



MCCARTHY REPORT RECOMMENDATIONS

Summary of the Group's Recommendations

The recommendations are presented throughout the text of the Report. They can be summarised as follows:

- The Review Group recommends that there should be a planned programme of asset sales to reduce the state's very high level of indebtedness.
- The Review Group do not recommend an accelerated sale process. This would inhibit attainment of value and in many cases would not be prudent or even possible given the requirement for revised regulatory procedures and complex legislation.
- The Review Group are not putting valuations on individual state assets in this report. These depend on many factors and ultimately on what a buyer will pay. The net asset value of commercial company assets whose disposal is recommended is about €5 billion, but net asset value is no more than a rough guide to what might be realisable.
- The Review Group recommend restructuring of state companies and strengthened regulatory arrangements as preludes to possible sale, but also to enhance the competitiveness of the economy even if assets are not sold.
- The Review Group do not recommend that core transmission assets in gas and electricity be sold to private interests in the immediate future. Such assets have been successfully privatised in some countries but we believe that disposal in current Irish circumstances involves risks and that consideration of this option should be deferred.
- The Review Group recommend changes in the governance of state bodies while they remain in public ownership to enhance efficiency and performance. We also propose a review of regulatory arrangements and a new structure for the oversight of regulatory agencies.
- The Review Group are not proposing that all assets be disposed of. In the case of land-based assets in particular, we propose that the state sell the rights to reap the produce of the land but not the land itself.
- The Review Group propose that intangible assets (rights, licences, options, leases etc.) be treated in exactly the same way as tangible assets. They should invariably be sold to the highest bidder.

The Group's appointment pre-dates the resort, in November 2010, to official financing from the International Monetary Fund and the EU institutions. The Memorandum of Understanding dated 28 November 2010 mentions the Group's consideration of these issues and enjoins the Irish authorities to consult with the IMF/EU later this year. It does not specify any target for an asset disposal programme.

The Review Group are proposing a planned, prudent approach designed to secure maximum value to

reduce the debt burden and to meet and protect the public interest, decisions on which are a matter for the Government and the Oireachtas.

The Policy Context of Asset Sales

Recommendation 1

The Review Group recommends that any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value enhancement of privatised entities through weak regulatory arrangements.

Recommendation 2

The Review Group recommends that any privatisation legislation involving companies operating critical infrastructures in Ireland should include explicit provision for resolution or step-in powers. The United Kingdom rules provide a possible template.

Market Design and Regulatory Reform

Recommendation 3

The Review Group recommends that the objectives of economic regulatory agencies need to incorporate, explicitly and on a common basis, the minimisation of cost to the rest of the economy. More generally, the structure of economic regulation needs constant revision and the prospect of further disposal, in whole or in part, of the state's direct ownership in certain sectors requires that adequate regulatory arrangements be in place in advance of ownership changes.

Recommendation 4

The Review Group recommends that a comprehensive review of the legislation governing economic regulatory agencies be undertaken and that necessary legislative amendments be enacted prior to any state disposals.

Recommendation 5

The Review Group recommends that the Department of Enterprise, Trade and Innovation, which already has responsibility for competition policy, should become the parent department for all economic regulatory bodies, and should take responsibility for their supervision and performance measurement and for legislative updating.

Recommendation 6

The Review Group recommends that levies on regulated entities, including license fees and other miscellaneous charges, should accrue directly to the Exchequer, and that to strengthen their independent role the operating budgets of economic regulatory bodies should be a charge on the Central Fund.

Recommendation 7

The Review Group recommends that central government departments responsible for policy in areas such as energy and transport should ensure adequate internal resources for the task and should avoid excessive reliance on regulatory agencies and outside consultants.

Recommendation 8

The Review Group recommends that economic regulators should be relieved of responsibility for extraneous administrative functions.

Recommendation 9

The Review Group recommends that there be a single regulator for the broadcasting and telecommunications (including postal) industries.

Recommendation 10

The Review Group recommends that the Health Insurance Authority should be absorbed by the Financial Regulator.

Recommendation 11

The Review Group recommends that, in the event that a customer financed water industry structure emerges, this monopoly should be regulated through expanding the role of the Commission for Energy Regulation rather than through the establishment of yet another sector regulator.

Recommendation 12

The Review Group recommends that a comparison be made of pay and conditions in all commercial state companies with those elsewhere in the Irish labour market and in competitor countries, in particular in the UK, in order to assure that the cost structures in these companies are competitive with their counterparts. The outcome of this review should determine the approach of economic regulators to costs allowable in tariff determination.

Recommendation 13

The Review Group recommends that sector regulators should seek explicit justification of mass market advertising budgets from regulated monopolies and should disallow from cost recovery any element they deem commercially unnecessary.

Recommendation 14

The Review Group recommends that the legislation governing economic regulatory bodies should permit them to grandfather certain regulatory provisions for pre-existing operators when regulatory policy changes.

The Commercial State Companies in Aggregate

Recommendation 15

The Review Group regards the regular payment of a reasonable dividend to the shareholder as good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.

Recommendation 16

The Review Group recommends that the exercise of the shareholder function in all state commercial companies should be centralised in a specialised unit located in the Department of Finance. This unit should also take responsibility for whatever asset disposal programme is decided on by government.

The Policy Framework for State Energy Companies

Recommendation 17

The Review Group recommends that policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.

Recommendation 18

The Review Group recommends that, if security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.

Recommendation 19

The Review Group recommends that carbon emission targets should be pursued on a least-cost basis and that current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.

Recommendation 20

The Review Group recommends that an early review, before divestment, be undertaken of the system of energy regulation in Ireland. The review, which should be conducted by persons familiar with energy regulation systems internationally, should consider the robustness of existing arrangements in the light of possible ownership changes, and *inter alia* the extent to which the progressive integration of electricity markets across national frontiers implies better coordination, or merger, of regulatory functions between neighbouring European countries.

Electricity Supply Board (ESB)

Recommendation 21

The Review Group recommends that the transmission grid, including the high-voltage system in Northern Ireland, be transferred to EirGrid and retained in public ownership as a regulated monopoly. The transfer prices for these assets should reflect their regulated asset valuations. The Review Group notes that unbundling is not an end in itself but a policy designed to increase competition and efficiency in the industry.

Recommendation 22

The Review Group recommends that all hydro units should be transferred to EirGrid and should be operated by them as regulated assets.

Recommendation 23

The Review Group recommends that the ESB be required to dispose of further generating capacity in Ireland, the units to be sold to be selected by the CER. This should happen regardless of any ESB ownership decision. No acquirer should be permitted to bid for capacity which would bring its Irish market presence above about 2,000MW. There should be no regulatory inhibition to generators owning supply businesses, subject to competition law.

Recommendation 24

The Review Group recommends that the ESB's energy supply business, electricity distribution business, generation assets (after some divestment), international investment, and consulting and engineering businesses should be sold as a single entity.

Recommendation 25

Should the ESB be retained in state ownership, the Review Group recommends that, in order to assist in deleveraging the state balance sheet, all of its overseas interests should be disposed of and that there be no further expansion outside the island of Ireland.

EirGrid and the High-Voltage Electricity Transmission Grid

Recommendation 26

The Review Group recommends that EirGrid's Grid targets be re-considered in the light of demand developments and our recommendations regarding reduced wind penetration.

Bord Gáis Éireann and Gas Industry Structure

Recommendation 27

The Review Group recommends that BGÉ's regulated transmission and interconnector assets should be retained in state ownership. Consideration should be given to the establishment of a distinct state body to own and operate these assets and also to the option of merging these operations into EirGrid.

Recommendation 28

The Review Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, should be privatised as a single entity.

Seaports and Port Industry Structure

Recommendation 29

The Review Group recommends that the state-owned ports, including Rosslare, should be restructured into several competing multi-port companies, built around Dublin, Cork and Shannon Foynes. The Competition Authority should be consulted concerning the amalgamation process.

Recommendation 30

The Review Group recommends that privatisation of some or all of the ports should be considered, ideally after the recommended restructuring. The adequacy of competition in the sector on an all-Ireland basis should be reviewed prior to privatisation and suitable regulatory arrangements instituted if deemed necessary.

Bord na Móna

Recommendation 31

The Review Group recommends that the government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.

Coillte Teoranta

Recommendation 32

The Group recommends that the state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.

Recommendation 33

The Review Group recommends that the replanting obligation attached to Coillte and grant-aided forestry should be discontinued.

Recommendation 34

The Review Group recommends that, in order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts

to reward forest owners for the value of carbon sequestered by new forests after 2013. For farmers in receipt of the current range of financial incentives, we recommend that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.

State Airports and Aer Lingus

Recommendation 35

As an exception to our general recommendation on dividend policy, the Review Group recommends that no dividend be sought from DAA for the present.

Recommendation 36

The Review Group recommends that the DAA should dispose of its non-core assets, primarily overseas, as a means of substantially reducing its debt exposure. The timing of this deleveraging programme should be determined by the company board. In due course, privatisation of the airports should be considered.

Recommendation 37

The Review Group recommends that, whether DAA's airport assets are privatised or retained in state ownership, the regulatory arrangements need to be reviewed and in particular the scope for political intervention in capital investment decisions curtailed.

Recommendation 38

The Review Group recommends that the Aer Lingus shares be disposed of as soon as is opportune.

The Irish Aviation Authority

Recommendation 39

The Review Group recommends that the Government explore the possibility of merging Irish air navigation operations with NATS and possibly other North-West European services. In the event of a merger, the state's share should be disposed of for the benefit of the Exchequer.

Coras Iompair Éirean (CIE)

Recommendation 40

The Review Group recommends that CIE's tours business, Rosslare port, Expressway and other bus businesses competing directly with private operators should be disposed of. Policy should seek to limit the level of public subsidy through greater efficiency and the amount of capital to be invested in further transport projects should be severely constrained. The Review Group recommends that the privatisation of all or part of Dublin Bus should be considered in due course, but only after government has decided on a model for competition in the Dublin bus market.

Public Service Broadcasters (RTÉ and TG4)

Recommendation 41

The Review Group recommends that the portion of the license fee allocated to the Broadcasting Fund, currently just 7%, should be increased substantially, in order to better equalise conditions of competition between RTÉ and the private broadcasters.

Recommendation 42

In the interests of transparency, the Review Group recommends that RTE's provision of Irish language content to TG4 under the provisions of the Broadcasting Acts is transacted on a commercial basis, and funded by TG4 from within its revenues. The respective Exchequer support of each broadcaster should be adjusted accordingly to take account of the transaction.

Recommendation 43

The Review Group recommends that RTÉNL be disposed of as a regulated entity with appropriate safeguards in place to ensure its availability to the state and fitness for purpose in the event of a national emergency.

Recommendation 44

In line with the position taken by the Review Group generally on allocation of radio frequency spectrum (see Section 19 on Intangible Assets), the Group recommends that rights to use spectrum for broadcasting purposes are allocated using a market-based approach that promotes the most efficient management and use of the spectrum resource.

An Post and the Postal Market

Recommendation 45

The Review Group recommends that the grant of a new seven year licence to operate the National Lottery should be the subject of an open competition.

Recommendation 46

The Review Group does not consider that An Post is a ready candidate for asset disposal in the near term. Instead, the focus of management must be on ensuring a sustainable future for the company through cost containment.

Irish National Stud, Horse Racing Ireland, Bord na gCon

Recommendation 47

The Review Group recommends that the National Stud be disposed of.

Recommendation 48

The Review Group recommends that HRI should dispose of its racecourse interests if commercially satisfactory terms become available.

Recommendation 49

The Review Group recommends that Bord na gCon should dispose of its interests in greyhound tracks if commercially satisfactory terms become available.

Recommendation 50

HRI and Bord na gCon should dispose of their Tote interests if commercially satisfactory terms become available.

Asset Management in Certain non-Commercial Sectors

Recommendation 51

The Review Group recommends that there should be one state property management agency and a consolidated register of all state property howsoever owned.

Recommendation 52

The Review Group recommends that an annual target should be set for sales of state property over each of the next five years and the responsibility for this should be given to a single agency.

Recommendation 53

The Review Group recommends that a study should be completed as soon as is practicable on the means and feasibility of privatising the operations, but not the ownership, of bodies such as the Property Registration Authority.

The State's Intangible Assets

Recommendation 54

The Review Group recommends the introduction of auctioning of quotas into Irish fisheries policy as part of the forthcoming reform of the Common Fisheries Policy.

Recommendation 55

The Review Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.

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