

# TÜSIAD REPORT ON PRIVATIZATION

THE SPECIAL CONDITIONS AND FRAMEWORK  
FOR A SUCCESSFUL IMPLEMENTATION



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

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## F O R E W O R D

Taking into consideration the great importance and potential which the privatization program has for the future of a market economy in Turkey, this Report was prepared for the purpose of creating a climate of discussion and conciliation for the success of this program.

TUSIAD is a voluntary private-sector organization which acts in the public interest, and it is its intent in its publications to remain scientific and impartial. For this reason, none of the evaluations specified in the Report have no relation with the views of the members and/or with official opinion.

The Report was prepared by Şinasi Ertan, Vice President of the TUSIAD Board of Directors (in 1986), by Secretary General E.İhsan Özol, by Ahmet Ertürk Head of the Relations with Public Sector Department, and Researcher Cem Payaslıoğlu. The study of the privatization program in the Great Britain was carried out by Ahmet Ertürk.

In the preparation of this Report, use was made of the publications of the State Planning Organization and of the reports by the High Inspection Board of the Prime Ministry and by Confederation of British Industry (CBI).

The Report was typed by Leyla Dinçmen.

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## INTRODUCTION

The appearance in the 1930's of public economic enterprises in our country as a basic vehicle of economic development arose from the economic and social necessities of those years. The inadequacy of the strength of private enterprise in the early years of the Republic to commence the process of development made it necessary for the state to play a leading role in development. For long years, the basic goods and services for which industry felt a need (besides those infrastructural investments and areas of activity in which the attribute of public service predominates which are undertaken by governments in nearly every country) were provided by the public economic enterprises. During these years, these concerns served as an important vehicle in the policy of import substitution being followed, and they made great contributions to the development of the private sector in our country.

Nevertheless, the other side of the coin was not quite so bright. The beginning of efforts to improve the SEE's goes nearly as far back as the years in which those concerns were established. This fact is an indication that the establishment of economic enterprises by the state brought with it a great number of problems which perhaps can never be resolved. From the 1930's on, efforts for the improvement and reorganization of the SEE's were never once off Turkey's economic and political agenda: the program of every government contained provisions concerned with how a solution was to be provided for the problem of these institutions, and every government in power felt the need to pay priority attention to this question. For a solution to this problem, quite a lot laws, governing statutes, and regulations were issued; a variety of committees, subcommittees, coordination committees, etc. were set up; legislation pertaining to the reorganization of the public enterprises and the various bodies established for that purpose assumed the aspect of ongoing and deep-rooted institutions in Turkey.

Whether by international criteria or by comparison with the Turkish private sector, the fact that the public enterprises functioned at high cost and low productivity assumed the aspect of an important factor leading the development of a generally adverse structure in the Turkish economy - and particularly in Turkish industry - which far outweighed their apparent advantage in providing cheap raw and intermediary materials for industry. Similarly, the necessity of covering their requirements for working and investment capital from the Central Bank and from the Treasury was for years a heavy burden on both the Turkish economy and the Turkish people.

The costly experiment with the SEE's undertaken in our country and the failure of the various efforts expended for their amelioration to achieve anything significant shows that so long as no radical changes are made in the ownership and especially in the management of the public corporations, the various legal and administrative measures which might be taken will be unable to turn them into productive and rationally functioning organizations. The fact that the reports by various commissions established at a variety of intervals contain the same or nearly similar proposals, indicate on the one hand that these proposals were not or could not be implemented and that thus the same problems continued to be experienced, while on the other hand it emphasizes that governments were little disposed towards solutions which might reduce their political and financial authority over the public economic enterprises.

The failure on the part of all these efforts has revealed that the actual barrier to making the public corporations into organizations which are more effective and productive is the fact that the pricing, production, investment, and employment policies of these concerns are determined from outside, that is, by the government. Under the circumstances then a basic prerequisite is that the SEE's which have been founded in order to engage in activities in accordance with commercial principles in economic areas should be autonomous in specifying such policies. Similarly, the most effective and successful opportunity for achieving such autonomy is the method known as "privatization", in which the ownership and administration of these concerns is turned over to

the public and to the private sector. Privatization therefore should be regarded as an effective method for the modernization and rationalization of the SEE's and of the economy in general, and as an indispensable element of any package of policies intended for that purpose. Not until such a thorough-going solution to the problem of the public enterprises has been achieved can the process of the re-establishment of a condition of free economic competition in our economy be considered accomplished. The reduction to the minimum of the large role which the SEE's play in the development of budget deficits, high inflation, increasing national debt, and other adverse indicators related to these will become possible when believable, radical, and effective solutions have been found for the problem of the public economic enterprises. Were privatization to be evaluated within this framework rather than one of ideological and political considerations, it would become possible to engage in debate on a broader foundation and thus maximize the chances for success.

We note today the implementation of the public divestiture of public economic enterprises as a valid and effective solution in a large number of developed and developing countries with disparate economic approaches chief among them being Great Britain and Japan. Great Britain and Japan are countries which have achieved important successes both at the corporate base and at the macro level by means of this method. Nor is this the first time this subject has come up on the agenda in our country. In the 1930's the fact of the foundation of the Central Bank and of Sumerbank as joint-stock companies which were either open to the public or whose shares were to be turned over to the public (though this was subsequently changed) shows that rather than the traditional SEE model which has come down to the present day, a more dynamic model was anticipated in which the public was also a shareholder. During the 1950's, the subject of divestiture of the public corporations again came up on the agenda. Nevertheless, we have reached the present day without any serious steps being taken in this direction. The failure to have achieved positive results from other measures and the levels of capital, technology, and management which the economy has today reached all have made privatization a more serious matter for discussion.

In order for a number of radical steps being taken along the path towards a market economy in our country to be successful and in order to achieve an effective distribution of resources, it is essential that the state withdraw from markets which lack social and strategic aspects. In a large number of areas nowadays there remains no need for the state to play a role as a pioneer or driving force for the private sector. It has become quite clear that unproductive public incorporations do not perform their functions of regulating the market and that they lead to a major waste of resources. In this regard, privatization must be looked upon as being a basic element of any program of economic reform whose goal is a transition to a market economy.

In order for there to be a thorough-going solution to the problem of the SEE's and for our economy to become healthy, it is essential that privatization be successful. The success of privatization will make a major contribution towards the more productive utilization of the resources which the economy can produce, towards a healthier development of free competition. Aware of this, TUSIAD has decided to prepare this Report for the purposes of casting light on privatization efforts which are still at preparatory stage and of contributing to a broader-based public debate on the subject. For this reason, we have been satisfied to describe the purposes and methods of privatization within a general framework without going into greatly technical details; the technical details of the subject and its implementation related aspects have been left to the authorities.

The Report consists of four parts. In the first, consideration is given in two separate sections to the place and problems of the SEE's in the Turkish economy and to a definition of privatization and its purposes and methods. In parts two and three are described the implementations of privatization in Great Britain and other countries. In the last part we offer a privatization program for Turkey.

## CHAPTER I

### THE PLACE OF THE PUBLIC ECONOMIC ENTERPRISES

#### IN THE TURKISH ECONOMY

##### 1) The Legal Framework

With the exception of special statutes which provided for the granting of SEE status to various economic establishments or for the founding of new enterprises, the first frame law concerned with the public economic enterprises was Statute Number 3460 which was passed in 1938. Statutes Number 440 and 468, which were subsequently passed in 1964 in place of this Statute, remained in force for nearly twenty years. Even in the 1980's, the public corporations continued to be one of the matters of primary concern of governments, and by means of Statute Number 2929 passed in 1983 to replace Statute Number 440 for the purposes of reorganization and amelioration, a new system was provided for. Decree with the Force of Law Number 233 passed a short time later on 8 June 1984 abolished Statute Number 2929, and at present, matters concerned with the regulation of the establishment of SEE's, their management, their investment and financing decisions, their subsidiary companies, equity participations, and other matters are covered by Decree with the Force of Law Number 233.

This Decree makes use of the concept of "State Economic Enterprise" as a common term for "State Economic Organization" and for "Public Economic Institution", thus making a distinction between those SEE's for which a public-service orientation predominates and those founded in order to engage in activities in accordance with commercial principles. The first group (those whose public service orientation predominates) are referred to as "Public Eco-

conomic Institutions" (PEI), while those founded in order to engage in activities in accordance with commercial principles are referred to as "State Economic Organizations" (SEO)

A list appended to Decree with the Force of Law Number 233 shows the SEE's subject to that Decree. This list includes 27 "State Economic Organizations", 11 "Public Economic Institutions", 41 "Subsidiary Companies", and 103 "Establishments". In addition, at the end of 1983 the number of companies in which the SEE's had equity participations was 247, of which 54 belonged to DESIYAB, 53 to the Agricultural Bank of the Republic of Turkey, 24 to Su-merbank, 27 companies and 27 sugar beet farmers' cooperatives to Sugar Factories of Turkey Inc., 5 to PTT, 8 to the Cement Industries, and 3 to the Cargo Lines of the Maritime Bank.

By means of Decree with the Force of Law Number 233 it became possible for enterprises which previously had been established by law to be established by a Council of Ministers Resolution, while it was stipulated that the amount of their capital would be specified by the Coordination Committee. Thus the power of the legislative organ to found enterprises was turned over to the Council of Ministers. Under the Decree, resolutions concerned with the right to operational related enterprises, subsidiary companies, and establishments were to be adopted by the Coordination Committee while their business was to be carried out by the Public Partnership Board in accordance with Statute Number 2983.

## 2) The Place of the SEE's in the Economy

The Contribution of the SEE's to the Gross Domestic Product (GDP):

The contributions of industrial and operational related public concerns to the GDP show varying sizes.

As expressed in the relevant section of the Fifth Five Year Development Plan, "During the period of the Third Five Year Plan, operation-related Public Economic Enterprises created an average 7.4% of the GDP. During the period of the Fourth Plan, this percentage rose to 8.4%. In the case of the share of the SEE's engaging

in activity in the industrial sector on the other hand, their share in the added value of this sector stood at an average 24.7% during the period of the Third Plan, becoming an average 21.7% during the term of the Fourth, In 1983, this percentage dropped to a level of 18.3%.

The contributions made by the SEE's (excluding the energy sector) during the years 1979-1983 in terms of current and fixed prices is as follows:

CONTRIBUTION OF THE SEE's TO THE GDP  
(Current Prices)

Area of Activity	1979	1980	1981	1982	1983
Industry	28	25	23	24	19.4
- Mining	127	108	80	89	94.9
- Manufacturing	19	16	16	15	14.4
- Energy <sup>2</sup>	49	43	41	53	-
Commerce	5	6	5	3	4.4
Transportation/Communications	22	21	21	22	21.9
Financial Institutions	40	47	47	54	37.3
Services, Construction, etc.	2	2	3	3	3.2
Subsidies <sup>1</sup>	18	26	9	19	17.0
Indirect Taxes	19	27	24	23	22.4
GDP(Consumer Prices)	11	11	11	11	10.6

<sup>1</sup>The subsidies made to the SEE's are assistance made from the General Budget and from other sources. They do not include the subsidies received pursuant to Article 35 of Decree with the Force of Law Number 233 or other duty-related losses.

<sup>2</sup>The figures for 1983 do not include the Turkish Electrical Corporation.

Source: The General Report for 1983 on the State Economic Enterprises (The High Inspection Board of the Prime Ministry)

CONTRIBUTION OF THE SEE'S TO THE GDP  
(Fixed Prices)

	1979	1980	1981	1982	1983
Industry	34	28	24	25	19.1
- Mining	127	108	80	89	94.9
- Manufacturing	19	16	16	15	14.4
- Energy <sup>2</sup>	49	43	41	53	-
Commerce	5	6	5	3	4.4
Transportation/Communications	22	21	21	22	21.9
Financial Institutions	40	47	47	54	37.3
Services, Construction, etc.	2	2	3	3	3.2
Total	13	12	11	11	9.6
Subsidies <sup>1</sup>	18	26	9	18	17.0
Indirect Taxes	19	27	24	22	22.3
GDP (Consumer Prices)	12	12	11	11	9.8

Source: The General Report for 1983 on the State Economic Enterprises  
(The High Inspection Board of the Prime Ministry)

The Share of the SEE's in Employment:

The number of SEE employees during the years between 1979 and 1983 and the civil employment figures in Turkey on a sectoral basis are shown below.

SECTORAL CIVILIAN EMPLOYMENT FIGURES  
IN TURKEY AND AT THE PUBLIC ECONOMIC ENTERPRISES

	1979			1980			1981		1982		1983		
	SEE's	Turkey	%	SEE's	Turkey	%	SEE's	Turkey	SEE's	Turkey	SEE's	Turkey	%
Industry (Mining, Manuf.)	340	1794	18.95	335	1771		312	1822	312	1855	299	1911	15.65
Transportation/ Communications	159	492	32.32	158	480		152	491	156	498	161	507	31.76
Commerce and Banking	75	846	8.87	77	839		76	870	77	892	80	913	8.76
Services and Others	14	2578	.54	14	2621		13	2673	13	2740	14	2795	.50
Subtotal	588	5710	10.30	584	5711		553	5856	558	5985	554	6126	9.04
Agriculture	-	9529	0.00	-	9520		-	9512	-	9482	-	9451	0.00
Total	588	5239	3.86	584	15231		553	15368	558	15467	554	15577	3.56

Note: 1) 1983 SEE industrial figures do not include TEK

2) "Commerce and Banking" also includes Insurance

Source: General Report for 1983 on the State Economic Enterprises

The share of employment by the State economic enterprises in total employment (excluding agriculture) was 10.3% in 1979, but this became 9% in 1983. However TEK (the Turkish Electric Company) is not included in 1983 figures, and for that reason, when TEK's 1982 personnel figure of 26,000 is also taken into consideration, the percentage for 1983 becomes 9.46%. This decline was greatest in the industrial sector: in transportation/communications and commerce/banking, the drop was less.

As will be seen from the foregoing table, there was in all sectors (excepting agriculture) a 7.3% increase in 1983 as compared to 1979, this increase appearing to be greatest in the commerce/banking and services sectors. In the SEE's on the other hand, notwithstanding the decrease during the same period in the industrial sector and in the services/others sector, there was an increase in the commerce banking and transportation & communications sectors, and as a result, there was a net 5.8% decline of 34 thousand individuals. However if the TEK employment figures are taken into consideration, the drop becomes 1.4%.

#### The Share of the SEE's in Production

The production of a number of goods and services by the SEE's and their share in total production are shown below.

As will be seen from the following table, the SEE's have a monopoly in the production of a number of goods and services (such as copper, sulphur, railways, etc), while they predominate in many types of production (such as mining, iron/steel, chemicals, electricity, etc.).

In the mining sector there was an increase between 1979-1983 in the SEE's production of lignite, iron ore, and sulphur, while there were decreases in other types. During the same period, there appear to have been increases in manufacturing industry production other than of cement and railway cars, with the highest rates of increase appearing in petroleum and petrochemicals.

PRODUCTION OF VARIOUS GOODS AND SERVICES BY THE STATE ECONOMIC ENTERPRISES IN 1979 AND 1983

	1979			1983			%4-Year Change		
	Turkey	SEE's	%	Turkey	SEE's	%	Turkey	SEE's	
<b>1. Mining</b>									
a) Primary Energy Sources									
-Coal (ready for sale)	1000 tons	4051	3934	97.11	3537	3514	99.35	- 2.6	- 2.8
-Lignite (ready for sale)	1000 tons	13295	11065	83.23	20282	17744	87.49	11.1	12.5
-Crude Oil	1000 tons	2833	1152	40.66	2204	969	43.97	- 6.1	- 4.2
b) Metal Ores									
-Iron Ore (unprocessed)	1000 tons	4500	1447	32.16	3678	2240	60.90	- 6.5	11.5
-Copper (blister)	1000 tons	22	22	100.00	19	19	100.00	- 3.6	- 3.6
-Chromium Ore (unprocessed)	1000 tons	458	240	52.40	465	194	41.72	0.4	- 5.2
c) Non-Metal Minerals									
-Borax (cholemanite+tincal)	1000 tons	1172	1016	86.69	1213	1010	83.26	0.8	- 0.1
-Sulphur (pure)	1000 tons	21	21	100.00	31	31	100.00	10.2	10.2
<b>2. Manufacturing</b>									
a) Consumables									
-Sugar	1000 tons	983	655	66.63	1630	1150	70.55	13.5	15.1
-Carcass Meat	tons	410000	55611	13.56	542600	51665	9.52	-	-
-Packaged Tea	1000 tons	70	70	100.00	97	97	100.00	8.5	8.5
b) Intermediary Goods									
-Liquid Steel	1000 tons	2352	1077	45.79	3930	1111	28.27	-	0.8
-Petroleum Products	1000 tons	10310	8897	86.29	15828	13323	84.17	11.3	10.6
-Petrochemical Products (non-fiber)	1000 tons	118	116	98.31	261	171	65.52	23.0	10.2
-Chemical Fertilizers	1000 tons	3296	1653	50.15	7075	1078	15.24	21.0	5.9
-Cement	1000 tons	13912	4473	32.15	13594	4448	32.72	- 0.4	- 0.2
-Paper/Cardboard	1000 tons	442	301	68.10	568	393	69.19	6.5	6.9
-Cotton Textiles	mill.m.	1470	158	10.75	924	190	20.56	-11.0	4.7
-Woolen Textiles	mill.m.	62	6.5	10.48	49	7	14.29	- 5.7	0.2
c) Capital Goods									
-Locomotives	units	35	35	100.00	-	-	-	-	-
-Railway Cars	units	1305	1305	100.00	1135	1135	100.00	- 3.4	- 3.4
-Agricultural Tractors	units	14317	1050	7.33	41799	5386	12.89	30.7	50.1
<b>3. Energy</b>									
a) Secondary Energy									
-Electricity	kwh	22522	18934	84.07	27347	(x)	-	-	-
-Coking Coal	1000 tons	2044	1283	62.77	2490	1425	57.23	5.1	2.7
<b>4. Transportation and Communications</b>									
a) Passenger Transport									
-Railways	1000 p/km.	6799	6799	100.00	5721	5721	100.00	- 4.2	- 4.2
-Airlines	mill.p/km	2930	2930	100.00	2552	2552	100.00	- 3.4	- 3.4
-Maritime Lines	1000 per.	141702	141702	100.00	130303	130303	100.00	- 2.1	- 2.1
b) Cargo Transport									
- Railways	mill.t/km	5621	5621	100.00	6123	6123	100.00	1.7	1.7
- Airlines	mill.t/km	261	261	100.00	-	-	-	-	-
c) Radio Broadcast Time									
Radio Broadcast Time	1000 min.	4091	4091	100.00	3619	3619	100.00	- 2.4	- 2.4
Television Broadcast Time	1000 min.	138	138	100.00	109	109	100.00	- 5.7	- 5.7

(x) No figures can be given as TEK's annual report was not released.

Source: The General Report for 1983 on the Public Economic Enterprises (The High Inspection Board of the Prime Ministry)

### The Share of the SEE's in Investments

The contrast between public and private-sector capital investments for the years 1979-1983 are shown in the following table in terms of current prices.

The ratio of SEE investments to total public investments realized in 1979 was 54%, while their percentage of total (public+private) investments was 30%. In 1982, 32.6% of fixed capital investments were realized by the SEE's, while in 1983, this was 23.7%. From a sectoral distribution standpoint, the energy, manufacturing, and transportation sectors occupy first place with their shares of 26.6%, 21.6% and 19.1% respectively. In the public-sector investment program for 1983, priority was given to investments in energy and other infrastructure areas which were creating bottlenecks in the economy.

#### PUBLIC AND PRIVATE SECTOR INVESTMENT IN TURKEY 1979-1983 (Current Prices)

	1979		1980		1981		1982		1983	
	Program	Perfor.								
A. Public Sec.										
-SEE's	106174	125976	217794	287903	397771	418177	494487	533483	535497*	512231*
-Others**	102690	105750	157253	197010	360255	342534	428230*	459817	723303	787763
Subtotal	208864	231726	375047	484913	758026	760711	922717	993300	1258800	1299994
B. Private Sec.	161100	176450	347653	300000	447400	545000	705000	646700	830000	853100
Total	369964	408176	722700	784913	1205426	1305711	1627717	1640000	2088800	2153094

\*Does not include TEK figures.

\*\*The "Other Public Sector" and "Private Sector" programs are the initial programs for 1983 as no revised programs could be found. The PEE programs on the other hand are the revisions.

Source: The General Report for 1983 on the State Economic Enterprises  
(The High Inspection Board of the Prime Ministry)

Fixed capital investments by the SEE's in terms of 1971 prices and their share in total investments in Turkey are shown in the next table.

As may be seen from this table, although the share of SEE investments in total investments realized during 1979 in terms of 1971 prices was 28.6%, in 1980, this rose to 36.6%, remained at 32% in 1981 and 1982, and was 23.7% in 1983.

PUBLIC AND PRIVATE SECTOR INVESTMENTS IN TURKEY  
1979 - 1983  
(1971 Constant Prices)

	1979		1980		1981		1982		1983	
	Value	%								
A. Public Sector										
1) SEE's	14367	28.52	20720	36.68	18917	32.03	19179	32.53	10615	23.79
2) Others	13493	26.79	14180	25.10	15495	26.23	16530	28.04	16325	36.59
Subtotal	27860	55.31	34900	61.78	34412	58.26	35709	60.57	26940	60.38
B. Private Sector										
Total	22514	44.69	21590	38.22	24654	41.74	23249	39.43	17680	39.62
Total	50374	100.00	56490	100.00	59066	100.00	58958	100.00	44620	100.00

Source: The General Report for 1983 on the State Economic Enterprises  
(The High Inspection Committee of the Prime Ministry)

Financing the SEE's

Investment performance during the years 1981-1985 by State Economic Enterprises acting as entrepreneurs, the difference between resources and payments, and the need for additional financing are shown in the following table.

THE INVESTMENT/RESOURCE DEFICIT IN THE SEE'S  
AND THE ADDITIONAL FINANCING REQUIREMENT  
(TL million)

Year	Investments	Resources- Payments	Additional Financing Required
1981	405788	-43194	448982
1982	532884	68188	464696
1983	768884	174157	594727
1984	1170915	450143	720772
1985*	1703739	487865	1215874

\*Estimated Performance

Source: Fiscal Year 1985 Budget Justification

In the table above we see that in 1981 the SEE's possessed a negative resources/payments balance, and that their investment requirements were covered entirely from external sources. In 1982, the SEE's created a positive resource/payment balance and covered 12.7% of their investments from their own resources, this percentage rising to 38.4% in 1984. In 1985 it is estimated that they will cover 28.6% of their investments from their own resources, and thus, the ratio of net worth to investments in 1985 will have dropped as compared to 1984.

Below on the other hand we show the resources by means of which the additional financing requirements of the SEE's are covered.

DISTRIBUTION OF ADDITIONAL FINANCING FOR THE SEE's  
(TL million)

Year	Additional Financing	Budget	External Project Loans	Support and Price Stability Fund	State Investment Bank	Fund
1981	448982	229577	93759	73792	51854	-
1982	464696	204960	113772	75628	51957	18379
1983	594727	292000	154863	108446	39418	-
1984	720772	238782	257835	172952	51203	-
1985*	1215874	171000	501026	241000	37551	265297

\*Estimated Performance

Source: Fiscal Year 1986 Budget Justification

As will be seen from the table, the share of budgetary resources in the funding of the SEE's additional financing requirements has been dropping, while there appears to have been a major increase in the share of external project loans.

### 3) Problems With the State Economic Enterprises

Although some of the problems created - in our country and in other countries having the same conditions - by the state's possession of a direct control over an important share of the volume of production, employment, and investment by means of its establishment and operation of economic enterprises arise from administrative errors (errors in the location of the establishment and in the selection of technology, mistakes in employment policies, etc.) and from errors in business operations, the really important problems appear as the natural result of the state's penetration of the market as an entrepreneur.

The problems of the SEE's stem basically from the fact that they are dependent upon the state and that they are not subject to the rules of free competition. The most critical indicator of their dependency upon the state, that is, of their lack of independence, is the fact that decisions concerning investments, employment, financing, and pricing are all made outside themselves (by governments). Not being subject to the rules of free competition on the other hand implies the elimination of the conditions which make rational production and operation necessary. The natural result of unproductive production and operation is loss of one's market share on account of low quality, high costs, high prices, and break downs in production and distribution. Since they are increasingly further removed from the danger of having to withdraw from the market, it is not to be expected that the SEE's would endeavor to achieve a rational structure. Particularly since the SEE's produce basic input materials and are in a position of monopoly in the market, the whole of society bears the burden of the losses which they cause the economy in this way. The confluence of their dependency upon the state, of their not being subject to market conditions, and of the covering of their losses out of the Treasury to a large degree eliminates the prerequisites necessary for the SEE's to be productive and effective. These attributes on the one hand lead to high costs, outdated technologies, and distribution breakdowns, while at the same time they give rise to an unhealthy development in the financial structures of these organizations.

Though the reduction after 1980 in the scope of "basic goods and services", and the attainment by the organizations of the ability to freely determine their prices in parallel with increases in their costs did lead to an increase in the SEE's profits and to a decrease in their need for additional financing, these concerns are still far from being operationally effective. During this period, organizations whose prime cost problems are as yet unresolved - in particular, the SEE's, which produce basic inputs for the economy - have been following a policy of maximizing their profits. This makes difficult any solution to the prime-cost problems of other concerns, and it has an adverse effect on the entire industrial cost structure. Indeed, the fact that a 5% savings in the prime costs of the SEE's would correspond to 55% of the budget transfers secured in 1983, shows that they are still a long way from being effective or rational.

The aspects of the SEE's which for years have been the target of criticism, their unresolved problems, and proposed solutions were discussed in detail in the Report on State Economic Enterprises published by TUSIAD in 1982. For this reason, it has been deemed sufficient to relate a number of notes from the relevant section of the SEE Report rather than go into detail here. Some of the problems held in common by the SEE's are listed as follows in that Report:

- The organizational structures of the enterprises are neither rational nor traditional as compared to the purposes of their establishment.

- In-house coordination is inadequate, and they lack smoothly operating systems of communications.

- No long-range targets or policies are set; the targets and policies specified by planning are not realistic.

- The assignment to duty and the dismissal of the SEE's managerial organs to a large degree are directed by political pressures.

- Initiative on the part of managers on such primary matters as investments, financing, product and material prices, wages, and personnel policies is quite limited.

- There is no serious control over effectiveness.

- Investment decisions relevant to the organization are not based upon serious feasibility studies or upon sound projects; investments for the most part are chosen on the basis of political views.

- The realization of investment projects is slow, expensive, and more often than not, based upon outdated technologies.

- Projects are included in the program without having secured necessary financing.

- Modern personnel-related management and principles such as work force planning, determination of wages and salaries on the basis of training and job evaluations, and hiring based upon objective criteria are not put into practice.

- The net worth of the enterprises is inadequate as compared to their assets and volume of business.

- A standart system of accounting and budgeting for the supervision of the enterprises and their management has still not been set up.

- Operation takes place at low capacity. Factories generally are unproductive and operate at a loss.

- Management and purchasing planning and control are not carried out in a manner conforming to the conditions of today.

- No effective quality control has been established.

- Technological developments and techniques of modern operation are not followed or implemented, while those which are employed are not made to work effectively.

- In general there is no research and development work being carried out, or else it is quite insufficient.

- The domestic and particularly the foreign marketing of the products of the SEE's is inadequate. The reduction to the minimum of distribution expenditures has been ignored.

## CHAPTER II

### PRIVATIZATION:

#### ITS DEFINITION, PURPOSES, AND METHODS

##### 1) Definition of Privatization

The policies of state ownership or of the state's establishment of industrial and commercial enterprise which were made common by the conditions created by the world economic crisis of the 1930's and by the process of the reconstruction of economies in some countries - particularly in Europe - after World War II, increased of the public share in the general economy in quite a few countries and resulted in the conduct of activities by public-owned incorporations in various sectors. Nevertheless, changes which were observed with time in economic conditions, and such factors as the public sector's causing the formation of adverse structures in the economy and a rehabilitation of the market economy model led in many countries to the widespread implementation of policies of reducing the importance of the public-owned incorporations in the economy and of restricting the public sector. Privatization assumed the aspect of the most effective method adopted and put into effect in a variety of countries, foremost among them being Great Britain and Japan.

Put briefly, "privatization" is the turning over to private individuals and organizations of economically-oriented enterprises which are managed and owned by the public. Transfer of ownership has two purposes which are related to one another, the first of which is to remove the concerns from the area of the state's direct control and intervention, and the second of which is to reduce the assortment of burdens which these organizations impose upon the

national budget. The accomplishment of the first objective, which is the more important of the two necessitates the transfer of ownership to a degree which will enable management to be turned over to private individuals and organizations. The second objective on the other hand makes it necessary that as far as possible, the entire operation be divested of, especially in the case of unproductive establishments which operate at losses or of organizations which have great funding requirements.

Complete or majority interest divestiture naturally implies privatization of management as well. Nevertheless, in order for management to be removed from the state's control it is not obligatory that public ownership be entirely eliminated. A change in ownership which makes possible the transition of management to private individuals and organizations is also within the definition of "privatization". In addition, for the state to remain a shareholder in some operations (even if only a minor one), may be essential from the standpoint of the success of privatization.

Although privatization may basically be defined as the sale - whether to the general public or to private individuals or organizations - of the stock of public concerns which have been converted into joint-stock companies, nevertheless it may be taken as being an "umbrella concept" covering other methods which lack this attribute. A few of the other methods commonly implemented involve the sale of a portion of the properties owned by public economic enterprises, or of their equity participations and establishments, as well as the formation of public/private sector partnerships in various investments, and the transfer of the conduct of services performed by public organizations to private companies through requests for tenders or the granting of concessions. The leasing out of various publicly-owned concerns operating at a loss for the purpose of making them achieve a productive management or the conduct of special management contracts may also be considered to be part of privatization.

The question of which method of privatization is to be implemented should be determined in conjunction with the general economic situation of the country, with the type of enterprise to be divested of, and with the purposes to which emphasis is to be given. If the intention is not only to find a solution to the problem of the publicly-owned incorporations but also to achieve other purposes (such as developing the capital market, making workers and managers partners in ownership, encouraging the direction of savings into stocks) then the method of privatization through "stock offers" will be the most valid. On the other hand, chances for the privatization of concerns which are in the red or are unproductive using this method are quite low. In addition, if the initial desire is to remove unprofitable organizations from the state's protection and thus partially reduce their burden on the Treasury, one needs to find a suitable method for their disposal. On the other hand, in the case of concerns which are presently operating at a loss but which in the future could become profitable, "leasing" or "management contracts" are the methods which should be given initial consideration.

As may be seen, the question of which privatization method is to be implemented is closely dependent upon the circumstances of the enterprises to be privatized and upon the objectives associated with privatization. In that case, it would be more intelligent to apply various methods according to these circumstances and conditions rather than to emphasize any particular method.

## 2) The Objectives of Privatization

It will be beneficial to examine the objectives of privatization in the two categories of general and special objectives. General objectives may be defined as those which are related to all sectors of the economy and which also possess both economic and social dimensions. Special objectives on the other hand are those which are concerned with the public sector and with the publicly-owned incorporations.

The general objectives of privatization are both long-term and at the same time rather more closely associated with overall economic policies. The accomplishment of these objectives necessitates their being supported by other economic and social measures. The general objectives of privatization may be listed as follows:

- Strengthening the free market economy
- Increasing productivity in the economy
- Improving the distribution of income
- Diversifying the base of capital ownership
- Developing the capital market
- Encouraging the greater tendency of savings towards stocks

As will be seen, these objectives are concerned not only with the whole economy but also with social policies. When looked at from this aspect, privatization should be evaluated as an unavoidable part of any program for the modernization and rationalization of the economy.

From the standpoint of specifying the long-term benefits which privatization will secure for the economy, we think it would be useful to define these general objectives under the following short headings.

#### Strengthening the Free Market Economy

State economic enterprises are not sensitive to market demands from the standpoints of price and quality. The primary reason for this is that SEE's exercise control over the market through their monopoly (or a monopoly-like) status, and more important, they are not faced with the danger of bankruptcy. As a result, publicly-owned incorporations feel no compulsion to take such measures as improving quality or lowering prices and costs in order to avoid losing their market shares. By thus eliminating both these attributes of the SEE's and, to put it briefly, ensuring that they operate under market conditions, privatization will strengthen the market economy. Nevertheless, the accomplishment of this goal is closely dependent upon taking measures which will prevent publicly-owned monopolies from becoming privately-owned ones, and upon the development of

other legal and economic institutions for the transition to a market economy.

#### Increasing Productivity in the Economy

The average productivity of the public sector is always lower than that of the private sector. The primary reasons for this are the failure of the public sector to keep sufficient track of technological developments which would raise productivity, employment policies which increase labor costs, and the like. The fact that public economic enterprises operate at low productivity levels also adversely affects the general level of productivity in the economy. In that case, a contraction of the public sector together with other measures which will raise productivity will also make a contribution to an increase in productivity in the economy.

#### Improving the Distribution of Income

The sale, under special options, of the shares of stock of SEE's whose levels of profitability are high to their employees and management and also to small savers implies a transfer of income to these groups. While making a contribution to raising productivity in the operation, this method also implies the transfer of the increase in productivity to low-income groups. This goal may be regarded as a result of the objective of Diversifying the Base of Capital Ownership. Indeed making a broader cross-section of the population (workers, managers, and small savers) a partner in the ownership of public concerns will have a specific positive effect on the distribution of income, while at the same time, by combining the factors of ownership and labor, it will reduce labor disputes and increase productivity.

Nevertheless, the accomplishment of these objectives is dependent upon carrying out privatization through the sale of stock, and by providing specific financial support and incentives for workers and members of low-income groups who are to purchase such stocks.

### Developing the Capital Market

The thing whose lack is most seriously felt by the capital market in our country (which is still in the developmental stage) is a sufficient offering of securities. Attempts are presently being made to make up for this lack by means of State Debentures, Treasury Bonds, and Income-Sharing Certificates. By offering what the market needs most - stocks - privatization will make a contribution to an enlivening of the market.

It should be clear that the development of a market economy is one of the most important factors in converting savings in the country into investments. Privatization through public stock offering will ensure the development of the market economy, and thus facilitate the recycling of savings in our country into investment.

Nevertheless, the lack of development in the capital market is a factor which affects the success of privatization. For this reason, a phased implementation of privatization will in the same way lead to the capital market's further development.

### Encouraging the Greater Tendency of Savings Towards Stocks

The flow of savings into investments such as real estate and gold, which in a sense are unproductive, is a major problem in our country. Because the capital market is undeveloped and the model of companies which make public stock offerings has failed to take hold, and in addition because of chronic inflation and a number of negative examples experienced in the past (such as the failure of worker-owned companies) an awareness of the investment possibilities of stocks (or the habit) has been prevented from becoming entrenched. This is despite the fact that investing in stocks implies the conversion of savings into productive investments. In the event that it is supported by means of a number of incentive measures, a broad and comprehensive program of privatization will also cause the establishment of an awareness and habit for the purchase of stocks.

The special objectives on the other hand are less comprehensive and more immediate. These we may also group under the following few headings.

- Providing an opportunity for competition by abolishing publicly-owned monopolies
- Reducing the public sector's requirements for external financing (borrowing and budget transfers)
- Creating supplementary sources of funds for the Treasury or the parent operation of a public economic enterprise
- Increasing the level of the SEE's productivity by ensuring the participation of foreign investment.

The first of these objections (abolishing monopolies) necessitates a number of legal arrangements and the development of a number of institutions before privatization can take place. These arrangements include opening up the areas of activity of SEE's which have monopoly status to new firms and thus the creation of a climate of competition in the sector, and particularly in important sectors, the formation of a regulatory organization which will insure their competitive functioning. The taking of such measures is obligatory from the standpoint of preventing public monopolies from turning into private one, and of contributing to the achievement of such general objectives as "strengthening the free market economy" and "increasing productivity in the economy".

Reducing the public sector's requirements for external financing on the other hand is a goal which is of considerable importance from the standpoint of the Turkish economy, which for years has been living with high rates of inflation. The SEE's requirements for external financing are covered by means of such methods as Treasury assistance, compensation for duty losses, and borrowing, all of which accelerate the increase in the supply of money and thus the rise in inflation.

Granting the managers of the SEE's the opportunity to freely determine the prices of the goods and services which they produce

on the basis of their costs has already caused a relative reduction in the SEE's needs for external financing, and has thus lowered inflationary pressure. Nevertheless, the continuous increases now observed in the costs of goods and services have become a significant factor feeding inflationary trends.

A narrowing of the public sector as a result of various methods of privatization not only will lessen the burden of the SEE's upon the Treasury, it will also reduce the necessity of having recourse to high price increases by means of the formation of a more rational structure of management and production. Both these results will lead to a lightening of inflationary pressures.

The latter two goals (creation of supplementary sources of funds for the Treasury or the parent operation and ensuring the entry of foreign investment into the country) reflects the most obvious and immediate consequences of privatization. In many countries, especially in developing countries which are faced with major deficits in their domestic and foreign resources, privatization is put into practice primarily for these reasons, but to regard it as being only so in our country would secure no benefit other than providing a temporary breathing spell. A privatization policy implemented solely for this purpose might be regarded as being a sale of one's assets by a person faced with bankruptcy, whereas privatization should be carried out for much more comprehensive economic and social goals.

The attainment of the general and special objectives which we have briefly defined above, requires the preparation of a multifaceted, wide-ranging program of alternatives showing which method is to be employed in which circumstances.

In the event that the goals listed above are achieved, it should be evident that the entire public, consumers, industry, and the country's economy in general will profit. The increase in the quality of goods and services, and the reduction in prices

will be to the advantage not only of all consumers, but also of the industries which make use of the materiel which the SEE's produce.

### 3) Methods of Privatization

The most common method of privatization is that of selling off the stock. Although it is this method which is most often put into practice in Great Britain and Japan, other methods have also been employed from time to time. Whichever method is to be employed is generally dependent upon the structure of the organization to be privatized, the relevant provisions of law, and the goals to which priority has been given. The methods other than the stock sale are direct or special sale, joint public/private sector ventures in major investments, and requesting tenders from the private sector for public services. Even though they do not lead to an absolute transfer of ownership, the methods of leasing and of management contracts may also be considered as being among privatization techniques since they are preparatory to such a conclusion.

Below we briefly describe the primary methods of privatization whose implementation in our country might be feasible.

#### a) Sale of Stock Through the Capital Market

This method may be defined as the sale of all or a part of the stock in a publicly-owned joint-stock company to private individuals or organizations. In order for this method to be put into effect, the capital of the SEE's whose privatization has been decided upon must first have been divided into shares, and they must have been converted into incorporations subject to commercial law. Next the steps of appraising the assets of the company whose stock is to be offered for sale, of calculating equity, and of determining the price of each share of stock may be completed. Following this, the volume of stock to be offered for sale and the method of sale are determined and an announcement of sale is made, whereupon privatization will have actually commenced.

In other countries, particularly as we find in the British example, the sale of stock may be effected by means of several methods, the first of which is the sale of the stock through

brokerage organizations or directly on the market. In countries where the capital market has taken root and brokerage houses have grown up (as in Great Britain and Japan), the marketing of the stock takes place through such brokers. In our country, such independent organizations are not as yet developed, and for that reason, the relevant departments of banks perform this service. Thus, it is the administration which is actually conducting the privatization which will be marketing the stocks through a broker. This method can be implemented in several ways. In the first, the stocks are offered for sale at fixed issue prices (based upon their face value), this being the normal method of issue. In the second however, a specific base price is set for the shares and they are offered for sale by bidding this price up. In this method as well, the stocks are generally bought up in lots through auctions in which the brokerage organizations participate, who then put them on the market. The inability of the brokerage concern to sell the shares at the price it specifies has no effect upon the administration charged with the divestiture, the reason being that the value of the base price is paid by the broker. Stock which cannot be sold remains in the possession of these organizations. In some cases, a sliding scale of prices may be determined for stocks, and requests will be made for price offers above the base price. If a buyer making the highest bid does not wish to buy up all the shares, he is allotted stocks in the amount that he does want, then the demand of whoever made the next highest offer are met.

b) Stock Sale by Requesting Bids

By this method we mean the sale of stock by means of obtaining bids from particularly groups rather than the sale of the whole or partial lot on the stock market.

Considering that the capital market in our country is not sufficiently developed, announcements could be made through the media of shares which specific groups might be capable of purchasing, especially in the sale of medium and small establishments, and these groups could be asked to make bids. In the announcements to be made for example, it might be indicated that an attempt will be made to share the stock equally (33.3% each) among employees (workers and

management), the local population (in the sale of enterprises outside major areas of habitation), and the domestic and foreign capital groups who will assume management, and that proposals are expected from these groups.

In the event that bids for the shares allotted forthcoming from these groups do not cover the whole amount, recourse could be had to a sale of the remaining shares as in the case of the first method.

In this method, workers might be granted a number of incentives to encourage them to purchase shares (such as granting a reduction of 10% to 15% in the cost of the shares, and the option of buying on low-interest credit terms of one to two years).

#### c) Direct or Special Sale

This method is more concerned with the sale of part of the SEE's assets, of their establishments, of their secondary areas of activity, or of relatively small businesses. In this method, the assets or enterprises to be sold may be turned over by means of bargaining to a specific firm, to several firms, or to a consortium. Since this method is faster to implement and it is easier to make appraisals, it may be preferred over other methods. Nevertheless it has a number of disadvantages which should not be overlooked, the first of which is the element of subjective appraisal in the sale (in determining the firm or consortium to which sale is to be made). The second and greatest drawback however is that since a sale of stock is not involved, it goes no further than a "selling off of state properties", and it is far from providing the other benefits to be expected from privatization such as the development of the capital market, widespread ownership, directing small savers towards stocks

This method might be applicable in the case of SEE's which produce primarily consumer-oriented goods and services for profit (such as Sumerbank, Yem-San, Sut Endustrisi, etc.), and of a number of establishments and subsidiaries. In addition, recourse might be had to this method in the sale of subsidiary businesses which have no close relationship with the primary areas of the SEE's activity.

d) Joint Public/Private Sector Ventures

This is a method which is commonly employed in a variety of countries, and if it is well organized, it can be one which will bring together advantages for both sectors, the public and the private. The undertaking of new investments (especially large-scale and risky investments) by joint-stock companies in which the public and private sectors participate in specific ratios or the creation of "mixed" organizations by means of the opening up existing production or service units to the private sector both constitute the leading forms of the implementation of this method.

It is a fact in our country that in some sectors, companies consisting of a joint public/private sector partnership are relatively more successful when compared to those whose ownership is entirely public, and in addition, no loss in performance has been observed in the case of companies in which the private sector predominates on account of public sector participation in them. As a result, they are examples indicating that this method could be successfully implemented more commonly.

Nevertheless, the success of this method necessitates assurances that these mixed-economy companies be entirely independent in matters of production, investment, financing, etc. In addition, it is essential that the public share be held to a level where it will not lead to confusion in the management of the company. Making this method function within a suitable legal framework will lead to the long-term development of psychological, legal, and institutional conditions under which the public sector and the private sector will be able to function together in a harmonious and successful manner.

e) Leasing and Management Contracts

Since these methods do not envisage a transfer of ownership to one degree or another, they should not really be regarded as methods of privatization. Instead they are methods which are employed for improving the performance of SEE's whose ultimate privatization is planned and to make them ready for privatization by some other means.

Of the two, the practice of turning the management of SEE's through management contracts over to the private sector is one commonly encountered in western countries, and it appears that they have achieved very successful results in this way. In addition, there exist in the West established and experience organizations which are engaged in the business of such activities.

In these methods, it may be possible that SEE's which are leased to private companies for specific terms or whose management is turned over by contract may be purchased by the lessor or operator at the end of specific periods of time under the terms of conditions placed in the agreements.

The success of these methods is dependent upon the careful specification of the SEE's which are to be leased or whose management is to be contracted out, and upon drawing up agreements in a manner which harmonize public benefits with the rapid, productive, and independent functioning of the decision-making mechanism of the companies.

If provision is made in management contracts for a surrender of ownership at the end of some specific term, the charges/dividends to be paid to the administration and the terms of the transfer of shares and its timetable are indicated in the agreement in addition to stipulations on such matters as profits, profitability, and investment. While causing a minimum employment of existing private sector funds, this method nevertheless achieves the assumption of ownership by means of the additional funds which are created over a specific period of time.



## CHAPTER III

### GREAT BRITAIN:

#### A SUCCESSFUL EXAMPLE OF PRIVATIZATION

##### 1) General Information

Privatization is one of the major policies which the Conservative Party government assuming power in 1979 put into effect within the framework of a wide-ranging program of reform in the economy. This policy was viewed not merely as a new method of solution for the problem of the publicly-owned incorporations; it also made provision for increasing competition and productivity throughout the whole economy and for increasing the ownership base, and for that reason, it occupied an important position in the government's economic strategy.

Since, as is the case in a great many countries, the publicly-owned incorporations were responsible for an enormous volume of production, investment, and employment in the British economy, various problems associated with the forms of the ownership of these enterprises and with the method of their management led to the rise of unfavorable results all through the economy. The monopolistic status of the SEE's and the fact that they were open to state intervention in such matters as investment, financing, and the determination of the prices of their goods and services, had the result that these enterprises were to a large degree far from being productive or profitable, and they were doomed to receiving Treasury support or to borrowing. In Britain, the SEE's average rate of return on capital was always lower than that in the private sector, while the rate of price increase for the goods and services which they did produce always proceeded in advance of private sector rates of increase. The average rate of profitability among the

SEE's around the beginning of the 1970's remained about zero, while unit labor costs rose more rapidly than the national average. Since a large number of the SEE's did not generate any or all of the funds required for their operation or investments, the sole method of financing remaining to them was securing funding from the Treasury or by borrowing from other sources. Although in later years specific limits were stipulated on indebtedness, these limits were generally exceeded, and thus efforts to bring financial discipline to the SEE's to a large degree remained ineffective.

The failure to achieve any significant improvement in the SEE's performance by means of administrative and legal measures taken at various times revealed the necessity of a more radical solution, and it was then that the idea of privatization began to receive greater acceptance in the public mind as well as in circles concerned with the problem. The basic starting point for privatization was that the source of the problem lie in their public ownership and their monopolistic status. Acting out of this opinion, the Thatcher government put a comprehensive program of divestiture into effect.

Similarly, it has become an accepted fact that for the SEE's to have recourse to borrowing in order to cover their deficits leads to an acceleration of inflation by increasing the monetary supply. The alternative to indebtedness is either to increase the price of the goods and services which the publicly-owned incorporations produce (which is a concealed form of taxation) or else to raise tax revenues. Nevertheless, the high social and economic costs of these two methods places limits upon their being freely implemented. By forcing interest rates upward, large-scale borrowing by the state leads to a contraction of the private sector's volume of investment and upsets the public/private sectoral balance in favor of the public side.

Thus it was that a comprehensive program of privatization was put into effect for the purpose of righting this negative picture, in brief to bring inflation under control by lowering the deficit in the public sector's resources, to cause an increase in productivity

in the economy, and to ensure that the state's would to a larger degree be devoted to socially oriented projects

## 2) Publicly-Owned Incorporations in Great Britain

### a) Historical Development

Though the beginning of the publicly-owned incorporations in Great Britain, which are generally referred to as the "Nationalized Industries", does go back to before the Second World War, nevertheless the spread of public ownership in the economy falls in the postwar years of 1945 - 1951, when the Labor Party was in power. During the later part of the 1940's, a large number of basic industries (energy, gas, transportation, communications, iron and steel) were turned over to public ownership. Nevertheless, even though changes in government led some industries (such as steel) to change hands between the public and private sectors on several occasions, the picture created by the widespread nationalization movement after World War II remained basically the same.

In the 1950's the broad dissatisfaction which the SEE's created in public opinion and in Parliament led to the establishment of separate parliamentary commissions to investigate the activities of each enterprise. At just about the same time, it was made a requirement that the SEE's borrow from the Treasury rather than off the market as they had previously been wanted to do. The financial problems of the organizations were dealt with in various official and unofficial documents and studies, and for what it was worth, various solutions proposed for the problems were put forth. The most important of these documents were the "White Papers" concerning the nationalized industries which were published by governments at various dates.

In a white paper published in 1961, it was pointed out that when one took inflation and obsolescing technology into consideration, a number of the enterprises were incapable of reaching a level of profitability where they could cover their own renewal expenses, and it is stated that for this reason, they needed the accumulated savings of other enterprises in order to finance their new investments. Following the publication of this paper, five-year financial

goals for a large number of the SEE's were set, and at the beginning of the 1960's, these enterprises were successful in their display of performance. In the years 1962-1963 there appeared to be an increase of sorts in the net proceeds of the SEE's, but beginning in 1964 the need for borrowing again began to increase rapidly. In a white paper published in 1967, provisions were made for the SEE's to operate in accordance with commercial principles, and for them to set as their goal an effective and productive utilization and distribution of resources. By means of this report, compelling rules were set concerning the SEE's pricing policies and its investment decisions, and they were ordered to make use of the discounted cash flow technique for all major projects - including investment decisions. It was stipulated that prices should be determined in accordance with long-term marginal costs, that any and all effort should be expended in order to lower prime costs, and that productivity and effectiveness should be increased. In this report it was stated that the financial targets previously set for the SEE's would continue but that they would be implemented more flexibly, and that for major price increases they would have to obtain authorization from the National Board for Prices and Income.

During the period after 1967, "investment criteria" began to be used as an effective means of financial discipline, although a number of difficulties appeared in pricing on the basis of marginal costs. At the same time there began a trend towards enforcing a more complex schedule of rates in order to cover the cost of the low demand for the goods and services which the SEE's produced. These schedules, which are set according to a principle of time differences, are still employed in the electrical, telephone, railway, and airline industries.

A definite improvement began to appear in the financial circumstances of the SEE's towards the end of the 1960's. Nevertheless, a number of practices necessitated by the overall economic policies followed by governments lead to a deterioration in the following decade. The SEE's were compelled to postpone their price increases, and in addition, specific price ceilings were set for goods and

services. Later in 1974, the government decided to reduce the enterprises' losses by allowing major increases in electricity and coal prices, and in railway and telephone rates. In addition, provision was made in the areas of transportation and petroleum which, from time to time, conflicted with basic financial goals. For example, owing to uncertainties in the matter of the cost and amount of imported oil, it was decided that it was necessary to place emphasis upon the coal industry.

In another white paper published in 1978, new financial targets were stipulated for the nationalized industries, and the obligatory productivity rate for new investments was set at a pre-tax figure of 5%.

Besides the various financial targets and limitations set for the SEE's, the Monopolies Commission was granted the authority to investigate the Nationalized Industries - especially those having a monopolistic status - in order to bring the activities of the enterprises under control.

Nevertheless, for such reasons as the failure of all these methods to achieve the success intended, and the adverse effects upon the SEE's performance of the economic difficulties beginning in the second half of the 1970's, there was strong political support for a resolution of the problems of the SEE's through divestiture, and with the support of public opinion, the matter came up for discussion.

A list of Nationalized Industries in existence as of the end of 1983 and developments in them as of that date are shown in an Appendix Table (Appendix 1)

#### b) Legal Status of the Nationalized Industries

The nationalized industries in Great Britain are managed as legal entities in the form of special publicly - owned enterprises known as "Public Corporations". These organizations consist of primary companies and subsidiaries, and they are owned and controlled

by the state. In addition, there are also a number of companies (such as Rolls Royce and British Leyland) owned by the state which are managed in the form of capitalized companies subject to corporate law. Their shares are represented by the administration concerned (for example, the Ministry of Industry and Commerce) and are registered in its name. Special public enterprises which are referred to as "public corporations" on the other hand (such as the National Coal Board, the Electricity Boards) are not bound by corporate law but are governed in accordance with special statutes involving their founding or by means of laws subsequently amending those. These concerns have no capital stock divided into shares and no shareholders. The minister who heads the administration (and in actual practice, the organization's board of directors) possesses managerial authority. However such authority is not associated with the ownership of shares: it arises from the status of the organization. In Britain, these special public enterprises are the predominant form of the state's economic activity, while the remainder are mainly a few companies which were assumed by the state in the 1970's, in other words, which were "rescued" by the state. Nevertheless, since it is a term which is more entrenched and easier to understand, we shall continue to refer to these publicly-owned incorporations as "State Economic Enterprises" (SEE's).

The fundamental body of a SEE is its board of directors. The chairman of the board of directors and its members are appointed by the minister concerned (for example the Minister of Energy, or the Minister of Industry and Commerce). Their articles of incorporation do not grant the minister concerned with the authority to make decisions (or to change decisions which have been adopted) on all the business of the organization (in the case of decisions concerning price increases and retirement benefits for example). The organizations are not subject to any government intervention whatsoever in their day-to-day business. Nevertheless in actual practice, the minister concerned is able to get the board of directors of the enterprise to accept his own views (or more properly, the decisions of the government) through such methods as persuasion, pressure, etc. A large proportion of the members of the boards of directors are from the private sector, and since 1978, representatives

of white and blue-collar workers have been present as members of the boards of directors. Appointments are generally made for a specific period of time, and matters on salaries and other conditions are determined independently of those of civil servants.

The external oversight of the SEE's takes place in three separate ways. The first is control by the minister concerned. As explained above, the ministry possesses a generalized power of influence apart from its authority to appoint or dismiss members of the board of directors. The exact nature of this authority is stipulated individually in the nationalizing statute for each enterprise. The second method of oversight and control is that exercised through the special public corporation commission established by parliament in 1957. This commission oversees the activities of the enterprises, particularly through its examinations of their accounts and reports. The third way is the control over the activities of the enterprises which is exercised through "Consumer Councils" by those who make use of goods and services which the SEE's produce. This type of control is particularly evident in the postal service, the railroads, and the gas and electrical industries.

c) The Financial Structure of the SEE's

It is a basic principle that state economic enterprises should engage in activities in accordance with commercial principles. Unlike other government activities, it is not to be expected that these enterprises are to be financed by means of tax revenues. Normally, all or part of their costs should be covered by the charges and income they receive in payment for the goods and services which they produce. These enterprises also have a number of specific social obligations as well: such as providing rural areas with electrical, telephone, and railway services at below cost. Likewise, some SEE's are in a monopoly position.

The financial obligations of state economic enterprises have undergone significant changes over the years in parallel with the placing of greater emphasis upon the commercial side of their

activities and with the beginning of making comparisons of their performance with that of private sector organizations. The external resources for which the enterprises feel a need in order to grow and develop are covered by the National Loans Fund, which is administered by the government. For its part, this Fund goes into the market in order to secure resources under the best possible terms. In a white paper published by the government in 1967, emphasis was placed upon the SEE's commercial aspect, and it was recommended that prices be determined so as to reflect long-term marginal costs. Nevertheless, the SEE's have not always rigidly carried this price policy out: from time to time, prices have been subjected to government intervention in line with anti-inflationary policies.

Specific principles have also been stipulated in white papers published on various dates concerning the investment policies of the SEE's. For example, in one white paper a specific capital productivity ratio was established for each enterprise, while in the next, dated 1967, a new criterion was made known as the "Test Discount Rate", which was intended to measure the true cost of the capital employed in the public sector. This rate was first set at 8% but was later raised to 10%. In a white paper dated 1978 on the other hand, three and five-year financial targets were set, and the obligatory rate of productivity was set at 5%. This rate has the function of constituting a foundation in measuring the true cost of capital employed in the economy and in making a determination of the targets stipulated for each enterprise. In addition, another measurement of control, known as the "External Financing Limit", is used to restrict the SEE's annual cash flow.

The financial disciplining of the SEE's through various criteria and rules of supervision is intended on the one hand to strengthen the financial structures of the enterprises and ensure that they operate productively, and on the other to keep under control their effects on the remaining sectors of the economy and on economic balances in general. Their important position in the economy and the size of the resources which they possess makes it essential that these enterprises possess a high level of productivity. The cost of their unproductiveness to the consumer, to industry,

and to all of society in general is quite high. Those vehicles of financial discipline provided for the SEE's which are concerned with investments were described briefly above. Another important device to which more frequent recourse has been had in recent years is subjecting the SEE's to specific rules and restrictions on borrowing by setting limits on their indebtedness. These limits indicate to what degree the funding needed in order to maintain the growth of the enterprise beyond that which can be generated from within the business is to be covered from the Loan Fund under the Treasury's control. For some enterprises, "negative" limits have been stipulated in stating the net funds which they may procure from the Treasury.

d) The Place of the SEE's in the Economy

The production, employment, and investment shares of the SEE's in the British economy between 1975 and 1979 are shown in the following table:

	% Production	% Employment	% Investment
1975	11.0	8.0	19.0
1976	11.6	7.9	19.9
1977	11.4	8.4	18.5
1978	11.3	8.2	16.6
1979	11.8	8.2	16.4

Source: National Income and Expenditure, HMSO, 1982

As will be seen from this table, while the share of the SEE's in production and employment between 1975 and 1979 remained constant, there appears to have been a decline in their share of total investment. As a result of the phased implementation beginning in 1981 of privatization policies by the Conservative government coming into power in 1979, it is to be observed that the share of the SEE's in the economy has become less and less.

In 1979 the SEE's employed 1.5 million persons, whereas today the figure has dropped to 600,000 as a result of privatization policies effected so far. Plans are for this to go down to 400,000 by 1988, by which year, it is estimated that the share of SEE's in the gross domestic product will fall to 6.5%.

As for the financial situation of the SEE's, since some of them (coal, steel, naval construction, and railways) are operating at a loss, and they are obliged to borrow a little in order to cover their requirements for operating and investment capital. A few others however (particularly the gas and electrical works, and British Telecom) have managed to generate sufficient profits and internal resources to cover their investment capital requirements. Their need for external financing is generally negative. The portion of the funds which they generate in excess of their capital requirements are transferred to the Treasury and thus reduce the total indebtedness of the public sector.

When all concerns showing profits and losses are considered together, it is calculated that in the 1983 - 1984 period, consolidated operating profits were 1679 million pounds, but that 2500 million was needed in addition to this figure in order to cover capital requirements.

During the three years beginning with the 1985-1986 period, the government planned to restrict the SEE's total external financing limit (the amount which they could borrow from the Treasury) to around 3.3 billion pounds. It is estimated that the SEE's burden on the Treasury will be reduced to 1.8 billion in 1985-86, and to 1.1 billion in 1986-87, while they are expected to make a net contribution to the Treasury of 110 million pounds during 1987-88.

### 3). The British Privatization Program

#### a) Conditions Which Prepared the Way for Privatization

During the 1970's, when a general economic crisis became apparent in Great Britain, the burden of the state economic enterprises on the economy started becoming greater and greater partly under the influence of that crisis. Large-volume borrowing by the SEE's from the Treasury paved the way for a rise in the rate of inflation and to an upward movement on the part of interest rates. From a business-administration standpoint, the SEE's during this period appeared completely trapped in a cul-de-sac: notwithstanding the measures being taken and the means provided for financial

discipline, no significant improvement in the performance of the Nationalized Industries had been achieved. Breakdowns in services, rapid price increases, labor problems, and major operating losses all appeared as negative indicators proving the failure of the SEE's. This situation led to a rapid increase in the rate of inflation and to an ever-greater loss of competitive strength on the part of British industry on international markets. A new view, which defended the free-market economy and a withdrawal of the state's hand from the economy (the Friedman School), began arguing that the state's performance of economic operations was the basic cause of the problem, and that the solution lie in reducing the state's business operations to a minimum. When this view began gaining political clout at the end of the 1970's, it became possible to put into practice the idea that the problems of the SEE's could not be solved through various legal and administrative measures which preserved state ownership and that the only valid path was the divestiture of the enterprises from state ownership.

During the 1970's, a number of enterprises - telecommunications and natural gas - appeared to be overly unproductive in a large part of their employment of capital and labor. They were making bad use of resources since they were unsuccessful in following an optimum policy of production and pricing. It is agreed that the primary cause of this negative picture was the arbitrary intervention of various governments, which made use of the SEE's as a vehicle for their own national economic policies, thus adversely affecting the organizations' performance by disregarding the financial goals set for them.

In addition to the important roles played in this negative performance by instances of government intervention and by general economic conditions, it was also generally accepted that the public sector in any case tended to be unproductive. The fact that public economic enterprises have no danger of bankruptcy upsets the rational equilibrium of the economy by eliminating the conditions which would force them to be more productive and profitable. Under these conditions, re-establishing this equilibrium becomes possible by turning the SEE's into organizations engaging in operations

in a climate of free competition, in accordance with the rules of the market, and in line with the principles of profitability and productivity. The name of the solution to this is privatization.

b) The Primary Goals of the Privatization Program

The conditions which make privatization a topic of current debate as a means of solution for such negative indicators as a high rate of inflation appearing in the economy, low productivity a decline in competitive power, and unproductive investments, quite naturally define the goals of privatization. The privatization program, which acts out of SEE-related problems incapable of solution by other means, did not remain restricted to this point, but was put into effect as part of an overall economic strategy.

The starting point for the stabilization program which the Conservative government put into effect in the 1970's and which was intended to reduce the rate of inflation (which had reached considerably high levels by Western standards) was the opinion that inflation stemmed basically from an increase in the money supply, and that the primary cause of this increase was the need for the high levels of borrowing which arose from the public sectors resource deficits. For this reason, the first way to bring inflation under control was to reduce the public sector's need to borrow, and for that, one had to rescue the SEE's from state ownership and thus stop them from being a burden on the Treasury. In the years between 1979 and 1984 the government made important advances in reaching this goal; in the 1979-80 period, the ratio of the public sector's borrowing requirements to the GNP was 4.9, but in the 1983-84 period, this was reduced to 3 1/4; and the plan is for it to drop to 2 1/2 in 1984-85. The government views its privatization program as an important device in lowering the public sector's borrowing requirements and thus in reducing inflation.

The increasing loss of international competitive strength on the part of British industry on the other hand is generally agreed to stem from the monopolistic status of the Nationalized Industries, which occupy an important place in the economy. The fact that the operation of public monopolies is far removed from the principle of productivity leads to a major wastage of resources, and at the same time to monopolistic pricing in specific goods and services. The opinion that the situation in the ownership structure of British industry presented need for thorough-going reforms was also one which was generally accepted. Since the ownership of industry is of direct concern to the production of goods and services, and it thus affects all other economic developments, it is of major significance. In Great Britain, where the numbers of persons who put their savings to work in the form of stocks is low when compared to the USA and Germany, the goal of broadening the base of capital ownership constitutes an important justification in making public offerings of the stock of the Nationalized Industries.

The goals of the privatization program which step by step was put into effect on the basis of these points may be formulated as follows.

- Keep the monetary issue under control by reducing the public sectors need to borrow and thus reduce the rate of inflation
- Increase competition and productivity in the economy by means of abolishing the monopolistic status of the SEE's and ensuring that they operate in a climate of free competition
- Ensure that a larger cross-section of the public invests its savings in stocks, thus creating a broader structure of capital ownership
- Create a new source of income as an alternative to borrowing and tax revenues.

#### c) The Primary Methods of Privatization

Privatization basically means the turning over to private individuals or organizations all or part of the shares of a company which is publicly owned. That is the way the subject tends to be

understood in Great Britain, but there are other methods as well which come under the heading of "privatization". The common feature encountered in all these methods, is that the SEE's are opened up to management by and free competition with the private sector.

The various methods of privatization which have been applied at different times in Great Britain may be listed as follows.

- The sale of private individuals or corporations of all or part of the shares of stock in a company owned by the public

- The abolition of monopoly status possessed by public economic enterprises, and the requirement that they operated within a climate of free competition

- The surrender to the private sector of the SEE's subsidiary companies, their equity participations, or their secondary areas of activity

- The formation of new combinations in which the SEE's and private-sector firms are shareholders at a variety of rates

- The surrender to private individuals or organizations of various services which previously were conducted by organizations which were part of the public sector

- The securing of private capital cooperation in order to spread the risk in major public investments.

There exist some circumstances under which these methods need to be employed simultaneously. For example, before a monopolistic state economic enterprise can be privatized, its status as a monopoly is eliminated by opening the industry up to its competitors. There is a shared view that the privatization of a public monopoly without having taken this step would have major disadvantages.

We would now like to deal with these methods of privatization in a little more detail.

#### c.1) The Sale of Stock

The most common and comprehensive of the methods of privatization is that of privatizing a state economic organization through the sale of its capital stock. Inasmuch as a large number of the publicly-

owned economic concerns in Great Britain were not joint-stock companies, a number of adjustments were made in the characters of the companies before they were privatized. First of all, the legal arrangements must be brought about which will allow the assets of a state enterprise having some special status to be turned over to a joint-stock company. A number of important technical matters concerned with the process of this transfer are also decided upon at this stage (such as whether or not the business debts to the state are to be turned over or not, appraisal of the assets, etc.). We may summarize as follows how this process took place in various organizations which were partially or totally privatized.

- British Aerospace was first converted into a "public limited company", and later 22% of its shares were sold in February 1981, and another 48% were sold in May 1985 to private individuals and institutions as well as to its own employees.

- The Civil Aviation Act, which was passed in 1980, converted British Airways into a publicly-owned company in order to bring about the sale of its stock. Nevertheless, the decline which took place in the company's profitability led to a postponement of the sale. It is expected that shares in British Airways will be sold to its employees and to other private individuals and corporations during 1986.

- 49% of the shares in Cable and Wireless were sold in the fall of 1981 without the need for any changes of status whatsoever. Since the business already was a joint-stock company, there was no need for a change of status prior to sale. The authorization for the sale of stock on the other hand was achieved through the British Telecommunications Act of 1981. The sale of the remaining shares in the company took place in phases in December 1983 and 1985.

- The oil production rights of the British National Oil Corporation were turned over to a company by the name of British Oil (Britoil), which was founded pursuant to the Petroleum and Gas Works Act of 1981. 15% of the shares in this company were sold to private individuals and corporations in November 1982, and another 48.9% in August 1985.

- By means of the Transportation Act passed in 1980, authorization was granted for the sale of shares in the National Freight Corporation, and in February 1982, the company's stock was sold off to its workers and managers by means of a "Management Buy-Out".

- Since British Telecom was a monopoly in its field, the state's monopoly in the sector was eliminated by the British Telecommunications Act passed in 1981, and then in November 1984, 50.2% of British Telecom's shares were sold to employees, and to private individuals and corporations. The plan is to sell the remaining 49.8% of the stock during 1986.

The stock in these companies was generally issued at fixed prices and was sold partially on the stock exchange, partially through brokers, and partially by being allotted to certain groups (company workers and managers). The shares of British Aerospace, Amersham International, and British Telecom were entirely sold by this method (fixed price offer). The shares in the National Freight Corporation on the other hand were sold to a group of managers and workers led by the company's management by means of a method known as "management buy-out".

Another method of sale is that of making a tender offer, which involves bidding up the stock over some base price. 51% of the shares in Britoil, 48.5% of Associated British Ports, and 100% of Enterprise Oil were sold by this method.

A third method is that of effecting sale to some specific firm or consortium of firms. This method (known as a "trade sale" or "private sale") was used in the sale of British Rail Hotels and of International Aerodio.

Another difference in privatization through the sale of stock in Britain as compared to many other countries is the fact it takes place by means of a transfer of the entire lot of stock (with the exception of a small share known as the "golden share" which prevents the complete loss of control over certain companies). In many countries however (particularly in developing countries and some other European countries), they are satisfied to sell a specific share to private individuals and organizations, and the majority interest still remains in the state's hands.

### Problems Encountered in the Sale of Stock

A number of problems have appeared in the sale of stock, the most important of which is that in stock issues at fixed prices, there are recorded huge increases in value immediately following the issue of the stock of some companies, while in the tender method, there may be losses in value following sale. In the sale of British Telecom, a per-unit price of 1.30 pounds was set and there was a premium charge of 45 pence over the first commitment amount of 50 pence. It has not been determined how many shareholders sold their stock in order to take advantage of this premium, but the situation did lead to criticism that the government was selling off the state's properties cheaply. In the same way, the appreciation which took place in the example of Amersham International reached 22 times the face value following the issue of the stock. On the other hand, a loss in stock value was experienced in Britoil. The Britoil stock was sold using the tender offer method, but only 30% of them could be sold. Within two months following its issue, this stock had suffered a loss of 24% of its value.

These developments arise from the problem of setting a value on shares of stock. It has been claimed that the British government held the prices of the shares relatively low in order to encourage a particularly broad cross-section of the public and of workers to buy stock. Another reason has to do with the features of the method of pricing the stock. In the United States, stock prices can be determined immediately before stock sales begin, and this makes it possible for brokerage houses to get an idea of the level of demand for the stock and it enables stock prices to be determined more realistically. In Britain on the other hand, pricing takes place earlier within a framework of negotiations with the brokers, and for that reason there is an insufficiency of data concerning the demand situation when prices are determined. The interval between the date of pricing and the date of sale (which in the example of British Telecom was quite long), leads to possibility of underpricing in some cases. Favorable indicators concerning the company's development can also cause stocks to register high gains on the market. The appreciation which took place in the Associated British Ports stock is stated to have stemmed from news that "free port" status

had been granted to the harbors associated with this organization. The drop in the value of the Britoil stock and the fact that only 30% of the shares could be sold on the other hand resulted partly from mistakes in the method of sale (the base prices was set too high) and partly from unfavorable developments in the global economic picture (negative expectations concerning oil prices).

#### c.2) Opening Monopolistic SEE's up to Free Competition

Though this is treated as a method of privatization, in actual fact it serves as a preparation for privatization and is intended to force an enterprise to be sold to first engage in activity in a climate of free competition in accordance with the principles of productivity and profitability. For this reason, it would be more appropriate to treat the abolition of monopoly status together with the method of stock sale.

There is an opinion to the effect that a change in ownership of a state economic enterprise with monopoly status without abolishing that status and opening it up to free competition will have no positive effects whatsoever, and that following privatization, the resulting private-sector monopolies will be unable to achieve the increase in productivity in the economy expected, and this fact led the British government to take important measures in this regard, according to which, a number of legal changes were made prior to turning public monopolies over to the private sector which made it possible either to eliminate the monopoly status or else moderate it, a number of bodies for oversight and control were created to ensure the continuity of competition, and in addition, restrictions were imposed upon increases in the prices of the goods and services produced.

By means of the Energy Act passed in 1983, it became possible for the private sector to engage in the production of electricity (which it would sell to the National Grid). The Post Office's monopoly was lessened by ending its exclusive right to handle parcels. Under the Telecommunications Act of 1981, British Telecom's monopoly status was legally abolished by authorizing competitor firms to enter the business, and following that Act, permission was granted

to the Mercury Consortium to set up a new communications network which would compete with British Telecom. The monopoly over the production of the devices and equipment employed in the industry was also eliminated in a series of stages. Subsequently in August 1984, a supervisory body called the Office of Telecommunications (OFTEL), similar to the Office of Fair Trading, was set up under government oversight in order to create a fair price system and a climate of free competition in the telecommunications industry.

Following these legal and administrative arrangements, instances of intervention in developments in the sector did place from time to time for the purpose of preventing the creation of a new monopoly. For example, the application by the consortium put together between British Telecom and IBM to set up its own network was rejected by the government in view of the unfavorable opinion that it might give rise to a monopolistic situation. A variety of measures were also taken in order that firms newly entering the sector might reach a level where they could compete and that a true climate of competition might be created. The granting of rival firms of interconnect with the British Telecom and Mercury networks is an example of this.

Despite these arrangements, firms with the strength to set up a national net and operate it still remain limited to what British Telecom and Mercury do. The government has decided that until 1990 anyhow, this sector is to be left to these two major firms in order for the infrastructural investments of the communications business to be completed, and that after that date, rival firms will engage in activity through the national networks.

### c.3) The Sale of Equity Participation or of Subsidiary Companies

This method involves the sale of the equity participations of state economic enterprises in various companies, or else of various areas of activity or of operations which do not have a direct relationship with the enterprise's own area of business. This method has several aims, the first of which is to create a source of funds for the Treasury or for the parent operation. The second is to bring about a more productive structure in the parent operation and to make it possible for the subsidiary companies to achieve

a sounder means of financing. The third aim, which is part of the policy of developing free competition, is to encourage the spread and proliferation of industrial ownership.

We may list some of the examples of this method as follows.

- In May 1984, the Wytch Farm oilfield in the North Sea (which was part of the British Gas Corporation) was sold to the private sector. The sale of the Wytch Farm oilfield was a result of the decision that British Gas should get out of the petroleum business, which was open to free competition, and specialize in gas operations.

- An application of this method in British Rail took place in the form of a first-phase sale in March 1983 of hotels which were owned by the operation. These hotels were having difficulty finding the funds necessary for renewal on account of the cash flow problems in which British Rail found itself. Under the circumstances, the hotels were sold to the private sector in order not only to bring an end to their excessive burden on the parent operation but also to make it possible for them to be more productively managed. In order to facilitate the private-sector sale of other lateral operations within British Rail (those which lacked any direct connection with the railroad business), they were gathered together under a single holding company. The most important of these were the Ferryboat and Hovercraft operations. The sale to the private sector of the holding company's stock is being considered in the next phase.

- Owing to the financial straits in which British Airways found itself, the government plans to sell off a number of small-scale subsidiary operations for the purposes of creating a source of cash for the main area of operation and of ensuring that it pay greater attention to the problems related to that operation. These operations are British Airtours, the Air Charter Company (which is a profitable and successful business), British Airways Helicopters, and International Aeradio. Of these, the sale of International Aeradio took place in March 1983, in return for which 60 million pounds sterling in income was secured.

- British Steel Corporation had stock holdings in a number of small British concerns and in some larger overseas firms. The sale of some of these shares has begun. In actual fact, there no commercial justification whatsoever for retaining these shares. Negotiations for the sale of two major concerns - the construction firm of Redpath Dorman Long, and the chemical company of BS Chemicals - both of which were part of British Steel Corporation but which had a very superficial relation with its actual area of business, was stymied because the businesses had sustained losses. Nevertheless, efforts are being made for their sale, even if be at a low price.

- Various lateral operations subsidiary to British Leyland have also been put up for sale. Of these, Prestcold was sold to Suter, even though it was in the red. Alvis on the other hand, a concern which specializes in the production of military vehicles was purchased by United Scientific Holdings, a company engaged in activity in the area of military optics and which had been producing primarily for Alvis.

As will be seen in these examples, the basic goal of this method is to spend the proceeds acquired from the sale of a number of subsidiary operations or equity participations belonging to the parent company in order that the parent company may be run more productively. This method has been employed widely, both because it is easier to make appraisals, and because it is easier to effect the sale. Nevertheless, it does have its dangers in that it may be unable to create funds to a degree sufficient to resolve the parent operation's financial problem ad that it may ruin the integrity of enterprises whose activities are complementary to one another.

#### c.4) Public Sector/Private Sector Joint Ventures

This method is employed in the form of a public/private sector partnership based on the principle of share risks on primarily major investment projects and in critical sectors.

The clearest example of the application of this method is to be seen in the North Sea gas extraction and pipeline project. The purpose in this project was to achieve workability of a mixed system consisting of the British Gas Corporation, the private

sector, and banks (loan financing) in the setting up of a new gas collection and pumping station. The financing for the project was to be secured by joining together public resources, private investment, and bank loans, and the company to be established was to earn the right to collect a portion of the income in return for moving the gas to the primary distribution center in the North Sea.

However at the realization stage of the project a number of problems appeared, and negotiations became stuck in the fall of 1981. British Gas Corporation refused to provide guarantees on the matter of the price which it would pay for the gas to be collected through the system in question, and under the circumstances, private capital was reluctant to participate in the investment since there were no state guarantees. At the same time, since the Treasury was determined to keep British Gas Corporation's volume of investment at a low level, it opposed the granting of any guarantees. Because of the worry that the Treasury's undertaking of a major commitment in a project worth billions would increase the public sector's indebtedness, the desire was to keep the state's share in this project low. In the end, when arguments even about the value of the project began, negotiations were broken off.

On the other hand, the British Steel Corporation did create a number of equal partnerships with the private sector for the purposes of rationalizing steel production in Britain and of sharing the risk in an area where it was faced with enormous pressures. Similarly, British Leyland undertook a joint venture with Honda, a Japanese automobile manufacturer, which was intended to share information and technology and to market a car which was to be newly produced.

Another project in which the government encouraged private capital's entry (on condition it assumed the risk) was the project for the tunnel whose construction was being planned under the English Channel between Britain and France.

c.5) Turning Services Conducted by Public Organizations Over to the Private Sector

This method involves the surrender, by means of requests for tenders, to private organizations of various services which were previously conducted by a public organization. Primarily municipal services (street cleaning, garbage collection, transportation, etc.) and also to a degree, some of the services of the National Health Office (such as laundry) are performed by turning them over to the private sector by this method. This practice has made fairly significant savings possible (as in the example of the Southend Local Administration). The goal of this policy is to make the system more effective by turning existing assets (machinery and equipment) over to operators who will make more productive use of them. Since at the conclusion of each contact term, the bidding will function within a competitive system, it is possible that lower bids may be submitted.

d) The Bottom Line of the Privatization Program and its Conclusions

d.1) Value Table of Privatization

As a result of the various implementations of privatization which began in the 1970-80 term after the Conservative Party came to power in 1979 and continued stage by stage, twelve major companies had been divested of by then end of 1985, in return for which eight billion pounds sterling in proceeds had been received (not counting the sale of homes owned by municipalities). In addition, provision has been made for the securing of another 4.75 billion pounds sterling in income during the three year period ahead, beginning in 1986.

As a result of the divestitures taking place to date, more than 20% of the public sector's holdings (in terms of 1979 figures) were transferred to the private sector. In terms of employment, this figure represents 400,000 individuals. By 1988, it is planned that the share of the SEE's in the annual GNP will be lowered to 6.5%, and that the work force transferred to the private sector will go up to 600,000.

The privatized firms and the proceeds acquired between 1979 and 1985 are as follows:

Company	Area of Activity	Date Sold	Sales Method	% Proceeds Sold	Proceeds (mil.pounds)	
British Aerospace	Aircraft Industry	Feb 81	1	51.6	43	
		May 85	1	48.4	346	2
Cable and Wireless	Telecommunications	Oct 81	1	49.4	182	
		Dec 83	3	27.9	263	
		Dec 85	1	22.7	600	
Amersham International	Chemicals	Feb 82	1	100	64	
National Freight Company	Shipping(Overland)	Feb 82	4	100	5	
Britoil	Petroleum	Nov 82	3	.51	627	
		Aug 85	1	48.9	425	
Associated British Ports	Harbor Operations	Feb 83	1	51.5	46	
		Apr 84	3	48.5	51	
International Aeradio	Aviation Communications	Mar 83	5	100	60	6
BR Hotels	Hotel Operation	Mar 83	5	100	51	6
British Gas Onshore						
Oil(Wytch Farm)	Petroleum	May 84	5	100	82	6
Enterprise Oil	Petroleum	Jun 84	3	100	380	
		Jul 84	5	100	66	6
Sealing	Ferries	Jul 84	1	100	297	6
Jaguar	Automobiles	Jul 84	1	100	297	6
British Telecom	Telecommunications	Nov 84	1	50.2	3916	2.7
British Technology Group	Various	-	5		716	

Source: The Economist, 21 December 1985

1. Fixed Price Offer
2. Includes revenues as yet uncollected
3. Tender Offer
4. Management Buy-Out (assumption by a labor/management partnership)
5. Private Sale (sale to a particular firm or consortium)
6. Sales proceeds are being received by the parent operation
7. Gross sales proceeds. (Net proceeds were 2512 million pounds sterling)

As will be seen from the table, total proceeds from sales were 8220 million pounds. Taking into consideration the fact that the net proceeds from the sale of British Telecom was 2512 million, this figure becomes 6816 million. When we add to this figure the 228 million received for the turnover of the North Sea petroleum licenses, the 44 million secured from the sale of the British Sugar Corporation, and the 827 million from the sale of the public interest in British Petroleum (none of which are included in the table) the total sales proceeds reach 7915 million pounds.

d.2) The Results of Privatization

- The Increase in Profitability and Productivity

As yet there are no concrete indications concerned with the degree to which the macro-level goals of privatization (increasing competition and productivity in the economy) have been achieved. Nevertheless, there are a number of signs showing that some distance has been traversed in reaching those objectives. It is certain that in particular areas, the elimination of monopolies (telecommunications and electricity) and the creation of conditions of competition will contribute to the development of higher productivity, better quality, and a lower system of prices. The privatized operations will become more sensitive to changes in consumer demand, and they will become more creative in finding new products and markets. There should be no doubt that the increase in the rate of profitability in privatized companies, which have begun to seek funding from free markets rather than support from the Treasury, will secure important gains for the whole economy.

In practice, these benefits have already begun to appear. Privatized in previous years, Cable Wireless, British Aerospace, Amersham International, and National Freight have shown significant increases in their profits. Of these, National Freight, which previously had been faced with major bottlenecks, managed to double its profits, and the value of its stock on the market increased twelvefold. In recent years Jaguar, which has been added to the private sector, has shown great development in terms of the quality of its product, sales, and profits. Jaguar vehicles have regained their former quality and fame. Similarly British Telecom met all demands for telephones within approximately one year and demonstrated good performance.

- The Spread in Capital Ownership

Considerable distance has also been covered in achieving the goal of making capital ownership more widespread.

The tendency of small-scale savings in Britain towards stocks is weak when compared with other industrialized countries (particularly the US and Germany) and in recent years, this tendency has

become quite weak as a result of high rates of inflation, a fact which has made this goal of privatization assume importance. The British government has set a goal of changing this picture by giving priority (providing specific incentives) to workers, managers, and small investors in privatization, and by encouraging persons who previously had nothing to do with the market in securities to purchase stocks, it seeks to broaden the base of capital ownership. In Great Britain, more than half of all securities (stocks and bonds) are purchased by such institutional investors as retirement funds and insurance companies, but only one-fifth of them are bought by individuals. Whereas 25% of all adults in the United States are stock owners, this rate in Britain is only 7% (the figure before the sale of British Telecom). Both these facts are indications of the importance for Britain of the goal of making capital ownership more widespread.

Two examples in which the goal of encouraging workers and other small investors to buy stocks was successfully achieved are the sales of the National Freight Corporation and of British Telecom. An 85% share of National Freight was sold to a group consisting of company managers and workers, and the workers bought more than half the shares. As a result of a number of incentives provided in the case of British Telecom, 96% of the workers purchased shares in the company. Small investors other than workers also displayed great interest in the British Telecom sale. There were measures in the form of providing incentives for small investors granting of a certain amount of free shares, and also issuing a certain number of free shares for each share purchased. It has been announced that similar incentives would be provided for the employees of British Airways, the privatization of which is planned during this year. The announcement states that up to 70 pounds worth of free shares will be given to each of the approximately 38,000 employees of British Airways, in addition that in purchases up to 100 pounds, two free shares will be given for each one purchased, and that in larger purchases, a 10% discount will be made on the nominal sales price up to 2000 pounds.

Nevertheless, with the exception of these two examples, no one would say that effort to encourage mass purchases of stocks have been widely successful. The sales of British Aerospace and of Amersham International are the two best examples of this lack of success. The number of major shares in British Aerospace, which was initially rather large, fell from 156,000 to 27,000 in one year. A similar event was experienced in the case of Amersham International, where the number of shareholders dropped during a year from 65,000 to around 10,000.

The government has evaluated worker ownerships in share and their shares in firm profit as a common interest between workers and managers. For this, it was developed many other mechanisms beyond the worker ownerships in share. One of them is the workers and profit joint venture system which is free from the tax.

#### 4) Criticisms Levelled at the Privatization Program

A host of matters ranging from a number of economic assumptions on which the privatization program is based to the effects which the program will have on the economy, and from the sale of stock to the appraisal of assets have all been the subject of a variety of criticism and debate in public opinion and in concerned circles. We may list these subjects of criticism and debate briefly as follows, from the standpoint of the light they cast on implementation.

##### a) Criticism of the Assumptions on which Privatization is Based

The assumption that the public sector's need to borrow increases the money supply and that this is the most important factor in increasing the rate of inflation is particularly criticized by members of the Keynesian school of economics. Such views are expressed as: so long as the pressures of demand are limited by taxation, there is a very weak relationship between public expenditures and price inflation; the effects of borrowing from the non-banking sector on the money supply is weak; finally, there is no cause and effect relationship between the supply of money and inflation.

b) The Conflict Between the Goals of Privatization and the Conditions for its Success

Although a reduction of the financial burden of the SEE's on the Treasury is one of the basic goals of privatization, the enterprises privatized tend primarily to be those organization which are the most profitable, and this implies that the unproductive and unprofitable organizations remaining in the state's possession will continue to be a burden on the Treasury. In as much as the sale of organizations which are in the loss is not easy, it is claimed that privatization has not in actual fact reduced the burden of the SEE's on the economy. The sale of British Telecom and the planned sale of British Gas, both of which have made a net financial contribution to the Treasury, while British Rail and the National Coal Board, which have had the greatest need for subsidies and borrowing, have been left in the state's ownership, has been offered as the clearest example revealing the weakness of privatization in this matter.

Nevertheless, in the reply made by those who defend the policy of privatization is stated that it is not always the profitable organizations which are sold: a number of organizations in the loss such as National Freight and Jaguar have been sold, after which they secured significant profits; that merely being profitable or making a contribution to the Treasury by itself means nothing by itself, since the goals in the privatization of these organizations (as in the case of British Telecom) are also the transition from monopoly to free competition, the assurance of an increase in productivity, and at the same time the making of a contribution to the diffusion of capital ownership.

c) The Problem of Appraisal and of Pricing Stocks

It has been claimed that the government has been undervaluing assets (in private sales) or has been setting low stock prices (in the stock sale method), and this has led to widespread debate. The fact that the shares of British Telecom and Amersham International showed major increases on the market immediately after sale as well as a number of private sales are the events leading to this criticism.

The opinions proffered in opposition of this criticism is as follows. It is difficult to find definitely and absolutely objective criteria in making an evaluation of large-scale organizations which lack a specific market value. Any form of appraisal can be criticized from the aspect of the program's failure or of a violation of the public interest. In the event of an overvaluation, the possibility exists that the sale may fail to come off, while gross undervaluation undoubtedly is going to damage the public interest. For this reason, the government implements the proposal which is the most favorable. In addition, the great price increases registered by some stocks on the market is a result of positive expectations over the company's profits. Similarly, the length of time in Britain between the date on which stocks are priced and the date on which they are offered to the market also lead to inexactitude in the volume of demand, and on that account, to pricing which is at an debatable level. In addition, for the purposes of preventing the acquisition of earnings from speculation over major appreciations on the market, the government also has placed a number of restrictions on the number of shares which an investor may buy in some cases. (This was the case in the sale of British Telecom and of Jaguar).

#### d) Criticism of the Goal of Diffusing Ownership

It has been claimed that the gains to be made from the sale of stock in organizations by means of various incentives to workers are not very significant when compared with other methods (such as for example, the benefits which would result from the sale of dwellings owned by local administrations to those residing in them), and that this is an opportunity which has been granted to prevent workers from opposing the sale. The opinion that the widespread participation of workers and of other small investors in ownership will always increase productivity and make an effective management possible is also criticized. According to this criticism, if a more widespread sale of stock is going to have no benefit other than to create a sort of interest-income class, the gains which it will secure for the economy become questionable. Put another way, it is doubtful that making a broad cross-section of the public-partners in ownership will have a positive effect upon the performance of the business or of the economy in general, when they have

nothing to do with the company which they own other than to take advantage of an annual distribution of dividends or of their right to receive additional shares of free stock. In addition, even if easy earnings are to be made from the changing hands of stocks on the market, it is not always to be expected that shareholder workers and managers will be able to earn greater profits through their own efforts. Expectations of major earnings in the future may not be a sufficiently powerful motive to cause one to work harder or more energetically in the present. What's more, in a company employing thousands of workers, the connection between work and ownership may become quite weak. The number of shares which a worker may own in such a company cannot be very great. Under the circumstances, since the share accruing to a worker from any profitability arising from efforts he may show is not going to be anything too substantial, the connection between ownership and profitability in such businesses becomes very weak.

On the other hand, one should not overlook the fact that in an economy, providing opportunities to entrepreneurs who possess a capitalistic spirit and who will assume risks is more rational behavior than is securing easy sources of income for the man in the street. Under the circumstances it is claimed that the sale of such profitable monopolies as British Telecom and British Gas to large sectors of the public is far removed from achieving such a goal. What the country really needs is the existence of greater numbers of entrepreneurs who can create long-term venture capital for advanced-technological areas which have high earnings, but which at the same time may sustain major losses. One does not create such a spirit of enterprise by encouraging investors to buy under valued shares in major public monopolies.

In addition, it appears that a diffusion of ownership by means of addressing oneself primarily to small investors is not successful in some cases, and that despite the measures taken and the concessions granted, stocks end up in the possession of a limited number of persons and organizations. Although a large number of individuals do purchase stocks during the initial issue in some sales, in a short time, large drops take place in this number. For example,

although the number of shareholders when the stock was first put on the market was around 158,000 in British Aerospace, 157,000 in Cable and Wireless, and 65,000 in Amersham International, by the end of the first year, these numbers had fallen to around 26,000 and 10,000 respectively. 63% of the capital in British Aerospace outside the state-held share (the situation prior to the most recent share) had accumulated in the hands of 143 shareholders. In cases such as this, one could say that as a result of the accumulation of shares of stock in the hands of a few private individuals and organizations and of the failure of competition to function as it should, the state monopoly has been replaced by a private one.

#### e) Privatization and Employment

One aspect of privatization which is a subject of debate and criticism is the concern that it may lead to employment-related problems. The opposition of unions towards privatization out of this worry (particularly as in the examples of British Telecom and British Rail Hotels) was softened by providing special incentives so that workers could become shareholders and by making a sale to the union. Nevertheless, it is claimed that this method still does not eliminate the danger of a manpower loss. It is expected that the increase in productivity which arises as a result of privatization will result in the growth of the company and the opening up of new opportunities for work. Nevertheless, it is not known how long this is going to take, and in the meanwhile, it is obvious that a problem of unemployment is going to occur. Under the circumstances, it has been put forth that by creating an opportunity for new firms to enter the sector, by removing restrictions in the sector, and in particular by making it possible for a large number of small concerns to be established, it will be possible to create new work opportunities which will make up for the jobs lost through privatization. In addition it is also stated that in a country where unemployment stems primarily from structural causes, forgoing privatization on account of its possible adverse effects upon employment might delay the thorough-going measures which need to be taken against structural unemployment.

f) Privatization and the Procurement of Funds

The adverse effect which privatization - particularly the sale of large - scale state economic enterprises to the private sector - may have on cash flows also constitutes one of the subjects of dispute. It is claimed that it might not be possible for the stock market to secure the funds necessitated by such large divestiture, and that the issue of such a large volume of stock could upset market equilibria. The withdrawal from the market of a significant volume of funds on account of the privatization program would limit the liquid resources which other companies might take advantage of.

In order to provide a solution to these problems, the British government has taken a number of measures, and has had recourse to a number of different measures, one of which is spreading out sales over several years by means of the phased sale method in issuing stock certificates. This method was employed in the British Telecom sale. Furthermore - as was seen in the British Telecom example - the shares of stock were offered for sale in foreign countries as well (the USA, Canada and Japan), thus providing an attraction for foreign capital.

## CHAPTER IV

### EXAMPLES FROM OTHER COUNTRIES

#### 1) The Japanese Experience

The role of the public sector in Japan is quite small when compared with the countries of Western Europe and with developing nations. For example, such important industries as electricity, gas, steel, and coal, are all run by the private sector. In addition, the bureaucracy in Japan does not intervene in the economy in any absolute or direct manner.

Notwithstanding this however, Japan plans to sell to the private sector all or some of the shares in four major public concerns over the next five years. These companies are Nippon Telegraph and Telephone (NTT), Japanese National Railways (JNR), Japan Tobacco, and Japan Airlines.

The goals for the Japanese privatization program may be indicated as follows.

- a) Payment of public debts
- b) Making public enterprises more effective (Japanese Tobacco)
- c) Enabling public enterprises to operate in a competitive market (Japan Airlines)

#### Nippon Telegraph Telephone (NTT)

The Japanese government plans to sell its half interest in one of these companies, NTT, over a four-year period in a series of stages beginning during fiscal year 1985 (1 April 1985), and ultimately to reduce the state's share to one third. Nevertheless it has not yet been definitely determined when or how sales are to take place. The Japanese National Railways company (JNR) on

the other hand will be divided into six separate companies (if the recommendations of the Reform Commission are accepted by the government, and turned over to the private sector during fiscal year 1987 (April 1987 - March 1988)).

The primary reason for the long period of time planned for the accomplishment of the privatization of NTT is the size of volume of funds which it will withdraw from the market. It is estimated that the shares of NTT whose sale is planned will suck up six to eight trillion yens in funds from the Tokyo money market.

NTT's annual gross revenues of approximately US \$ 15.5 billion are three times those of British Telecom, and it employs 320,000 individuals. The justifications offered for the divestiture of NTT are the following.

- The first and most important is that a reduction in public debts and in budget deficits is of greater and greater importance for the Japanese government, and it views privatization as being one of the ways to achieve this. The DOKO Commission, founded for the purpose of effecting administrative reform, has been quite influential in the government's adoption of this decision.

- It was never intended that NTT remain a public incorporation for any long period of time; when required, this status will also be changed by the Diet.

In the government's opinion, the increasing proliferation of various supplementary services which have been developing in addition to telephone services has revealed the superfluity of a public organization or monopoly. The areas with which these services (referred to as VAN - Value Added Network) are concerned are the following: data communications, long-distance visual transfer, electronic messenger systems, etc.

Under its new status, NTT will become one of the organizations known in Japan as "Kabushiki Kaisha" (Special Nature Organization).

The plans for the concern's activities are submitted to the government, but on the other hand, it is subject to special statutory provisions from the standpoint of its commercial and financial rules. The special status of employees and a number of rights which they enjoy are as a rule abolished, even if not in actual practice. In the same way, the company's investment policay has also become increasingly more liberal. As a public incorporation, the company is required to maintain deposits in the Bank of Japan at 3% interest. After converting to private status, it will be obliged to go into the money market more often because its ability to make use of the government's investment funds will no longer exist. As a matter of fact, NTT had already foreseen increasing its stock issues on domestic and international markets, but under the new circumstances, it will become even more effective in short-term money markets.

As of 1 April 1985, NTT became a private company, though 100% of its capital stock still belongs to the state. Before the company goes on the market in 1986, it will undergo a number of processes such as a revision of its accounting methods and having its stock quoted.

In its new status, NTT has already begun to diversify and accelerate its activities in order to display a better performance. Forming new subsidiary companies, NTT has begun going abroad for engineering contracts and by entering into a partnership with IBM in the area of network services, it has begun to become a threat to Japanese computer companies.

#### Japanese National Railways

The most important reason for the decision to privatize Japanese National Railways (JNR) was the bad performance which the organization showed in its operations and management. As a result of negative developments, JNR had become an extremely ponderous and slow-moving organization. For example, any increases which might be made at all in any passenger or freight rates had to be submitted for the approval of the Ministry of Transportation, and after a point they even had to receive the approval of the Diet.

These negative aspects placed JNR under a heavy burden of debt, and had made it structurally incapable of competing. In addition, when the "reorganization" efforts attempted in 1980 failed, privatization came up for discussion as a more effective solution.

The degradation of JNR's performance can be better understood from the following observations.

- JNR's share of total passenger transportation has steadily declined. Though it carried 76% of all passengers in 1960, it lost its ability to compete. As a result of its inability to compete with private railroad companies, JNR lost its market share, and that of its competitors rose from 30% to 70% in the years between 1970 and 1980.

- The years have also witnessed major declines in the organization's share of total freight movements. JNR's share of freight transportation in 1960 was 39%, but by 1983 this had fallen to 7%. The market was lost primarily to highway but also partially to maritime transport companies.

The fact that the organization had no competitive power was to the advantage of its private sector competitors. The situation in the two largest private companies (SEBU and TOBU) in 1983 was as follows:

<u>Company</u>	<u>Gross (US \$)</u>	<u>Net Profit (US \$)</u>	<u>% Net Profit/Gross</u>
SEBU	656 million	13 million	2
TOBU	787 million	15.7 million	2

JNR's performance on the other hand has become steadily worse. The company has not shown a profit since 1964, and its operating losses in 1982 were US \$ 4.62 billion, or in other words, 35% of its gross revenues.

The Reform Commission, which was set up for JNR, submitted its most recent report to Prime Minister Nakasone in 1985, which

recommended that six regional concerns be established and in addition, that a single freight transport company be created which will cover the whole country. It has been announced that these recommendation will be put into effect in April 1987.

JNR's long-term debts have reached major sums, and in order to pay off half to them, the government is considering the sale of the enormous land holdings which the organization owns.

#### Japan Tobacco

The monopoly status of Japan tobacco, the Japanese tobacco monopoly, was abolished entirely on 1 April 1985, just like NTT's. One reason for this was no prepare the organization for divestiture, but the other was to soften the complaints of foreign cigarette companies by allowing them to enter the market. The various restrictions placed on foreign cigarette companies were eliminated step by step, and as of 1 April 1985, the foreign firms were authorized to sep up their own networks of distribution.

Nevertheless, full competition has not yet been achieved. Stock in Japan Tobacco will not be sold before 1 April 1987. The company holds a 95% share of the market and it will continue to be the only firm with the right to manufacture cigarettes in Japan. The government cannot force the company to cut its costs and further because such an action would annoy tobacco growers (who have high costs themselves) and could lead to bankruptcies.

#### Japan Airlines

Japan Airline (JAL) is the Japanese national airline company, and a 35% share of it belongs to the state. Initially, the government has decided to open anumber of JAL's international routes to two domestic rival concerns: All Nippon Airways and TOA. Nevertheless, no announcement has been made as to when the state's share in JAL is to be sold.

## 2) The French Experience

Within a year following its coming into power, the Socialist Mitterand government, which assumed the administration in 1981, nationalized quite a few industrial concerns and banks. It is stated that between the years 1981 and 1985, the government spent US \$ 5 billion for nationalization, and that this figure was twenty times the amount of investment carried out by private investors during twenty years.

Prime Minister Jacques Chirac, who defeated the Socialist Party in the most recent elections and secured a majority in the National Assembly, announced the program of the rightist parties. stated that more than fifty banks and companies owned by the state would be privatized.

The privatization program covers a number of banks and insurance companies nationalized after World War II as well as the major industrial concerns nationalized by the Mitterand government in 1982.

From the standpoint of the conditions under which the economy finds itself and of public reaction, the Chirac privatization program has begun with a much greater advantage when compared with the privatization program of the Thatcher government. Inflation has been reduced to 3.5% (there even appear to be positive developments showing that it may drop to 2.5%) and the money market has shown major development. In addition, after the five-year experiment with nationalization, quite a few French socialists have begun to believe that less government control and a certain amount of privatization would be beneficial for the economy. Thus, from the aspect of the positive development of its economy and of the reactions of public opinion, the new French government is fortunate in the point from which it embarks upon its privatization program. In parallel with the privatization program, the abolition of government restrictions in various sectors (deregulation) and the provision of tax incentives which will render the purchase of stocks more attractive are also planned. Mitterand is not too cold in his regard for the idea of privatization, nevertheless he has declared his opposition to the

divestiture by government decree of the banks and insurance companies which were nationalized after World War II. Mitterand has also said that the conditions of privatization should be as favorable for existing shareholders of groups owned by the state as they are for new shareholders.

It is estimated that the present market value of the state's disposable properties (including the three major banks nationalized in 1945) is FF 200 billion. It should be obvious that a figure this size constitutes a danger for the French stock market. Nevertheless, it has been stated that were the existing foreign exchange controls to be eliminated and a tax amnesty promulgated, a significant amount of investment would be prepared to return to France. Furthermore, the government is considering the provision of various incentives to encourage savings, which currently go into the bond and gold markets, to move into stocks. (In France the volume of the bond market is three times that of the trading in stocks, and it is estimated that the French people own an approximately 5000 ton stock of gold).

The various organizations whose privatization is planned in France, their profits, and their market values (in billions of francs) are as follows.

<u>Banks</u>	<u>1984 Profits</u>	<u>1984 Market Value</u>
Banque Nationale de Paris	1.7	21.3
Societe Generale	1.2	15.
Credit Lyonnais	1.	13.
CCF	0.2	2.8
Credit du Nord	0.3	0.6
<u>Insurance Companies</u>		
UAR	1.3	8.8
GAN	0.6	4.1
AGF	0.95	5.7
<u>Industrial Concerns</u>		
G. Generale d'Electricite	0.6	4.6
Saint-Gobain	0.32	7.0
Pechiney	0.54	4.1
Rhone-Poulenc	1.9	5.4
Thomson	-0.035	2.2
Elf-Aquitaine	6.5	-

Financial Institutions

Paribas	1.1	11.7
Suez	0.7	6.9

The government is expected to retain a minority interest in the privatized concerns - a 33% share would be sufficient to grant it a veto power - and also to invite foreign investment into the market.

3) Practices in Various Other European Countries

West Germany

Although in its 1983 election campaign program the Conservative government in West Germany stated that privatization was necessary in order to reduce the public sector's need to borrow, to date no widespread divestitures have appeared. Draft proposals for privatization have been greeted with considerable caution, not the least by investors in the country. For this reason, rather than divest itself entirely of the large public companies, the government plans to reduce the state's interest in them.

The first stock offering of this type took place in 1984 with the VEBA energy group, and with a sale of 4.4 million shares of stock, the state's participation was reduced from 43.7% to 30%. Consideration is being given to a reduction of the public shares in Lufthansa (the national airlines), VIAG (the aluminum and energy group), Prakla-Seismos (a mineral prospecting company) and two banks in the years ahead. From all these sales, the government expects to secured DM 2 billion (US \$ 770 million) in earnings within two years.

The Netherlands

In the Netherlands, where public economic enterprises do not occupy a place of any great importance in the economy, a path similar to that of West Germany is being followed. Although the government which came to power in 1982 was expected to put a more widespread policy of privatization into effect, to date it has been satisfied with reducing the state's share in KLM Airlines from 78% to 55%.

#### 4) Practices in Developing Countries

The privatization campaign which is presently going on to one degree or another in most of the industrialized nations, the foremost among them being Great Britain and Japan, has also found a broad area for implementation in a number of Southeast Asian countries (the Philippines, Malaysia, Thailand, and Singapore) as well as in some South American countries (Brazil, Argentina, Chile).

The general feature of privatization practices as put into effect in these countries, is not so much their being an important element of a reform program put into effect in the economy (as it is in the cases of Britain and Japan) as it remains at the level of limited policies intended to meet the state's needs for funding. In the Philippines for example, there is the imputation that the purpose behind the restoration to private ownership of a number of concerns which had been "rescued" by the state because they had previously gone bankrupt is to turn them back over to their former owners at low cost. In addition, while the opportunities for the realization of the privatization plans are being argued, the rescuing of companies in difficult straits by means of their nationalization is still going on.

Although practices in the Philippines do reflect a number of extreme aspects which stem from the country's social and political structure, privatization programs in other Southeast Asian countries have been beset with various problems. First of all in these countries, difficulties are encountered in defining the framework and the dimensions of the activities of public enterprises. In Malaysia for example, no consideration was given to the public enterprises in budget-related estimates as late as 1984, whereas it was expected that the capital expenditures of these non-budgetary forty organizations would rise by 19% in 1985 and reach eight billion Malay dollars, or in other words, that they would be equal in value to the amount which the government was spending on development.

In the case of Thailand on the other hand, it is estimated that the total deficit in capital and current transactions of approximately seventy or so public organizations will double

during the 1984 - 1986 period and reach US \$1.7 billion. The total external debts of these organizations are equal in value to two thirds of the public sector's total external liabilities.

Singapore on the other hand, which is little concerned with budgetary burdens, has begun to believe that excessive state control will sabotage the country's development in the future. Some 450 organizations under state control accounted for a quarter of the Gross National Product in 1983. Having learned its lesson in the losses it sustained on account of a ill-conceived investment which it made in petrochemicals, the government of Singapore announced that henceforth it would only invest in areas which the private sector did not want to go into, and at the same time that it would begin the sale of state-owned organizations. Temasek, Singapore's largest state organization sold off its 50 million shares in Singapore Airlines and its 45% interest in Hovis-Medougall, and it also announced that it would be putting up for sale its 44% interest in Mitsubishi Singapore Heavy Industries.

In Malaysia, 30% of the state's interest in the national air lines company was sold in October 1985. It is expected that another 40% of the remaining shares will be sold by 1988. Having privatized the third television channel and aircraft maintenance services, the Malaysian government plans to put up a variety of hotels, parking facilities, water sources, and similar public properties up for sale in the near future.

In Thailand however buyers could not be found for the state incorporations, most of which were in the loss, while others showed little profit. The reasons for this are bad performance of these organizations, labor union pressures, and the limited resources of the private sector.

Similarly in Brazil, undertakings have begun to reduce the state's share in the economy in parallel with the decision to change the leadership of the economic development process from the state over to the private sector. In 1983, it was decided that 89 companies,

all of which had been saved from bankruptcy by means of nationalization during the period of the military regime, would be privatized. By the date on which the military government handed power over, 20 of these had been divested of, while 27 of them had been turned over to local administrations. Under the civilian government, it is also planned to turn the 42 companies remaining on the same list over to the private sector. The new administration is ready to privatize other public companies which lack strategic importance, and to open PETROBRAS (its petroleum monopoly) and the mining company of Vale Do Rio Doce up to the private sector. At the end of this past November, the National Bank for Economic and Social Development began selling its five billion shares in PETROBRAS through 15,000 around the country and through brokers. In the next two years, the government plans to close at least 100 of 520 public operations or else to remove them from public ownership and to sell the state's interests in a number of other companies.

It is expected that the Brazilian privatization program will be accomplished in three ways.

- Previously "rescued" companies will either be resold or else turned over to local administrations or closed down.

- Companies which were originally established as public enterprises and which have no strategic role in the economy will be privatized.

- In major public concerns, a portion of stock will be sold off without there being loss of state control.

In Chile, the government announced at the end of 1984 that it would be selling its shares in Banco de Santiago, (the largest of the five banks which the government saved during the economic crisis of 1983) and in Banco de Chile's two largest retirement fund organizations, as well as up to 30% of its shares in 15 state organizations in its Corfo (state holding company) portfolio.

The government is encouraging not only private individuals but also large retirement funds to go into the market as investors, thus strengthening the money market. To date, these organizations have not shown much interest in state or bank bonds other than stocks. By means of changes made in the law, it has become possible for these organizations to invest in state-owned companies, and -beginning in 1986- in private concerns.

The government has secured various incentives for individual investors. The income of anyone purchasing stocks will be taxed on the basis of an amount 20% lower than the cost of purchase. No taxes will be held from new bank stock dividends, and for a period of 15 years, it will be possible to purchase the stocks with a discount of only five 5%.

In Argentina, the privatization program has excluded public incorporations running at a loss, and it initially plans to sell of military factories covering a wide range of activities from the manufacture of military vehicles to the building of ships. The government intends first to sell all or part of its shares in SOMISA, a large steel company. Next will come the turn of the petrochemical companies.

The US \$ 2 billion in proceeds which the government expects to acquire through these sales are planned for use in modernization and industrial development.

Acindar, an Argentina steel company, has shown an interest in the SOMISA sale, but they are waiting for Congress to pass a law indicating the general framework for the divestiture in order for the turnover to take place.

## CHAPTER V

### A PRIVATIZATION PROGRAM FOR TURKEY

#### 1) Making Public Opinion Sufficiently Aware of the Privatization Program

For the success of the privatization program, it is first necessary to convince public opinion of the necessity for this program, of its short and long-term benefits, and of the fact that it is not an ideological/political matter. The support of public opinion is essential both for the successful conduct of the program and for its continuity, the reason being that a large segment of the public (businessmen, workers, managers, white collar workers, small savers etc.) will no remain merely as observers but may become directly involved in the program in various ways (as stockholders, consumers, managers etc.). For this reason, one should determine by various means (mass media, meetings, conferences, polls, etc.) whether or not the public is ready on the one hand, and the other, the acceptance of the program by other sectors should be secured.

The government should not view this program merely as a source of revenue, but at the same time as a means of attaining many different economic and social aims, and it should plan its preliminary preparations and forms of implementation in lines with that goal. In addition, one should avoid drawing the matter into the ideological arena, and the support of all segments of society should be secured. Failing this, the privatization campaign could turn into a new wave of "nationalization" after a time.

Similarly, the employees of SEE's whose privatization is planned or is at the actualization stage should identify with the subject and believe in its success. Privatization is going to be a discomfort for an important segment of the SEE bureaucracy, and for that reason, the success of the program may be achieved by retraining that segment and having it assume duties in new establishments.

## 2) Passage of a Privatization Law

This law will constitute the first step in commencing the implementation of the privatization program. The law to be passed should contain provisions which

- Grant authorization for privatization
- Indicate the administration to conduct privatization and the council (or committee) which will guide the practices of that administration
- Govern the primary conditions for privatization
- Stipulate the managers by whom the program is to be conducted (i.e. by present SEE managers or else by a provisional administration to be appointed).

In addition, this law should also provide for the abolition or amendment of various legislative provisions which constitute a barrier to privatization and which place restrictions on the sound functioning of public and private sector interests either temporarily or else in cases where they are present jointly in the form of a continuous model.

A list of the legislative items which should be taken into consideration in this regard is given below.

- Laws, governing statutes, and regulations concerned with the SEE's.
- The Turkish Commercial Code and the Capital Market Code
- Foreign investment legislation
- The statutory provisions which cover SEE's which have a monopoly status

- Changes which may be made in stock market legislation in order to facilitate the sale of stocks
- The laws governing the founding of the Social Insurance Institution and of the Retirement Fund
- The law governing the establishment of the State Investment Bank
- The law governing the establishment of the Public Partnership Administration
- Tax laws
- Other applicable laws

### 3) Determination of the Main Prerequisites for Privatization and the Making of Necessary Arrangements

The laws and relevant governing statutes and regulations indicated above as well as the basic prerequisites for privatization should be drawn up and arrangements should be made as necessary in this regard.

We may list as follows some of these arrangements which will make up the content of the laws, governing statutes, and regulations to be issued.

#### a) Selection of the SEE's to be Privatized and their Conversion to Joint-Stock Companies

The SEE's may be classified as:

- Those with social aims (PTT, Turkish State Railways, the Meat and Fish Corporation, Turkish Agricultural Equipment Corporation, the Social Insurance Institution)
- Those having a strategic nature (the Mechanical and Chemical Industries Corporation, the Turkish Materiel Office)
- Those producing primary materials for profits (Etibank, Demircelik, Petkim, Seka, the Cement Industries)
- Those producing consumer goods and services for profit (Sumerbank, the Maritime Bank, Yemsan, the Dairy Industries, Turkish Petroleum Inc., the Petrol Ofisi, the Tourism Bank, Turkish Airlines, the Turkish Electrical Corporation)

On the basis of this classification and since privatization is to be undertaken as a requirement for the transition to a market economy, it would appear beneficial to begin with the group of those producing consumer goods and services for profit, as these will accommodate privatization and the market economy in a short time, they will not affect other industries, and it will be easy to effect a sale of their stock. As a first step, an organization for which a decision to privatize is made must be converted into the form of a joint-stock company whose capital has been divided into shares.

The non-integrated establishments and factories of very large organizations should be individually converted into joint-stock companies and privatized.

b) Abolition of the Monopoly Status of Monopoly SEE's

In cases where the SEE to be privatized has a monopoly status, legal arrangements should be made to abolish it and make it possible for competing firms to enter the business. In this way it will become possible to create a climate of free competition in the sector and to achieve the economic and social results expected from privatization.

c) Determining the Value of the SEE's Stock

The assets of the SEE's should be determined according to the revaluation made at the end of each year pursuant to their relevant statutes, and added to their net worth. In addition, in making a calculation of net worth, consideration should be given to the factory's age, its technology, its other assets, and whether the SEE is a monopoly or not. In calculating the net worth of SEE's and in determining prices in their stock offerings, use should be made of the efforts of such expert organizations as the Turkish Industrial Development Bank, the State Investment Bank, and DESIYAB (the State Industrial Investment Bank), as well as of international auditing organizations and when required (when the possibility of a foreign investment participation exists).

d) Redetermination of Management and State Relationships in the Case of Companies where the Treasury Retains an Interest

In SEE where a majority of shares are sold to private individuals and organizations, the management will also revert to the private sector. Nevertheless where a minority divestiture of shares (below 50%) takes place, conflict and various problems may arise between the public interest and the private side shareholders. In order to ensure that "management autonomy" is accomplished in such organizations, that government intervention is eliminated, and activities are conducted entirely in accordance with commercial principles, the relations of the SEE's with central government organizations in their management, oversight, and activities should be revised. If this is not done, the rights of the private investors will not be sufficiently protected and the company will not have achieved autonomy. For this purpose, changes need to be made in various laws, and a legal framework appropriate for this structure needs to be developed.

4) Establishment of a Strong Agency Charged with Privatization

An agency should be established which will undertake full responsibility for the privatization program, which will actually carry out the divestiture, and which will be directly responsible to the Prime Minister or Assistant Prime Minister. Nevertheless, this agency should have personnel who are well trained and some specific number of its personnel would previously have undergone a training program related to the subject.

In addition, an advisory council should be established to guide the agency charged with privatization consisting of persons from various segments (such as the private sector, Turk-Is, the universities, the Capital Market, the Central Bank, and the Treasury). The function of this council is to adopt advisory decisions which will ensure that the program is not perverted solely out of political concerns, and that the opinions and suggestions of various segments are given consideration.

A prohibition should be placed on anyone assuming duties in the agency charged with privatization or on the council from under

taking any duties in the privatized organizations for some specific period of time (ten years), and it should thus be ensured that those assigned to duty will be completely divorced from any imputations in their work.

#### 5) Formation of Temporary SEE Administrations

The appointment to the SEE's which are to be privatized of temporary administrators who are seriously committed to the privatization program and who will actually carry out the portion of the program is carried out in a reliable manner and that bureaucratic obstacles will not be encountered during the course of the operation.

#### 6) Who the Sale is to be Made to and at What Percentages

In the sale of the stock of SEE's whose divestiture has been decided upon, it will be appropriate for the following matters to be kept in mind.

a) The sale of stock (particular in the sale of major concerns) should be carried out in stages as part of a calendar to be determined. In this way, one will have the chance at later stages to take measures necessary to resolve any problems which may be encountered in the sale, and at the same time, the fact that a portion of the share capital remains with the Treasury at the initial stages will generate interest in the sale by creating "state guarantee" psychology. For the purpose of preventing speculation, it would be advisable for sector-related sales to be conducted during the same months in so far as this may be possible.

b) A portion (to be determined by the council) of the stock to be sold should be sold to our workers abroad against foreign exchange, thus exploiting to good advantage the foreign exchange potential which they possess.

c) In the sale of enterprises in Priority Development Regions, a portion of about 33% of the stock should be set aside for the local populace, and this matter should be announced to the public through appropriate means.

d) A portion of about 33% of the stock should also be set aside for the workers and other personnel actually employed in the organization or who have retired from it. (The proportion of this allotment should be specified in each instance by the council according to the size of the organization, the attractiveness of the sale, etc. However it should not fall below a level which would lead to an increase in productivity and would motivate workers

e) In the event that the number of shares allotted to the local populace or to workers are not entirely bought up by those segments, the remaining portions could be transferred to other shareholders.

f) In order to achieve a rational management and operation a portion of about 33% of the stock should be sold to the joint-stock companies which will assume the management. Were management initially to be given to shareholders lacking a certain accumulation of experience and knowledge, the failures which resulted from management errors might later adversely affect the success of the divestiture. In order to prevent the reoccurrence of the bad situations into which mass-owned companies lacking sufficient entrepreneurial abilities fell in the past, it may be that a portion of the company capital and of the management of the SEE's to be privatized will have to be left to a group of capital interests.

g) A portion (to be specified by the council) of the stock of organizations which are based upon high technology, modern management, and foreign markets, or which might expand into markets abroad should be set aside for foreign investments on condition that it make a positive contribution from the standpoints of technology, foreign exchange inputs, and locating export markets.

7) Other Conditions for Sale

Taking the following conditions into consideration during the sale of stocks will have a positive effect on the success of the sale.

a) A certain percentage (10-25%) of the stock could be granted free of charge to the organizations workers and managers, sales on credit could be arranged, or a specific number of shares could be sold at a discount. In the case of sales on credit, payment could be made from a specially established fund, and workers could borrow from that fund.

b) For the resolution of problems concerned with the accumulated rights of personnel as of the date of sale, stock certificates might be proposed with specific advantages against their accumulated rights.

c) In so far as possible, sales to the private sector groups assuming the management should be made against cash or on short terms. No Treasury support whatsoever should be provided.

d) Specific limits should be placed on sales to workers and management, thus preventing the possibility that any domestic or foreign capital interest might acquire a major interest behind the scenes.

8) Leasing the SEE's

In order for a number of SEE's which have not as yet reached the stage of actual sale (on account of management and other problems) to rationalize their operations, it may be possible for them to be leased out. Under Leasing Statute Number 3226, it is possible for the SEE's to be leased for a period of at least four years. In addition, by means of a provision placed in the leasing agreement concluded, the lessee may purchase the leased property at the end of the leasing period.

Thus in cases where privatization through a stock offering is not possible or no buyers for the stock materialize, the SEE's may be leased to local or foreign entrepreneurs for periods of four years or more.

For this purpose, a company must be formed to undertake the leasing with a capitalization of at least one billion Turkish Liras. The amount of rent may be determined between the SEE's administration and the lessee, and should it be so desired, a leasing agreement could be drawn up whereby the lessee purchases the facility at the termination of the lease.

#### 9) Assumption of SEE Management

Although not yet being implemented in our country, this method is one which might be taken into consideration as a preparation for bringing about the privatization of the SEE's and whose possibilities of implementation might be investigated. However since there are no private organizations in our country which might assume the management, in the initial stage, cooperation with foreign management companies will take place. In order for this method to function properly, the responsibilities of management organizations which problems to rationalize the company's operations and make it profitable in some specific period of time as well as other conditions should be well spelled out.

#### 10) Preparation for the Privatization of Unproductive SEE's

Although it may be easy to sell organizations which are in the black, the privatization of an unprofitable SEE is not easy. Abandoning such organizations to public ownership however implies to continuation of their burdens on the Treasury and their adverse economic results. Thus, a number of administrative and financial measures must be taken in order to make organizations operating at a loss ready for privatization. These measures could be imposing specific limits on the organization's annual internal and external borrowing, phased reductions in subsidies, revision of the accounting system and making its reports more available to the public etc. In this way, the SEE's would be placed under a certain financial discipline and thus in time an improvement in their performance could be achieved.



FIGURE 1: ORGANIZATIONAL STRUCTURE OF PRIVATIZATION

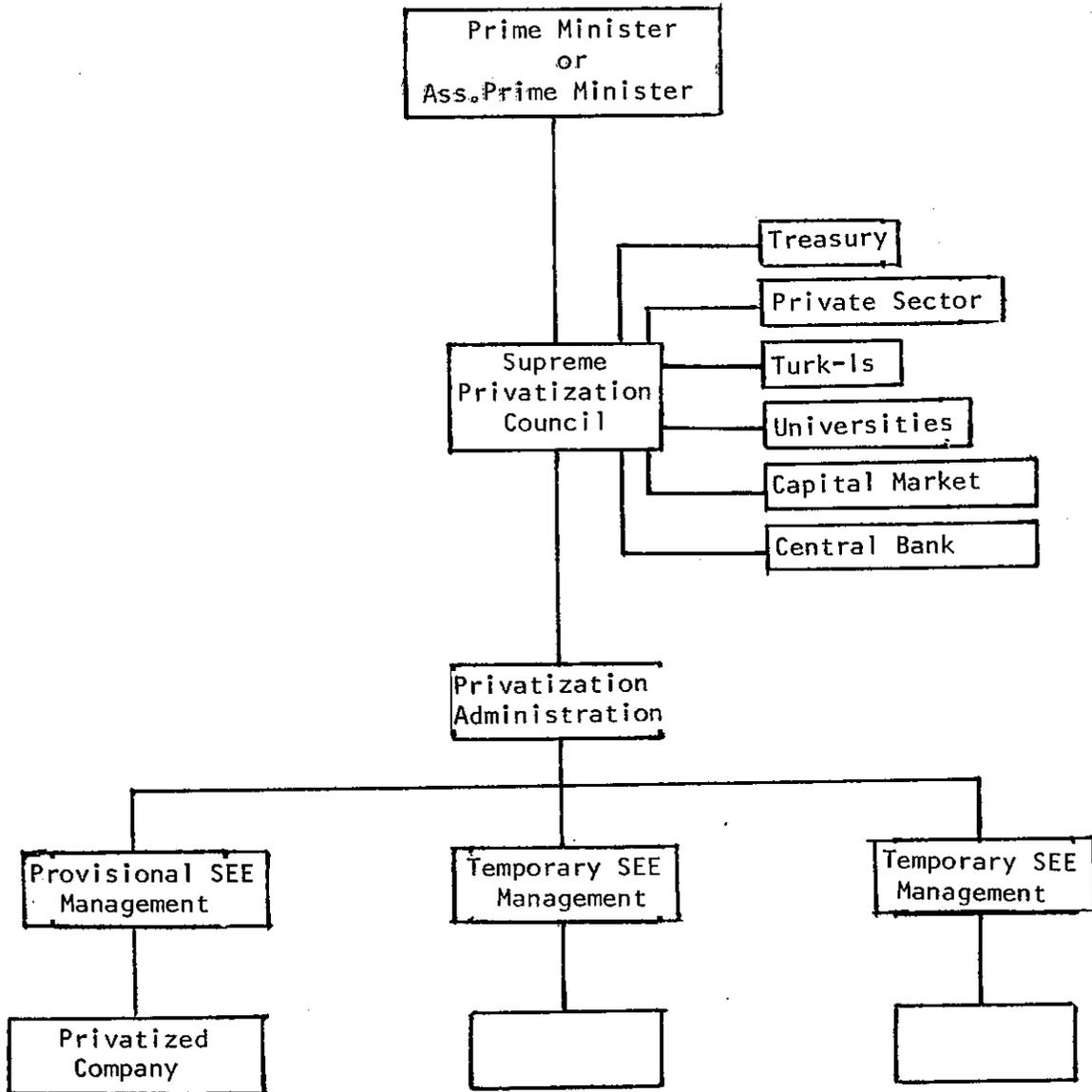
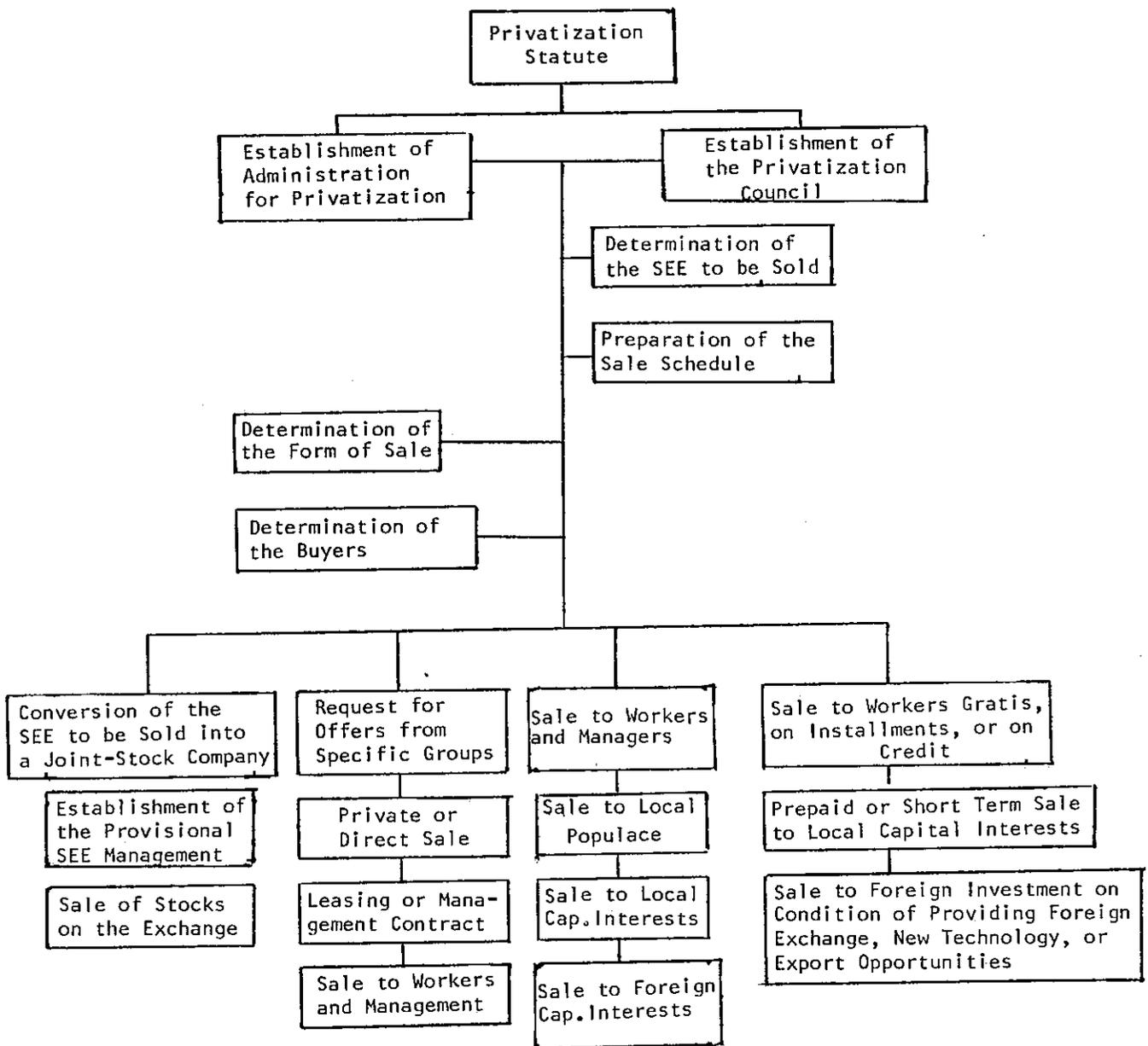


FIGURE 2: ORGANIZATIONAL STRUCTURE OF PRIVATIZATION



APPENDIX I

STATE ECONOMIC ENTERPRISES IN TURKEY

Ministry Responsible: Prime Ministry

A. State Economic Organizations

Organization

Devlet Yatırım Bankası  
TC Ziraat Bankası  
Anadolu Bankası T.A.Ş.  
Sümerbank

Establishments

- 1) Pamuk Satınalma ve Cırcır Fb. Mües.
- 2) Adıyaman Pamuklu San. Müessesesi
- 3) Diyarbakır Pamuklu San. Müessesesi
- 4) Karaman Pamuklu Sanayii Müessesesi
- 5) Nevşehir Pamuklu San. Müessesesi
- 6) Adana Pamuklu San. Müessesesi
- 7) Denizli Pamuklu San. Müessesesi
- 8) Erzincan Pamuklu San. Müessesesi
- 9) Bakırköy Pamuklu San. Müessesesi
- 10) Ereğli Pamuklu San. Müessesesi
- 11) Kahramanmaraş Pamuklu San. Müessesesi
- 12) Kayseri Pamuklu Sanayii Müessesesi
- 13) Malatya Basma Sanayii Müessesesi
- 14) İzmir Basma Sanayii Müessesesi
- 15) Nazilli Basma Sanayii Müessesesi
- 16) Eskişehir Basma Sanayii Müessesesi
- 17) Merinos Yünlü Sanayii Müessesesi
- 18) Hereke Yünlü Sanayii Müessesesi
- 19) Deftardar Yünlü Sanayii Müessesesi
- 20) Bünyan Yünlü Sanayii Müessesesi
- 21) Halıcılık Müessesesi
- 22) Diyarbakır Halı ve Yünlü San. Mües.
- 23) Taşköprü Kendir Sanayii Müessesesi
- 24) Beykoz Deri ve Kunda San. Müessesesi
- 25) Van Deri ve Kunda Sanayii Müessesesi
- 26) Gemlik Suniipek ve Visko Mam. San. Mües.
- 27) Yıldız Çini ve Porselen Sanayii Mües.
- 28) Mensucat Boyaları Sanayii Müessesesi
- 29) Alım ve Satım Müessesesi
- 30) Tekstil Eğitim ve Araştırma Müessesesi
- 31) Sümerbank Ordu Soya Sanayii Müessesesi

Subsidiaries

- 1) Antalya Pamuklu Dokuma San. A.S.
- 2) Bergama Pamuk İpliği ve Dokuma San
- 3) Manisa Pamuklu Mensucat A.S.
- 4) Türkiye Yapığı ve Tiftik A.S.
- 5) Çukobirlik İplik ve Dokuma Fab.
- 6) Antbirlık Aksu İplik Fab. ve Yağ Kombinasi
- 7) Tariş İplik ve Yağ Fabrikası

Ministry Responsible: Prime Ministry

Organization

Türkiye Selüloz ve Kağıt Fab.  
(SEKA)

Establishments

- 1) Afyon Müessesesi
- 2) Aksu Müessesesi
- 3) Akdeniz Müessesesi
- 4) Balıkesir Müessesesi
- 5) Çaycuma Müessesesi
- 6) Dalaman Müessesesi
- 7) Kastamonu Müessesesi
- 8) İzmit Selüloz ve Kağıt San. Mües.
- 9) Bolu Lamine ve Lif Levha San. Mües.
- 1) Filyos Ateş Tuğlaları San. Mües.
- 2) Yarımca Seramik Sanayii Mües.
- 3) Bozüyük Seramik Sanayii Mües.
- 4) Konya Krom Magnezit Tuğla San. Mües.

T. Çimento Sanayii T. A. Ş.

- 1) Afyon Çimento Sanayii T. A. Ş.
- 2) Ankara Çimento Sanayii T. A. Ş.
- 3) Balıkesir Çimento San. T. A. Ş.
- 4) Bartın Çimento Sanayii T. A. Ş.
- 5) Çorum Çimento Sanayii T. A. Ş.
- 6) Elazığ Çimento Sanayii T. A. Ş.
- 7) Gaziantep Çimento San. T. A. Ş.
- 8) Niğde Çimento Sanayii T. A. Ş.
- 9) Söke Çimento Sanayii T. A. Ş.
- 10) Trakya Çimento Sanayii T. A. Ş.
- 11) Adana Kağıt Torba San. T. A. Ş.
- 12) Kütahya Magnezit İşletmeleri A. Ş.  
(KÜMAS)

T. Demir Çelik İşletmeleri

- 1) Karabük Demir Çelik Fab. Müessesesi
- 2) İskenderun Demir Çelik Fab. Mües.
- 3) Divriği Madenleri Müessesesi
- 4) Hekimhan Madenleri Müessesesi
- 5) Attepe Madenleri Müessesesi

Etibank

- 1) Karadeniz Bakır İşletmeleri A. Ş.
- 2) Çinko Kursun Sanayii A. Ş. (ÇINKÜR)

- 1) Bandırma Boraks Asit Fab. İşl. Mües.
- 2) Emet Koleminat İşletmesi Mües.
- 3) Ergani Bakır İşletmesi Müessesesi
- 4) Halıköy Maden İşletmeleri Müessesesi
- 5) Keçiborlu Kükürtleri İşletmesi Mües.
- 6) Küre Bakırlı Pirit İşletmesi Mües.
- 7) Murgul Bakır İşletmesi Müessesesi
- 8) Üçöprü Maden İşletmesi Müessesesi
- 9) Şark Kromları İşletmesi Müessesesi
- 10) Kirka Boraks İşletmeleri Müessesesi
- 11) Antalya Elektro Metalurji Sanayii Mües.
- 12) Seydişehir Alüminyum Tesisleri Müessesesi

Ministry Responsible: Prime Ministry

Organization

T. Petrolleri A.O. (T.P.A.O.)

Petkim Petrokimya A.Ş.

T. Gübre Sanayii A.Ş.  
(Azot Sanayii A.Ş.)

T. Taşkömürü Kurumu

Establishments

- 1)Yarımcı Petrokimya Müessesesi
- 2)Aliğa Petrokimya Müessesesi

- 1)Kozlu Taşkömürü İşletme Müessesesi
- 2)Karadon Taşkömürü İşletme Müessesesi
- 3)Armutçuk Taşkömürü İşletme Müessesesi
- 4)Üzülmüş Taşkömürü İşletme Müessesesi
- 5)Amasra Taşkömürü İşletme Müessesesi

Ministry Responsible: Ministry of Finance and Customs

Devlet Malzeme Ofisi

- 1)İzmit İmalat Atelyesi Müessesesi
- 2)Basım Müessesesi

Ministry Responsible: Ministry of Industry and Trade

T. Şeker Fabrikaları A.Ş.  
Makina ve Kimya Endüstrisi  
Kurumu (MKEK)  
Halk Bankası A.Ş.  
Ağır Sanayi ve Otomotiv  
Kurumu (ASOK)

- 1)Alkoloid Müessesesi
- 2)Makina Sanayi Müessesesi
- 3)Silah Sanayii Müessesesi

Subsidiaries

- 1)Petrol Ofisi A.Ş.
- 2)Deniz İşletmeciliği ve Tanker-  
ciliği A.Ş.(DİTAS)
- 3)T.Petrolleri Rafinerileri A.Ş.
- 4)Boru Hatları ile Petrol Taşıma A.Ş.

1)Petlas-Lastik Sanayii ve Tic.A.Ş.

1)İstanbul Gübre Sanayii A.S.  
(İGSAS)

- 1)Takım Tezgahları Sanayii ve  
Tic.A.Ş.(TAKSAN)
- 2)Türk Motor Sanayii ve Tic.A.Ş.  
(TÜMOSAN)

- 3)Aksaray Motor Sanayii ve Tic.A.Ş.
- 4)T.Elektronik San.ve Tic.A.Ş.  
(TESTAŞ)
- 5)Asil Çelik San.ve Tic.A.S.

Ministry Responsible: Ministry of Energy and Natural Resources

Organization

T.Kömür İşletmeleri

Establishments

- 1)Garp Linyitleri İşletmesi Müessesesi
- 2)Kömür.Satış ve Tevzii Müessesesi
- 3)Alpagut Dodurga Linyit İşletmesi Mües.
- 4)Doğu Linyitleri İşletmesi Müessesesi
- 5)Orta Anadolu Linyitleri İşletmesi Mües.
- 6)Ege Linyitleri İşletmesi Müessesesi
- 7)Çanakkale Linyitleri İşletmesi Mües.
- 8)Sivas Kangal Linyitleri İşl.Mües.
- 9)Bursa Linyitleri İşletmesi Müessesesi
- 10)Bolu Linyit Kömür İşletmesi Müessesesi
- 11)Güneydoğu Linyitleri İşletmesi
- 12)Afşin-Elbistan Linyitleri İşl.Mües.

Subsidiaries

Ministry Responsible: Ministry of Agriculture, Forestry and Village Affairs

Et ve Balık Kurumu  
Toprak Mahsulleri Ofisi  
T.Süt Endustrisi Kurumu  
Yem Sanayii T.A.S.  
T.Zirai Donatım Kurumu

Orman Ürünleri Sanayii Kurumu

Ministry Responsible: Ministry of Culture and Tourism

T.Cumhuriyet Turizm Bank.A.S.

Ministry Responsible: Ministry of Public Works and Housing

T.Emlak Kredi Bankası A.O.

- 1)Bursa Soğuk Depoculuk Ltd.Stl.
- 2)Aksaray Azmi Milli T.A.Ş.

- 1)Alım-Satım Müessesesi
- 2)Ziraat Aletleri ve Mak.Fab.Müessesesi

- 1)Abant ve Bolu Çevresi Turizm A.S.

Ministry Responsible: Ministry of Transportation

Organization

Establishments

Subsidiaries

T.Gemi Sanayii A.S. 1)Deniz Yolları Müessesesi  
T.Denizcilik İşletmeleri 2)Liman İşletme ve Gemi Kurtarma Mües.

1)D.B.Deniz Nakliyatı T.A.Ş.  
2)Denizcilik Bankası T.A.Ş.

B. Public Economic Institutions

Ministry Responsible: Ministry of Energy and Natural Resources

Türkiye Elektrik Kurumu 1)Elektrik Üretim ve İletim Müessesesi  
2)Dağıtım Müesseseleri

1)T.Elektro Mekanik San.A.Ş.  
(TEMSAN)

Ministry of Responsible: Ministry of Transportation

TC Devlet Demir Yolları İşl. 1)Adapazarı Vagon Sanayii Müessesesi  
Genel Müdürlüğü 2)Eskişehir Lokomotif ve Motor San.Mü.  
TC Posta,Telegraf ve Telefon 3)Sivas Demiryolu Makineleri San.Mües.  
mesi Genel Müdürlüğü(PTT) 4)Limanlar İşletmesi Müessesesi  
Devlet Hava Meydanları İşl.  
Genel Müdürlüğü (DHM)  
Türk Hava Yolları Anonim  
Ortaklığı (THY)  
Uçak Servisi Anonim Şirketi(USAŞ)

Ministry Responsible: Ministry of Finance and Customs

Çay İşletmeleri Gen.Müd. 1)Tütün ve Sigara İşletmeleri Mües.  
(ÇAY-KÜR) 2)İspirto ve İspirtolu İçkiler Is.Mües.  
Tekel İşletmeleri Gn.Mud. 3)Tuz İşletmeleri Müessesesi  
4)Tekel Ürünleri Dağıtım Müessesesi

Ministry Responsible: Ministry of Agriculture, Forests, and Village Affairs

Tarım İşletmeleri Gen.Müd.

Ministry Responsible: Ministry of National Defense

Savunma Donatım İşl.Gen.Müd.

1)Türk Uçak Sanayii A.Ş.(TUSAS)



APPENDIX II  
THE NATIONAL INDUSTRIES IN GREAT BRITAIN

Name of the Incorporation	Date Founded or Became Public Property
Audit Commission	Apr 1983
Bank of England	Mar 1946 (5)
British Airports Authority	Apr 1966
British Airways Board (1)	Apr 1974
British Broadcasting Corporation	1927
British Gas Corporation (1)	Jan 1973
British National Oil Corporation	Jan 1976
British Railways Board (1)	Jan 1963
British Shipbuilders	Jul 1977
British Steel Corporation	Jul 1967
British Technology Group (1)	Jul 1981
British Telecom (2)	Oct 1981
British Waterways Board (1)	Jan 1963
Civil Aviation Authority	Apr 1972
Commonwealth Development Corporation	Feb 1948
Covent Garden Market Authority	Oct 1961
Crown Agents, Crown Agents Holding and Realization Board	Oct 1980
Development Board for Rural Wales (1)	Apr 1977
Electricity Council (together with the Central Electricity Generating Board and Area Electricity Boards)	Jan 1958
Enterprise Oil Ltd.	Sep 1983
General Practise Finance Corporation	Nov 1966
Highlands and Islands Development Board	Nov 1965
Housing Corporation	Sep 1964
Independent Broadcasting Authority (1)	Jul 1972
Land Authority for Wales	Apr 1976
London Transport Executive (1)	Jan 1970
National Bus Company (1)	Jan 1969
National Coal Board	Jan 1947
National Dock Labour Board	Jun 1947
National Film Finance Corporation	Oct 1948
New Town Development Corporations and Commission	Jan 1946 and later
Northern Ireland Electricity Service (1)	Jan 1974
Northern Ireland Housing Executive (1)	May 1971
Northern Ireland Transport Holding Company (1)	Apr 1968
North of Scotland Hydro-Electric Board	1943
Passenger Transport Executives	Oct 1969 and later
Pilotage Commission	Nov 1979
Post Office	Apr 1961
Property Services Agency (Supplies) (3)	Apr 1976
Regional Water Authorities (English and Welsh Water Authority (4))	Apr 1974

Royal Mint	Apr	1975
Royal Ordnance Factories	Jul	1974
Scottish Development Agency	Dec	1975
Scottish Special Housing Association		1937
Scottish Transport Group (1)	Jan	1969
South of Scotland Electricity Board	Apr	1955
HM Stationery Office	Apr	1980
Trust Ports (4)	Apr	1974
Urban Development Corporations	Apr	1981
Water Authorities Association (1)	Oct	1983
Welsh Development Agency	Jan	1976

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- (1) Replaced previously existing establishment. See II Below.
- (2) Previously a part of the Post office.
- (3) Assumed the name "The Crown Suppliers" in January 1984
- (4) The duties of these bodies were previously included among the duties of local administrations.
- (5) Date included as part of the National Industries group.

## II. Those Assumed by Other Establishments

- British European Airways and British Overseas Airways Corporation: Dissolved in April 1974 with all its assets and liabilities being taken over by the British Airways Board.
- British Transport Commission: From January 1948 to December 1962 and subsequently reorganized as five separate concerns -British Railways Board, London Transport Board, British Transport Docks Board, British Waterways Board and Transport Holding Company.
- Electricity Board for Northern Ireland: Reorganized in January 1974 as the Northern Ireland Electricity Service.
- Gas Council and Area Boards: Reorganized in January 1973 as the British Gas Corporation.
- Independent Television Authority: From August 1954 to July 1972 and subsequently renamed the Independent Broadcasting Authority.
- London Transport Board: Active since January 1963, assumed the name "London Transport Executive" in January 1970.
- Mid-Wales Development Corporation: Duties were transferred to the Development Board for Rural Wales in March 1977.
- National Enterprises Board: Active since November 1975, with the National Research Development Corporation Active since June 1949. The two were merged in June 1981 and assumed the name "British Technology Group".
- National Water Council: Active after April 1974, the Council was dissolved in 1983. Its primary functions were transferred to the Water Authorities Association in October 1983.

- Northern Ireland Housing Trust: Duties were turned over in October 1970 to the Northern Ireland Housing Executive.

- Northern Ireland New Town Development Commissions: Housing-related duties were turned over to the Northern Ireland Housing Executive between December 1972 and July 1973.

- Transport Holding Company: A partial regrouping took place in January 1969 as the National Freight Corporation, the National Bus Company, and the Scottish Transport Group. The company was dissolved in March 1973 and its remaining assets and liabilities were transferred to the National Freight Corporation. In October 1980 it was re-established as the National Freight Company Limited.

- Ulster Transport Authority: Re-established in April 1968 as the Northern Ireland Transport Holding Company.

### III. Establishments Which were Dissolved or Whose Activities were Terminated

- Industrial Reorganization Corporation: Active from December 1966 to May 1971

-Maplin Development Corporation: Active from November 1973 to November 1976

- Northern Ireland Development Agency: Previously active from May 1972 to May 1976 as the Northern Ireland Finance Corporation. Dissolved in June 1983.

- Sugar Board: Active from January 1957 to November 1976. The company's remaining assets and liabilities were transferred to the central government.

- The Department for National Savings: Transferred from the Post Office to the central government in October 1969.

- National Ports Council: Active after June 1964, its functions were transferred to the Department of Transport in December 1981.

### IV. Establishments Turned Over to the Private Sector (as of the end of 1983)

- Associated British Ports: Previously active until January 1963 as British Transport Docks, it was turned over to the private sector in February 1983.

- British Aerospace: Founded in April 1977, it was reorganized in January 1981 as "British Aerospace Ltd." In February 1981 it joined private sector concerns.

- Cable and Wireless Ltd. Active from 1 January 1947 to 1 April 1950, its assets in Great Britain were assumed by the Post Office in 1950, while its primarily overseas operations continued in the form of a public enterprise. It was finally removed from among the National Industries in October 1981.

- National Freight Company Ltd.: Active from January 1969 to October 1980 as the National Freight Corporation, it joined private sector firms in February 1982.



APPENDIX III  
SUMMARIZED INFORMATION CONCERNING THE SEE'S  
WHOSE SALE IS BEING GIVEN PRIORITY  
CONSIDERATION

1) TURBAN: Tourism Enterprises of the Tourism Bank of the Republic of Turkey

Capital (1983):	TL 50,000 million
Paid-in capital:	TL 12,071 million
Income in 1984;	TL 3.3 billion
Operating Profit in 1984:	TL 565 million
Facilities Owned:	12 hotels/motels and a capacity of 2564 beds 3 holiday villages and a capacity of 1157 beds 1 skiing resort and a capacity of 53 beds 3 camping areas 5 yacht basins and a capacity of 975 yachts 1 travel agency 1009 persons
Employment:	
Share of total touristic and capacity:	4.5% in 1985
Equity Participations:	Guney Turizm Inc. (10%) Istanbul Porselen Sanayi Inc. (0.034%) Kibris Turk Turizm Isl.Ltd.Co. (49%)

2) THY (Turkish Airlines)

Paid-In Capital:	TL 12,604 million
Income in 1984:	TL 103,261 million
Operating Profits in 1984:	TL 19,665 million
*Aircraft Owned:	31
Share of the Domestic Market:	99%
Share in International Transport Market:	50% (average)
Employment:	6208 persons
Number of Domestic Routes:	17
Number of Foreign Routes:	36
Equity Participations:	Emek İnşaat ve Isletme Inc. Kıbrıs Türk Hava Yolları Ltd.(50%)

3) USAS (Aircraft Services Inc.)

Paid-In Capital (1984):	TL 1009 million
Operating Profits in 1984:	TL 3589 million
Employment:	1609 persons
*Airports Served:	4
*Aircraft Served:	10,126
Activities:	Ground services Maintenance services Catering services Bus transport

4) YEMSAN (Feed Industries, Inc.)

Paid-In Capital (1984):	TL 2000 million
Income in 1984:	TL 21.8 billion
Operating Profits in 1984:	TL 1.1 billion
Employment:	1523 persons
Share of Total Market (1984):	20%
*Plants:	22
Equity Participations:	Aksaray Yem Fabrikası Inc.(40%) Bingöl Yem, Süt ve Besicilik Inc. (49%) Bandırma Yem Fabrikası Ltd.(25%) Biga Yem Sanayii Ltd. (40%) Çorum Yem Fabrikası Inc.(30%) Çukurova Mersin Yem San.Ltd.(20%) Eskişehir Yem Fab.Inc. (45%) Isparta Yem Fab. Inc.(15%) Kayseri Yem Fab.Inc. (13%) Kars Yem Fab.Inc. (30%) Manisa Yem Fab.Inc. (12%) Sivas Yem San.Inc. (25%) Tavşanlı Yem Fabrikası (11%) Uşak Yem Fabrikası (25%) Taris Yem San.Ltd. (20%)

5) CITOSAN (The Cement and Earth Industries of Turkey)

Paid-In Capital (1984):	TL 45,907 million
Income in 1984:	TL 80.5 billion
Operating Profit in 1984:	TL 10.7 billion
Employment:	7000 persons
Market Share (cement):	33%
Market Share (Earth-based products):	20%
*Plants:	20 cement, 4 earth-based products
Equity Participations:	Bolu Çimento Sanayii Inc.(35%) Çukurova Çimento San.Inc.(54%) Cimbol-Cimen ve Yan Mamul San Inc. (49%) Konya Çimento San.Inc. (40%) Mardin Çimento San.Inc.(46%) Ünye Çimento San.Inc. (49%)

6) TIGEM (General Directorate of Agricultural Enterprises)

Paid-In Capital 1984:	TL 9793 million
Income in 1984:	TL 32.1 billion
Operating Profit in 1984:	TL 8.5 billion
Employment:	14,083 persons
*Facilities:	38 farms
	1 workshop
	3.9 million decares of farmland

7) TPAO (Turkish Petrol Inc.) Holding Company

Participating Concerns:	Botaş	
	Ditaş	
	Topraş	
	Petrol Ofisi	
paid-In Capital:	Botaş:	TL 500 million
	Ditaş:	TL 500 million
	Topraş:	TL 10 million
	Petrol Ofisi	TL 40 million
1984 Income:	TPAO	TL 36.9 billion
	Botaş:	TL 60.8 billion
	Ditaş:	TL 2.7 billion
	Topraş:	TL 1672 billion
	Petrol Ofisi	TL 1 billion
1984 Operating Profit:	TPAO	TL 25.3 billion
	Botaş:	TL 45.7 billion
	Ditaş:	TL 1 billion
	Topraş:	TL 54 billion
	Petrol Ofisi:	TL 1 billion
Employment:	TPAO:	4836
	Botaş:	835
	Ditaş:	85
	Topraş:	4028
	Petrol Ofisi:	6705

8) Etibank

Paid-In Capital (1984):	TL 113.382 billion
Income in 1984:	TL 137 billion
Operating Profit in 1984	TL 63 billion
Employment:	25,549 persons
*Factories:	7
*Mining Operation:	14



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