SLT A New Phase

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Nippon Telegraph and Telephone Corporation's (NTT) entry to Sri Lanka's telecommunications industry with US$225 million, is the single largest direct foreign investment into the country so far.

The world's third largest company and the largest telecommunications company (both in terms of a market capitalization of US$115.86 billion- Forbes magazine, July 27, 1997) it employs 222,000 workers and operates 60 million fixed lines worldwide.

In Sri Lanka, NTT has the immediate task of providing over 300,000 connections on the waiting list of Sri Lanka Telecom (SLT) subscribers which is said to be more than their existing subscribers!

Last month (August), NTT bought 35% equity of SLT with a five year stake in its management. Now, the Government of Sri Lanka (GOSL) owns 61.5% of SLT, while 35% is owned by NTT. The remaining 3.5% of shares will be distributed to Telecom's approximately 8000 employees.

Within the next three years the GOSL will divest SLT shares to the public through the Colombo Stock Exchange and finally hold onto only 51% of SLT, still remaining its major shareholder.

The new board comprises six government appointees, including the chairman, and four NTT officials. A management agreement however allows NTT to run the day-to-day business of Sri Lanka Telecom.

Annual business proposals have to be put up to the board for approval after which NTT has a virtually free hand. Under the agreement NTT's CEO and a senior financial executive will be directly involved with SLT management.

During its five-year management period NTT will be paid a management fee of 1.2% of SLT's net revenue per annum and 0.5% of SLT's gross operating profit per annum.

The massive infusion of foreign capital from the sale of 35% of SLT to the highest bidder NTT, has afforded the government the much needed opportunity to retire some of its accumulating public debt. The government retired Rs 10517 million in treasury bills soon after the sale.

NTT's partnership also takes some of the burden off the GOSL in future capital expenditure on expansion and maintenance. According to a Colombo datelined AP report, NTT has pledged to invest US$300 million for network expansion over the next three years. The Japanese company will also bring in the required technology and management expertise necessary for large-scale expansion.

NTT's presence here also signals the beginning of its Indian Ocean area operations with Colombo as its center. 'We are very interested in the Indian market in particular, NTT's president and CEO, Hideaki Kamitsuma told AP. NTT is already operating in China, Vietnam, the Philippines, Indonesia and Thailand.

In an exclusive interview with 'Business Today,' Public Reform Enterprise Committee (PERC) Director General, Mano Tittawela shed more light on the common public fears that inevitably follow the privatization of a public utility. Sufficient safeguards are in place to protect the subscriber and no immediate tariff hikes are in the offing. Tittawela said, allaying consumer fears on this score pro- voked by some media reports. (SLT revised its tariffs early this year).

Price protection for the subscriber is two-fold, one market-related and the other regulatory, Tittawela explained.

The telecom sector is competitive with two wireless loop fixed phone network operators, four mobile networks, and SLT, adding up to seven players in the field. With over 300,000 prospective subscribers on the waiting list, SLT will not outprice themselves, Tittawela said.

Nearly 85% of SLT's revenue comes from its Colombo subscribers. An unrealistic tariff hike will only result in losing out to the wireless loop operators, who are in a position to undercut SLT with BOI concessions and a fast growing Colombo subscriber base.

The wireless loop operators are also bound by agreement to expand their networks countrywide, within the next year. With the wireless loop operators and the mobile networks offering competitive installation prices and pack- ages, SLT no longer has a monopoly of the telecom sector and therefore cannot arbitrarily hike tariffs.

Even if the new NTT powered management of SLT decides to increase tariffs to level with inflation etc., it has to obtain the approval of the Telecom Regulation Commission (TRC), a vital player in the telecom industry, Tittawela said. All telecommunication operators including mobile networks will have to obtain approval from this authority for future tariff hikes, Tittawela added.

While the TRC can recommend SLT price increases to the Telecommunication Ministry, the minister has the power to veto a TRC decision. The Telecommunications Regulation Act recommends that the minister does not unreasonably veto a TRC decision.

The 35% stake of Sri Lanka Telecom had been valued by the government valuer at a floor price of US$110 million and a market price of US$149 million and the financial advisors to the telecom privatization appointed by the government valued it in a range between US$160 million and US$190 million.

When the People’s Alliance administration decided to privatize one of the state’s vital and growing assets- telecommunications, two tasks were imperative. One was appointing a top international consortium to assist in the privatization and the other was to involve the employees in the process of privatization.

A joint organization of telecom unions (JOTU) was formed before the actual privatization process. Giving a sympathetic ear to all union problems and grouses, the ministry was also able at this stage, to sort out and solve many worker injustices and anomalies.

The JOTU also participated in the privatization process and the ministry is still holding discussions with JOTU to iron out problems and issues and keep them informed of the changes taking place within SLT after privatization.

By this thoughtful process the ministry was able to circumvent any possible union opposition to the privatization. A special clause in the agreement prohibits worker retrenchment and cutting back on their existing benefits.

SLT has approximately 30 unions. About nine main unions form the membership of JOTU.

Workers may be better off as a result of privatization with increased wages and opportunities of technical training abroad etc., Tittawela said. With subscribers expected to more than double in the near future, more employment will also be generated, through the SLT privatization, he added.

Meanwhile the government awarded the task of initiating the telecom privatization to a international consortium including the DFCC, Deutsche Morgan Grenfell, and Slaughter and May, both international banks, and Delliotte Toche Tohmatsu, International Chartered Accountants.

After an extensive study of SLT, the consortium prepared an information memorandum in the format of a prospectus for international circulation. This launched the first phase of the privatization process where Expressions of Interest (EOIs) were submitted by six international bidders.

This stage was to mainly evaluate the technical competence of the bidders who were NTT, France Telecom, Korea Telecom, Malaysia Telecom, Hutchisons Hong Kong and Buckeye Corporation.

The bidders were also requested to make non-binding financial indications: Buckeye Corporation US$205 million, Korea Telecom – US$200 million, Hutchisons, Hong Kong – US$158 million, NTT – US$140 million, France Telecom US$100- US$200, Malaysia Telecom US$70 million.

These bids were non-binding and only an indication of their financial commitment before they had the oppor tunity to study SLT closely.

A Technical Evaluation Committee then shortlisted NTT, France Telecom and Korea Telecom for final bids which was the second phase of the privatization.

At this stage extensive pre bid conferences were held. A data room provided all information available on SLT.

The three final bidders were invited to complete their due diligence within a period of three months. Before the deadline for the final bids Korea Telecom pulled out because they were considering teaming up with another local private telephone network which would have automatically disqualified them had the deal gone through.

This last minute move left only two contenders for the final bids. NTT with US$225 million and France Telecom with US$160 million.

Three separate agreements; a share purchase agreement, a shareholder's agreement and the management agreement drafted by the legal advisors to the consortium and whetted by the attorney general's department was sent to both the final bidders before their final bids. were submitted, Tittawela said.

NTT incorporated as a private company in 1985 now has 240 subsidiaries and affiliates. In operation for over a century, NTT is today the world's leading telecom company supplying telephone, telegraph, leased circuit, data communications facilities, trading in telecom equipment and other services.

Its presence in Sri Lanka is another strong indication of its global expansion and growth. For Sri Lanka, the privatization of SLT, is more than a simple success.

The government's privatization program spearheaded by PERC has earmarked public utilities among other state-run establishments to be sold to the private sector, preferably to foreign investors.

With more than 30 trade unions, and a virtual monopoly (at the outset) of the sector, the transition of SLT from state to part private ownership and management, handled by a top international consortium is a solid exam- ple of a smooth sailing privatization. The same cannot be said of some other major privatization programs, which are still being tossed up on stormy seas.