

Privatisation



British Telecom Shop

Nationalisation of the telephone service brought it under the control of the Post Office in 1912. It continued to operate as a Government department under the Postmaster General until October 1969 when the Post Office became a public corporation under a chairman and answerable to the Secretary of State for Industry.

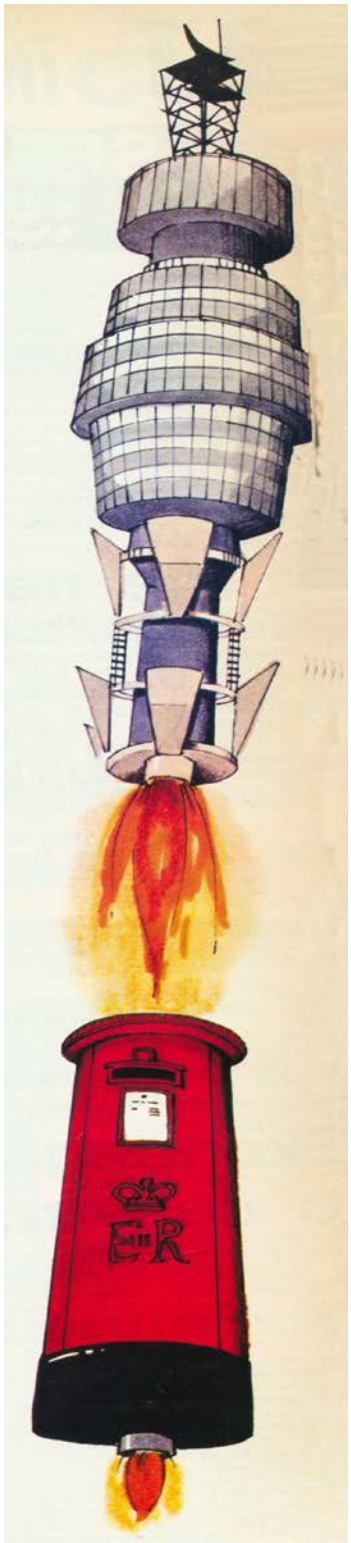
Victory for the Conservative Party, led by Margaret Thatcher, in the 1979 general election brought with it a firm commitment to reduce waste and bureaucracy in order to improve efficiency. Although the nationalised industries were seen as prime examples of inefficient enterprises, the Conservative Party manifesto from that year only stated the desire to return the recently nationalised aerospace and shipbuilding concerns to private ownership.

Privatisation in Great Britain was not the end result of an ideological programme, but instead was the development of a policy through practice. In fact privatisation should be viewed as an approach rather than a method.

The Conservative Governments of the 1980s and early 1990s used a broad array of methods in order to achieve a transfer of assets that was both politically rewarding and economically successful in their opinion.



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Detail from “Telecom Today” Vesting Day Special, October 1981

British Telecommunications Act 1981

It was within this political climate that the British Telecommunications Act 1981, which received Royal Assent in July 1981, came into force. This piece of legislation started the process by which British Telecom was transferred to private ownership. Under the 1981 Act, telecommunications activity was separated from the Post Office with the setting up of a public corporation. This formal separation occurred on 1 October, known as Vesting Day. The Act also brought an end to the telecommunications monopoly that had existed since nationalisation, in 1912, by allowing the Government to licence competitors who could interconnect with the existing network.

The repeal of the telecommunications monopoly in 1981 opened up the industry to competition in three main areas: licensing an additional network in the form of Mercury; licensing private firms to provide services using British Telecom’s networks; and allowing competition in the supply of connecting equipment. This is considered to be a form of privatisation by gradually allowing the private sector to operate in a previous protected area.

Despite the passing of this Act, an announcement was made on 19 July 1982 in the House of Commons that the Government intended to privatise British Telecom with a Bill subsequently being introduced to this effect. The calling of a general election in 1983, however, caused the Bill to fall.

General Election 1983

The political situation had changed dramatically by the time of the 1983 general election with the two main parties holding opposing views on public versus private ownership. In its manifesto for that year the Conservative Party exhibited a greater commitment to private ownership and provided a list of enterprises which it intended to return to the private sector, including British Telecom (Conservative Party manifesto, 1983). This was in marked contrast to the position taken by the Labour Party which strongly opposed the sale of state assets and promised to: “Begin the return to public ownership of those public industries sold off by the Tories” (Labour Party manifesto, 1983).

Telecommunications Act 1984

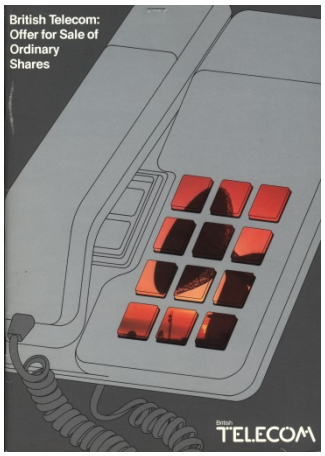
Victory for the Conservatives, with an increased majority, saw the reintroduction of the Bill which spent 320 hours in Parliament and more time in the commons than any measure since the War.

However, the

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Telecommunications Act 1984 was passed and gained Royal Assent on 12 April 1984.

The concept of whether enterprises were public or private had become an election issue so it was vital for the Government that the sale of 50.2 per cent of shares in British Telecom went smoothly. As a result the Government authorised the largest marketing campaign ever for the sale of a new share issue to provide information, but more importantly to create widespread interest in the shares. In this respect the policy was successful with full subscription and wider share ownership being achieved.



Offer for Sale of Ordinary Shares, 1984

One of the main motivations behind such an issue of shares is the desire to spread share ownership as widely as possible throughout the population with the aim of building support for the Government by creating vested interests in the process. The partial sale of the Government's share holding in an enterprise has the added benefit of positively contributing to the Public Sector Borrowing Requirement (PSBR).

Once the Government holding has fallen below 50 per cent then any future capital borrowed is exempt from the PSBR, a figure that the Conservatives were keen to reduce.

The sale of 50.2 per cent of shares in British Telecom in 1984 was revolutionary in its scale and experimental in its marketing. Ultimately it was not just British Telecom that was being sold, but the whole concept of privatisation.

Features of the Act

The main focus of the Act was to transfer British Telecom to the private sector but it also aimed to make provision for the effective running of the telecommunications industry.

Creation of a regulator

Oftel was created as a non-ministerial government department to promote competition in the telecoms industry and protect the rights of consumers. In 2003 it became Ofcom for UK communications industries, with responsibilities across television, radio, telecommunications and wireless communications services.

Protection of uneconomic services

It was feared by the Unions that future investment would be directed away from services that were uneconomic but vital, as British Telecom concentrated on profit maximising services.

The Government made provisions in British Telecom's licence regulations to ensure that it maintained the provision of less profitable services, including 999 for the emergency services and telephone kiosks.

A universal service obligation was also placed on British Telecom which required the company to maintain a full national service including less profitable rural areas. This was seen as necessary because if the industry was opened up as a fully competitive market services that would guarantee high profits, such as those for businesses or in areas of high population, would be focussed on to the detriment of less profitable services.

Attitudes towards privatisation

The unions were concerned that increased efficiency in the industry would inevitably lead to job losses. The British Telecom unions believed that the jobs of up to 4,500 of its members were at risk ("British

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Telecom: How selling it off will harm Britain"). The Government, however, believed that increased innovation would lead to the creation of new services which would ultimately create more jobs.

It was also argued by the unions that ending British Telecom's monopoly and allowing the creation of other telecommunications companies, would cause confusion over who was responsible for the maintenance repair of faults.

British Telecom's senior management were equally concerned about the effect that privatisation would have on the future of the company.



Union window sticker, 1980s (BTA.0051)

They wanted to ensure that the structure of the company post-privatisation would allow it to survive and compete in global markets. Sir George Jefferson, chairman of British Telecom, vigorously opposed the more extreme recommendations in Professor Beesley's Report on "Liberalisation of the use of British Telecommunications Network", which would have seen greater competition in the industry and may have reduced the ability of British Telecom to raise finance for improvements to the network. His successful lobbying meant that the Government decided not to split British Telecom into separate divisions on privatisation. This created a company structure that was acceptable to the board and allowed a quicker sale for the Government because it had the support of the board.

British Telecom's senior management were closely involved in the process of privatisation, taking part in intensive behind the scenes discussions with the Department of Industry. Throughout the winter of 1982-83 British Telecom maintained a presence during the House of Commons debates and was even allowed it to put forward its own amendments.

Share issue 1984

In November 1984 the Government offered 3,012 million ordinary shares for sale. When the offer closed on 28 November it had been oversubscribed by 3.2 times with shares being allocated to applicants on a pro rata basis. Shareholders fell into four groups: institutions taking up 47.4 per cent of the issue; the general public 34.3 per cent; British Telecom employees and pensioners 4.6 per cent; and buyers in the USA, Canada and Japan 13.7 per cent. Dealing in these shares began on 3 December 1984 simultaneously in London, New York and Toronto. The purchase price was 130p which was paid 50p on application and the rest to be paid in instalments later. The total amount raised was £3,916 million and nearly 96 per cent of eligible BT employees became shareholders in the company.



British Telecom shares being traded, 3 December 1984 (TCE 361 /ARC 1277)

Further share issues

A second issue took place on 21 November 1991 which saw 1,598 million shares being sold, raising £5 billion for the Government.

A third issue followed in July 1993 with the Government selling off virtually all of its remaining shares for a further £5 billion.

In July 1997 the Government relinquished its Special Share, retained at the time of flotation which had allowed it to block a take-over of the company and appoint two non-executive directors to the board.

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White Paper 1991

On 5 March 1991 the Government issued the White Paper “Competition and Choice: Telecommunications Policy for the 1990s”. This effectively ended the duopoly that had existed since privatisation.

It also brought in a more open and fairer policy which allowed customers to acquire telecommunications services from competing providers using a variety of technologies.

Independent retail companies would also be permitted to bulk-buy telecommunications capacity and sell it in packages to business and domestic users.

The White Paper was endorsed by British Telecom, the new policy allowed the company to compete freely and more effectively by offering flexible pricing packages to meet the needs of different types of customer.

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Privatisation Timeline

1981	In July the British Telecommunications Act separated telecommunications activity from the Post Office, separation occurred on 1 October, and saw the end of the monopoly in telecommunications.
1982	The Government formally announced plans to privatise British Telecom on 19 July and subsequently introduced a Bill, although the calling of the 1983 general election caused this Bill to fall.
1983	Privatisation became a manifesto issue at the general election with the Conservatives being returned to power with an increased majority.
1984	The Bill was reintroduced in the new Parliament, as the Telecommunications Act; it gained Royal Assent on 12 April. It spent 320 hours in Parliament and more time in the Commons than any measure since the War (Telecom Today May 1984). The transfer of the business, its property, rights and liabilities to British Telecommunications plc took place on 6 August. Initially all shares in the company were owned by the Government but in November 50.2 per cent of its shareholding was offered for sale to the public and employees in the first flotation of a public utility, meaning that any future capital borrowed is exempt from the PSBR. Shares sold on 3 December with nearly 96 per cent of staff who had been given the opportunity to purchase shares doing so. Creation of OFTEL as a non-ministerial government department to promote competition in the industry and protect the rights of consumers (became OFCOM in 2003).
1991	White paper ending the duopoly and allowing more open policy issued on 5 March. Second issue of shares on 21 November saw 1,598 million being sold, raising over £5 billion for the Government.
1993	Third issue of shares July 1993 with the Government selling off virtually all of its remaining shares for a further £5 billion.
1997	In July the Government relinquished its Special Share, retained at the time of flotation which had allowed it to block a take-over of the company and appoint two non-executive directors to the board.

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