Revised Response to Government Review of State Companies

1. In July Congress welcomed, with some trepidation, the Government review of the commercial state companies. We thought that this would be a good opportunity to take a long term active policy of wealth and job creation utilising our state companies, just like former insightful politicians especially Sean Lemass, did in the past.

2. However, we were misled. The Review which is now proposed is a simplistic privatisation agenda with some restructuring of some of the companies. This is not a serious review of the potential of the companies, which would see these major companies as developmental, from a long term perspective, not for some short term cash in a fire sale. Their potential for jobs, wealth creation and strategic development has never been so vital now that many leading private sector indigenous companies have imploded.

3. The establishment of a State Holding Company, (SHC) a new Governance structure for commercial state companies, as proposed by Congress in 2005, would free up capital for re-investment in these companies; ensure rapid decisions on major investments; give them clearer objectives; and a developmental role here and internationally.

4. Further, the SHC can and should be used to leverage their considerable assets for borrowing, outside the strictures of the EU's Growth and Stability Pact, which can also be used for a major Investment Stimulus Programme for jobs. Congress now knows that this is definitely feasible, but it is not to be considered by the Review Group/Privatisation Board as determined in its terms by a government determined to cut and cut.

5. Some of the largest indigenous companies are state owned or former commercial state owned companies – ESB, BGE, DAA, and privatised,
Eircom, Aer Lingus, Irish Continental Group, Greencore, and the former state banks, ICC, ACC and Irish Life (and Permanent).

6. This Review Group must now recommend the "low road" of sell-off of some of our state companies for short term cash. We have pointed out that the performance of state companies has been very good for two decades. They have made major returns in cash dividends over the years and the sell off would both kill off this income stream and their developmental potential. Further, the cash receipts from those which were privatised far exceeded the state investment in them – demonstrating the high valued added in their operations (but they were sold off in better times).

7. In contrast the performance of many, though not all, of the leading Irish private sector indigenous firms has been disastrous. These enterprise failures have been very costly to many workers and not alone did some of the leading companies collapse, but their appalling management nearly bankrupt the Irish state. The once venerable Bank of Ireland, AIB, Anglo Irish Bank, privatised Irish Life and Permanent and the upstarts like the Sean Dunne companies, Quinn Group, Bernard McNamara, Quinlan Private are hardly exemplars of the kind of enterprise we need to rebuild this economy. With some many leading Irish indigenous private companies so badly managed, innovative thinking on the development of our own companies is urgently required and state owned or partly state own companies must play a key role in thinking.

8. Corporate Governance of private companies has to be radically reformed, moving sharply away from shareholder value to a wider stakeholder model by radically reforming Irish company law. Thus it is insufficient to solely review the

governance of the commercial state owned companies which is necessary, without simultaneously reforming Irish company law for all companies.

9. Had the state banks not been privatised in recent years maybe not all Irish banks would have collapsed as they should have had longer term perspectives, not had perverse incentives for their greedy managements and grossly irresponsible lending. We argued while the terms of reference were being written that that the review must recommend that at least one bank is retained in public ownership to ensure credit is never stopped again for business, as happened with Ireland's banking sector. This will now not happen under the narrow and restrictive terms of reference for the privatisation board.

10. Had there been an active developmental policy towards these state companies over the past 25 years instead of a restrictive and hostile one by Government and its civil service, they could have become world leaders. The ESB has a major power plant in Spain and several in the UK. It was prevented from making a major investment in Poland, one of only two OECD countries not to have had a recession, after the 2008 Crash, by the government for ideological – anti state company - reasons. The DAA was investing in buying and operating airports internationally, until it was curbed by the Department of Transport. It also sought to invest in Dublin well before the new terminal was required, but a report by "independent consultants," hired by the Department of Transport, led to the company being ordered "to sweat its assets." It had bought and operated Birmingham and Dusseldorf airports. It would have bought and operated many more airports had it not been stymied at every turn by the unsupportive shareholders in the civil service, i.e. Finance and Transport. Thus there is a crying need for a State Holding Company, away from the civil service (which can then focus on policy and hopefully from a long term, public interest perspective), to take a commercial approach to the governance and the development of these companies.

11. After the NAMA valuations, the blanket bank guarantee and current fiscal policy, Congress argued that it was vital that further major policy errors are avoided. But now the stupid economic mistakes made by this government are to be compounded. To sell off these companies in a fire sale for some short term cash will be such a mistake. As we said above, not alone would the taxpayer lose the flow of cash from them but we lose their developmental role. A constructive review would argue for this role to be enhanced as a result of this review, had the terms of reference of this government not been largely destructive.

12. To sell off public monopolies would be a double disaster. The ESB, BGE, DAA, An Post, RTE in many areas and Coillte have monopoly operations which must be regulated not privatised. In 1999 the FF/PD government privatised the fixed line monopoly Eircom and we cannot be sure this mistake has yet been learnt. As a largely state owned company Eircom was debt free, profitable and investing heavily in broadband and in its mobile arm. Privatised, it was asset stripped and is a shadow of its former self. In this so-called "Smart Economy," we do not have a decent broadband system – thanks to this ideologically motivated privatisation. Many small investors lost much money when they bought shares in their own company.

13. Some policy makers believe that Ireland's reliance on Foreign Direct Investment (FDI) is under threat as FDI begins to move to emerging economies, especially in Asia. If this is correct, and we must be vigilant as we will increasingly have to rely on indigenous enterprise for job and wealth creation. Ireland has some very fine Irish companies. But we have also seen that whatever the faults of some state owned companies in the past, they pale, utterly, when compared to the incompetence of many, though not all, of the Irish indigenous corporate elite in the private sector. Thus new forms of enterprise are needed, including state owned, public-private partnerships, mutuals and cooperatives (as in the food sector) etc.

14. Other countries are utilising their state companies and Sovereign Wealth Funds (SWF) to invest strategically in their own interests. Few are selling off anymore. The Norwegian State fund has just become one of the largest shareholders (6.5%) in Smurfit Kappa, one of Ireland's leading indigenous multinationals. CNOC, the Chinese state oil company is about to become a partner with Irish company's Tullow Oil's find in Africa and even Guinness, the national drink, is now partly owned by the Chinese state. The Chinese Investment Company (CIC) recently bought 1.1% of Diageo making it the 9th largest shareholder. The CIC is a massive Sovereign Wealth Fund owned by the Chinese government which is buying up shares in companies all over the world. Ireland's National Pension Reserve Fund had been doing likewise and it can and should have an investment role in the SHC.

15. Congress now regards this review as largely destructive. It is to make the case for a fire sale. It will reduce the number of Irish enterprises substantially. It will sell of some of the best and largest companies to foreign multinationals. It is clear that lessons have not been learnt. This government is largely the same one that privatised Eircom in 1999. This review will have no choice but to repeat the major strategic mistake of recommending the sell-off of several of our remaining commercial state companies for short-term cash in a fire sale. Alternatively, with some vision and innovative thinking, it could see these firms as vehicles to be harnessed with the private sector to develop the Irish economy. Instead of a passive, small scale approach, as has been the weak Government policy on state companies up to now, we could be bold and innovative. If FDI does dries up or lessens, and with the appalling legacy of so many "leading" Irish private sector companies, we really do not have a choice but to take the high road – the developmental road - with our state companies.

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