas where differing viewpoints can emerge on what constitutes critical infrastructure.

The third area, that of strategic importance, is one of political choice. However, the term strategic should not be narrowly defined as to how a course of action could be of benefit to the company, but must encompass the national, regional, social and other issues, both immediate and in the future. What is strategic may often not be recognised until a crisis occurs. For example, we do need a national airline which will provide links to other countries, when private sector airlines may not provide the required level of service, depending on the economics and on their own short-term considerations.

A company like Aer Lingus is certainly not a monopoly, nor is it critical infrastructure, but there is now clearly a broad political consensus that this majority state-owned company is of strategic interest to Ireland as an island economy.

Congress believes that the proposal contained within this paper for a State Holding Company can also contribute significantly to providing high quality and efficient *"services of general interest"*. Services of general interest describe a broad range of services provided by the state directly or by its agents. The provision of these services both ensures that there is a social dimension to the development of the internal market and assists income redistribution.

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1 OECD, 1998, "State Owned Enterprises, Privatisation and Corporate Governance". Paris. The OECD, popularly know as the Rich Mans Club, is a major international body of which Ireland is a member. It produces excellent comparative international data, but its analysis and particularly its conclusions, are strongly influenced by neo-liberal economics. In this 2005 draft report (see next reference), in spite of its strong penchant for privatisation, it deals with the issues reasonably fairly.

2 However, the government did privatise Eircom in 1999, which had a monopoly on fixed phone lines in Ireland. The company was profitable, had low debt, was reducing charges and investing heavily while in majority public ownership. After privatisation, it was taken over later by venture capitalists and it ran up huge debts, became highly unprofitable, its charges remain relatively high, it cut its investment programme dramatically and so its broadband services are poor. The state, apparently recognising its mistake, is trying to duplicate broadband (for the full story, see Paul Sweeney, Selling Out? Privatisation in Ireland, Chapter 3, TASC/New Island). However, the government is now proposing to privatise the ports, many of which are monopolies. Thus history may repeat itself, yet again.

3 See, for example, the article by Dieter Helm in the ESRI Qterly, Spring, 2003.

The Status Quo - an Impediment to Progress

In its recent paper, Guidelines on the Corporate Governance of State-Owned Enterprises,[4] the OECD point out that State Owned Enterprises (SOEs) face "some distinct governance challenges" which are different from those faced by private companies (Preamble, p3). It recommends "a clear separation between ownership function and the state's other roles that may influence the conditions for state-owned enterprise activity."

It also states that "any special responsibilities and obligations for social and public policy purposes" a SOE is required to undertake in terms of public service provision or special responsibilities should be "clearly identified, disclosed and adequately compensated by the state budget on the basis of specific legal provision and or through contractual mechanism" (Annotation to Chap 1, C. p11). On the issue of confusion and conflicts of interests between regional, industrial and social policy, it recommends a "clear separation" between policy functions and ownership and between regulation and ownership (Annotation to Chap 1, p10).

To create a level playing field, it is necessary to separate market regulation and supervision and policy formulation from ownership and control. A primary function of Government departments is now policy formulation and implementation. The issue of ownership and the exercise of control on behalf of the state may be inappropriate, for example, when a Department may have to deal with the day-to-day performance and investment needs of state companies, while developing and executing policy and simultaneously dealing with private companies which are in competition with these same state enterprises.

In Ireland, there is, in many cases, clear separation between ownership and regulation, but there is still no separation between policy and ownership roles. This is long overdue. The OECD states that the state is both a "major market player and arbitrator". "Full administrative separation of responsibilities for ownership and market regulation is therefore a *fundamental prerequisite* for creating a level playing field for SOEs and private companies and for avoiding distortion of competition" (our emphasis, Annotation to Chap 1, C p10).

The OECD report also recommends that there should be specific legal status to reflect social or societal objectives and where specific protection is granted to certain stakeholders (e.g. employees). It is also critical of actions or rules which do not allow SOEs to diversify or expand their activities overseas (Annotation to Chap 1, C. p11).

It strongly recommends provision be made to cover public service provision or special responsibilities in a transparent manner (Annotation to Chap 1, C p11). It also recommends that the state should act as an informed, accountable and active owner and establish "a clear, consistent and explicit ownership policy" and that it should "define the overall objectives of state ownership, the state's role in the corporate governance of SOEs and how it will implement its ownership policy" (Annotation to Chap 11, C p14).

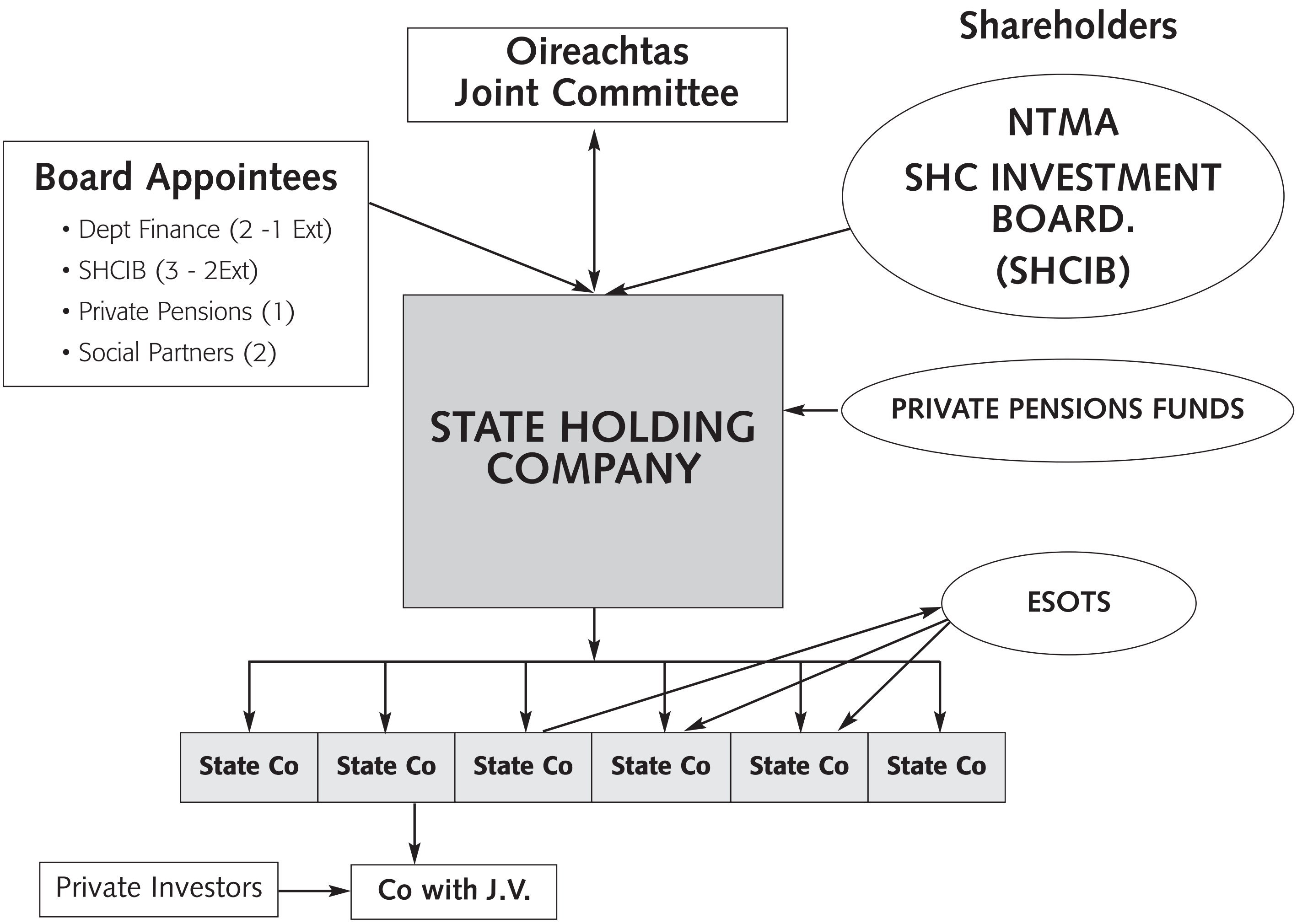
Importantly, from the perspective of this ICTU policy paper, the OECD report also recommends that the exercise of ownership rights be clearly identified within the state administration and that this may be facilitated by "setting up a coordination entity or, more appropriately, by the centralisation of the ownership function" (Annotation to Chap 11, D p16). The body can be under one ministry or independent, as Congress advocates.

A Holding Company

Congress proposes that the shareholding of each of the commercial state companies be transferred from the Department of Finance to a new holding company with its own board and with its role set out clearly by statute. The holding company would be legally owned by a new board of the National Treasury Management Agency (NTMA[5]), State Holding Company Investment Board (SHCIB), with

[4] OECD, 2005, "OECD Guidelines on the Corporate Governance of State Owned Enterprises,". Paris.

[5] NTMA has already four boards under its stewardship. NTMA Advisory Board, NPRF Commission, State Claims Agency Policy Committee and National Development Finance Agency. The State Holding Company Investment Board would be the fifth.



economic ownership held for the benefit of the nation. It would act similarly to an institutional shareholder, but follow its statutory objectives. It could issue additional shares, up to a maximum level, to be sold to a group of private pension funds. This stake could be say, 14.9 per cent (the same as the current maximum held by other private shareholders in these companies, the employees through the ESOTs) or as high as a maximum 25 per cent.

The SHC will assess the equity investment proposals of individual companies and decide how much, if any, it will invest in them. It will have money from dividends, but in addition, it will have access to the funds released through the shareholding sold by the SHCIB to the group of private pension funds (e.g. only a 10 per cent holding by the pension funds in the SHC would generate €700m immediately - ready to be drawn down for investment in the individual companies). We envisage that the new board, the SHCIB, would probably have to invest much of this capital with its sister company, the NPRF, until these funds are drawn down. It could be a time before it reaches a demand for €700m in new equity. The NPRF might later seek to invest in the SHC after a commercial decision is taken on an arms length basis, with government agreement.

The State Holding Company would be accountable and report to a powerful and well resourced Joint Oireachtas Committee. Two of the members of the board would be appointed by government, preferably after a rigorous assessment of the candidates and the Chairperson of the SHC would be ratified by the Houses of Oireachtas after debate. It would have a membership of eight, with two from the Department of Finance (the government nominations), three from State Holding Company Investment Board (SHCIB) and would include one representative each from the social partners. One of the nominations of the Department of Finance and two of the NPRF appointees would be external board directors. There would be one nominee from the private pension fund investors on the board of the Holding Company.

The suggested structure is set out in the diagram, above. The shareholding of the individual companies would be held by the SHC Board and in turn its shares would be held by the SHCIB within NTMA and the private pension funds, possibly grouped together as a company. The main decision-maker on additional equity and other major investment decisions such as investment, expansion abroad, purchase of other companies, etc. would be the board of the SHC. However, the board of the shareholding company, SHCIB (and other shareholders) would be included in major decisions, particularly if new equity was required. Where there is an ESOT at individual company level, or private investor, they would also be linked in.

The Oireachtas and Department of Finance would have an advisory role in relation to the operations of the board but the legal responsibility would rest with the board of directors of SHC. There would be annual and biannual reports to the Minister for Finance and to the Oireachtas. Individual companies would continue to report to the Oireachtas committees on consumer, employment and other operational issues.

Under this governance structure, the current governing Minister would now be free to concentrate on the development of public policy appropriate for each sector, etc. Similarly, the Minister for Finance and the Oireachtas would have no influence on *day-to-day activities* of the company and would act only as voices, albeit ones which would be heard, in dealing with the board of the Holding Company on major decisions affecting the companies, such as very large investment, diversification, new equity needs, etc..

The book value of 10 of 18 or so of the SOEs in 2002 (excluding the smaller ports) was over €5.5bn (and the market value is closer to €7-8 billion)[6] and this would be vested in the State Holding Company Investment Company (SHCIB). In turn, the shares of the SHC would be held by the State Holding Company Investment. Contrary to some views of state companies, the value of the sector and of the ten companies privatised to date, at around €16bn, greatly exceeds the total state investment of €1.5bn in the sector.

There are currently two sources of equity for state companies - government equity and to a much lesser degree, private investment by employees through ESOTs. A third source, albeit for subsidiaries, is through joint ventures with private investors, often on a 50:50 basis. The government is currently unwilling to invest in equity in State companies. Therefore, this innovative approach gives rapid access to funding, as required. It does not require investment from taxpayers, but retains control of these important companies, especially monopolies, critical infrastructural companies and those companies deemed as strategic, in public ownership.

It is the purpose of the new governance structure to migrate the semi-state sector into a new focussed environment for their development. The demands on Government means this focussed approach may not always be available to a Minister. Due to the conflicting objectives facing Ministers, it may be advantageous to limit the influence and importantly, the responsibilities, of individual Ministers to that of policy development.

Additionally, the government has found itself unable to be a supportive shareholder and can no longer see itself investing in these companies, even where it would be for the future development of the company where they are profitable. It makes sense to recognise this. Decision-making will become more focused. State companies will have much more freedom to operate, with rapid decision-making on major issues, a supportive shareholder and where required, expert advice from SHC staff.

ESOTs

The role of ESOTs will be unchanged. The new ownership structure may provide opportunities for increased stakes by ESOTs in companies. It is not envisaged that neither employees nor ESOTs would seek any stake in the SHC.

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[6] Sweeney ibid, Chapter 1.

External Equity

Congress believes that there are two new potential sources of equity available to commercial state enterprises, through the SHCIB and through private pension funds. Private funding as currently operational with the individual companies is through joint ventures (JVs) with the private sector and from employees (up to 14.9 per cent maximum) and it would continue.

Instead of the state investing directly in the state companies, it could invest through the SHCIB in the holding company. As the government feels that it does not wish to invest taxpayers' money in the companies, there is a possibility that equity could be invested by the NPRF, a sister fund of the SHCIB within the NTMA. This would come from the €8.3bn received by the NPRF from the net proceeds of privatisation of the ten state companies sold to date. However, as it appears that the government does not wish the NPRF to re-invest any of the proceeds of earlier privatisation funds back into the sector at present, the alternative source of substantial new equity investment in existing state companies is through a sale of a small part of the State Holding Company to a group of private pension funds.

Under this proposal, new equity would be generated by the sale of additional shares in the SHCIB to private pension funds. This model is similar in structure (not in operation, nor culture) to that of the PUK in Britain.[7] In PUK the pension funds agreed to invest a combination of bonds and equity. The investment was undertaken on the clear understanding that it was not the intention to declare a dividend but that the pension funds would get an adequate return at the government bond rate.

The two reasons that the pension funds agreed to invest in PUK were as follows;

1. The pension funds realised the importance of infrastructural investment and saw PUK as the best vehicle to deliver it. This creates activity and opens opportunities for investment in a tight market.

2. Secondly, the UK Government realised that the best structure would be to have a private sector governance model. The main objective of a new governance structure would be to give the companies access to capital and greater commercial freedom while retained in public ownership. To ensure this, they put pressure on the pension funds to invest. It is understood that the pension funds had decided independently to invest for the reason set out above in 1.

Advantages for State Companies of New Equity

The private pension funds would immediately provide substantial additional equity for the state companies. Thus the advantages for state companies of new equity from the private pension funds are as follows:

Access to Capital[8]

The initial investment by the pension funds could be used for investment in the semi-states which will be transferred into the Holding Company. It could be a mixture of bonds and equity, with a fixed return on bonds and the equity might be ordinary shares (see Appendix 1). This would immediately give the state companies[9] access to capital which is one of the primary arguments put forward in favour

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[7] Partnership UK was set up by the UK government to accelerate public private partnerships and to get more private investment into such projects in Scotland and England. Congress is taking only its structure in assisting the development of our model. Its public mission is enshrined in its constitution and it works exclusively for the public sector, even though its shares are held 51 per cent private and 49 per cent by public sector (Treasury and Scottish Office). The suggested model is a working example of how private (ie pension) involvement and its system of governance could work in the context of the State Holding Company.

[8] There is a serious misconception in the eyes of many between investment in these companies and day to day public spending. Some see investment in the company as an opportunity lost to day to day spending on say hospital beds. This is false argument. It neglects the difference between capital and current expenditure. Most importantly, there is no need for the investment of taxpayer' funds, because the Exchequer has received €8.175m in capital receipts from the sale of 7 state companies. €6.3bn of it was the net receipts from Eircom in 1999 and 2000 with an additional €1bn in cash from the three banks in more recent years. This year, the state will invest only €1.5m in a commercial state company, the Irish National Stud, while it will receive over €80m in dividends from these companies.

[9] A number of state companies are not commercial and unless there is full payment by the state for their social and regional operations, they would not be included in the SHC. They would retain their existing status. The companies included must be run commercially. The state companies which have social roles are An Post, Iarnrod, Dublin Bus, RTE, TG4, VHI. VHI could be included if it were allowed to compete commercially and risk equalisation (a level playing field for health insurers) was introduced. An Post would be included if there was transparent payment for its rural social role and PSO and Dublin Bus if it is agreed that the urban bus subsidy is clearly and objectively determined. This report and the OECD recommends such transparent payments.

of privatisation by a government which has competing demands for public investment.

Better Governance

The second key objective of this structure would be to give the companies greater commercial freedom while being retained in public ownership. It is not that the private funds would inject any new commercial drive into the state companies which is generally not present today at company level, but that they would inject this commercial realism into the attitude of the shareholder. While the majority shareholder would now be the SHCIB, not the Department of Finance, the private pension funds would ensure decisions on major issues are taken rapidly. Corporate Governance would be simplified. Instead of two governing departments, which may themselves be either conflicted between policy initiatives or each other, there is now only one board for the companies to deal with on decisions on major investments. This Board will have a commercial mandate under which it assesses each proposal.

Overcoming State Aid Concerns

The involvement of pension investment and board representation could be used as an additional argument against any future state aid case being taken. It should be kept in mind that the Holding Company will already have been given a commercial mandate on its formation, which can also be used in any future state aid case. The potential success of this argument will depend on how the Holding Company has acted since its formation.

New Ideas, New Ventures

Further, Congress believes that once a community of investors are involved with the semi-states, with the oversight of the Holding Company, they will develop ideas for additional joint ventures. Potential rewards for investing in the companies via the SHCIB could be the preferential right to invest as a financial partner in joint ventures with the semi-states. This would potentially give the state companies the possibility of investing abroad without the whole burden of risk being placed on the taxpayer and with the benefit of external review and risk-sharing.

The Role of the Private Pension Funds

The proposal does give some influence – a minority influence - to the private pension funds, but this is regarded as a very positive influence. It will introduce the State Holding Companies to modern ideas regarding governance which we feel is essential for the future development of the commercial semi-state sector. The new government shareholder representative, the SHC, will be far more commercially focused under this structure than the existing regime. The private pension funds, a minority shareholder, could cite "oppression of minority shareholder" under company law if there are non-commercial decisions or "no decisions" made by the majority shareholder (the state) which are not in the interests of the company, though no such conflict is envisaged.

In the competitive world, this commercial focus is essential. No private investor would tolerate the value destruction proposals currently being forced upon one state company by the shareholder. The private funds would and could not allow such anti-commercial, ideological decisions to be made. It is also expected that they would insist on more rapid decision-making on major issues, though this is likely to occur with the new structure. In this sense, the proposal turns ideology on its head and makes it work in the interest of our members in these commercial state companies and of consumers.

The pension funds are dispersed and only act collectively to select a representative for the board of the SHC. Thus they are passive shareholders. Yet their presence, even with a small shareholding, will put pressure for more performance and dynamism from the companies. This will be in the long term interest of the 46,000 who directly work in these companies, suppliers, taxpayers, consumers and other stakeholders.

The SHCIB, within the NTMA stable of Boards, will be given the existing group of commercial state companies, worth €7 billion. It could be in the strong position of being able to seek further investment in them from its sister Board, NPRF. NPRF has, under its rules, to ensure that there is a reasonable return over time. However, as even a small stake in the SHC by the pension funds will mean that accessing new equity through NPRF would not be necessary.

The issue of liquidity may be important for the pension funds, but it is envisaged that as there would be many of them, there would be an internal market for the shares within the group, perhaps within a company (similar to NTR whose shares are traded amongst institutions and pension funds privately). The private investors will not be seeking an exit as a group, but seek liquidity. Each may seek to exit and must have liquidity i.e. be able to sell his her shares immediately. This they can do with the operation of grey market in their holdings in the SHC.

Under this proposed model, no further equity would be required for the foreseeable future directly from taxpayers, as the private pension investment would meet anticipated demands for new equity for the sector.

The SHC would establish a coherent dividend policy. The dividends would increase with a more commercially driven sector. The current level of dividends from these companies would now be re-invested in the state commercial sector, through the SHC.

In turn, the SHC would pay a coupon on the bonds of the pension funds and/or dividends to its shareholders. The mix of equity and bonds requires further analysis and discussion (Appendix 1). The SHC could declare a dividend to the state if it so chose, or alternatively, its statutory rules might determine that if the return on capital exceeded a maximum, it might trigger such a dividend. Further if the OECD governance recommendation on the state payment for social roles is acted upon, profit levels should increase.

This structure maintains the state's ownership and control of these companies, as the main shareholder, indirectly, through the NTMA. It means that privatisation of key state companies, monopolies and companies in critical areas of the economy becomes unnecessary and that the more dynamic companies can expand if they make the case for additional equity to the SHC. It prevents the transfer of head office functions, skills and of decision-making power to other countries.

Objectives and Operations

The Objectives of the State Holding Company might be as follows:

- Invest in the commercial state companies
- Facilitate their commercial operations
- Earn an appropriate and sustainable return on shareholders' investments
- Assist with strategy review and implementation
- Assist the constituent companies in their development and expansion
- Help set best practice in assessing, procuring and implementing investment in, and by, State companies
- The SHC would provide human and financial resources where they give additionally to the state-owned companies
- Invest in and develop the skills of the staff to maintain the SHC as a centre of expertise in public investment in Irish state commercial companies
- To act with integrity, fairness and transparency

Without being too prescriptive, we suggest that the State Holding Company would have a fairly small staff, with most of them being specialists. A small number of professional financial analysts - similar to fund managers, would be required to oversee the investment needs, expansion and other major financial issues of these companies, within the remit of the role set out by statute.[10]

The OECD report said that one centralised body would allow for bringing together relevant

[10] A number of existing civil servants – public policy analysts - who are familiar with operations and a knowledge of the wider remit of the companies, would also be seconded to the company. They would assist in taking the broader view of the companies' operations to that usually taken by pure financial investors. This small professional staff would be outside the day to day influence of any one Minister or Departments. Again, while trying not to be too specific, we suggest that the roles of the policy Department Minister and the Minister for Finance would be mainly strategic.

competencies by organising “pools” of experts on key matters, such as financial reporting or board nomination.” It also argued that centralisation is also “an effective way to clearly separate the exercise of ownership functions from other activities performed by the state, particularly market regulation and industrial policy” (Annotation to Chapter 11, D, p16). Congress supports this approach.

Accountability

The issue of accountability could be provided in the legislation with a mandate for the Board of the Holding Company to report to the Houses of Oireachtas and the Minister for Finance, as specified earlier. This would be included in the primary legislation necessary for the formation of the Holding Company.

The legislation would also have to spell out the issue of payment to the companies for non-commercial roles, as suggested by the OECD. The old idea of including social or other desirable spending within the remit of a commercial state-owned company without compensation from the state is over. The OECD states clearly that there should be payment from the Exchequer for social and regional roles and that it should be transparent. Congress believes that the explicit recognition of such spending is necessary for the proper development of state-owned enterprise.

Other issues that would have to be included in the legislation would be the transfer of the other appropriate companies into the State Holding Company; the maintenance of the majority stake in the hands of the state and the protection of the Worker Participation Acts in the subsidiaries.[11]

The Joint Oireachtas Committee on State Sponsored Bodies (JCSSB) oversees these companies at present. It has a small budget. It would continue to examine the individual companies as it does at present. These companies will continue to operate as at present, but with two major differences. First, they will no longer have to go through a tortuous process to seek (unsuccessfully) access to new equity. Secondly, they will no longer have to seek permission from the governing Department to make their larger commercial decisions.

However, in order to strengthen democratic oversight, it is proposed that the JCSSB be resourced with a budget in the region of €500,000 to €1m annually by the SHC to be better informed so that it may monitor the activities of the companies more effectively.[12] This is also in line with the argument on governance of SOEs put forward by the OECD, which stated that the SHC “should be held accountable to representative bodies such as the Parliament“ (Annotation to Chapter 11, E, p16).

Conclusion

The proposal for the establishment of a State Holding Company would allow those companies which seek to expand to have ready access to capital (provided their investment proposals were robust). It would also allow those companies to operate commercially and to fulfil non-commercial roles - where they would be explicitly and transparently compensated by the state; it would separate state ownership from policy formulation; and would largely de-politicise the commercial state sector.

In conclusion, the change in governance of these important companies is a radial reform, but it is one which is moving with the flow of trends:

- with the increasingly competitive environment where rapid commercial decisions are required
- where access to new equity must be rapidly decided for expansion purposes, having been professionally analysed
- where new funds would be readily available
- where private capital is allowed in, but in a controlled, passive, but positive way
- it would be a far more transparent system of governance
- it is line with the latest recommendations for governance of these companies from the think tank, the OECD

[11] This is an issue of importance to Congress.

[12] In a similar way, the Regulators are funded by levies on the regulated companies, with the exception of the Competition Authority, which is a burden on the taxpayer.

- it does not cost the taxpayer one penny but will generate capital appreciation for her
- it will generate employment, add value and assist in the development of an additional number of Irish based multinationals when the more dynamic of these companies expand overseas and into new areas in the domestic economy.

The importance of access to capital for expansion and of strengthening the commercial ethos of the state companies must not be underestimated in the existing, highly competitive environment. These proposals for a new system of governance for the sector are essential and in the long term interests of the 46,000 people working in these companies, for their customers, and the tens of thousands working for their supplier companies.

Appendix 1

Assets transferred into Holding Company	say €7bn.
Pension fund investment	say €700m equivalent to 10% (for illustration purposes only). €200 as equity €500 as bonds, at rate* equivalent to 1.25 times present Government bond rate. The mix of bonds and equity requires further analysis.

*The market may result in a slightly higher rate than Government bonds as it will not have the same status nor a letter of guarantee from the state.

Appendix 2

The State Companies

COMMERCIAL STATE COMPANIES

1	Aer Lingus Group (1946)
2	Aer Rianta (1937)
3	Arramara Teo (1949)
4	Bord Gais (1989)
5	Bord Na Mona (1946)
	CIE (1944)
6	BUS ATHA CLIATH – DUBLIN BUS (1987)
7	BUS EIREANN – IRISH BUS (1987)
8	IARNROD EIREANN (1987)
9	Coillte - Irish Forestry Board (1989)
10	Drogheda Port Company (1996)
11	Dublin Port Company (1996)
12	Dun Laoghaire Harbour (1996)
13	ESB- Electricity Supply Board (1927)
14	Galway Harbour Company (1996)
15	The Irish National Stud (1946)
16	New Ross Port Company (1996)
17	Port of Cork Company (1996)
18	Port of Waterford Company (1996)
19	An Post (1984)
20	RTE (1960)
21	Radio na Gaeltachta (1972)
25	TG4
26	VHI (1957)

It is envisaged that only the *commercial* state companies would be incorporated under the State Holding Company. It is essential that they are commercial and generate profits under this structure, as most of them do, taking one year with another, at present.

Thus companies like RTE, TG4, Radio Na Gaeltachta, Iarnrod Eireann and the smaller ports would not be included but would continue to operate as they do at present. (The role of Bus Eireann and Dublin Bus within CIE has to be explored further). The VHI would also be excluded until it is placed on a level playing field with its competitors in regard to competition.

The very small companies, National Stud, Arramara, may be excluded.

On the other hand, the Aviation Authority, a commercial state body, may be included.

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