Dr MUZAFFER DARTAN

with essays specially contributed

by Professor ERGİN ARIOĞLU and Dr JEFFREY H. COATES

Privatisation in the UK and Turkey with particular reference to the Coal Sector

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Marmara University European Community Institute

MARMARA ÜNİVERSİTESİ YAYINEVİ

UNIVERSITY OF MARMARA NO: 578
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PRIVATISATION IN THE UK AND TURKEY WITH PARTICULAR REFERENCE TO THE COAL SECTOR

MARMARA ÜNİVERSİTESİ 1883

Marmara Üniversitesi
Kütüphane ve Dokümantasyon Daire Başkanlığı
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Privatization — Turkey
— UK

by
Dr Muzaffer DARTAN

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by
Professor Ergin ARIOĞLU

and
Dr Jeffrey H. COATES

University Of Marmara
European Community Institute
İstanbul, May 1996

MARMARA ÜNİVERSİTESİ
KÜTÜPHANE VE DOKÜMANTASYON
BAŞKANLIĞI

MARMARA ÜNİVERSİTESİ YAYINEVİ

Privatisation
in the UK and Turkey
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University of Marmara
European Community Institute
İstanbul, 1996

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" *Knowledge means to have consciousness.*
Knowledge is the awareness of the self.
If you fail to become aware of yourself,
That is not learning.

What is the meaning of learning?
That man gets to know God.
If you fail to understand what you learn,
That is a complete waste of your effort. "

Yunus EMRE(*)

(translated by Esra Lagro)

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(*) *A very well-known Turkish philosopher and poet who lived in the 13th century.*

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FOREWORD

Privatisation has, since the 1980s, become a world-wide phenomenon. Many countries, including Turkey, have followed the path pioneered in Britain. In Turkey it has aroused intense controversy in political, economic and social circles. However in Britain, as in other parts of the world, most privatised companies have been so successful, both in commercial terms and from the perspective of public opinion, that the process has become acceptable across the entire political spectrum.

At the end of the 1970s, the Turkish economy had become oriented by the inward-looking development strategy based on import-substitution. In the early 1980s this policy was replaced by a model emphasising export-led growth characterised by integration into global markets. In line with this policy, Turkey in 1987 applied to become a full member of the European Union. In January 1996 the customs union between Turkey and the European Union entered into force.

It was also during the 1980s that the role of state in the Turkish economy began to be seriously questioned. Following the advice of the IMF and of the World Bank, these discussions often focused on privatisation of state economic enterprises as a favoured means of reducing state intervention in the national economy.

This would have the effect of concentrating state activity on realising what were seen as its more important duties - providing an effective

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regulatory and physical infrastructure and discharging its responsibilities for defence, security and justice.

However the Turkish Government's implementation of a privatisation programme since the mid-1980s has been slow in comparison with that of some other countries. By contrasting Britain experience with the process of Turkish privatisation in general and the coal sector in particular, this book seeks to highlight the problems faced by Turkey.

I hope that this book will prove to be a useful contribution to the necessary debate on privatisation.

Professor Aslan GÜNDÜZ
Director
of the EC Institute
of Marmara University

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ABBREVIATIONS

BG	British Gas
BP	British Petroleum
BT	British Telecom
CEEP	European Public Enterprise Center
CEGB	Central Electricity Generating Board
ÇITOSAN	Cement Plants
DGB	German Trade Union Organisation
DP	Democratic Party
DPT	State Planing Organisation
EC	European Community
EU	European Union
GAP	South East Anatolia Project
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
MKEK	Machinery and Chemicals Industry Complex
MTA	Institute for Mining Exploration and Research
NCB	National Coal Board
NEDO	National Economic Development Office
NUM	National Union of Mineworkers
OECD	Organisation for Economic Co-operation and Development
OFGAS	Office of Gas Supply

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OFTEL	Office of Telecommunication
OFWAT	Office of Water Supply
OPEC	Organisation of Petroleum Exporting Countries
PA	Privatisation Administration
PSBR	Public Sector Borrowing Requirement
RECs	Regional Electricity Companies
RPI	Retail Price Index
RPP	Republican People's Party
RRR	Real Rate of Return
SEEs	State Economic Enterprises
SPD	German Social Democratic Party
SSEB	South of Scotland Electricity Board
TEK	Turkish Electricity Board
TELETAŞ	Switchboard Equipment Companies
TKİ	Turkish Coal Board
TPAO	Turkish Petroleum Corporation
TPER	Turkish Programme for Economic Recovery
TTK	Turkish Hard Coal Authority
TUC	Trade Unions Congress
TUSİAD	Turkish Industrialists' and Businessmen's Association
USAŞ	Airline Service Co.

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This book is a publication based on my thesis entitled **"Privatisation in the UK and Turkey with particular reference to the Coal Sector"** submitted to the University of Exeter as a dissertation for the degree of Master of Philosophy in Economics in the Faculty of Social Studies in October 1995

In addition to my thesis, this book is enriched by two complementary essays on this controversial topic by two authors to whom I am most grateful.

The first one is **"The Evolution of the Zonguldak Coal Basin"** written by **Professor Ergin Arıoğlu** from the Mining Engineering Department, Faculty of Mining of İstanbul Technical University. **Professor Arıoğlu** has published books in several foreign languages and articles in internationally famous scientific mining reviews. In this essay he analyses the coal sector in Zonguldak/Turkey from his perspective as a mining engineer.

The second one is **"UK Privatisation"** by **Dr Jeffrey H. Coates** from the Department of Economics of University of Exeter who was my supervisor. **Dr Coates'** contribution to this book gives it a specifically British dimension.

I would like to thank **Professor E. Katırcıoğlu** of the Economics and Administration Faculty at Marmara University for their suggestions, and for providing materials on privatisation, particularly in the coal sector. I owe a special debt of gratitude to **Mr H. Rees** who was unstinting over the whole year in giving me the benefit of his legal expertise.

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Needless to say, I am alone responsible for any defects in the preparation and publication of this book, and for the opinions in my thesis.

Muzaffer DARTAN

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Chapter I

Introduction

The term privatisation dates from the period of Conservative Government in the UK beginning in 1979. Hitherto, denationalisation had been used to describe the process of replacing state industry by private enterprise. The new term was meant to convey a process which went beyond straightforward denationalisation and encompassed other policies, including liberalisation, re-structuring and re-regulation.

Privatisation has become a global phenomenon, adopted by many governments as a panacea to their nations' economic shortcomings. Privatisation is complex however, impacting upon a vast range of economic, social and political spheres.

This dissertation recognises this "political economy" nature of the privatisation process by making reference, where appropriate, to political factors in both the UK and Turkey, which affect privatisation policies in both countries.

Privatisation has come to mean different things to different people. At the root of all privatisation programmes however, lies the desire to intensify competition, introduce market discipline and improve efficiency by reducing the role of the state in the economy. How is this goal achieved? There are many ways.

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The most preferred means of privatising state enterprises appear to be (in the cases of the UK and Turkey at least) by "offer for sale" and "tender offer". Most of the former tend to be priced well below their true market worth in order to entice the public to subscribe for shares. In contrast, "tender offers" (made via merchant or investment banks) tend to be priced much nearer their true worth. One reason for this is perhaps that "offers for sale", being high profile events, must be seen to succeed - in other words, there is a political imperative. World privatisation proceeds are estimated at $ 300 billions for the period 1980-1991. This may reach $ 600 billions by 2000[1].

Privatisation has, since the fall of the Berlin Wall, been at the top of eastern Europe's and the former Soviet Union's economic agenda. Whether this is the best means of modernising such economies is however, a moot point.

For one thing, the ex-socialist economies are not yet sophisticated enough to perform such simple task as valuing such enterprises effectively. Often, private property rights are either uncertain or non-existent, and there is usually no stock market to speak of, or private capital available to purchase shares. One solution has been privatisation "vouchers".

Of the 6,800 privatisations between 1980 and 1991 world-wide, 66 per cent of these took place in what was East Germany in the first 18 months after re-unification (see Figure 1.1). As Figure 1.2 indicates, the remaining Eastern European economies accounted for some 800 sales or liquidations of public enterprises. Latin America accounted for some 40

[1] Cumhuriyet, 1994, "Dünyada Özelleştirme", August 22

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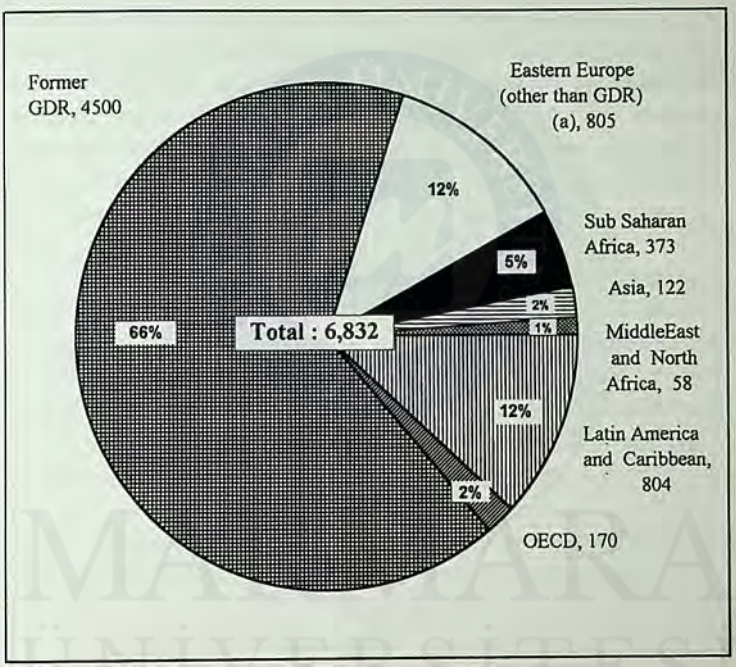
Figure 1.1 Number of Public Enterprises Privatized Worldwide, by Region, 1980-91



Note: Data include liquidations and any sale that reduces the goverment share in the firm to less then 50 percent; they exclude reprivatizations. Number in parentheses represent share of worldwide total.
(a) Total may include partial (minority) sales.

Source: Sunita, K., Nellis, J. and Shirley, M., 1992, "Privatization: the Lessons of Experience", p. 22

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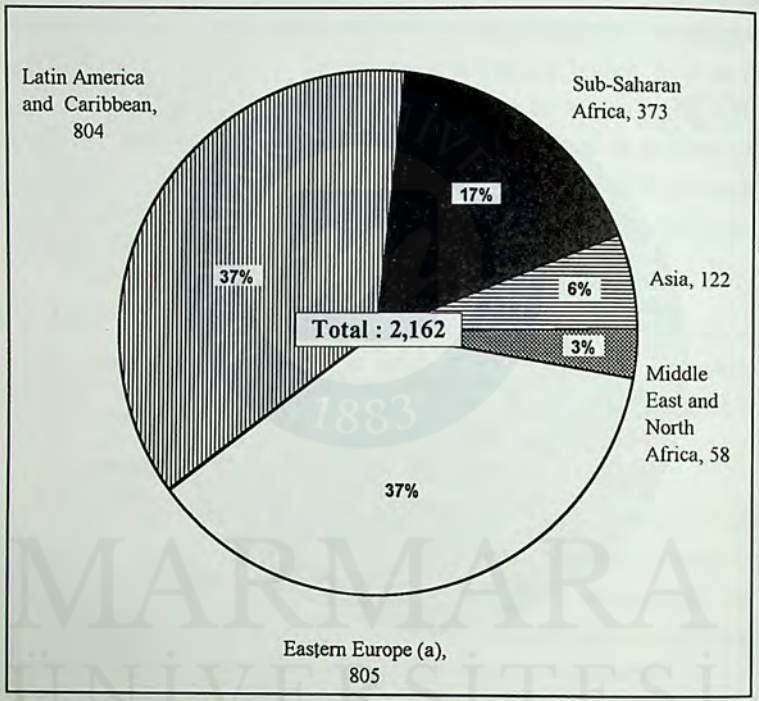
Figure 1.2 Number of Public Enterprises Privatized in Developing Countries, by Region, 1980-91



Note: Data include liquidations and any sale that reduces the goverment share in the firm to less then 50 percent; they exclude reprivatizations. Number in parentheses represent share of worldwide total.
(a) Total may include partial (minority) sales.

Source: Sunita, K., Nellis, J. and Shirley, M., 1992, "Privatization: the Lessons of Experience", p. 23

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per cent of developing countries' privatisations, with Sub-Saharan Africa accounting for 17 per cent.

Privatisation has been gaining momentum since 1979, led by the UK which has by and large been successful, both commercially and politically, in this area. This growing momentum may in part be attributed to disillusionment with "big government" and a move towards fiscal conservatism after the inflationary 1970s and debt crises of the 1980s. In the UK, this sea-change has underpinned the popularity of successive Conservative Governments.

In 1977, the Conservatives published a document outlining their plans to reduce state ownership, and in 1978, the Ridley Report proposed detailed strategies for doing so. By 1979, specific firms had been identified. "Monopoly nationalised industries" and "monopoly trade Unions" were blamed by Mrs Thatcher as the principal evils of the UK economy. Her other objectives were: "strong defence, more resources for law and order, lower taxation, more private enterprise, and less government control".

Similar objectives may be divined in the privatisation programmes of other countries, including Turkey, falling into three broad groups:

- Introduction of competition.
- Accrual to the state of privatisation proceeds.
- Diminution of "big government".

Privatisation then, describes a multitude of different policies to increase the role of the private sector. Privatisation should however, only be properly regarded as the transfer of public assets into private hands. This process has usually been accompanied (as in Turkey) by structural reform. In Turkey, this has meant a much more outward looking

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economy, with deregulated capital and labour markets, though the tax system remains in desperate need of reform. The role of Turkey's State Economic Enterprises (SEEs) has become crucial. Turkish structural transformation must succeed first with the reform of the SEEs. The means of achieving this is seen by many as privatisation. This has been the UK experience.

Chapter II deals with the role of the state in any economy. This has been hotly debated since the dawn of modern economics, though it is primarily an issue of politics, and societies will adopt different degrees of interference depending upon their values. The privatisation debate has however succeeded in making the debate more focused and scientific. What then was the influence of the "Thatcher Revolution", and from where did it draw its inspiration?

Chapter III deals with the UK privatisation experience. How did Conservatives arrive at such an unfavourable prognosis of nationalised industry? What advantages did privatisation offer? Moreover, in what ways did Conservative economic policy seek to remedy the nationalisation problem, and why did they adopt the policies they did? The UK is the "role model" when privatisation is concerned. Much may be learned from the UK's experience, yet little empirical data exists.

Chapter IV looks at privatisation in Turkey. The aims of Turkish privatisation were much the same as those of the UK, yet Turkey is slow to get started in earnest. Turkey's SEEs are the equivalent of the UK's old nationalised industries. What problems does Turkey face with regard to these industries and how does it propose to solve them? This chapter analyses the reform process begun in the early 1980s in Turkey, and asks how much further it has to go. There are many, many ways in which the Turkish situation is both similar and different to that in the UK.

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Chapter V looks exclusively at the energy sectors in the UK and Turkey, and asks what role privatisation should have in the reform of the Turkish energy sector. Here, the issue of regulation of newly privatised industries becomes important, and the coal sectors of both countries are looked at in detail. Privatisation of Turkey's coal industry is a very contentious issue, and an emotive one - as it was in the UK. A comparative analysis of the coal industries of the UK and Turkey is instructive not only because of their similarities, but also because of the importance of union power and associated social issues. Reform of coal inevitably involves massive job losses, but moreover, an efficient coal sector is crucial if the Turkish economy is to modernise effectively and grow quickly. The UK coal industry in 1979 was very similar to the Turkish coal industry today. What lessons may Turkey learn from the UK experience?

Chapter VI deals with conclusions, and the question of what Turkey can learn from the UK.

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Chapter II

Historical Background of the Role of State in the Economy

Before any attempt can be made to examine in detail privatisation in the United Kingdom and in Turkey since the 1980s it is necessary to make an historical analysis of state intervention in economic activities during the capitalist era. It may be generally divided into four phases:

2.1 Commercial Capitalism/Mercantilism

The phase of commercial capitalism is also called mercantilism and spread in Europe during the Sixteenth, Seventeenth and Eighteenth Centuries. Indeed, it is difficult to call mercantilism a system. "There is", as Buck argues, "no coherent body of theory developed by one writer; there is not even the relatively consistent viewpoint of a group of thinkers".[1]

However, mercantilists display a common attitude of mind, characterised chiefly by their mutual insistence that they aim at making the state powerful by directing and controlling the economic activities of the nation. Generally, the mercantilist doctrine includes three factors, as Buck puts them:

[1] Buck, P. W., 1964, "The Politics of Mercantilism", p. 2;
In addition, according to Horrocks:
"Moreover, it cannot be regarded as a typical expression of the mercantile spirit, which is by no means necessarily inclined to favour a policy of state direction or to connect itself with an ideal of political and national strength and independence". Horrocks, J. W., 1924, "A Short History of Mercantilism", p. 2

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"The first was the rise of the national state; the intimate relationship of mercantilism with the growing strength of national institutions is apparent - it might even be called one of those institutions.

The second factor which contributed to the development of national economic policy and to its statement and defence by the writers of the period is now referred to by historians as the 'commercial revolution'. The growth of a money and credit economy provided a new economic and commercial environment in which the state developed the new lines of policy. The state inherited a rich legacy of rights over the economic and commercial structure from decaying feudal institutions and conceptions, by the use of which it was able to assert its claim to control many economic activities; and the community was willing to accept such an exercise of authority".[2]

However, it is necessary to emphasise that the practice of the mercantilist doctrine varied from country to country. For example, English School[3], German School (Cameralism)[4], and French School (Colbertism)[5] are evidence for the different practices. But one of the main common points to which the mercantilists attached importance was the encouragement of foreign trade. The mercantilists claimed that the growth of foreign trade volume was the only way to supply gold and silver which were necessary to secure the power and welfare of a nation state. The essential features of foreign trade policy of mercantilism were as follows:[6]

- prohibition of export of native raw materials;
- restriction of imports by high customs duties and regulations;
- prevention of emigration of native skilled artisans;
- attraction of skilled artisans from other countries.

[2] Buck, 1964, pp. 4-5
[3] Horrocks, 1924, pp. 30-98
[4] Ibid., pp. 114-135
[5] Ibid., pp. 136-157
[6] Buck, 1964, p. 43

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In conclusion it can be said that the economic policy of mercantilism included chiefly a comprehensive system of government control and protection in the nation state. However, during the Eighteenth Century the importance of mercantilism in Europe decreased permanently. The main reason for that was the development of the Industrial Revolution.

2.2 Liberalism/Laissez-Faire Economic Policy

The essence of liberalism, or laissez-faire as it came to be known in looser and more popular language, is based on the freedom of the individual, the freedom of religious, political and economic activities. The laissez-faire economic policy advocated at that time included the following principal features:

- freedom for imports;
- reduction in tariffs;
- free competition;
- restriction of state intervention in the economy.

In other words, in the latter Eighteenth Century, the term laissez-faire, characterised by the above mentioned features, developed as a reaction to mercantilist economy policy because the growing capitalist entrepreneur class opposed the monopolies of mercantilism, and the power of landlords that hindered the development of their economic activities in the society.

In the light of the laissez-faire economic policy at that stage, the writers of liberalism are generally grouped in three main economic schools:

- physiocratic school;
- classical school;
- neo-classical school.

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The physiocrats who must be credited with the foundation of the earliest school of economic liberalism attached particular importance to the term "natural order". According to the economic viewpoint of physiocrats, the intervention of the state in the economy was unnecessary; and they argued that the "natural order" that exists in society regulated all economic activities.[7]

Although the physiocrats founded the earliest "school of economic liberalism" in the fullest sense of this term, the fundamental ideas of this term have been developed by the writers of the classical school. Adam Smith, the father of modern economics, in his masterpiece "The Wealth of Nations" argued that the characteristic principle of laissez-faire was that the government should confine itself to matters of defence, the administration of justice, and the maintenance of order, and leave to industry the greatest possible liberty.

In other words, his belief in the essential beneficence of the "natural order" enabled Smith to reconcile the idea of individual freedom with the pursuit of general good and left him with a strong predisposition against government activity beyond its fundamental duties of protection against foreign foes and maintenance of justice.

This commitment to laissez-faire was moderated. Smith's ascription to government of the right and duty of erecting and maintaining certain public institutions, which can never be used for the interest of any individual, or small number of individuals, opened up possibilities of state intervention whose import can only be fully appreciated two centuries later. The public corporation and the nationalised industry are included within the explicit exception which Smith provided to his non-interventionist theory.

[7] For more details, see Gide, C. and Rist, C., 1915, "A History of Economic Doctrines: from the Time of the Physiocrats to the Present Day", pp. 21-68

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Smith felt that the greatest aggregation of wisdom was contained in the decentralised decisions of individuals acting under a system of what he called "natural liberty". Smith explained the term "natural liberty" as follows:

"All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society".[8]

He believed, consequently, that the system of minimum government intervention would lead to the highest level of national income or what Smith called the "annual revenue". Regulations designed to stimulate foreign trade, as Smith advocated, would reduce the national income. And the national income, after all, was simply the sum of all individual incomes from trade. Self-interest, therefore, led to social interest, in so far as social interest was equated with maximising national wealth. It is this train of thought which led Smith to produce the famous "invisible hand" proposition. Smith's own preference for what he called "invisible hand" could not be more clearly expressed:

"But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every

[8] Smith, A., 1976b, "An Inquiry into the Nature and Causes of the Wealth of Nations", p. 68

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individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such as a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it".[9]

2.3 Keynesian Economic Policy

The Great Depression in the 1930s was the main reason for decreasing the impact of the laissez-faire principle on the world economy. In contrast with the classical economists, the Great Depression made it possible to see that the transitional process of a capitalist economy was not self-correcting; and there was no inbuilt tendency towards a stable equilibrium at full employment.

In other words, the laissez-faire economic policy failed to find any solution for the economic problems caused by the Great Depression. Therefore, during the period after the Great Depression, another economic policy, namely, the so-called Keynesian Theory, became more

[9] Smith, A., 1976a, "An Inquiry into the Nature and Causes of the Wealth of Nations", pp. 455-456

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important, at first in the in dustrialised countries, then afterwards across the world. In his masterpiece "The General Theory of Employment, Interest and Money" (1936)[10] John Maynard Keynes argued that if the macro-economy of the capitalist system was unstable, then government should step into correct the economy via monetary, fiscal and investment policy, and the regulation of foreign trade.

Now it is necessary to remember how Keynes saw the role of the state in the economy, for example in trade and protectionism. He wrote:

"For a favourable (trade) balance, provided it is not too large, will prove extremely stimulating; whilst an unfavourable balance may soon produce a state of persistent depression. It does not follow from this that the maximum degree of restriction of imports will promote the maximum favourable balance of trade. ... There are strong presumptions of a general character against trade restrictions unless they can be justified on special grounds".[11]

Keynes argued that a favourable trade balance increases the domestic money stock, which lowers the rate of interest thereby stimulating investment. This stimulus to investment is part of the armoury required to stave off economic stagnation. Thus protection is desirable not because it protects jobs at home, but because it stimulates the quantity of money and thereby moderates the rate of interest. However, Keynes pointed out that too much protection is dangerous; and he emphasised the main reason for that: "(It) may lead to a senseless international competition for a favourable (trade) balance which injures all alike".[12]

[10] "The General Theory" of Keynes appeared as an explanation of the events of the 1930s and particularly of the Great Depression in the USA between 1929 and 1932. The preceding decade had generally been a period of growth and prosperity but after 1929 unemployment increased dramatically across the world, accompanied by a severe fall in prices and business confidence.

[11] Keynes, J. M., 1936, "The General Theory of Employment Interest and Money", p.338

[12] Ibid., pp. 338-339

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But, although there is no evidence that Keynes ever defined the special grounds for trade restrictions, he appears to be recommending mild protectionism as being desirable both nationally and internationally. On the other hand, Keynes underlined that "great moderation is necessary, so that a country secures for itself no larger a share of the stock of the precious metals than is fair and reasonable...".[13]

There is after all some degree of protection that is "fair and reasonable"; but it is never defined. But, certainly, it did not approach the extent attained in his lifetime. He said that "contemporary experience of trade restrictions in post-war Europe offers manifold examples of ill-conceived impediments on freedom which, designed to improve the favourable balance, had in fact a contrary tendency".[14]

The ideas of Keynes which had been called a "revolution in the economic science"[15] were put in effect by the industrialised countries with considerable success in the 1950s and 1960s. However, disenchantment with Keynesian policies in the industrialised countries developed in the 1970s, when they began to suffer simultaneously from rising prices and rising unemployment.

In other words, Keynesian theory failed to find any resolution of both problems as George J. Stigler who was awarded the 1982 Nobel prize in Economic Sciences said in his Nobel lecture "The Process and Progress of Economics" as follows:

"The responsiveness of macroeconomics to contemporary events is notorious. Keynes's conquest in the 1930s was due to the fact that the neo-classical theory could not account for the persistent unemployment

[13] Ibid., p. 338
[14] Ibid., p. 338
[15] See, for example, Klein, L. R., 1966, "The Keynesian Revolution".

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of that decade. A generation later, persistent inflation even with less than full employment was equally decisive in ending Keynes's supremacy".[16]

In short, the influence of Keynesian theory on economic policy in the 1950s and 1960s increased internationally through the Bretton Woods system, but in the 1970s those ideas have been discredited. At the conference at Bretton Woods in 1944 in which Keynes played a leading part 44 countries established a system of fixed exchange rates, which was ultimately fixed in relation to the US dollar and gold. This system was operated by central banks buying and selling currencies. The Bretton Woods system collapsed in the early 1970s, to be replaced by floating exchange rates between major currencies, now modified by the fixed-rate European Monetary System covering most currencies of the countries in the European Union, though not Sterling, and by "alignment agreements" with the US Dollar, the Japanese Yen and the Swiss Franc.

2.4 Free Market Economy

Since the 1980s the "new" classical schools have dominated the world economy. They may be divided into three groups:

- Chicago School: The Monetarist Theory and the Theory of Rational Expectations.
- Virginia School: The Theory of Public Choice.
- The Theory of the Supply-Side Economics.

The main features of these economic schools which are based on laissez-faire economic policy advocate particularly the restriction of state intervention in the economy and also privatisation as summarised below.

[16] Stigler, G. J., 1983, "Nobel Lecture: the Process and Progress of Economics", p. 534

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2.4.1 Monetarist Theory

Traditional monetary policy was based on the assumption that the demand for investment goods was particularly sensitive to changes in the rate of interest and it was on this point that the theory was attacked in the 1930s and 1940s. Keynesian theory had shown that there were situations where changes in the money supply would have little effect on interest rates. More important, the theory had emphasised the role of expectations as a major determinant of investment behaviour. A serious loss of confidence on the part of entrepreneurs would completely override any changes in interest rates.

However, during the 1950s Milton Friedman who was awarded the 1976 Nobel Prize in Economic Sciences and a group of economists known as the Chicago School developed an alternative view stressing the importance of the quantity of money. In 1956 in his famous article, "The Quantity Theory of Money - a Restatement", Friedman powerfully challenged those versions of Keynesian theory which had tended to play down or dismiss the relevance of money to the operation of the economic system.

He did this by recasting the traditional quantity theory as "a theory of the demand for money"[17], a demand that was stable and could be specified in terms of a small number of key variables. He also contended that there were "factors affecting the supply of money that do not affect the demand for money".[18] Hence on these arguments the way was open to trace out the effects of changes in the supply of money on such key variables as nominal income.

In other words, monetarism is concerned with the role of money in macroeconomic theory and with the operation of short-run stabilisation policy. In essence, monetarists underline the potency of money and

[17] Friedman, M., 1956, "The Quantity Theory of Money: a Restatement" , p. 4
[18] Ibid., p. 16

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stress the importance of following a monetary rule in the conduct of monetary policy in order to avoid economic instability.

With regard to the state intervention the monetarists consider that the role of government in a market economy is an issue more political than economic. However, the market economy and the accompanying political system (that determines the role of the state) are not independent. The point has been made that a market economy is a precondition of political freedom, or as Friedman puts it: "The kind of economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power".[19]

According to the monetarists, economics can define the universal preconditions, operating rules and outcomes of competitive markets and efficient resource allocation, but cannot determine how the resulting output, or more broadly welfare, is to be distributed among individuals and between generations. This can only be done through the political process, by defining the role of the state in the economy. The monetarists advocate that through a consensus regarding the functions of the government, particularly defence, law and order, a certain degree of competition is also to be preserved. As Friedman formulates it: "The role of government just considered is to do something that the market cannot do for itself, namely, to determine, arbitrate and enforce the rules of the game".[20]

2.4.2 Theory of the Rational Expectations

Another "new classical" group, distinct from monetarism, consists of the economists of the Theory of "Rational Expectations". The original idea

[19] Friedman, M., 1962, "Capitalism and Freedom", p. 9

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has been advocated by John Muth since 1961.[21] But it took a long time before it really caught hold of economic thinking in a major way. In other words, pioneering work on its implications for the behaviour of the economy really started around 1970, and by the middle 1970s a lot of work was under way.[22]

The Rational Expectations Theory is formed chiefly on the basis of the assumption that the people having the expectations are rational and that expectations are based on the predictions of economic theory. Thus, for instance, people who believed that inflation was a monetary phenomenon would derive their expectations as to the future rate of inflation according to the rate of monetary expansion.

In other words, the theory of rational expectations says that people use all the evidence available to them in an intelligent manner to predict inflation, etc., that is, both before the policies take effect and afterwards. Accordingly, people intelligently evaluate the likely effects of government policies, it clearly implies that government does not have the power to stabilise the economy, that is, policies to stimulate the economy will be "see through" and will generate inflation rapidly. As Lucas and Sargent put it:

[20] Ibid., p. 27

[21] Muth, J., 1961, "Rational Expectations and The Theory of Price Movements", pp. 315-335

[22] See, for example:
- Sargent, T. J., and Wallace, N., 1973, "Rational Expectations and the Dynamics of Hyper-inflation";
- Sargent, T. J., and Wallace, N., 1975, "Rational Expectations, the Optimal Monetary Instrument and the Optimal Money Supply Rate";
- Lucas, R. E., 1981, "Rational Expectations and Econometric Practice".

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"Existing Keynesian macro-economic models cannot provide reliable guidance in the formulation of monetary, fiscal or other types of policy. This conclusion is based in part on the spectacular recent failures of these models and in part on their lack of a sound theoretical or econometric basis. ... Models can be formulated which are free of these difficulties. ... The key elements of these models are that agents are *rational.* ...(These models) will focus attention on the need to think of policy as the choice of stable 'rules of the game', well understood by economic agents. ... (They) will also suggest that policies which affect behaviour mainly because their consequences cannot be correctly diagnosed, such as monetary instability and deficit financing, have the capacity only to disrupt".[23]

2.4.3 Theory of Public Choice

After studying two groups of economists of the Chicago School, at that stage, it is necessary to call another group of economists under the leadership of James M. Buchanan with the "Theory of Public Choice", known as the Doctrine of the Virginia School.

The key elements of the Public Choice Theory are basically formed on the ideas of Buchanan who was awarded the 1986 Nobel Prize in Economic Sciences. In a very real sense, Public Choice Theory offers a "theory of governmental-political failure" that developed as an alternative against the "theory of market failure" that consisted of the views of the neo-Keynesian economists, as Buchanan formulates it in his own words:

[23] Lucas, R. E. and Sargent, T. J., 1978, "After Keynesian Macro-economics", pp. 69-70

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"Conceptually, the basis was laid for the emergence of theories of *government* failure that are on all fours with the more familiar theories of market failure".[24]

Economists of the public choice theory claim that not only the politicians, but also the neo-Keynesian economists take the responsibility for the growing public sector. In his famous book "The Limits of Liberty" (1975) Buchanan described that the state has become too large as the "Leviathan". He explains it as follows:

"Since the Great Depression, we have witnessed continuing and accelerating growth in our own Leviathan. Descriptively, we live in what might be called 'constitutional anarchy', where the range and extent of federal government influence over individual behaviour depends largely on the accidental preferences of politicians in judicial, legislative, and executive positions of power. Increasingly, men feel themselves at the mercy of a faceless, irresponsible bureaucracy, subject unpredictable twists and turns that destroy and distort personal expectations with little opportunity for redress or retribution".[25]

According to the economists of Public Choice Theory, the competence of governments in the national economy must be limited through the construction which should particularly contain the following aspects:

- the principles to tax and to spend through the government;
- the principles to increase the supply of money through the government;

[24] Buchanan, J. M., 1975, "The Limits of Liberty: between Anarchy and Leviathan"p.72

[25] Ibid., p. 14

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- the principles for a balanced budget through the government;
- the principles to limit the state intervention in the economy;
- the principles to allocate duties and incomes between the local and central governments.

As can be seen the key element of public choice theory is based on the limit of government intervention in the economy. In addition, the adherents of this theory advocate that the limit of intervention of government in the economy must be secured through the constitution. Thus, the public choice theory is also called constitutional economics.

2.4.4 Theory of the Supply-Side Economics

Finally, another group should be mentioned, namely, Supply-side Economics which also advocates that the economic problems consist, basically, of reducing state intervention in the national economy. In comparison with the above mentioned economic schools, Supply-side Economics is a fairly new doctrine; and, particularly, the American economist Arthur Laffer's ideas have contributed to developing that theory. Thus, especially since the 1980s, it has become popular both in academic and in the political sphere.

Proponents of Supply-side Economics have challenged the policy recommendations that emerge from Keynesian macro-econometric models. These models focus attention on the effects of economic policy on the demand of output. Supply-side Economics, in contrast,

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emphasises the response of output to changes in the supply of inputs. Decisions affecting the capital stock and employment - in particular, saving and investment decisions and labour force participation and hours decisions - are the focus of the supply-siders' attention.[26]

In addition, the adherents of this theory argue that the reduction in tax rates should be the best way to encourage output and thus, increase the government tax revenues. These ideas, according to Arthur Laffer, may be illustrated with a simple static model (the so-called Laffer- Curve)[27] of tax rates, output, and revenue.

"The model assumes that the supply of factors of production to the market sector is determined in part by the net-of-tax factor rewards; the factor supply functions are therefore assumed to be upward-sloping. The demand for factors of production depends on their marginal products; given competition and factor mobility, the factor marginal products will be equal to the gross-of-tax factor rewards. Thus the optimal factor mix used in the product process will depend on relative factor reward. Only two factors of products are assumed, say labour and capital and market-sector production is assumed to consist of a simple good that we call market output.

[26] Canto, V. A,; Joines, D. H., and Laffer, A. B., 1981, "Tax Rates, Factor Employment, and Market Production", pp. 3-32

[27] Probably no other single aspect of the supply-side movement has received more popular attention than the Laffer-Curve; but there have been doubts about Laffer's analysis whether tax cuts would increase the tax revenues See, for example, Moszer, M., 1982, "A Comment on the Laffer Model" , pp. 204-223; Henderson, D., 1982, "Limitations of the Laffer Curve as a Justification for Tax Cuts", pp. 224-230

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Within this framework, people do not work to pay taxes. Corporate executives do not relocate business facilities as a matter of social conscience. People work in part for after-tax income. Business location decisions are predicated partially on after-tax profit considerations.

A reduction in tax rates on an activity necessarily increases that activity's after-tax profitability. When the after-tax rate of return on an activity is increased, more of the activity will be done and the tax base will expand. Applied to market production, these arguments suggest that the level of market output will be inversely related to the tax rate on market products. Since two factors are used in the production process, the market-product tax rate must be a weighted average of the tax rates on the factors of production. Thus it is apparent that there are numerous combinations of tax rates on each of the factors of production that yield the same product tax rate. That is, there are numerous combinations of factor tax rates that yield the same level of output".[28]

2.5 British Economic Policy Since the 1980s

The Twentieth Century saw a massive increase in the role of the state in the UK economy. Keynesian economic and political philosophy was adopted with enthusiasm, creating a culture in which it was assumed that heavy state involvement in economic activity was essential to the nation's

[28] Laffer, A. B.,1982, "Government Exactions and Revenue Deficiencies", p. 186

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well-being. Although the Labour Party's credentials in this department were better than the Conservatives, both were committed to this policy up to the mid-1970s. By 1979, the Conservative Party had become the chief iconoclast of this doctrine.

The two world wars had laid the ground for greater state economic involvement. Economic management during World War II particularly, had been very successful.

By 1945, a consensus had emerged on the post-war necessity of a "mixed" UK economy. This consensus was expressed in the Beveridge Report 1942, the Employment White Paper 1944 and subsequent nationalisation programmes.

This consensus was destroyed by 1979 however. The same forces that effected this destruction also brought Mrs Thatcher to power. These new policies were the ideas especially of Sir Keith Joseph and the Conservative Centre for Policy Studies. This latter organization became the new ideological heart of the Conservative Party after their defeat in 1974.

These new ideas were not easily propounded however, and a great many people took a long time to become convinced. A new social philosophy was advocated, with emphasis on the importance of the individual and pursuance of self-interest. As Sir Keith Joseph said in December 1975:

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"Until recently, government was expected to confine its role to setting the framework within which people would be free to pursue their own mixture of self-interest and altruism, with a safety net for the failures from whatever cause. Within this framework people would make their decisions , great and small, and take the consequences, confident that the rug would not be pulled from under their feet, and that if government had any role at all it would be a stabilizing one...".[29]

This new ideology then, went far deeper than economics. Indeed, it went right to the heart of British social values built up over a 50 or 60 years period.

In economic terms, the UK economy begun to be "restructured". Old industries were allowed to fail. The labour market was deregulated, financial controls relaxed and liberalising legislation of all kinds introduced.

By 1980, UK economic policy since World War II was widely regarded to have been a failure on a wide raft of different economic criteria: GDP growth, manufacturing output, inflation and so on (See Table 2.1). The political rub was that the UK economy had declined consistently relative to other Western nations, dispite an enormous head start over all but the USA in 1945. Of the European powers, the UK's output capacity was the only one which remained intact. UK GDP growth during the 1950s and 1960s was high by UK standards, but well behind its competitors.

[29] Peele, G., 1989, "Contemporary Conservatism and the Borders of the State", pp. 157-158

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Table 2.1 Growth Rates of Gross Domestic Product, Gross Domestic Product Per Head of Population, and Manufacturing Output Per Person-Hour, 1950-80 (%)

	UK	*USA*	*FRG*	*FRANCE*	*ITALY*	*JAPAN*
			Gross Domestic Product			
1950-60	2.6	3.2	7.6	4.4	5.9	8.1[1]
1960-70	2.8	3.8	4.1	5.6	5.5	11.1
1970-80	1.8	2.8	2.8	3.7	4.0	5.3
			Gross Domestic Product Per Capita			
1950-60	2.2	1.6	6.5	3.5	5.3	7.0[1]
1960-70	2.2	2.6	3.3	5.0	4.7	10.0
1970-80	1.8	1.7	2.7	3.6	3.2	4.0
			Manufacturing Output Per Person-Hour			
1950-60	2.0[2]	2.4[2]	6.0[2]	3.9[2]	4.1[2]	n.a.
1960-70	4.0	2.9	5.7[3]	6.8[3]	6.6[3]	12.1[3]
1970-80	2.4	2.9	3.9	4.8	4.5	6.4

[1] 1953-60, [2] Total Output (sum of all sectors) per person-hour, [3] 1963-1970, **n.a.** not available

Source: Eatwell, J., 1986, "Keynes, Keynesians, and British Economic Policy", in Wattel, H. L. (ed.), The Policy Consequences of J. M. Keynes, published by MacMillan, London, p. 63

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Table 2.2 also shows that UK productivity growth lagged significantly. Britain's share of world trade in manufactures declined precipitately as a consequence.

Table 2.2 Shares of World Exports of Manufactures, 1960-80 (%)

	UK	*USA*	*FRG*	*FRANCE*	*ITALY*	*JAPAN*
1960	12.7	17.9	14.8	7.4	3.9	5.3
1970	8.6	15.3	15.8	6.9	5.7	9.3
1980	6.8	11.8	13.9	6.8	5.5	10.4

Source: Eatwell, J., 1986, "Keynes, Keynesians, and British Economic Policy", in Watel, H., L.(ed.), The Policy Consequences of J. M. Keynes, published by MacMillan, London, p. 64

There were three tenets to this new Conservatism:[30]

- The decline from such a favourable beginning in 1945 disclosed a fundamental flaw in UK economic policy.
- The "stop-go" economic cycle in the UK encouraged damaging short termism and had to be arrested at once.
- Saluvation of the UK economy lay not in manipulation of the "demand side", but in deregulation of the "supply-side".

These ideas had gained enough political credibility by 1979 to provide Mrs Thatcher with a landslide victory. There was a proliferation of right

[30] Pollard, S., 1992, "The Development of the British Economy 1914-1990", p. 376

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wing "think-tanks". The role of the entrepreneur in changing and modernising the economy was emphasised - as propounded by Friedrich Hayek who was awarded the Nobel Prize for Economic Science in 1974 and Milton Friedman (we have dealt with Friedman's theory of "monetarism" above). Hayek's ideas played a large part in Conservative social philosophy at the time. He advocated in his famous work "The Road to Serfdom", amongst other things, that state intervention simply increased prices through inflation, rather than output.

A strong state was seen as necessary to defeat the vested interests of 1979, but what actually happened was that, consumer rights have been enshrined in legislation. So one vested interest, with its attendant bureaucracy, has merely been replaced by an other; specifically, the trade unions have been replaced by consumers and pressure groups.

Nevertheless the freedom of the market was strengthened successfully. In order to achieve this, some important measures were implemented, namely.

- Personal tax rates were cut to increase personal incentives and choice.
- Privatisation.

The success of these policies depended upon the response of individuals to them. Any such improvements could however, by their very nature, only be derived in the long term. Supply- side reforms take time, and these were an essential element in the Conservative reforms.

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Whether this new ideology amounted to a revolution is a moot point. Britain is not a revolutionary society. It was however, a watershed in UK politics. There is also disagreement as to whether there was even a cohesive strategy. Much of the evidence still indicates a continuation of pragmatic statecraft in 1979 and beyond. Indeed, dogmatic adherence to Monetarist ideology was swiftly abandoned in 1981 when social upheaval threatened. Whether "Thatcherism" was a style or an ideology is not within the scope of this work however.

The UK's economic performance in the 1980s was not sustained into the following decade (See Table 2.3).[31] In 1990, the country experienced the deepest recession since the 1920s. Having said that, current economic data suggests that the corner has indeed been turned, and that the UK is now on a low inflation output path.

Table 2.3 The Performance of the UK Economy, 1979-88

	1979-88	*1979-83*	*1984-88*
Real GDP growth (average per cent p.a.)	2.3	1	3.5
Inflation (average per cent p.a..)	8	11.2	4.7
Unemployment (average per cent of labour force)	9.3	8.4	10.3

Source: Economic Trends, "Annual Supplement 1989"

[31]For more details, see
- Johnson, C., 1991, "The Economy under Mrs Thatcher";
- MacInnes, J., 1989, "Thatcherism at Work: Industrial Relations and Economic Change";
- Maynard, G., 1989, "The Economy under Mrs Thatcher".

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The "Thatcher Revolution" cannot be assessed purely in terms of economic statistics however. The Thatcher Governments reflected the spirit of the age and certainly changed British politics for good. The other great factor in the story of the 1980s UK economy was the influence of North Sea Oil-a factor whose influence remains undecided and uncertain. It was the privatisation programme which was pivotal however, constituting the epitome of UK social, economic and political aspirations after 1979. Privatisation was "Thatcherism" more than any other "policy dynamic".

2.6 Summary and Conclusions

In this part we have attempted to summarise the historical development of the process of state intervention in national economies.

As can be seen from this study, the role of the state in the national economy has been discussed since the birth of capitalism. In essence, the intervention of the state in the national economy has existed at every stage of the capitalist era. However, state intervention has taken different forms during this era. In other words, it developed from mercantilism in the sixteenth and seventeenth centuries to the so-called free market economy today.

The last change occurred after the failure of Keynesian theory since it could not cope with the high inflation and unemployment in the 1970s. The economic doctrines, like Monetarist Theory and Rational Expectations Theory from the Chicago School, Public Choice Theory from the Virginia School and Theory of Supply-side Economics have influenced the world economy and have come into both the developed and the developing countries since the late 1970s.

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These economic policies commonly concentrate on the minimising of state intervention in national economies, particularly on privatisation which should help to reduce the public sector in national economies and provide a larger scope for private ownership and competition. Economists such as Stigler believe that macroeconomic principles are influenced by events or experience. This may also be true for microeconomic policy. In the UK it is possible to see privatisation as a reaction to the experience of the failure of the nationalisation experiment.

During the years since 1979 discussion of economic policy in the UK has been dominated by "Thatcherism", an economic doctrine that is wider in scope than the macro economy but which has particular relevance to it. Whilst demand management is consistent with either more or less government involvement in economic life, and hence was acceptable to both Labour and Conservative Governments of the 1950s and 1960s, Thatcherism is consistent only with less involvement. Privatisation has to be seen as a part of this policy.

The privatisation policies have been first adopted by the developed countries. Especially, the experience of the UK in the implementation of large-scale privatisation programmes has substantially influenced the introduction of similar programmes in developing countries and the questioning of the dominant position of the public sector in those economies, such as Turkey. That will be the purpose of the research in the next parts.

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Chapter III

The Privatisation Process in the UK

In this chapter we will be dealing with the privatisation process in the UK. In order to study this process correctly, it is first necessary to concentrate on various aspects of the nationalised industries including the reason for their establishment, their importance and their performance. Before we do so, however, it will be useful to define a nationalised industry and distinguish between it and other publicly owned enterprises. In fact, the public sector in the UK consists of:[1]

- central government,
- local government, and
- the nationalised industries.

The function of central and local governments is to provide public services such as defence, justice, health, etc., and make transfers of income e.g. unemployment benefit. They finance the expenditure so incurred by levying taxes and by borrowing on the capital market. We are here concerned, however, with the study of the activities of the nationalised industries and in discussing the public sector, as it is primarily these with which we are concerned.

The nationalised industries consist essentially of industrial and commercial undertakings owned by the state. At the beginning of the 1980s nearly two thirds of these were concentrated in the energy,

[1] For more details, see NEDO, 1976a , "A study of UK Nationalised Industries - Appendix Volume", pp. 1-9

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transport and communication sectors.Examples of nationalised industries are the National Coal Board, British Rail, and the Post Office.[2]

The nationalised industries include the following principal features:[3]

- their assets are in public ownership and vested in a corporation which is primarily engaged in industrial or other trading activities;
- their revenues are primarily derived from these trading activities, e.g. from the sale of goods and services;
- their Boards are appointed by a Government Minister, but Board members and employees are not civil servants.

There are other types of publicly owned enterprises which are not nationalised industries in the sense in which we are here concerned. They include:[4]

- public corporations which do not derive most of their revenue from the sale of goods and services, e.g. the British Broadcasting Corporation whose main source of revenue is licence fees;
- central government trading bodies, which may derive their revenue from sales but do not have independent Boards, e.g. Her Majesty's Stationery Office;
- local authority trading bodies operating, for example, markets or sports centres;
- wholly or partly owned limited companies such as the subsidiaries of the former National Enterprise Board.

Table 3.1 lists the principal nationalised UK companies. Most of the major nationalised industries in the UK were set up in the immediate post-war period. In the three decades thereafter there was a broad

[2] Ibid., pp. 15-28
[3] Ibid., p. 2
[4] Ibid., pp. 5-9

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Table 3.1 Public Enterprises in the UK, 1979

Nationalised Industries

1 British Coal
2 British Gas Corporation
3 British Post Office
4 British Railways Board
5 British Shipbuilders
6 British Steel Corporation
7 British Waterways Board
8 Civil Aviation Authority
9 Electricity Supply Industry, England and Wales[1]
10 National Bus Company
11 Water Authorities in England and Wales
12 Scottish Transport Group
13 United Kingdom Atomic Energy Authority

Other Public Corporations

14 Bank of England
15 British Broadcasting Corporation
16 British Technology Group
17 Commonwealth Corporation
18 Covent Garden Market Authority
19 Crown Agents for Overseas Governments
20 Development Board for Rural Wales
21 Highland and Islands Development Board
22 Housing Corporation
23 Independent Broadcasting Authority
24 Land Authority for Wales
25 Local Authorities' Conditions of Service
26 National Film Finance Corporation
27 Natural Environment Research Council
28 New Town Development Corporations
29 Northern Ireland Electricity
30 Northern Ireland Housing Executive
31 Northern Ireland Transport Holding
32 Company Administrations Pilotage Commission
33 Property Services Agency
34 Public Trust Ports
35 Royal Mind
36 Royal Ordnance Factories
37 Scottish Development Agency and Commission
38 Scottish Special Housing Association Advisory Board
39 HM Stationary Office
40 Welsh Development Agency Service Development

Limited Companies[2]

41 British Leyland plc
42 British Nuclear Fuels plc
43 British Petroleum plc
44 Rolls-Royce Ltd
45 Short Brothers Ltd

[1] Electricity Council, Central Electricity Generating Board, Area Boards.
[2] Limited companies in which government has a sharehold significant.
Source: CEEP, 1987, "Die öffentliche Wirtschaft in der Europäischen Gemeinschaft: Großbritannien", p. 125

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political acceptance of the mixed economy though the boundaries of the publicly owned sector changed somewhat, according to which party was in power. In other words, there have been many changes in the composition of the nationalised industries since the late 1940s when most of the larger industries were nationalised. When these industries were nationalised, it was not as one homogenous enterprise.

Hundreds of individual firms were gathered together and then rationalised. For example, the steel industry was first nationalised in 1951, denationalised in 1953, and returned to public ownership in 1967 and then privatised in 1988. British Aerospace was nationalised in 1977 only to have the shares sold back to the private sector in 1981. The British National Oil Corporation was created as a new nationalised industry in 1976 but the organisation was divided into two in 1982.[5] A majority of the shares in the largest division were sold to the private sector a year later and the rump was closed down in 1985. Indeed, in the early 1980s a whole range of industries were privatised.

3.1 Historical Background of the Nationalised Industries

By 1945, there had accumulated a substantial body of British experience with public ownership, extending back well into the Nineteenth Century. Initially, the nationalisation debate in the UK concentrated on the railways and coal mines. The Post Office that had already grown up as a government service had largely remained outside the debate. Other service industries, for instance, gas, electricity, water and tramways were gradually coming into municipal ownership by the turn of the century. However, it is necessary to emphasise that municipalisation of utilities was different from nationalisation and relatively free from political dispute. The reason was that they were either natural local monopolies or required regulation of competition in order to meet public standards.[6]

[5] For more details, see
Pryke, R., 1981, "The Nationalised Industries: Policies and Performance since 1968".
[6] NEDO, 1976a, p. 75

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Before 1945, Conservative, Liberal and National Governments also established public enterprises which were seen not only as a logical extension of municipalisation but also justified by "economies of scale" arguments. Some impressive examples can be given, as follows:[7]

- In 1908 the Port of London Authority was created and, soon after, the Post Office was given an effective telephone monopoly.
- In 1926 the Central Electricity Board was established in order to accomplish the nation-wide economies of scale which were technically indispensable.
- In 1933 the London Passenger Transport Board was set up with the purpose of accomplishing a co-ordinated and unified public service. Road passenger transport in other cities was already in part owned by public bodies.
- In 1939 two major airways companies were nationalised.

The influence which political viewpoints had upon the justification for nationalisation had not been changed significantly up to the late 1970s. They were:[8]

- a belief, often supported by investigatory committees (for example, Weir Committee, 1926; McGowan Committee, 1936; Cadman Committee, 1938; Heyworth Committee, 1945; and Reid Committee, 1945), that increased government ownership and/or control was required in certain industries; the promotion of greater efficiency; the achievement of an inevitable rationalisation of plant with the least harmful impact on employees and local communities; the achievement of economic survival and redevelopment in an industry of strategic or regional importance where sufficient private risk capital was not forthcoming;
- a belief that nationalisation of basic industries was an essential prerequisite of national economic planning;

[7] Ibid., p. 75
[8] Ibid., p. 76

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- a recognition that certain services to the public constituted natural local or national monopolies and/or required considerable regulation in order to ensure acceptable levels of service, prices and safety; and a belief that these factors significantly reduced the justification for continued private ownership and competition;
- a conviction in the trade union movement that in certain industries, such as coal mining, employees' legitimate rights could not be obtained without nationalisation;
- a belief made explicit in Clause IV of the Labour Party constitution, that the most equitable distribution of income could best be achieved by common ownership of the means of production, distribution and exchange.

After the Second World War, there was a major programme of nationalisation by the Attlee Government fulfilling the Labour Party's manifesto pledge of 1945. There was the Bank of England Act of 1946, followed by energy, air transport, most of surface transport and iron and steel - all in the period up to 1949. In 1979 the state had a major stake in many of Britain's most important industries, namely steel, motor vehicles, aero engines, aerospace, coal, rail, road haulage, air travel, oil, telecommunications, electricity, gas and water. By 1991, however, only the coal industry and the railways remained in the state sector.[9]

Now it is worth examining the reasoning that led up to the original establishment of nationalised industries. Nationalisation occurs as much for political or ideological as for economic reasons and we shall be

[9] Osborn, H., 1979, "Public Enterprises in the UK and the EEC: Now and in the Future", pp. 7-8

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obliged to refer to these political considerations. In other words, the rationale of nationalisation was first and foremost a political one. It was believed that nationalisation would improve the equitable distribution of income and wealth and advance the general prosperity of the nation.

Indeed, the idea that the state should be directly responsible for some economic activity is certainly not a new one, though the scope of this activity was extended quite considerably in the years immediately following the Second World War. The reasons for nationalisation cannot be easily summarised as they differ from case to case. However, the decision always requires special action by Parliament. Sometimes there has been relatively little dispute between the main political parties, while at other times controversy has been heated, with the Labour Party generally in favour of nationalisation and the Conservatives against.

Hence the period 1945-51, when the most important nationalisation measures were carried through, coincided with the first occasion that a Labour Government had a working majority in the House of Commons. In contrast, during the 1950s a Conservative Government arranged for the return to private ownership of certain sectors of public enterprise previously nationalised.

Experience over many years had shown that the nationalised industries would not automatically work efficiently for the national good. The commanding heights of the economy had been handed over to large remote monoliths that may be strong on paper plans but are weak on actual performance. Because those who nationalised the industries had great faith in the enterprises they were creating, they were prepared to entrust to them extensive monopoly power. It was often considered that the "public interest" was best served by having a monopoly supplier. Competition was somehow "wasteful" and costly, to the detriment of both the consumer and the taxpayer.

Typically, the nationalised industries were simply required to pay their way "taking one year with another" while developing and maintaining

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an "efficient, co-ordinated and economical" system of supply. Little clarification was provided of either a theoretical or practical nature as to how the nationalised industries should set about implementing these vague instructions. As a consequence, the 1950s were marked by poor and uneven performance and growing concern at the lack of proper co-ordination and control, particularly in their financial affairs.

3.1.1 The 1961 White Paper

There was mounting criticism of the existing structure of the nationalised industries. The first response to this pressure was the 1961 White Paper, Command 1337, "The Financial and Economic Obligations of the Nationalised Industries". Accordingly, the main innovation was the financial objective - an over-all rate of return on assets which each industry was obliged to earn. The particular rate would vary from one industry to another depending on differences in the extent of social (non-commercial) obligations and other circumstances. Over a 5-year period returns were calculated to be adequate to cover deficits and to make contributions to financing capital expenditure.[10]

The 1961 White Paper's objective was to increase the extent of self-financing in the nationalised sector. As was said in Command 1337 (paragraph 22):

"Experience has shown, however, a general need for nationalised industries - even those which were at one time reckoned to be relatively free from commercial risk - to build up adequate reserves to deal with contingencies which may affect their capital as well as their revenue accounts. Moreover, there are powerful grounds in the national interest for requiring these undertakings to make a substantial contribution towards the cost of their capital development out of their own earnings,

[10] Tivey, L., 1973, "The Nationalised Industries Since 1960", pp. 67-69

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and so reduce their claims upon the nation's savings and the burden on the Exchequer. This is particularly so for those undertakings which are expanding fast and which have relatively large capital needs. In normal circumstances, the desirable level of reserves should be related to the amount of capital employed in the business".[11]

The 1961 White Paper marked the abandonment of the old break even target, demanding instead a more complex and stringent financial regime.[12]

3.1.2 The 1967 White Paper

Policy, however, remained open to the earlier criticism until explicit pricing and investment procedures were adopted in the 1967 White Paper, Command 3437, "Nationalised Industries: A Review of Economic and Financial Objectives". By that time, the share of the nationalised industries in the economy as a whole was large indeed.

In the 1966-67 financial year the average net assets employed by the industries proper amounted to £ 10,516 million. Their annual fixed investment in that financial year amounted to an additional £ 1,492 million which was 54.5 per cent financed by Exchequer loans. In March 1967 the industries had about 1,881,000 employees which represented 8 per cent of the total working population and they produced about 11 per cent of the Gross Domestic Product (GDP).[13]

The key areas covered by the 1967 White Paper were:[14]

[11] Ibid., p. 70
[12] Redwood, J. and Hatch, J., 1982, "Controlling Public Industries", p. 6
[13] Ibid., pp. 3-4
[14] Ibid., pp. 74-88

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- Firstly, that prices should be reasonably related to costs at the margin. This was qualified in various ways, most notably by the (possibly contradictory) instruction that prices should recover accounting costs. This is nevertheless of major importance as an explicit recognition of the desirability of a marginalist approach to nationalised industry prices.
- Secondly, it introduced the principle of discounted cash flow for investment appraisal with a test discount rate of 8 per cent.
- Finally, social services provided by the nationalised industries were to be separately costed and paid for directly by the Government.

As a result, the 1967 White Paper marked an impressive attempt to put the economic management of the nationalised industries on a sound footing. Despite a fair amount of prevarication, the basic rationale is reasonably apparent - adopting what was considered to be the best practice in setting prices and determining investment. Productivity performance became of prime importance. The White Paper stated in paragraph 32:

"The Government has, of course, had frequent discussions in the past about productivity and labour utilisation in the nationalised industries. In view of the great importance of productivity at the present time - and the fact that successful investment depends upon it - the Government has reviewed its policy in this area and has taken a number of important decisions. ... In addition the Government departments directly concerned will continue to develop, in consultation with the industries, indicators of performance which will provide regular and systematic information about each industry's success in controlling its costs, increasing efficiency, and economising in the use of manpower and capital resources".[15]

[15] Ibid., pp. 84-85

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3.1.3 The 1978 White Paper

This general structure remained in force for a little more than a decade - it is questionable, however, whether the principles of the 1967 White Paper were actually applied in practice - and was developed by the White Paper published in March 1978, Command 7131. The White Paper itself was the government's response to a report issued in 1976 by the National Economic Development Office (NEDO) called "A Study of the UK Nationalised Industries: Their Role in the Economy and Control in the Future".

This report criticised some of the ambiguities in government policy, and although the government rejected some of the recommendations of the report, it accepted the need for greater clarity on financial and other objectives.[16] So the White Paper laid down a financial and economic framework within which the nationalised industries were to work.

However, difficulties were encountered in practice and in the 1978 White Paper, while retaining the objective of optimal resource-allocation and marginal-cost pricing, shifting the focus of policy towards the opportunity cost of capital in industry as a whole. A "real rate of return on assets" (RRR) was related to the real rate of return in the private sector, taking into account questions of the cost of finance. The 5 per cent figure was to be reviewed every three to five years.[17]

The 1978 White Paper admitted that the financial targets set would have to differ from industry to industry to reflect the different circumstances and the different mix between social objectives and straight commercial obligations. Thus the main matters over which the government had sought to exercise control since 1978 were the RRR and the financial

[16] For more details, see NEDO report, 1976b.
[17] Redwood, J. and Hatch, J., 1982, p. 9

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target together with the "general level of prices". Individual prices and investment priorities had been left largely to the industries themselves, subject to the vague proviso that they must "pay attention to the structure of prices and its relation to the structure of costs" and the need to consult sponsoring departments on certain major investment proposals.[18]

3.1.4 The Control of Nationalised Industries

Before any attempt can be made to examine the difficulties inherent in the smooth functioning of a successful control mechanism it is necessary to point out the control methods in the nationalised industries. These may be generally divided into three main methods:[19]

Firstly, each nationalised industry was subject to a considerable measure of control from the appropriate Minister. As already mentioned, he appointed the members of the boards of the corporation. The Minister was also generally given overriding powers of direction and a particular responsibility where such questions as development programmes and research were involved. Ministerial powers over specific matters were written into the individual Acts of nationalisation.

Secondly, Ministers were not responsible to Parliament for the day-to-day administration of the nationalised industries, although they were ultimately responsible for the policy decisions concerning those industries. Parliamentary control could be exercised through the normal procedures. Particularly important in this connection were debates on the annual reports of any of the major corporations, and the House of Commons Select Committee on the industries, which was formed in 1957 especially to examine their report and accounts.

[18] Ibid., p. 9
[19] Ibid., pp. 24-44

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Finally, provision was usually made in each industry for the establishment of consumers' or Advisory Councils. These were intended as vehicles for the consuming public to voice their satisfaction or dissatisfaction with the way in which the Corporations were run. The Councils were intended to be representative of the major classes of consumers.

However, establishing an appropriate working relationship between the nationalised industries, Ministers and their Departments, and Parliament proved difficult. The White Papers in 1961, 1967 and 1978 set out an increasingly stringent control framework. Although the attempts to apply bureaucratic controls to the industries had met with some success, they clearly had not provided a long-term solution. The central problem was to ensure an adequate degree of public accountability without restricting the industries unduly.

However, in 1968 the Select Committee on the nationalised industries concluded that Ministers had tended to do the opposite of what Parliament intended, giving very little policy guidance but becoming closely involved in many aspects of management. The above mentioned NEDO report published in 1976 proposed various structural reforms to counteract these difficulties, but these were rejected by the 1978 White Paper.

The 1978 White Paper dismissed the concept, put forward by NEDO, of a "policy board" with competence over the management board. NEDO's idea had sprung from a perceived poor relationship between successive governments and state industry. The proposal was rejected however, because the Labour Government fought shy of relinquishing so much control to such an independent body. Moreover, the 1978 White Paper advocated that rather than being discussed periodically, the business and investment plans of state enterprises should be always a matter for "discussion" between such enterprises and their supervising Departments. In other words, the 1978 White Paper sought to tie in the nationalised industries ever closer to the state.[20]

[20] Ibid., pp. 7-8

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3.1.5 Performance of Nationalised Industries

Generally, the nationalised industries have been criticised, in that their activities, despite having numerous advantages, suffered from a relatively poor performance. Two studies give a valuable insight into the performance of the nationalised industries.

The first one had been made by NEDO in 1976. According to this study, on the one hand, in the cases of British Airways, the British Gas Corporation and the Electricity industry in the early 1960s, the advances in output per head and even in total factor productivity had been only satisfactory. On the other hand, the telecommunications side of the Post Office (now British Telecom) throughout the fifteen years reviewed by NEDO had an exemplary performance compared with industry generally.[21]

Table 3.2 illustrates the trend growth rates in output, employment, capital stock, output per head and total factor productivity. For a capital intensive industry the latter is the most realistic measure of overall achievement but the output per head measure is important, particularly in the labour intensive industries. The early 1960s were a period of relative success for several of the nationalised industries. However, during the 1970s the position had become much more difficult with the performance of many of them falling well below the manufacturing averages which had themselves been depressed by the conditions prevailing in the economy generally.[22]

The second analysis is Richard Pryke's book "The Nationalised Industries: Policies and Performance since 1968". Tables 3.3 and 3.4, extracted from data he has assembled, show that in the decade 1968-78 overall progress was very slow with the three exceptions of the British Gas Corporation, Telecommunications and British Airways. These three businesses were in a strong growth phase and continued to make quite rapid progress in improving labour productivity and total factor productivity, largely by the application of massive increases in the

[21] For more details, see NEDO report, 1976a
[22] Ibid., pp. 46-56

Table 3.2 Trend Growth Rates in the Nationalised Industries

(per cent per annum)

		Output	*Employment*	*Capital Stock*	*Output per head*	*Total factor productivity*
British Airways	1960-74	11.0	3.6	3.4	7.1	7.2
British Gas Corporation	1960-75	7.4	-1.4	6.2	8.9	5.1
British Rail	1963-75	0.0	-5.5	n.a.	5.8	n.a.
British Steel Corporation	1968-75	-3.9	-2.5	3.3	-1.4	-3.4
	1960-75	4.7	-1.6	5.0	6.3	1.7
Electricity (England and Wales)	1960-66	7.2	2.9	7.7	4.1	1.3
	1966-75	3.3	-3.6	2.7	7.1	2.4
National Coal Board	1960-75	-4.3	-5.9	n.a.	1.7	n.a.
	1960-70	-3.5	-6.8	n.a.	3.6	n.a.
Post Office						
Postal Services	1960-75	0.5	0.1	n.a.	0.4	n.a.
Telecommunications	1960-75	9.9	2.1	6.1	7.7	6.4
National Bus Company	1969-75	-2.2	3.4[1]	n.a.	1.1[1]	n.a.
National Freight Corporation	1969-75	-4.5	-6.5	n.a.	2.1	n.a.
Total Manufacturing	1960-75	2.7	-0.7	3.5	3.4	2.3
	1969-75	1.1	-1.6	3.1	2.7	1.4

Source: National Economic Development Office (NEDO), 1976a, "A Study of UK Nationalised Industries - Appendix Volume", London, p. 47

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Table 3.3 Output Per Equivalent Worker

1968 = 100	*1963*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*
British Gas Corporation	69.9	100.0	107.3	112.1	130.5	152.9	167.4	181.7	188.4	192.5	209.7	225.7
Electricity[1]	76.6	100.0	112.5	122.2	130.9	142.3	152.3	146.1	149.7	153.4	163.3	167.9
National Coal Board	84.2	100.0	102.9	103.5	101.5	97.8	99.9	93.9	97.7	94.5	92.2	93.4
British Rail	75.6	100.0	108.2	110.5	111.7	107.8	114.3	110.5	107.1	104.2	105.7	107.9
National and Scottish Bus Group	106.5	100.0	100.2	96.0	98.2	106.2	110.4	107.4	101.5	97.5	94.7	95.4
National Freight Corporation	83.4	100.0	102.0	105.2	110.5	119.8	123.5	121.1	120.3	132.9	131.6	131.1
British Airways	68.4	100.0	102.7	102.4	108.9	130.6	145.3	144.1	152.7	165.1	166.6	186.1
Post Office												
Postal Services	101.0	100.0	97.5	91.5	90.2	92.4	93.2	92.5	86.2	83.1	83.7	87.7
Telecommunications	72.3	100.0	106.8	117.5	126.4	136.5	145.3	155.5	163.4	177.7	197.4	219.9
British Steel Corporation (Iron and Steel)	81.4	100.0	102.7	104.5	102.2	111.0	112.9	95.4	87.1	103.5	92.1	98.4
British Leyland	101.3	100.0	99.8	99.0	110.7	109.6	104.7	93.2	89.4	92.2	83.2	83.2

[1] Includes Scotland and Wales

Source: Pryke, R., 1981, "The Nationalised Industries: Policies and Performance since 1968", Oxford.

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Table 3.4 Real Staff Costs per Employee

1968 = 100	*1963*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*
All manufacturing	87.2	100.0	103.0	107.3	110.3	114.0	118.1	118.5	123.7	126.0	123.3	128.9
British Gas Corporation	90.4	100.0	105.0	112.4	121.0	127.9	136.6	142.8	148.5	148.0	157.2	163.2
Electricity[1]	93.0	100.0	103.6	109.8	118.0	126.4	128.3	133.0	137.1	136.9	134.6	143.0
National Coal Board	96.4	100.0	99.7	103.0	97.2	118.8	111.2	134.8	146.7	141.5	143.4	156.2
British Rail	83.9	100.0	104.8	111.7	113.8	117.8	122.6	126.4	129.5	125.7	122.2	126.1
National and Scottish Bus Group	90.7	100.0	101.4	107.6	115.9	121.1	128.7	131.8	142.5	138.7	134.5	136.8
National Freight Corporation	88.9	100.0	103.3	112.1	113.0	118.3	122.4	120.2	124.6	124.8	119.4	122.3
British Airways	83.8	100.0	105.4	113.2	115.9	120.4	125.5	122.8	126.2	121.9	119.8	129.7
Post Office												
Postal Services	87.3	100.0	104.9	104.6	117.0	121.5	126.2	137.3	135.9	130.7	129.0	137.4
Telecommunications	88.4	100.0	102.4	104.3	114.0	124.6	121.6	130.7	131.7	132.3	132.1	139.1
British Steel Corporation (Iron and Steel)	-	100.0	104.0	110.6	110.4	118.7	123.4	131.1	137.5	143.1	144.1	146.9
British Leyland	-	100.0	102.9	106.7	113.0	118.7	123.6	117.2	114.6	114.3	107.7	114.1

[1] Includes Scotland and Wales

Source: Pryke, R., 1981, "The Nationalised Industries: Policies and Performance since 1968", Oxford.

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capital stock and in each case technical advance was an important element in the overall achievement.[23]

Tables 3.3 and 3.4 indicate that during the decade 1968-78 electricity, air transport, telecommunications and gas made large gains in labour productivity, which ranged from 68 per cent to 126 per cent. The National Freight Company secured a moderate rise of around 30 per cent and at British Rail there was an advance of 8 per cent. The other five industries had falls of between 2 per cent (British Steel Corporation) and 17 per cent (British Leyland). During the period 1968-73 there had been a modest increase of around 5-15 per cent at British Leyland, National and Scottish Bus Groups, and British Rail, but their productivity fell sharply between 1973 and 1978.[24]

During the decade (1968-78) output per unit of labour and capital increased by about two thirds in telecommunications and air transport, and there was a large rise in gas. In these industries the rise in total factor productivity was lower than the increase in labour productivity, but this is scarcely surprising as economic progress normally involves a growth in the quantity of capital per worker. What is significant is that electricity, which showed a large gain in labour productivity (68 per cent), had a rise in total factor productivity of only 7 per cent. At the National Coal Board, the buses and British Steel Corporation, which had smallish declines in labour productivity, there appear to have been substantial falls in total factor productivity of between 13 per cent and 22 per cent. Even during the first half of the period, when the economy was behaving relatively normally, electricity and British Steel Corporation made only small gains in total factor productivity and the coal industry experienced a reduction.[25]

[23] Pryke, R., 1961, pp. 237-266
[24] Ibid.
[25] Ibid.

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The reasons for the shortfall can be seen in Tables 3.3 and 3.4 above which chart real wages against productivity improvements. Where productivity had gone up strongly as with Telecommunications and the British Gas Corporation and where demand had been growing there had been reasonable success in hitting target rates of return. Where, however, demand and productivity had been falling or performing poorly, losses had often materialised and there had been few occasions when the industries had come anywhere near matching the performance required of them. At the National Coal Board, British Steel Corporation, British Leyland and others the last few years of falling demand and poor productivity had taken their toll on the revenue account and therefore on returns to capital.[26]

There had always been discussion and controversy over the role of the nationalised industries in the economy and over how they should be organised, the ways in which they should be accountable to their sponsoring Minister, and to Parliament. In response to this, the government had asked NEDO to undertake this enquiry.

The NEDO report drew attention to what they described as a long-term deterioration in the relationship between government and the nationalised industries, and to confusion about the respective roles and responsibilities of Ministers and Boards. The NEDO report recommended a radical change in the existing institutional arrangements. Their principal recommendation was that a Policy Council should be set up for each nationalised industry. Its functions were to be as follows: [27]

- Agreeing corporate aims and objectives;
- Agreeing strategic policies needed to achieve these aims and objectives;

[26] Ibid.

[27] NEDO, 1976b, "A Study of UK Nationalised Industries: Their Role in the Economy and Control in the Future", p. 46

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- Endorsing corporate plans, including annual budgets and related pricing and cost assumptions;
- Monitoring performance, at appropriate intervals against pre-determined policies and criteria.

The Policy Council would have an independent president and members representative of the main interest groups, namely government, trade unions, consumer and executive management - plus some "independent" part-time members.

The Corporation Board would then have the executive responsibility of implementing the decisions of the Policy Council and would be largely or wholly full-time. The NEDO report stated: "The Board's prime function would be to manage the corporation within a framework of jointly agreed policies, plans and performance criteria. It would initiate corporate aims, strategic policy options and proposals, carry out detailed planning and be responsible for implementation of policies and plans once they have been agreed by the Policy Council".[28]

However, these proposals were rejected by the Government in the 1978 White Paper. According to the NEDO report, arrangements for economic and financial control of nationalised industries should be designed to take account of their individual circumstances. A control mechanism should include the following principles: [29]

- Relevant indicators of efficiency should be established to supplement any financial targets, particularly for corporations which are not constrained by a highly competitive market;
- Standards of service should be made more explicit, particularly in circumstances where nationalised industries' industrial and domestic consumers have limited choice of alternative products or services;

[28] Ibid., p. 47
[29] Ibid., pp. 49-50

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- Pricing policies and investment appraisal criteria should be designed to lead to the most efficient allocation of resources but should also reflect the particular market and investment environment of each nationalised industry;
- Social, regional and wider national objectives (e.g. contribution to exports) should be clearly stated, where appropriate, and agreed;

  Financing arrangements should at least take account of the type of commercial risks with which the industry is faced and the effects of the trade cycle. The dangers of excessive debt financing for certain types of activity should be avoided. The use of public dividend capital - or its equivalent - should be based on agreed principles rather than decided on an ad hoc basis;
- Firm ground rules for subsidy arrangements and for capital and write-offs - the latter to be utilised only in exceptional circumstances - should be agreed in advance, so that financing discipline is encouraged and the Corporation Board is made accountable for its use of funds.

The 1978 White Paper showed that, as mentioned above, a "radical change" of approach was rejected by the Government. However, the Government accepted the need for greater clarity on financial and economic objectives. It also accepted some aspects of the proposals on the control of nationalised industry. So the 1978 White Paper can be described as an important landmark.

The White Paper contends that the principal issue with regard to the relationship between a state enterprise and its parent department of state is one of management autonomy. There naturally arises a conflict of interest between manager's aspirations and the Minister's political agenda. The government responded to this by delegating day-to-day administration to managers, but retained its monopoly on strategical

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matters. The success of this policy subsequently came to depend upon the personal relationship between the Chairman of the Board and the Minister concerned.[30]

3.2 Privatisation in the United Kingdom

Having studied the development of the "nationalised industries" up to the late 1970s, we may now go on to examine the process by which these industries were returned to private ownership.

3.2.1 The British Background

Privatisation re-emerged as a major priority in the thinking of the Conservative Party in the late 1970s as part of the ascendancy of right-wing ideas represented in economics by "Monetarism" (for more details, see Chapter II). In other words, privatisation realised the objectives of a neo-liberal ideology which had become ascendant in Britain due to the efforts of Conservative Party politicians. Under the leadership of Mrs Thatcher influential Conservative politicians shared the common conviction that the role of the Government should be reduced in the interests of economic efficiency and individual liberty.

This enabled the Conservatives, once in power, to expand the role of the market economy. This neo-liberalism provided successive Conservative Governments with a means and justification for breaking the power of vested interests. In contrast to Keynesian economic policy, "neo-liberalism has provided a relatively successful solution to the puzzle of how to restore the capacity of central state authority to control the key parameters of the economy".[31]

[30] Osborn, H., 1979, 2/4

[31] Wolfe, J., 1991, "State Power and Ideology in Britain: Mrs Thatcher's Privatisation Programme", p. 244
For more details, see:
Keegan, W., 1984, "Mrs Thatcher's Economic Experiment";

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In this policy perspective, the nationalised industries with their demands on the exchequer, poor commercial performance and troubled industrial relations, not to mention their historical role as an ideological battleground, stood out for application of the principle. Among the countries which have adopted privatisation, the UK is unusual for the importance of ideology in the development of the policy. As a result, the privatisation action can be seen as a way in which the Conservative Government opposed the practice of Keynesian interventionist policy practised by successive Labour and Conservative Governments.

Mrs Thatcher's Conservative Government of 1979 firmly rolled back the Keynesian legacy. The ascendancy of the market mechanism was given great impetus by the withdrawal of the government from as much intervention in the market place as possible. This was reinforced by a very deflationary budgetary policy, precipitating a steep economic downturn.[32]

Monetarism dominated Conservative economic policy between 1979 and 1981. This was reflected in a determination to "roll back the frontiers of the state". The more extreme monetarist strictures were abandoned in 1982-83, and whilst this economic doctrine has continued to form the basis of Conservative economic policy right up to the present, the Government line has steadily softened both unofficially, and officially[33] - reaching its apogee perhaps in Michael Heseltine's declaration to "intervene at breakfast... tea, and... dinner".

In respect of privatisation, a 1977 Conservative Party programme document had rejected state ownership and advocated a simultaneous

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Eatwell, J., 1986, "Keynes, Keynesians, and British Economic Policy", pp. 61-76; Arestis, P., 1984, "The UK Monetarist Experiment", pp. 39-56

[32] Eatwell, J., 1986, p. 70

[33] Heald, D. and Steel, D., 1986, "Privatising Public Enterprises: an Analysis of the Government's Case", p. 59

widening of share ownership. The 1978 Ridley Report suggested the strategies required to dismantle the nationalised industries and how to defeat the public sector unions, and the 1979 election manifesto declared the intention to embark upon privatisation.

In February 1981, Mrs Thatcher admitted her intention as follows: "We have also embarked on the long and complex process of returning state-owned enterprise to private ownership. ...Legislation has been passed or is under way to denationalise many ... concerns. We are restructuring corporations ... with a view to returning them or parts of them to private ownership as soon as we can. This will take time, and it takes a lot of money. That is the price of the folly of public ownership".[34] Reflecting on the attitudes of her first Cabinet in May 1983, she emphasised: "We all wanted strong defence, more resources for law and order, lower taxation, more private enterprise, less government control".[35]

The Conservative's privatisation policy evolved over time and each major privatisation reflected a somewhat different combination of policy emphases. Principally, since 1979, the British privatisation programme can be divided into three phases: In its initial stages, expecting significant technical and political difficulties, the Conservative Party's 1979 Manifesto confined its denationalisation proposals only to three enterprises.[36]

However, additional candidates for privatisation were soon found and by the end of their first term of office in 1983, about a dozen significant privatisations or part-privatisations had taken place. All of the companies concerned were in competitive (as opposed to monopolistic) industries.

[34] Ibid, p. 75
[35] Wolve, J., 1991, p. 247
[36] Heald, D. and Steel, D., 1986, p. 75

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After selling shares in BP, ICL and the Suez Finance Company in 1979-80, the Government sold Ferranti, Fairey, British Sugar and the majority of its holdings in British Aerospace in 1980-81. More sales followed in 1981-82, including Britoil and Amersham International, and again in 1983, the most notable amongst which being Cable and Wireless. At the same time, the Thatcher Government found that promoting house ownership was a popular way to advance its radical agenda.[37]

Privatisation had remained an important element in the Conservative Party's programme during the 1980s. So, before Parliament was dissolved in 1983, the Government had introduced a Bill for the privatisation of British Telecom, thus inaugurating a second and more ambitious phase of the privatisation programme. The outstanding characteristic of this second phase was the privatisation of "monopoly"-type industries. In other words, many of the industries in the public sector that are regarded as natural monopolies because of either their supply or distribution systems.

The Conservative Government had nevertheless pressed ahead in small ways to try to break down parts of the monopoly positions. The resulting sales of major public corporations began with British Telecom, which in 1984 was the first and largest flotation of a public sector firm and became the model for those that followed. These included British Gas (1986), British Airways (1986), Enterprise Oil (1984), the Royal Ordnance Factories (1986), Sealink (1984), the British Airports Authority (1986), the National Bus Company (1986), and parts of British Shipbuilders (1987), British Steel (1987) and BL (1987).[38]

From 1987 a third phase of privatisation emerged, extending privatisation to most types of activities remaining in the public sector. The

[37] Wolfe, J., 1991, p. 248
[38] Ibid., p. 248

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privatisation programme for the government's third term of office was more ambitious still. Especially, the privatisation of major public utilities like water (1989) and electricity (1990) advanced the reform programme dramatically. As a result, privatisation in the UK has taken different forms: [39]

- Asset sales, which may involve denationalisation, as in the case of British Gas, British Airways, and British Telecom; the sale of public sector companies earlier transferred from the private sector such as Jaguar and Rolls-Royce; or the sale of government holdings in private companies such as BP.
- Deregulation, or the relaxing of state monopolies, which exposes public sector industries to competition as in bus deregulation and the parcel delivery service.
- Contracting out work, previously done in-house by direct labour, as in local government, the NHS and the Civil Service.
- The private provision of services, allowing the private sector to provide services to the public, as in nursing homes.
- Investment projects designed to encourage private sector involvement, as in projects in deprived areas, and special units in public sector organisations devoted to commercial returns.
- The reduction of subsidies and the increase in charges for public sector services such as health and welfare.
- Council house sales.

Despite widespread electoral support, it should be emphasised that until the late 1980s the trade unions and Labour Party had consistently opposed the privatisation programme of successive Conservative Governments. Trade unions have always opposed the denationalisation

[39] Clarke, T., 1993, "The Political Economy of the UK Privatisation Programme: a Blue Print for other Countries?", p. 209

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of publicly-owned enterprises although some have derived benefit from privatisation while others have lost. We turn back to trade unions later.

3.2.2 Objectives of Privatisation

The aims of this section are to examine the ideas that lie behind the government's belief in privatisation. Indeed, there is no official statement of the government's case for privatising public enterprise that has been established. However, such a case can be assembled from ministerial speeches. Accordingly, the principal objectives of privatisation can be summarised as follows: [40]

- Improving efficiency by increasing competition and allowing firms to borrow from the capital market;
- Reducing the public sector borrowing requirement (PSBR);
- Easing problems of public sector pay determination;
- Reducing government involvement in enterprise decision making;
- Widening the ownership of economic assets;
- Encouraging employee ownership of shares in their companies, and
- Redistributing income and wealth.

How successful the Conservative Governments were in meeting these objectives is discussed below.

3.2.2.1 Increasing Efficiency

Although financial, administrative and political factors may have been important in initiating privatisation according to John Moore MP, who was the Financial Secretary to the Treasury with responsibility for

[40] Yarrow, G., 1986, "Privatisation in Theory and Practice", p. 327

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privatisation, increasing the efficiency of the industries themselves, and therefore of the economy, was officially the most important objective of the British programme. He said that the approach to privatisation has proved coherent and well planned, benefiting everybody interested - the consumer, employees, the taxpayer and management. Efficiency has been improved and competition, in the main, promoted successfully.[41]

Although generalisation is difficult, most academic economists are sceptical about the contribution of privatisation to efficiency on both theoretical and empirical grounds. The theory is drawn from the classical theory of the firm, which predicts that the crucial factor in determining the efficiency of an enterprise is the degree of competition it faces: ownership per se is irrelevant.

Similarly, Yarrow argues: "Privatisation usually leads managers to place greater emphasis on the pursuit of profits. However, whether this is beneficial to society depends on the trade-off between possible market failures due to a lack of competition and deficiencies in government control of public firms. The competitive and regulatory environment is more important than the question of ownership *per se*. In competitive markets there is a presumption in favour of private ownership. Where there is a natural monopoly, vigorous regulatory action is required".[42]

The empirical evidence available is not quite as categorical as the anecdotal evidence. No detailed studies of the effect of the change of ownership on privatised UK companies are available yet, and may never be, given the difficulties in making valid "before and after" comparisons. What is consistent with theory, however, is the finding that the competitive structure of the industry is important in determining efficiency. In other words, according to most academic economists, the success of privatisation should be judged largely, if not exclusively, in terms of improvements in efficiency and productivity made as a result of privatisation.

[41] Moore, J., 1986a, "Why Privatise?" p. 93
[42] Yarrow, G., 1986, p. 323

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How have privatisation programmes impacted on the performance of privatised enterprises in terms of efficiency gains and improved productivity? The relationship between privatisation and performance has not been thoroughly investigated yet. The research of Yarrow, although also limited, can gives us some ideas about performance of some privatised enterprises in the UK.

Yarrow said that privatisation has worked best were the firms concerned already operated in a relatively competitive environment. Where they have not done so, most notably in gas, water and electricity supply, such privatisations have given rise to allegation of abuse of monopoly power bringing with them serious potential political consequences.[43]

Yarrow advocated that privatisation has led to an increase in "internal efficiency" only in National Freight Corporation and Cable and Wireless. Yarrow's view is that any improvement in "internal efficiency" would be expected to be reflected in financial performance, yet the results he presents do not support the common view that privatisation has made a major contribution to efficiency and profitability in the UK. A reappraisal of Yarrow's work would now appear necessary, particularly in view of the fact that it is now ten years old, and not only predates many of the more successful privatisations, but many of the companies he cites have since developed into efficient enterprises indeed - most notably British Airways and British Steel.

In contrast, the argument as put forward by Moore, is the more limited one that the combination of private ownership and independent regulation is better than public ownership for maximising the use of resources. One strand of thought that can be invoked in support of this is the contention of the "property rights" school of economics: that competition in the capital market, through the threat of take-over, can be a substitute for competition in the market place.

Moore believed that where a monopoly is "natural", then regulation outside the state sector is a better solution than either competition or

[43] Ibid., p. 323

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nationalisation. Privatisation seems to increase productive efficiency whether a monopoly exists or not. Improved efficiency means larger profits. This gives managers a clear incentive to run their businesses efficiently. This benefits the firm concerned, the consumer, and of course, the national economy.[44]

3.2.2.2 Public Sector Borrowing Requirement (PSBR)

One of the main objectives of privatisation has been reduction of the PSBR. As Moore said: "it also, of course, brings benefits to the PSBR".[45] The OECD also pointed out that "the sale of publicly-held assets to the private sector ... has contributed to reducing the PSBR. But the Government also regards it as one of the key elements in its economic strategy".[46]

Similarly, some commentators have alleged that the reduction of the PSBR was a greater priority than the improvement of productive efficiency. Sales revenue from successive privatisations have indeed reduced the nominal PSBR, but of course, the underlying rate of public borrowing (i.e. excluding these exceptional items) has remained unaffected by such sales. In 1979, privatisations revenues reduced the PSBR by 3 per cent. By 1986-87, such revenues were reducing the PSBR by 56 per cent. As the government runs out of industries to privatise, it must look at other ways of reducing public borrowing.[47] Table 3.5 gives more information about the impact of asset sales on the PSBR.

Heald makes a useful contribution to this discussion. Accordingly, privatisation can reduce the PSBR in two ways: firstly, by excluding external financing after a majority shareholding has been sold; secondly, through the sale proceeds. "However", he continues, "both of these

[44] Moore, J., 1986b "The Success of Privatisation", p. 95
[45] Moore, J., 1986a, p. 93
[46] OECD, 1985, "United Kingdom 1984/85", p. 22
[47] Dorgan, J., 1989, "Privatisation: a Review of Some Issues", p. 32
for more details see:
Brittan, S., 1984, "The Politics and Economics of Privatisation", pp. 112-114

Table 3.5 Privatisation Proceeds: Contribution to Government Expenditure Financial Years 1979/80 - 1989/90 (£ billions)

	79/80	*80/81*	*81/82*	*82/83*	*83/84*	*84/85*	*85/86*	*86/87*	*87/88*	*88/89*	*89/90*	*90/91***
Proceeds from privatisation (in real terms*)	0.475	0.520	0.577	0.425	1.4	2.5	2.9	4.7	5.1	7.5	4.5	3.90
PSBR (before privatisation receipts: surplus figures in brackets)	12.6	13.1	9.1	9.4	10.9	12.3	8.5	78	1.7	(7.0)	(3.4)	n.a.
Receipts as % of PSBR	29	3.1	5.4	5.2	10.5	17.3	31.8	56.7	282.1	n.c.	n.c.	n.a.
Receipts of % of general government expenditure	0.4	0.4	0.4	0.4	0.8	1.4	1.7	2.6	3.2	4.0	n.a.	n.a.

* adjusted to 1987/88 price levels
** figures for 1990/91 are for the first three quarters only
n.a. not available
n.c. not calculated as PSBR is positive

Source: Marsh, D., 1991, "Privatisation under Mrs Thatcher: a Review of the Literature", Public Administration, vol. 69, Winter, p.471

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effects are in practice double-edged: the sale of a profitable enterprise with a negative external financial limit (EFL) would on the first count increase the PSBR; and the sale proceeds now are obtained at the expense of foregone cash flows in future years".[48]

The public purse certainly lost the operating surpluses of the nationalised companies. However, this must be qualified by two points. Firstly, many of those companies privatised had made and were making massive losses anyway (e.g. Rover Group). Secondly, the only reason many nationalised companies were made to become profitable immediately before privatisation was because of debt write-off and management incentives. More importantly, however, it is true that sale proceeds were used to a certain extent to artificially deflate the "headline" PSBR figure.

3.2.2.3 Curbing Public Sector Union Power

There has been little doubt that one of the main objectives of the privatisation programme was the diminution of union power. For the Government, the power given to unions by public ownership was part of the problem of nationalisation. Moore advocated that during the old nationalised regime, trade unions had become adept at exploiting their collective bargaining power in nationalised industries. A government could quite literally be brought to its knees by strike action, as were the governments of Heath and Callaghan.[49]

Why has curbing the public sector unions been so important for the Conservative Government? It is necessary to remember that when the Conservatives came into power, the British economy was characterised by three main problems:[50]

- Chronic inflation,

[48] Heald, D., 1985, "Will the Privatisation of Public Enterprises Solve the Problem of Control?", p. 11

[49] See Moore, J., 1986a, p. 82

[50] Matthews, K. and Minford, P., 1987, "Mrs Thatcher's Economic Policies 1979-1987", p. 60

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- Low productivity growth, and
- Rising unemployment.

The Conservative Government under the leadership of Mrs Thatcher believed the causes to be:[51]

- Lack of monetary and fiscal control,
- The excesses of union power, government intervention and excessive taxation, and
- Lack of incentives for private enterprise and an over-generous social security system.

The Conservative Government believed that trade unions were a significant handicap to the successful implementation of their policy objectives. The reasons were that firstly, the unions liked to meddle in economic policy making, particularly if there happened to be a Labour Government. Secondly, Mrs Thatcher blamed the National Union of Mineworkers (NUM) for the fall of Edward Heath's Government. Finally, the trade unions were blamed for forcing wages up to an artificially high, and consequently inflationary, level.[52]

Similarly, Thomas concluded that this stranglehold on wage bargaining and manning levels increased the burden on the PSBR to crisis level, contributing to the humiliating deal with the IMF in 1976. The structure of pay bargaining was highly centralised and fundamentally undemocratic, with little or no consultation at a local level.[53]

[51] Ibid., p. 60

[52] Marsh, D., 1991, "Privatisation Under Mrs Thatcher: a Review of the Literature", p. 472; for more details, see:
McBride, S., 1986, "Mrs Thatcher and the Post-War Consensus: the Case of Trade Union Policy", pp. 330-340

[53] Thomas, D., 1986, "The Union Response to Denationalisation", p. 300

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The Conservative Government was also looking at the problem of the monolithic public corporations and their monolithic trade unions both of which played a large part in wage inflation. Unit labour costs vastly exceeded productivity gains in the public sector. Unit labour costs in the electricity supply, gas and telecommunications industries increased by 21 per cent, 38 per cent and 18 per cent respectively between 1970 and 1983. Such increases were highly inflationary.[54]

Given their historical, ideological, and practical attachment to nationalisation, unions have been singularly unsuccessful in countering privatisation. When the first Thatcher Government came into power the trade unions in the public sector were better represented than in the private sector. In 1980, more than 90 per cent of white collar and manual workers in nationalised industries were members of unions; in private manufacturing, 75 per cent of manual workers and a mere 39 per cent of white collar workers were members.[55]

In the nationalised sector, 98 per cent of enterprises recognised blue collar unions, and 94 per cent of them white collar unions. In the private sector, the figures were 68 per cent and 32 per cent respectively. Of public sector workers, 72 per cent were members of closed shops, against less than 50 per cent in the private sector.[56]

In short, there is an agreement among commentators that one of the main political objectives that lay behind the privatisation programme was the curbing of public sector union power. In other words, as far as public sector unions were concerned, privatisation was seen as a means of reducing their size, bargaining power and influence over policy.

Two key aspects of privatisation had a particularly strong diminutive impact upon the strength of the trade unions, namely "contracting out"

[54] Moore, J., 1986a, p. 82
[55] Thomas, D., 1986, p. 300
[56] Ibid., p. 300

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and "sales of publicly-owned enterprises". "Contracting-out" was particularly devastating for the unions. This process led to a massive loss of jobs, the inevitable consequence of over manning. This was more pronounced in some sectors (such as local authorities) than in others, for example the NHS. Competitive tendering drove down wages, as employees were forced to bid for their own jobs. There also seems to have been a deterioration in working conditions. All these factors have combined to reduce costs and increase efficiency. Unions, in these conditions, simply became superfluous. As the UK labour market was deregulated, so competition for jobs increased, leaving little room for militant behaviour.[57]

The impact of "sales of publicly owned enterprises" on the trade unions is more complex and there is less agreement among observers. Unions completely failed to stop successive privatisations. There was little more that they could achieve in terms of bargaining objectives by the time of the first privatisations, and by and large, pay and conditions for those employees of denationalised companies who retained their jobs improved albeit at the price of job security.[58]

However, this conclusion may be misguided. This issue of job security has in fact (particularly since 1990) become a point of considerable contention and political malaise. Organisations such as the TUC say that higher wages were traded for falls in the standard of conditions of work and widespread job losses. Others allege that the pay of senior executives of privatised companies (particularly water, gas, electricity and telecommunications) has increased at the expense of lost jobs, reducing the next improvement in productivity.[59]

There is little doubt that the position of the unions has worsened in many privatised enterprises. However, there is doubt both as to how much it has worsened and how far this change results from privatisation. Anti-

[57] Marsh, D., 1991, p. 472
[58] Thomas, D., 1986, p. 320
[59] Marsh, D., 1991, pp. 472-73

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union legislation played perhaps a greater role in the defeat of the unions than the process of privatisation itself. Moreover, membership of public sector unions decreased between 1979 and 1985 by 21 per cent.[60]

The fall in membership differed between unions. For instance, while the membership of public sector unions such as NALGO and NUPE reduced slightly, union membership in the civil service decreased dramatically. Union membership fell not only in the public sector but in the private sector, due principally to the changes in the law and the rapid expansion of employment in the service sector, which was itself inextricably linked to deregulation. At the same time, union membership decreased dramatically in many areas of the private sector; for example, the Transport and General Workers Union membership decreased by 31 per cent, the Engineers by 20 per cent, and the Construction Workers by 28 per cent during the six years following 1979.[61]

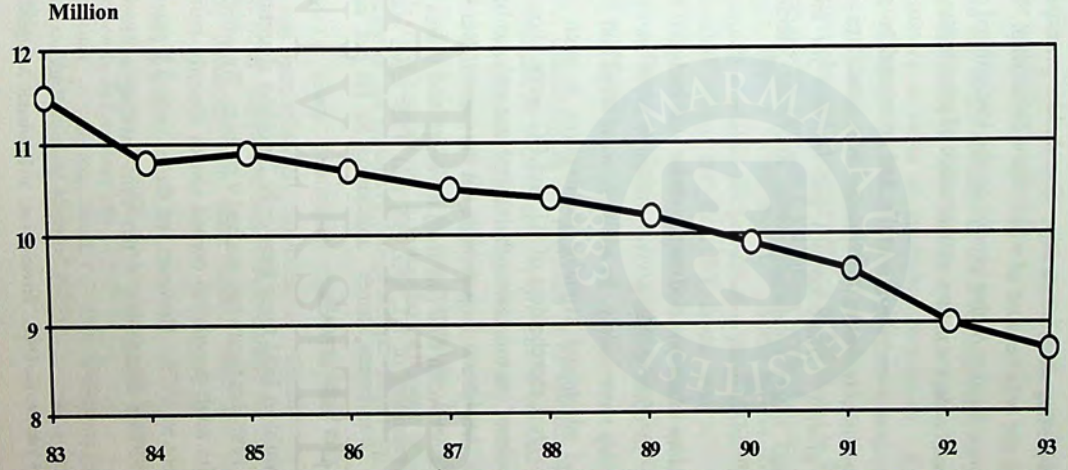
Membership of trade unions fell from 13.2m in 1979, to 8.7m in 1995. Even this figure masks the true collapse of union power in the privatised industries however.[62] Figure 3.1 shows the fall of union membership during the period 1983-93. Moreover, by the late 1980s, the unions, despite vociferous opposition to the privatisation process, had been roundly defeated. There were exceptions, most notably in the engineering industry with regard to pay levels (e.g. Ford), but this resurgence was short-lived, achieved at the expense of jobs and largely due less to union power than the buoyant state of the economy.

3.2.2.4 Widening the Ownership of Economic Assets

Encouraging wider ownership of shares was a major objective of British privatisations. Many believe that privatisation has increased shareholder

[60] Ibid., p. 473
[61] Ibid., p. 474
[62] Taylor, R. and Bolger, A., 1995, "A Movement to Money Matters".

Figure 3.1 Fall of Union Membership in the UK 1983-93



Source: Taylor, R., and Bolger, A., 1995, "A Movement to Money Matters", Financial Times, April 24.

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pressure by widening share ownership. Shareholder pressure has indeed increased, but not only because of wider share ownership. This factor's influence is but a fraction of that exerted by the institutional shareholders such as pension funds, the natural consequence of privatisation itself.[63]

Wider public share ownership generally and increased employee share ownership specifically, were of prime importance to the British privatisation process. Share options and bonuses for employees of privatised (and other) companies, were important elements of the privatisation process.[64]

The privatisations of nationalised corporations also included incentives to shareholders. In other words, several measures were taken in order to spread ownership more widely. In addition, some steps had been taken to extend the tax advantages available to investors in such shares. For example, individual shareholders of BT and BG were allowed to apply for "free vouchers" to use against their telephone and gas bill, provided that they held their shares long enough. In the case of BG, a customer received a voucher worth £ 40 (tax free) for every 400 shares held. Also, the small shareholders of BT, BG, BA and TSB were encouraged to benefit from "free bonus shares" amounting to 10 per cent of their shareholding after three years.[65]

As a result, whilst in 1983 there were only 2 million shareholders in the UK, by early 1988 this figure has reached 9 million. By which time, 20.5 per cent of the adult population owned shares directly compared with only 7 per cent in 1979. However, of these, only 13 per cent owned shares in privatised companies, 6 per cent owning exclusively such

[63] Moore, J., 1986b, p. 95
[64] Moore, J., 1986a, p. 88
[65] Vickers, J. and Yarrow, G., 1988, "Privatisation: an Economic Analysis", pp. 176-177

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shares, and just 3 per cent of the population owning shares in the companies for which they worked.[66]

In the case of the major utilities in the UK (especially British Gas and British Telecom) reduced bills and free bonus shares were offered to existing customers in order to encourage investment. Keenly priced public share offerings including the innovative "partly-paid" method which encouraged large numbers of small investors into the market place for the first time. Indeed, the first offering of BT shares in 1984 attracted 2.3 million people who bought £ 3.9 billion worth of shares, and 230,000 BT employees, then a world record.[67] Some believe that there was insufficient capital to sustain the privatisation programme. These pundits were confounded when the first BT issue was 9.7 times over subscribed.[68] By 1992 sales of publicly - owned enterprises had reached £ 44.5 billion (see Table 3.6), together with a further £ 36 billion from council house sales.

There is some discussion in the literature as to whether the increase in share ownership can be seen as successful. This is because the measures taken by the Government to encourage wider share ownership have not created sufficient incentives for individuals to have long term ownership of shares as Table 3.7 indicates. In this connection, it seems difficult not to agree with some economists' conclusions. Although he wrote in 1985, Yarrow anticipated the pattern of subsequent privatisations:

"Judged by its share ownership objectives, the UK privatisation programme has been relatively unsuccessful. A number of enterprises ... were sold to other companies and therefore made no direct contribution to spreading ownership. In other cases, while the flotations were

[66] Marsh, D., 1991, p. 474;
For more details, see Pint, E., 1990, "Nationalisation and Privatisation: a Rational-Choice Perspective on Efficiency", pp. 279-284

[67] Clarke, T., 1993, p. 210; and Ward, G., 1993, "Reforming the Public Sector: Privatisation and the Role of the Advisers", p. 300

[68] Ward, G., 1993, p. 300

Table 3.6 Public Asset Sales in the UK, 1979-91

Company	*Financial year of initial flotation*	*Golden share*	*Net proceeds to HMG (£ millions)*	*Times oversubscribed (undersubscribed)*	*Discount on share price (%)*
British Petroleum	1979/80	No	6,149	n.a.	-
British Aerospace	1980/81	Yes	390	n.a.	-
Cable and Wireless	1981/82	Yes	1,024	5.6	17
Amersham International	1981/82	Yes	60	24.0	26
Britoil	1982/83	Yes	53	(0.3)	n.a.
Associated British Ports	1982/83	No	97	34.0	21
Enterprise Oil (British Gas Subsidiary)	1984/85	Yes	382	(0.4)	n.a.
Jaguar (British Leyland subsidiary)	1984/85	Yes	-	8.3	6
British Telecom	1985/86	Yes	3,681	3.0	21
TSB	1986/87	No			
British Gas	1986/87	Yes	7,731	4.0	11
British Airways	1986/87	Yes	850	23.0	29
Rolls-Royce	1987/88	Yes	1,028	9.4	25
British Airports Authority	1987/88	Yes	1,183	8.1	12
10 Water Companies	1989/90	Yes	3,480	2.8	17
Electric Companies	1990/91	Yes	5,200	10.7	21
2 Electricity Generating Companies (PowerGen and National Power)	1991/92	Yes	2,000	4.0	37

n.a. not available

Source: Marsh, D., 1991, "Privatisation under Mrs Thatcher: a Review of the Literature", Public Administration, vol. 69, Winter, p. 465

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Table 3.7 Size of Privatised Company Share Registers in the UK

Company	*Successful Applicants*	*Number of shareholders: end first year*	*latest*	*Percentage of original number*
Amersham International	65,000	8,601	6,408	9.3
British Telecom	2,300,000	1,692,979	1,311,139	57.0
BAA	2,187,500	1,064,815	1,064,815	48.7
British Gas	4,407,100	3,111,872	2,903,416	65.9
British Airways	1,100,000	420,526	347,897	31.6
Jaguar	125,000	54,104	42,790	34.2
Britoil	35,000	39,558	*	*
Associated British Ports	45,000	15,500	n.a.	n.a.
Enterprise Oil	13,700	14,146	10,714	78.2
Rolls-Royce	2,000,000	924,970	924,970	46.2

* acquired by BP
n.a. not available

Source: Clarke, T., 1993, "The Political Economy of the UK Privatisation Programme", in Clarke, T., Pitelis, C. (eds.), The Political Economy of Privatisation, London and New York, p. 219

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designed to favour small investors, most of those subscribing to the share issues quickly sold their holdings. That is, individual investors have typically regarded the flotations as an opportunity to make a quick killing, rather than as a chance to acquire a longer term asset".[69]

Therefore, it was often argued that instead of promoting share ownership by underpricing the share issues of privatised companies (see Table 3.8) and by providing tax incentives, what was needed was simply the removal of generous incentives provided to other forms of personal savings. They included tax relief on mortgage interest payments, absence of taxation on imputed income from owner occupation, and tax incentives granted to indirect investment through pension funds and life assurance companies. Indeed, these have recently begun to be adopted, mortgage interest tax relief having fallen from 30 per cent to 15 per cent, and the introduction of the Personal Equity Plan, allowing investors to invest up to around £ 10,000 per annum in stocks and shares free of tax.

3.3 Summary and Conclusions

Privatisation is a phenomenon that has attracted much attention both in the UK and elsewhere as governments have become increasingly concerned with the inadequate supply-side performance of their economies.

The "arms length" relationship envisaged by the privatisation legislation rarely worked in practice, particularly in the context of vague requirements for industries to act in the "public interest". British governments found it necessary to impose more rigorous economic criteria for the industries' investment and pricing decisions

[69] Yarrow, G., 1986, p. 357

Table 3.8 Underpricing of Shares

Company	*Date*[1]	*Gross Proceeds (Lm)*	*Offer Price (p)*	*First Installment (p)*	*Opening Price*[2] *(p)*	*% Gain*[3]	*Extent of Underpricing (Lm)*
BT[4]	Dec 84	3,900	130	50	93	86	1,290
TSB[5]	Oct 86	1,360	100	50	85	70	476
British Gas	Dec 86	5,600	135	50	62.5	25	518
British Airways	Feb 87	900	125	65	109	68	317
Rolls Royce	May 87	1,360	170	85	147	73	496
BAA[6]	Jul 87	920	245	100	146	46	172

[1] First day of trading in the shares. The offer for sale is usually made about two weeks previously.
[2] Opening price of the shares in their partly paid form at the close of the first day of trading.
[3] Percentage gain with respect to the partly paid price.
[4] 50 per cent of BT's shares were offered for sale. In all other cases except BAA (see [6], 100 per cent of the equity was offered in one go.
[5] Trustee Savings Bank was not a privatisation in the strictest sense: the proceeds from the sale were retained by the TSB.
[6] The figures above relate to the 75 per cent of BAA sold by an offer for sale. The remaining 25 per cent were offered by tender: the average tender price accepted was 290 pence.

Source: Vickers, J. and Yarrow, G., 1989, "Privatization in Britain", in MacAvoy, W., Stanbury, W. T., Yarrow, G. and Zeckhauser, R. J. (eds.), Privatization and State-Owned Enterprises: Lessons from the United States, Great Britain and Canada, p. 223

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in an attempt to improve their financial performance while allowing some commercial independence.

Politically, the privatisation process began to go awry in the 1990s, as the regulatory framework imposed by Parliament proved to be inadequate. The regulatory bodies have been perceived as powerless in the face of excessive profits, executive pay increases and service levels, exemplified recently by public consternation at the salary of the British Gas Chief Executive, increases in water rates and most notably of all, the impromptu rethink of the electricity industry's pricing structure in 1995.

The measures - proposed in the White Papers 1961, 1967 and 1978, and in the NEDO report of 1976 - neither improved the performance of the nationalised industries, nor reduced the Governments influence in the industries' decision making process. When the Conservative Party under the leadership of Mrs Thatcher came into office, it concentrated on privatisation policy as a means of solving these problems fundamentally.

We have already dealt with some of the objectives of privatisation in the UK. Principal among these was, of course, the aim of greater industrial efficiency. The claim that privatisation would lead to an increase in internal efficiency and an improvement of productivity has been examined by Professor Yarrow. Clearly, there is considerable doubt as to whether privatisation has increased efficiency. However, it should be emphasised that Yarrow's work is now out of date and a new study of efficiency is required, particularly in the light of the privatisations since 1986.

An important conclusion which most economists came to is that privatisation has largely helped the British government to reduce the public sector borrowing requirement (PSBR). Here it must be emphasised that this evidence is by no means conclusive, as more data are required.

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The difficulty which the privatisation process has run up against has been that of dealing with natural monopolies, e.g. telecom, gas, water, and electricity utilities. Some sort of regulatory agency inevitably has to be set up and this raises the question of what sort of rules it will follow. This has attained particular relevance recently with regard to the telecom and electricity industries.

The British Government introduced formulae which link the average price charged by a utility to the general index of retail prices (RPI) with allowances for increases in the cost of inputs and with a special drive for efficiency which is achieved by allowing the utility to raise its prices by less than the average for retail prices each year.[70]

The British Government has also gained clear political advantages from the privatisation process. For instance, reducing trade union power has been a target of the Government that has surely succeeded. We have seen that despite the opposition of the unions, the Government was able to achieve its privatisation programme. Part of the reason for this was the association of privatisation with nationalist sentiment. Particularly after Falklands War, the Labour Party and the unions, which were perceived as controlling it, were looked upon by many as unpatriotic. The Conservative Party was seen as the "Party of the Nation", and its privatisation programme as the epitome of a new Britain. This engendered considerable popular opposition to the unions which became regarded as obstacles to progress.

During the privatisation process in the 1980s the situation for unions gradually worsened. Apart from the question of how far this change results from privatisation, however, it can be clearly seen that union membership fell in the 1980s.

[70] RPI-X principle, ie. prices are allowed to rise with the retail price index minus x per cent (plus the cost of energy in the case of gas prices). For more details, see Beesley, M. E. and Littlechild, S. C., 1991, "The Regulation of Privatised Monopolies in the United Kingdom".

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Although many original shareholders sold on quickly it has been shown clearly that privatisation led to a wider share ownership. "People's capitalism" has had significant political effects, promoting private industry and the Stock Market. The Stock Market became a matter of public interest and of immediate concern to a large section of the population.

Indeed, wider share ownership had important political implications for the Conservative Party. It was seen as engendering political conservatism both in people's home lives and in the work place, giving workers a stake in their employer's well-being and making the public feel they had a tangible interest in the nation's assets. Many popular newspapers in the UK now carry a special regular feature on the progress of share prices in the newly privatised industries as a "ready reckoner" for those members of the public who own shares in them.

Generally, it can be concluded that the balance between the public sector and the private sector has been significantly changed and this appears likely to be an enduring legacy of the Thatcher Era, and it has been continued by the Major Government. Indeed, the UK is no longer a mixed economy, with the notable expectations of education and health, which despite recent market orientated reforms, remain within the public sector. The British economy has moved decisively in the direction of the market.

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Chapter IV

The Privatisation Process in Turkey

This chapter deals with the privatisation of the State Economic Enterprises (SEEs) which still play an important role in the Turkish economy, The Turkish economy may therefore be called a "mixed economy". The term "mixed economy" can be defined in several ways, depending on the criterion used. These include the organisation of production, resource allocation and ownership of the means of production. Thus an economy in which production is carried on by both private and public sectors is a mixed economy. A mixed economy is one in which the government intervenes to provide some, though not all, of the goods and services necessary for the functioning of the economy as a whole, though the extent of public sector production (as measured by the share of value added by the public sector in national income) varies between economies.[1] Therefore, it is necessary to study the developmental process of the SEEs in order to establish their role in the Turkish economy.

4.1 Historical Background

The origin of the state enterprises in Turkey may be found in the nineteenth century. At the time of the Ottoman Empire, some state enterprises were established to meet the state's needs, primarily for the army. The major state enterprises were established around the mid-nineteenth century;

[1] For more details, see Baumol, W. J. (Ed.), 1980, "Public and Private Enterprise in a Mixed Economy"; Boratav, K., 1982, "Türkiye'de Devletçilik".

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- İzmit factory : cloth, military uniform.
- İstanbul fez factory : cloth, fezzes, blankets, neckties.
- Printing factory : flannel cloth.
- Zeytinburnu factory : cotton cloth, calico, imprints, woollen.
- Hereke factory : velvet; silken, flowered cloth, satin, taffeta, gauze, ribbons.
- Tophane (artillery) factory : rifles, pistols, etc.
- İnceköy factory at Beykoz : porcelain, glass, demitasse cups, etc.
- Military equipment factory of Beykoz : boots, bandoleers cartridge belts, etc.[2]

Some of these still exist. The modern SEEs however, were established after the foundation of the new Turkish State, formed after the collapse of the Ottoman Empire at the end of World War I and the successful outcome of the Turkish War of Independence (1919-1923). At the conception of the Turkish State, liberal economic policies based on the Republic's First Economic Congress in İzmir 1923 were adopted to fight poverty and backwardness. In short, by 1923 Turkey was an extremely underdeveloped country, saddled with inherited debts and destructive effects of World War I and the Turkish War of Independence. In addition, not only was the new Turkish government burdened with the dead-weight of the imperial debt, but it was also hamstrung by a restrictive foreign trade regime imposed by the Great Powers. More harmful still however, was the loss abroad of what little ever existed of the middle classes (composed largely of ethnic minorities) in Turkey.[3]

[2] Sarç, Ö. C., 1966, "Ottoman Industrial Policy, 1840-1914", p. 56
[3] Wålstedt, B., 1980, "State Manufacturing Enterprise in a Mixed Economy", p. 60

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By the end of 1915, there were 269 industrial undertakings, 219 of which were in the private sector. Many of the private enterprises belonged to foreigners or ethnic minorities (Greeks, Jews and Armenians).[4] The major reason for this was that commerce and industry had always been regarded as base by educated Turks, who preferred careers in government or the armed services. Foreign capital therefore tended to control commercial activities, precipitating a crisis as such capital fled the country during and after the Great War.[5]

Under these circumstances, the Republic's First Economic Congress took place to address the economic problems of the new Turkish State. Some 1100 delegates representing farmers, merchants, industrialists and labourers participated in this Congress. The merchants as an organised group dominated the Congress.[6]

Atatürk, the founder of the Turkish Republic and the leader of the Republican People's Party (RPP) which led the country from 1923 to 1950, emphasised the importance of creating a new economic policy for the new Turkey. He said: "To propel our new Turkey forward to the level of evolution of which she is worthy we are obligated, whatever happens, to put the economy first. ... However great may be the political and military victories, the success achieved cannot last unless it is crowned with economic victories, and will soon vanish".[7]

4.1.1 Liberal Economic Policy 1923-1930

Various resolutions were adopted, most of them aimed at supporting native private industrial development. How did the Turkish government

[4] Ibid., p. 60
[5] Hale, W., 1981, "The Political and Economic Development of Modern Turkey", p. 36
[6] Ibid., p. 35
[7] Ibid., p. 35

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interpret the ambiguities raised at the Republican's First Economic Congress when deciding their economic policy?

It became clear that the government had to be responsible for reconstruction. In other words, the creation of infrastructure (particularly railways), education (including the training of engineers), and the promotion of agricultural development. In addition, in order to preserve its control over energy and to maintain its alliance with the propertied classes, the government was content, in the main, to leave industrial development to the private sector.[8] So, in order to encourage the private entrepreneurs, the government undertook four industrial initiatives:

- *Creation of the Business Bank (Türkiye İş Bankası)* in 1924. The bank was established to invest and lend in the manufacturing, mining, and commercial sectors. The Bank enjoyed the confidence of both domestic business and foreign financial interests. By 1930, the bank increased its total deposits to TL 45 million and its investments to TL 32,3 million. Among these investments were two beet sugar factories at Alpullu and Uşak, and the İstanbul Harbour Monopoly Company.[9]

- *Creation of the Turkish Industrial and Mining Bank (Türkiye Sanayi ve Maadin Bankası),* a state industrial holding, established in 1925. The holding that later became Sümerbank took over four existing SEEs in shoes, woollens and cotton goods, which the new Turkish state had inherited from the Ottoman government, and its first sugar factory, originally erected by a private company. It also undertook a few joint ventures with private enterprise.[10]

[8] See for more details, Hale, 1981, pp. 35-50
[9] Ibid., p. 42
[10] Wâlstedt, 1980, p. 62

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- *Enactment of the Law for Encouragement of Industry.* The Law was enacted in 1927. This gave tax and other concessions to private business, for instance, freight reductions on state railroads, and duty-free imports of building materials, machinery, and raw materials.[11]

- *Enactment of a New Foreign Trade Regulation Law.* The Turkish Government had passed this law when the import tariff provisions of the Lausanne Treaty expired. It's purpose was protectionism, consisting of both tariffs and quantitative restrictions.[12] By 1932, the Turkish state had taken a far greater role in the economy. For instance, there were 1473 public and private enterprises covered by the Industrial Encouragement Law (1927), of which only 341 enterprises were set up before 1923. At the same time, handicrafts were still the predominant production mode; in 1927 there were 65,245 industrial undertakings, with around 250,000 employees, but of these only 2,822 employed mechanical power.[13]

4.1.2 Étatist* Policy 1930-1950

Throughout this period the internal and external contingencies forced upon the RPP Government meant that Atatürk and his associates had to revise the economic policy practised during the 1920s.

The main internal factor was the slow process of private capital accumulation. Despite the above mentioned measures which aimed at an

[11] Ibid., p. 62

*The French word is used in this study because the nearest equivalent English translation fails to convey accurately the nature of the policy.

[12] Ibid., p. 62

[13] Hale, 1981, p. 43

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attempt to create private enterprises, the Turkish economy, in comparison with radical changes in social and political fields within Turkey, changed very slowly during the 1920s. This hindered the process of economic reform initiated by the 1923 First Economic Congress.[14]

The second internal factor was the impact of the 1929 World Depression on the Turkish economy. This depression led the developed capitalist countries to reduce their import volume from Turkey. This also led to the reduction of the prices of agricultural produce, such as tobacco, cotton, wool and dried fruits, which Turkey had exported. The fall of export volume led also to a decrease in the production capacity of Turkey.[15]

In order to stimulate the economy, the Turkish Government encouraged agricultural producers to purchase domestically produced industrial consumer goods rather than imports, such as textiles.[16] The Government accomplished this by maintaining low prices of domestic goods.

By the beginning of the 1930s, two external factors had played a part in the change of economic policy. The World Depression of 1929-31 precipitated a thorough reappraisal of the capitalist system by the developed powers. The economic tide was turning towards intervention on the Keynes model as a means of regulating economies - a policy epitomised by Roosevelt's new deal in the USA. This theme of government regulation and intervention was adopted enthusiastically in Turkey.[17] Indeed, this was the very thrust of Keynes' argument, later to achieve ascendancy in the West after 1945. The second external factor was the influence of the Soviet industrialisation process on the political

[14] Kepenek, Y., 1993, "Türkiye'de Kamu İktisadi Teşebbüsleri (KİT)", pp. 20-21
[15] Ibid., p. 21
[16] Ibid., p. 21
[17] Hale, 1981, p. 49

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leadership of Turkey. Here it should be emphasised that the RPP Government had never advocated communism as a political and economic system for Turkey. However, they saw in the Soviet experiment a useful pattern for development.

The Soviet Union was the first state to recognise the new Turkish Republic officially and the Soviets contributed to the Turkish War of Independence with financial and military aid when no such help was forthcoming from the West. So, at that time, a good relationship with Moscow, combined with the indifference of the West, led the Turkish government to prepare, with Soviet assistance, Turkey's first Five-Year Plan, announced in 1934, which was intended to promote industrialisation.[18]

As a result, the above mentioned internal and external factors forced the Turkish Government to implement another economic policy, namely, more intervention of the state in the economy. This became known as "étatism". In short, during the 1920s, accumulation of domestic capital remained weak. In the same period especially, two factors hindered foreign capital investments in Turkey. The economic crisis in the developed capitalist countries, and the circumstances of the World Depression. Moreover, foreign capital was suspicious of the anti-imperialist character of Turkey. The Turkish political leadership, realised that national sovereignty had to be strengthened by economic sovereignty.[19]

At the same time, Turkey still had to import a large proportion of its basic consumer products. Therefore, the RPP Government attached great importance to industrialisation. The weakness of domestic private capital forced the government to take the initiative in economic development.

[18] Wâlstedt, 1980, p. 69
[19] Kepenek, Y., 1993, p. 22

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Besides, the fall of prices on the world market made it possible to import capital equipment which was necessary for the improvement of Turkish agricultural productivity. According to the Turkish political leadership, this was the only way to reduce the dependence of Turkey on imports of basic consumer products. Because of the lack of factories, Turkey had to export wool whilst other textiles had to be imported.[20]

In conclusion, 1930 was the watershed year for economic policy. Under the previously described circumstances, étatism was considered to be a way of tackling the difficulties. During the 1930s, state ownership and leadership had arisen out of necessity for building up large-scale undertakings producing basic materials or extracting coal and other primary products. Put another way, SEEs were viewed as an efficient way of accumulating capital, speeding up industrialisation, supplying the primary inputs, regulating the markets, providing employment opportunities, training the labour force and encouraging entrepreneurial ability.

The First Five-Year Plan operated between 1934-1938. It saw the development of industries for the production of cotton and wool textiles, some chemical products, paper, ceramics, glass, cement, and of course iron and steel. The sugar industry was also encouraged, and new mills were located near their sources of raw materials.

So, it can be said that the origin of this plan was based on the establishment of a series of industrial undertakings designed to reduce Turkey's dependence on imported consumer and intermediate goods by using domestic raw materials. It should be emphasised that nearly all these industries were completely new ventures for Turkey. Only in the case of textiles, cement and sugar had the Government built on existing foundations, and here also the Plan brought important gains in productive capacity. As a result, many of the objectives of the plan were realised

[20] Ibid., pp. 21-22

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successfully in the five year period - with the notable exception of the iron and steel industry.[21]

To finance and control the infant state industrial enterprises, two new development banks were set up during the First Five-Year Plan period. Sümerbank, the first of these, was established in 1933. The bank grew ten-fold in nominal terms between 1933 and 1946. Besides the establishment of a number of factories and mines, Sümerbank was also responsible for participation in and financial support of private ventures, the training of workers and staff, and counsel to the Ministry of the Economy on industrial policy.

In addition to the Sümerbank, a second state agency, Etibank was founded in 1935. Its original functions consisted of co-ordination and development of domestic natural resources for productive use. It should be said here that the word "bank" was apparently meant to convey the idea of "investment bank". Over the years, both institutions became state industrial holdings.

Sümerbank's industrial interests became very wide indeed. Four fifths of Turkey's steel making capacity lay in its hands, together with the whole of the iron, super-phosphate, paper, synthetic fibre and footwear production. Even in cement and cotton textiles, where the private sector controlled between half and two thirds of the industry, Sümerbank's influence was pervasive. Etibank became involved principally in the minerals industry, particularly copper, lignite, chromium and bauxite.[22]

Both institutions have played an important role since then to which we will return later. The Laws creating Sümerbank and Etibank had also provided that they should assist the development of private industry and mining. At the end of the 1930's, the private sector, concentrated in such activities as textiles, carpet making, food processing, preparation of furs and skins, and soap making, still included nearly two third of the

[21] See, Hale, 1981, pp. 56-58
[22] Ibid., p. 58

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industrial value added and no less then 87 per cent of total employment. As a result in the period 1929-1939, the simultaneous expansion of the state and private sectors nearly doubled the industrial output of Turkey. Although the expansion of Turkish industrial output was indeed rapid, Turkey had begun from a very low base - just 3 per cent of the employed workforce even by 1937. Manufacturers tended to produce for the domestic market however, due as much to the world-wide protectionist climate and economic malaise as to Turkish introversion.[23]

Additionally, there were three other state enterprises which also supplied credits during the mid-1930s. Firstly, the Real Estate Credit Bank (Emlak ve Kredi Bankası) was established to support both public and private construction projects with financial assistance. Secondly, the Provinces Bank (İller Bankası) was set up to encourage provincial projects at village and municipal levels. Thirdly, the Sea Bank (Denizcilik Bankası) was created to support the merchant fleet, management of the ports, tourism, dry docks and, eventually, ship building. It is important to mention that the First Five-Year Plan was financed mostly by internal sources. Initially, the cost of the plan was calculated at TL 44 million. The sum had been raised later to TL 100 million, but a part of this sum was also provided as an external credit from Soviet Union (TL 10.5 million). This was a long term interest free loan indented for agricultural purchases.[24]

It should be emphasised that the regime had tried to realise scheduled industrial projects as far as possible without incurring external debt and without raising the money supply, which would only have exacerbated inflation further. Instead, the Government had raised the taxes both upon imports and some consumer goods. The idea was that the SEEs should make profits which were intended to finance the formation of new SEEs. The SEEs were established to produce consumer goods which had once been mostly imported. So, tariff protection should have secured the profits of SEEs in the domestic market. This was undoubtedly one of the primary achievements of the First Five-Year Plan. In addition, the

[23] Wâlstedt, 1980, p. 75
[24] Kepenek, Y., 1993, p. 24

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extremely low labour costs in those years also led to a reduction in production costs, and simultaneously enhanced the profits of the SEEs.[25]

The Second Five-Year Plan (1939-1943) was interrupted by World War II. The long-range planning was suspended under the specific conditions of the war. Only the Karabük steel plant was completed, and even this was a hangover from the plan of 1934.[26]

Turning to the private sector, it can be said that the étatism, according to leading officials, had no bias against private initiative, and in fact, economic policies actively encouraged private enterprise. It was argued that high protective trade barriers and the introduction of exchange controls provided an environment for the expansion of Turkish economic activity. Accordingly, the encouragement of industrial production was being made possible by these infrastructural developments and the production of raw materials. Since private capital could not, or in many instances, would not invest in these areas, the state could only achieve its declared aims through étatist policies.

It should be emphasised that protective trade barriers kept foreign investments out of the national economy and prevented Turkish capital from having to compete with more advanced capitalist economies.

The exceptional circumstances of the War years, however, began to affect Turkey's relationship with Western capitalism and thus its internal development. Turkey was in a state of semi-mobilisation; a large proportion of the working population had been conscripted into the army, and defence expenditure was rising. The financial stability of the 1930s collapsed during the War. Mobilisation was crippling the public finances, with defence spending accounting for well over half of all government expenditure by 1945.[27] By virtue of the shortages on the world market caused by World War II, there was a precipitate fall in the

[25] Ibid., p. 24
[26] Hale, 1981, p. 59
[27] Ibid., p. 70

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import of capital goods and intermediate products in the manufacturing sector. Taxes and duties levied on imports decreased proportionately. At the same time, wheat production reached an alarmingly low level as did the productionof other agricultural products which led to food shortages. The government needed a strategy for encouraging industrial and agricultural production.

However, falling incomes, despite increasing levels of production, led to falling revenues from taxation, thus diminishing state resources for financing new public expenditure. This was peculiar to the exigencies of war. It was a classic example of an inflationary situation. The outcome was a shortage of daily necessities, increasing prices, a reduction in real wages and the inevitable profiteering associated with the black-market. Inflation rose by 254 per cent between 1938 and 1945. Real wages failed to keep up with this rapid increase in prices, inducing great hardship for many. This certainly contributed to the change of government in 1950.[28]

Under these circumstances, the intervention of the Government in the economy increased dramatically. The most important single legal instrument of intervention which the Government used during the war-period was the "Law of National Protection" in 1940. According to this Law, the Government was given power to intervene in the economy at will, even to the point of sequestrating private property and labour.[29]

In other words, this Law was the high watermark in the development of étatist policies, giving the Government powers for the control of the economy which *de facto* could be exercised on a discretionary basis. This led to a very uneven implementation of the Law, and an inconsistent rate of capital accumulation throughout the war years.

The inflationary conditions of the mobilisation induced a sharp redistribution of wealth in favour of the merchant, industrialist and

[28] Ibid., pp. 71-72
[29] Ibid., pp. 59-60

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(certain elements of) the agricultural classes. Although the implementation of the new étatist policy had been inconsistent, there was nevertheless a significant accumulation of private capital which later prove to be a valuable investment resource. The commodity shortages induced by the war were profitably exploited by an emerging middle class. The enormous profitability of such trade encouraged the increasingly vociferous merchants and industrialists to agitate for a more open Turkish economy. This view found sympathy with the Government, and led ultimately to the greater involvement of foreign capital in Turkish commerce, slowly displacing the state from many trading activities.[30]

Put another way, on the one hand, Turkey supplied agricultural produce and natural resources during the war-period and afterwards. On the other hand, it increasingly became a market for the manufactured goods of Western capitalism. As a result, this opening up of the Turkish economy to the world markets meant that the degree of foreign investment in Turkey increased, while the Turkish merchant class functioned partly as agents of foreign capital, and partly to facilitate the necessary trade in agricultural exports. This led agricultural producers to be the natural allies of the merchant class.

Taken together, the private entrepreneurial capital and initiative which had been lacking in the 1920s and early 1930s was from the mid-1940s beginning its ascendancy. Following the end of World War II, the leading officials were strongly opposed by merchants, landlords and industrialists whose interests had grown larger, stronger, better organised, and more influential during the war and the years immediately following.

[30] Ramazanoğlu, H., 1985, "A Political Analysis of the Emergence of Turkish Capitalism", p. 68

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Afterwards, this group left the RPP and was allowed to form a new party - the Democratic Party (DP) - in 1946. The Democratic Party gained power on a wave of popular discontent. The rural masses felt discriminated against as prices had risen. Industrialisation had claimed the lion share of investment, squeezing agriculture and the urban population in the process. Moreover Turkey was ready for a breath of fresh political air.[31]

Under these circumstances, the DP had managed to get the support of the majority of the Turkish people. As a result, they gained power at the general election of 1950. The RPP, whose leadership was responsible for the successful War of Independence against the imperialist powers, were relegated to opposition. It should be emphasised that, before the DP came to office in 1950, the RPP had already started to revise its economic and political policies.

Both internal and external factors played an important role in this process of change. External factors were such that the newly reconstituted world economic order, established under the Bretton Woods agreement of 1944, had a significant influence upon successive Turkish governments' policy. For example, a development plan of the RPP government which was in fact an industrialisation programme for Turkey had been changed in the light of Bretton Woods. The development plan of 1945 altered a year later to include more detailed investment plans for manufacturing. This 1946 plan was changed yet again by the Marshall Plan, becoming in 1947 the Turkish programme for economic recovery (TPER).

The plan gave agricultural investment a new impetus, along with mineral extraction, holding back Turkey's efforts to industrialise. The TPER was not rigorously adhered to however, and by 1950, foreign capital was again flowing in under the aegis of the Turkish Industrial Development

[31] Wålstedt, 1980, p. 79

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Bank, straight into industrial projects, with the approval of the World Bank.[32] It may be concluded from this that in the Turkish Programme for Economic Recovery (TPER), industrialisation, which had formed the basis of the étatist economic policies in the pre-war era, had disappeared from the agenda of Turkey's economic development. Qualification for Marshall-Aid depended not only upon encouragement of the private sector, but also upon a radical change of existing economic policy.[33]

American experts who studied this period of Turkish economic history recommended that the production of consumer goods, including those produced by the state sector, should be transferred to the private sector. Instead of the railways, the Government had to give the construction of roads priority. It was not to invest any further in sectors such as iron and steel, heavy chemicals, cellulose and paper. Instead of these, the government had to promote sectors such as agriculture and mining, for which there was an international demand, especially for chromate. In addition, Turkey was also compelled to attach importance to the liberalisation of trade and the encouragement of domestic and foreign investment.[34] Arguably, this did the Turkish economy great harm, since the scope for productivity growth was much greater in manufacturing than in agriculture and mineral extraction, and world demand for manufactures such as chemicals, paper and heavy engineering was set to boom. The qualifying conditions of Marshall Aid from Turkey's point of view, may be said to have amounted to little more than economic neo-colonialism.

4.1.3 The Democrat Party (DP) Era 1950-1960

The DP, which led the Government between 1950 and 1960, had promised to turn the state enterprises over to the private sector. However, the economic policy of the DP Government during the 1950s was rather

[32] Ibid., pp. 81-82
[33] Kepenek, Y., 1993, p. 31
[34] Ibid., pp. 31-32

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different from its election pledges. The major reason for this was the political and economic patronage that the state enterprises bestowed upon the DP Government. It was therefore reluctant to privatise such enterprises:

Sümerbank and Etibank epitomised the étatist regime. Since 1938, small state enterprises were being converted into joint stock companies with a view to eventual privatisation. Despite this, not a single one of either Sümerbank's or Etibank's plethora of miscellaneous "business" was ever sold to the private sector. Divestment on such a scale would have had a diminutive effect on both banks' political influence, so the interests were jealously protected long after the raison d'étre of this arrangement had disappeared.[35] Indeed, the DP government set up new state enterprises during 1950s. The main reason for this was the desire to expand the state sector, and to bring industry to the underdeveloped regions. State industrial investments had therefore simultaneously to address economic and political objectives.[36]

Professor Kepenek pointed out that economic factors played an important role in the expansion of the SEEs during the 1950s. The DP Government continued to attach great importance to the SEEs because the private sector was still far from meeting the increasing demands of the domestic market as a whole. In particular, economic policies such as the expansion of the money supply, rising labour costs and subsidies led the DP Government to increase the demand of the domestic market.[37]

The liberalisation of import restrictions caused the rapid diminution of foreign currency reserves accumulated during World War II. This meant that Turkey experienced difficulties in funding essential imports. Because domestic supply lagged behind domestic demand, much of the

[35] Wålstedt, 1980, p. 82
[36] Ibid., p. 81
[37] Kepenek, Y., 1993, p. 32

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new demand created by inflationary policies of the DP government could only be met by increased imports. The Government was forced to increase domestic production. The state economic enterprises naturally played a pivotal role in this output drive, and as a consequence, the DP Government was very reluctant to relinquish its control over them.[38]

Another important reason for the development of the SEEs during the 1950s was the need for an improved division of labour. Under the policies of the DP Government, the SEEs had produced more and more intermediate goods which the private sector needed for production of consumer goods. So, the SEEs functioned as undertakings which supported the private sector by providing subsidised intermediate goods. The SEEs therefore provided a foundation of subsidy and technological support for the newly resurgent private sector. This was of great importance to the process of private capital accumulation.[39]

In addition, during those years, the DP Government promoted the development of the private sector by increasing the share of the SEEs in private investment. Put another way, the SEEs supported private entrepreneurs through joint ventures.[40]

As a consequence, during the 1950s, not only did investments in infrastructure increase, but also the number and functions of the SEEs supporting the private sector. High rates of growth were achieved by the policies of the DP Government and improved prosperity throughout the country eradicating the remaining deprivation of World War II. Unfortunately, the Government resorted to inflationary financing in order to achieve this end. The consequent economic instability was followed by political instability and this social unrest resulted in a military take-over in 1960.

[38] Ibid., pp. 32-33
[39] Ibid., p. 33
[40] Ibid., p. 33

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4.1.4 Economic Policies Since 1960 and Implementation of the Five-Year Development Plans

The characteristic feature of the 1960s was that Turkey had to implement Five-Year Development Plans. Considering the experience of the 1950s, high rates of economic growth were included in the plans' objectives. The philosophy of the "mixed economy" formed the basis of economic policy for this decade. As can be seen, for example, in the second Five-Year Development Plan (1968-1972):

"...private industry had already developed to a point at which it could be given the main responsibilities for industrial growth. The government was to assist the private sector in project preparation and grant it sizeable investment and export incentives. The public sector was to concentrate on completing investments already under way and on improving efficiency. It was also to initiate projects in fields that private industry would not find attractive in spite of incentives and that might create bottlenecks in the economy. In large projects, which could not be undertaken by the private sector alone, the mixed-enterprise approach was to be given preference to wholly state-owned enterprise".[41]

The output, price and investment decisions of the SEEs were made by the State Planning Organisation and Ministers. Although the private sector was not in theory subject to central intervention, it was strongly guided towards targets, either directly or indirectly through various measures. Some of these were, for instance, permission for settlement, centrally administrated prices, differential interest rates, various forms of protection against import competition and incentives through taxation. These measures were all designed to control private sector activities.[42]

The period of the first two plans (1963-1967/1968-1972) was quite successful with 6.8 per cent average rate of growth per annum, 8.5 per

[41] Wålstedt, 1980, p. 86

[42] Çubukcu, T., 1992, "The Transformation of the Étatist System Towards a Free Enterprise Economy: the Records and Future Tasks", p. 7

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cent annual average increase in the industrial output and less than 6 per cent annual rise in the wholesale price index.[43]

By 1973, the effects of the first oil crisis were beginning to hit Turkey, and the economic policies were not adjusted accordingly. On the contrary, the Third Five-Year Development Plan (1973-1977) was targeting a higher (7.4 per cent) annual rate of growth with a deepening implementation of import substitution strategy and an 11.4 per cent real rate of increase in industrial output. Indeed, actual rates of growth were close to the targets laid down in the plan. There was a 6.5 per cent real rate of growth in GNP and a 9.9 per cent real increase in industrial output per annum. This was of course at the cost of rising inflation, balance of payments difficulties and a worsening distribution of income. The Third Five-Year Development Plan was a watershed in Turkish economic policy, particularly with regard to the future of the SEEs.[44]

The 1970s were a period that was characterised by coalition governments, economic and political instability and social unrest, again resulting in a military take-over in 1980. As the mixed economic policy was still being pursued, the role assigned to the SEEs for industrialisation retained its importance during the 1970s.

State involvement in Turkish industry became pervasive. Much of that may be attributed to the import substitution policy, pursued with such enthusiasm until the late 1970s. State manufacturing tended to dominate the intermediate goods sector, although the state retained its monopoly in some consumer goods industries, such as tobacco and sugar. Generally, the state held back from competing with the private sector, though the cement and cotton textile industries were exceptions.[45]

Towards the end of the 1970s, economic and political instability worsened. It is interesting to note that despite the second Oil Crisis in 1979, 52.6 per cent inflation, a burgeoning black market for all

[43] Ibid., p. 7
[44] Ibid., p. 8
[45] OECD, 1992, "Turkey (1991/92)", pp. 88-91

necessities, and despite the fact that political and social disorder had been threatening the unity of the nation, the Fourth Five-Year Development Plan for the period 1979-1983 had envisaged an 8 percent growth rate for GNP and a 9.9 per cent increase in industrial output. However, this plan was not put into effect because of the deteriorating economic and political climate, not only in Turkey but the world generally.[46]

The outcome of this was a negative rate of growth both in 1979 and in 1980 in line with most other nations at this time, -0.4 per cent and -1.1 per cent respectively. Inflation had reached 63.9 per cent in 1979 and 107.2 per cent in 1980. The government sought foreign aid, as a partial solution to its problems.[47]

A series of stabilisation programmes was put into effect towards the end of the 1970s, with the approval of the IMF, but these were only limited efforts. They were never as comprehensive as was required, since the political mentality had failed to adapt to the changed economic circumstances.

A major move in this direction was made at last by the Government on the 24th of January 1980. It was an austerity programme not very different from standard IMF stabilisation measures. It was comprehensive and the Government implemented it firmly and decisively. This programme constituted a turning point in the economic history of Turkey because it provided the foundation for the drastic measures and radical changes to come.

In short, the switch from import-substitution, which has been the favoured strategy of closed economies, to export-promotion, which is advocated as the best strategy for an open economy, presents serious political problems, as well as economic ones.

The necessary changes cannot be implemented in a relatively short space of time because they entail a major restructuring of the state apparatus and the transformation of all levels of Turkish society. Therefore, the

[46] Çubukcu, T., 1992, p. 9
[47] Ibid., p. 9

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resistance of social organisations, such as trade unions would have hindered the successful implementation of the stabilisation programme.

The political instability at the end of 1970s was a symptom of the failure of previous stabilisation programmes. This resulted in a military take-over in 1980. Afterwards, the emphasis on an export-oriented industrialisation strategy increased, replacing the old inward-looking economy. Import-substitution economics became discredited.

Besides providing various incentives for exporters, such as tax reductions, tax rebates, cheaper credits, free use of export earnings, and above all a liberal exchange rate policy, some measures were also taken to control domestic demand by price, income, interest rate, monetary and fiscal policies. Radical changes in the exchange regime, the lifting of import barriers and bureaucratic obstacles, and changes in the psychology and behaviour of businessmen all helped to accelerate exports.[48]

It was during the 1980s that the role of the state in the Turkish economy began to be seriously questioned. Such discussions were influenced by the efforts of the G7 governments. The discussions centred on minimising state intervention in economic life and the transfer of the SEEs into the private sector (i.e. privatisation).

As a result, the state should gradually but steadily withdraw from direct economic involvement in industry, trade and other sectors, instead using its funds primarily for infrastructure, defence and security, education, health, and other pure public goods. This would eliminate inefficiencies, increase the productivity and supply elasticity, and raise the welfare of the nation. It would also enable the state to concentrate on managing and regulating the economy effectively.

Accordingly, to accomplish the elimination of bottlenecks in the supply of energy, transportation and communications, an increasingly large portion of public investments was allocated for that purpose. In 1989

[48] Ibid., p. 11

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57.2 per cent of public fixed capital investment was directed towards these activities, while only 5.4 per cent went into manufacturing.[49]

This indicates a radical change in economic policy in Turkey since the early 1980s. The first four Five-Year Development Plans (1963-1967, 1968-1972, 1973-1978, 1979-1983) had attached great importance to the role of the SEEs in the economy, such that "...the period of the first two Five-Year Plans saw a distinct switch of official emphasis on the role of the state in industrial development. Since the late 1960s, however, a good deal of the heat seems to have gone out of the old arguments about étatism".[50]

The government of the day then accepted that; "...the existence of an important state sector in consumer goods industries, as well as heavy industry and public utilities. The third and fourth Five-Year Plans concentrate on the need to improve the efficiency of existing state enterprises, rather than urge the reduction or increase of the state's industrial role".[51]

After the free elections and the formation of the Motherland Party Government at the end of 1983, privatisation reached the top of the political and economic agenda. This has still been so since then as can be seen in the fifth, sixth and seventh Five-Year Plans (1985-1989)[52], (1990-1994) [53], (1996-2000).[54]

4.2 The Privatisation Process in Turkey

After a detailed study of the development process of the SEEs, from the foundation of the Turkish state up to 1980, privatisation of the SEEs

[49] Ibid., p. 12
[50] Hale, 1981, p. 195
[51] Hale, 1981, p. 195
[52] DPT, 1984, "Beşinci Beş Yıllık Kalkınma Planı", pp. 35-36
[53] DPT, 1989, "Altıncı Beş Yıllık Kalkınma Planı", pp. 34-35
[54] DPT, 1995, "Yedinci Beş Yıllık Kalkınma Planı", pp. 137-139

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since the 1980s will now be examined. As previously mentioned, the new Turkish Government of 1980 announced a stabilisation programme, known as the January 24th Regulations. This was qualitatively different from the previous ones as it aimed at far reaching structural changes in the Turkish economy with a view to establishing the basis of an outward oriented growth model. One of the stabilisation measures was a schedule for the integration of the SEEs into the free market economy. However, it was not until the Motherland Party won the first free elections held on November 6, 1983, that there was a committed move towards a free market economy.

The first serious attempt to privatise the SEEs was made in 1986. Since then, several SEEs have subsequently been transferred to the private sector, for example, Teletaş, Çitosan and Usaş which will be discussed later. Before these companies, the Turkish Government had taken one of the first initiatives in involving private investors in the state's assets - although not itself a privatisation measure in the strictest sense of the word - the decision to sell the revenue-sharing certificates of the First Bosphorus Bridge, and the Keban and Oymapınar Power Stations. However, it should be mentioned that the principle of private ownership extends as far back as the date of the foundation of the Turkish state. For example, when the first SEE, the Turkish Industrial and Mining Bank, was set up in 1925.

This SEE, which later became Sümerbank in 1933, was intended for denationalisation in the future. By Article 11 of Sümerbank Law, the shares of the SEE may be sold to people in whole or in part (Sümerbank is still on the privatisation list). Afterwards, the concept which became known as privatisation had been generalised to include all SEEs in Article 39 of Law No.3460 (enacted in 1938). This was the first Law concerning the SEEs.[55]

The Democrat Party, in office during the 1950s, also attached importance to the denationalisation of the SEEs. This policy was not followed

[55] Kepenek, Y., 1993, p. 158

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through however, and the SEEs also increased their dominance in this decade.

4.2.1 The Master Plan of the Morgan Bank

By the 1980s, the Motherland Party Government had determined concrete plans for the privatisation of the SEEs. In 1985 it commissioned the Morgan Guaranty Trust Company (The Morgan Bank) of New York, USA, to produce a feasibility study on the privatisation of the SEEs. Subsequently, the Morgan Bank carried out the project along with four Turkish and foreign firms (The Turkish Industrial Development Bank Co., Industrial Investment and Credit Bank Co., Investment and Credit Bank Co., Price Waterhouse and Muhas Co.) under the Control of the Co-ordination Committee, set up within the State Planning Organisation. This project was supported by the World Bank with finance and the active participation of World Bank experts.[56]

In addition to this, consultants were appointed to report on the restructuring of some sectors. A French firm (Sema Metra Conseil), in co-ordination with a Turkish firm completed a report for the restructuring and privatisation of state-owned cement factories.[57]

The privatisation of the fertiliser sector was carried out by the Arthur dé Little Co., and Tumas. The Boston Consulting Group, USA, prepared a report concerning the privatisation of the textile sector. Lazard Freres Co. also prepared a report for the privatisation of Turkish Airlines.

Before studying the Master Plan of the Morgan Bank it is necessary to give an overview of SEEs during the late 1980s. Turkish state-owned non-financial enterprises consisted of 26 SEEs, controlling 140 "subsidiaries" (fully owned), 43 "affiliates" (in which SEEs have a majority share) and 151 "participations" (minority share of 15 per cent at least). In addition, there were 3 SEEs and 20 subsidiaries which have

[56] Aktan, C., C., 1993, "The Privatisation of State Economic Enterprises in Turkey", p.40
[57] Ibid., p. 40

been transferred to the Turkish privatisation agency - Public Participation Administration (PPA).[58] (See also Table 4.1) In terms of size, the Turkish public enterprises were large but not of the range found among other OECD member countries (see Figure 4.1).

Table 4.1 State Economic Enterprises in Turkey (by Branch of Activity)

• **Agriculture**	
TMO	Soil products
ORÜS	Forest products
YEM SAN	Animal feed
TZDK	Agricultural equipment and fertiliser distribution
• **Communication**	
PTT	Post, telegraph and telephone
• **Energy**	
TEK	Power
Temsan	Electromechanics
• **Manufacturing**	
ŞEKER	Sugar processing
EBK	Meat and fish processing
TSEK	Dairy products
ÇAYKUR	Tea processing
TEKEL	Tobacco and alcoholic beverages
SÜMERBANK[1]	Textiles and banking
Yapağı[1]	Wool and mohair
SEKA	Pulp and paper
DMO	Stationary and printing
Tüpraş[1]	Oil refineries
PETKİM	Petrochemicals
TÜGSAŞ	Fertilisers

continued on the next page

[58] OECD, 1992, "Turkey (1991/92)", p. 88

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Table 4.1 Continued

ÇİTOSAN	Cement
TCDİ	Steel
Gerkonsan	Steel construction
MKEK	Machinery and chemicals
Taksan	Machine work-bench
Tümosan	Motor vehicles
Asil Çelik	High quality steel
GEM SAN	Shipbuilding
• **Mining**	
TPAO	Crude oil exploitation and production
ETİBANK	Mining, aluminium, banking
KBİ	Copper
Çinkur	Zinc and lead
TTK	Coal
TKİ	Lignite
• **Services**	
Botaş	Oil pipeline
Poaş[1]	Distribution of petroleum products
• **Transportation**	
TCDD	Railway
DHMİ	Airport administration
TDİ	Seaport administration
D.B. Deniz Nakliyat	Cargo lines
THY[1]	Airlines

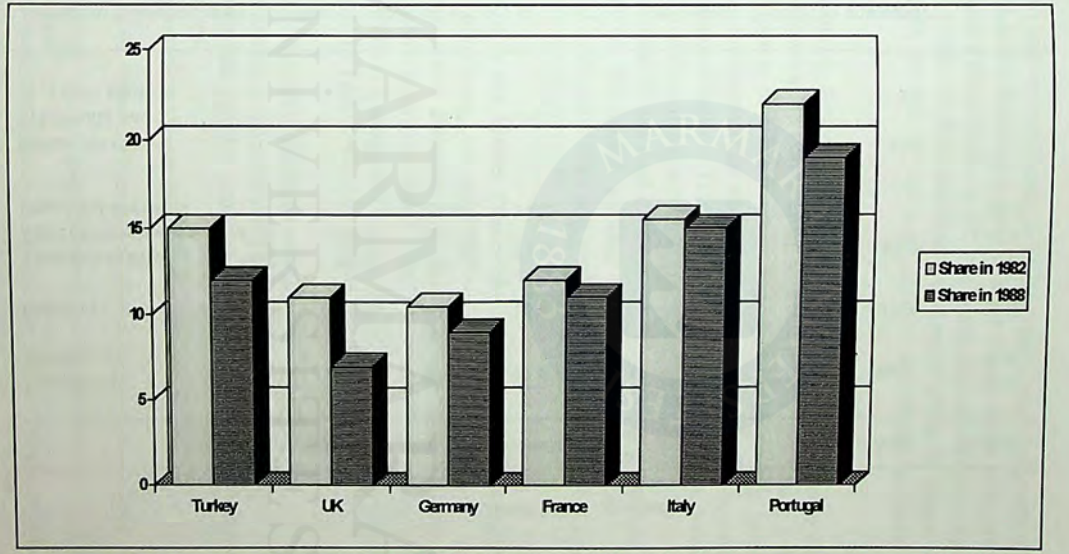
[1] Firms transferred to PPA for privatisation.
Capitals indicate SEEs or PEIs, small characters subsidiaries.

Source: OECD Economic Survey, 1992, "Turkey (1991/92)", p. 89

In most countries, activities such as energy distribution, railway transportation and telecommunication were operated and/or regulated by the state (see Table 4.2)

Figure 4.1 Relative Size of Public Enterprises[1] in Turkey as Compared with the UK and Some Other OECD Countries

As a percentage of Total Economy



[1] Average of value-added, employment and capital formation.

Source: OECD Economic Survey, 1992, "Turkey (1991/92)", p. 90

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Table 4.2 Share of Public Enterprises in Turkish Economy as Compared with the UK and Some Other OECD Economies, 1988

Global Index[1], per cent

	Belgium	*Denmark*	*Spain*	*France*	*Nether-lands*	*United Kingdom*	*Austria*	*Italy*	*Turkey*
Energy	14.4	81.0	32.3	72.0	11.9	50.6	88.0	86.7	90.0
Mining									74.0
Industry	0.1[2]	0.5	4.0	16.4		2.3	20.0	11.3	33.0
Transportatiton	44.8	40.0	28.6	57.9	53.5[3]	14.3	54.3	82.7	58.0
Telecommunication	87.8	100.0	92.3						100.0
Financial Services	-	-	28.0[3]	34.2[2]			39.3		25.0
Other Services	-	1.0			-	-	-	32.0	
Wholesale and retail trade	-	1.0	0.3	3.2	-	-	2.0	7.0	

[1] Average of following ratios : 1) share of public enterprises in sales, 2) in employment, 3) in fixed investment.
[2] Share in employment only.
[3] Share in sales and employment only.
Source: OECD Economic Survey,1992,"Turkey (1991/92)", p. 91

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In regard to state-owned banks in Turkey, the public sector still played a leading role in the financial system. This is clearly reflected in the rising share of state-owned banks in the total bank deposits which reached 55 per cent in 1990. At the same time, the share of privately owned banks). constituted 44 per cent of total bank deposits and the foreign banks about 1 per cent.[59]

Turkey's banking sector is constituted as follows: The Central Bank of Turkey, overseeing 33 commercial banks, 9 investment banks, 5 foreign controlled banks, and the overseas branches of 15 foreign banks. A minority of the commercial and investment banks are state owned, eight and four respectively. Traditional deposit and loan activities are concentrated within the control of just seven banks (controlling 65 per cent of loans and 70 per cent of deposits). This situation engenders poor competition in the sector, making the banks less efficient - to the detriment of both consumers and small businesses, thereby holding back the country's development.[60]

We now turn to the Master Plan of the Morgan Bank, from which the following objectives of privatisation were identified. A ranking procedure produces clear-cut preferences within the Government in terms of relative priorities amongst the 14 objectives which were judged as being of most relevance to Turkey. The objectives listed in their order of importance to Turkey were as follows:[61]

1. To allow market forces to stimulate the economy.
2. To increase productivity and efficiency.
3. To increase quality, quantity, and diversity of the goods and services.
4. To promote widespread share ownership.

[59] Buğra, A., 1994, "State and Business in Modern Turkey: a Comparative Study", .p. 145

[60] Canevi, Y., 1992, "The Regulation of Banking and Insurance in Turkey: Are They up to EC Standard?", p. 145

[61] The Morgan Bank, 1986, "Privatisation Master Plan (Execute Summary, Objectives of Privatisation, Review of Foreign Invatisation, Methods of Privatisation)".

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5. To speed up the development of the capital markets.
6. To minimise financial support for the SEEs by the Treasury. To reduce monopolistic pricing and indirect taxation by the SEEs.
7. To free Government administrators to work on policy and regulatory issues.
8. To attract modern technology and management techniques.
9. To improve labour productivity by issuing shares to the employees.
10. To shift the balance between public and private ownership of industry.
11. To strengthen international economic/political ties by foreign investments.
12. To increase the rate of return on existing capital investments.
13. To generate revenues for the Government.

The Morgan Bank analysed 32 SEEs according to two criteria, namely, economic viability and investment requirements. The Morgan Bank's Master Plan stated:

"The most important criterion is economic viability, defined as the potential viability of the SEE in a competitive environment without subsidies, import protection or price controls. To determine the economic viability of an enterprise, we analysed its markets, the expected future demand for and supply of its products, its operations and operating efficiency, including international cost competitiveness where relevant, the quality of its assets, and its financial performance, particularly its inflation adjusted operating profitability".[62]

Having regard to these criteria, the Morgan Bank Master Plan recommended the division of the SEEs into categories according to their order of priority. The Morgan Bank formulated three priority lists, in which the SEEs were divided into 8 categories. Table 4.3 indicates the relative priorities and the description of the categories.

[62] Ibid.

Table 4.3 The Morgan Bank Privatization Priority List

I.Entire Company is saleable	II.Majority is saleable	III.Large parts are saleable	IV.Parts are saleable, remaining parts require rehabilitation or shut down	V.Candidates for creeping privatisation	VI.May be saleable	VII. Saleable with government support	VIII.Public service companies
1.TURBAN 2.THY 3.USAŞ	4.YEMSAN 5.ÇİTOSAN	6.TİGEM 7.TPAO 8.ETİBANK	9.SÜMERBANK 10.TSEK	11.PTT 12.TEK	13.EBK 14.TKİ 15.MKEK 16.T.GEMİ 17.ORÜS	18.ÇAYKUR 19.T.ŞEKER 20.SEKA 21.PETKİM 22.TÜGSAŞ 23.TDÇİ 24.ASOK 25.TTK	26.DMO 27.T.DENİZ 28.TCDD 29.DHMİ 30.TMO 31.TZDK 32.TUSAŞ

Explanations of Acronyms:

1.Tourism Bank Co.
2.Turkish Airlines Co.
3.Airline Catering Service Co.
4.Feed Industry Co.
5.Turkish Cement Industries Co.
6.Directorate General of Agricultural Bussi.
7.Turkish Petroleum Co.
8.Etibank (banking & mining)
9.Sümerbank (textile & banking)
10.Turkish Milk Industry
11.Turkish Postal, Telephone and Telegraph
12.Turkish Electricity Production Institution
13.Meat and Fish Office (EBK)
14.Turkish Coal Production Enterprise
15.Machinery and Chemical Industries Inst.
16.Turkish Ship Industry
17.Forestry Products Industry Enterprise
18.Tea Office
19.Turkish Sugar Enterprises Co.
20.Turkish Cellulose&Paper Business Co.
21.Petkim Petrochemical Co.
22.Turkish Fertilizer Industry
23.Turkish Iron and Steel Enterpris
24.Heavy Industry&Automotive Inst.
25.Turkish Coal Corporation
26.Government Supply Office
27.Turkish Maritime Enterprise
28.Turkish Railways
29.Directorate General of Government Aviation and Airports
30.Soil Products Office
31.Turkish Agricultural Supply Office
32.Turkish Aerospace Industry Co.

Source: The Morgan Bank, 1986, "Privatization Master Plan (Execute Summary, Objectives of Privatisation, Review of Foreign Privatizations, Methods of Privatization)"

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There are various ways in which the SEEs may be privatised. The Morgan Bank attached in its Master Plan importance to the following privatisation methods:

"Privatisation in its fullest sense requires that State control of an SEE be transferred to the private sector. However, there are several ways in which SEEs can be sold. In addition, partial privatisation can take place. Partial privatisation is defined as the introduction of private capital into the SEEs with the Government continuing to retain control. Alternatively and/or concurrently the introduction of private sector management through mechanisms such as leasing of state assets, or subcontracting of services represent forms of privatisation".[63]

Figure 4.2 indicates the methods of privatisation that appear most readily feasible today for each SEE, which will be discussed later.

Many of the Morgan Bank's priorities seem to be flawed. Below are some of those priorities, followed by a brief critique.

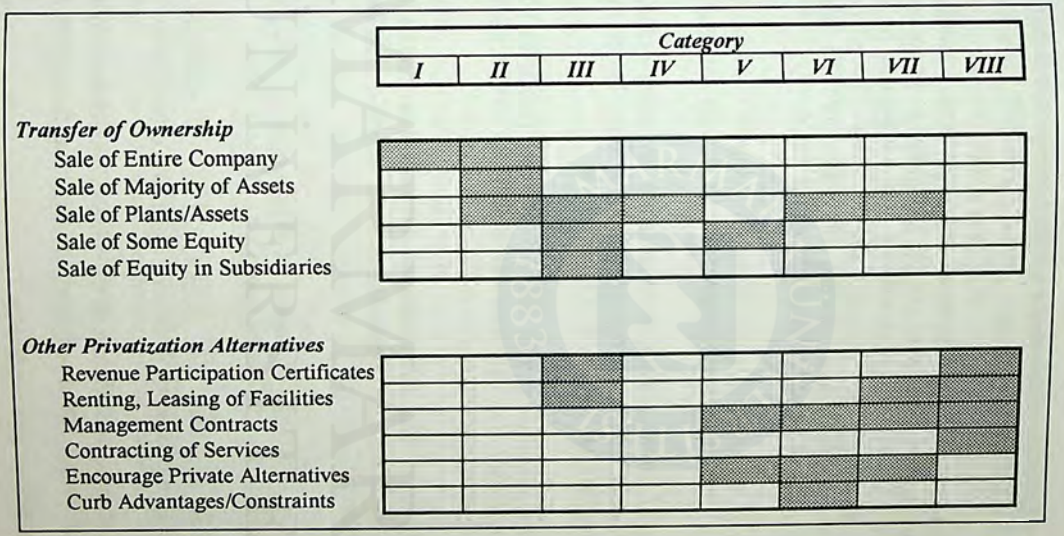
- The first three most important objectives concentrate on making the economy more responsive to market forces. In other words, these aimed to raise industrial efficiency and generate growth in the real economy.

- The second most important objectives (Ranked 4 and 5) concern the development of capital markets.

- The first two groups of relative priorities (above) are separated from the remaining objectives listed (Ranked 6-14) because these later objectives were deemed less important. Improving efficiency (Ranked 1-3), developing capital markets (Ranked 4-5) and the easing of future demands on the Treasury (Ranked 6)

[63] Ibid.

Figure 4.2 Preferred Method of Privatization



Source: The Morgan Bank, 1986, "Privatization Master Plan (Executive Summary, Objectives of Privatizations, Review of Foreign Privatizations, Methods of Privatization)".

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appear to be given greater weight than revenues from the sale of SEEs (Ranked 14).

The objective of shifting political ideology more towards private ownership (Ranked 11), ranked comparatively low in importance. The Morgan Bank indicated that privatisation does not seem to be an end in itself, rather a means towards an end, and the Master Plan advocated the freeing up of Government officials to work more on policy and regulatory issues (Ranked 8) than managing the SEEs.

4.2.1.1 Legal-Institutional Framework

Following the serious attempt at privatisation according to the Morgan Bank's Master Plan, the Government had taken several steps to prepare the legal-institutional framework of privatisation.

The Turkish Constitution does not include legal principles concerned with privatisation. Legislation on the subject has serious deficiencies. There are three Acts relating to privatisation in Turkey.[64]

- Law No: 2983 Concerning the Encouragement of Savings and Acceleration of Public Investments which was effective by March 17, 1984.

- Law No: 3291 Concerning the Privatisation of State Economic Enterprises which came into effect on June 3, 1986.

- Law No:.4046 was promulgated on 27 November 1994, extendig the scope of existing legislation substantially.

However, all these Acts fail to treat the subject comprehensively and they should be revised. The insufficiency of this legal framework has also

[64] KOİ, 1992, "Türkiye'de Özelleştirme", p. 23

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been mentioned by groups which are known advocates of privatisation. For example, TÜSİAD, Turkish Industrialists' and Businessmen's Association, stated relating to Act 3291: "Not only is it unwise to confine legislation on such important issue as privatisation to just four Articles (13-16), but the provisions embodied in this Act are too general and vague, and of inadequate scope".[65] Since Turkey's first privatisation legislation passed in 1984, the legal framework has contained several ambiguities open to conflicting interpretations.

In the period of 1984-94, the following principal bodies were vested with authority to take decisions about privatisation.

- The Economic Co-ordination Board (ECB),
- The Housing and Public Participation Administration (HPPA),
- The Cabinet of Ministers,
- The Supreme Planning Board (SPB),
- The Public Participation Administration (PPA).

Originally, the Prime Ministry and the Housing and Public Participation Administration (HPPA), by Law No: 2983, were responsible for privatisation. In April 1990, another Law was enacted stipulating that HPPA be split into two different administrations: The Housing Administration and the Public Participation Administration. In November 1994, under the Act 4046, the Privatisation High Council (PHC) and Privatisation Administration (PA) were established. The latter (PA) has been empowered to carry out a privatisation programme. Clearly, the authority to privatise SEEs has been given to the Cabinet of Ministers. When a decision concerning a privatisation is made, a SEE is automatically transferred to the PA free of charge.[66]

[65] TÜSİAD, 1992, "Conclusions and Recommendations of TÜSİAD on Privatisation", p.10

[66] Aktan, 1993, p. 47

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4.2.1.2 Sale Methods of SEEs

According to the Master Plan of the Morgan Bank, the sale methods of SEEs are to be divided into two categories:[67]

First, a transfer of ownership. Second, other forms of privatisation for enterprises which cannot be sold immediately.

The Morgan Bank Master Plan regards the transfer of ownership as the most successful form of privatisation. The Master Plan points out a number of specific methods for the transfer of ownership. It indicates which state enterprises make ideal candidates for each method, and it evaluates the advantages and disadvantages of using each of these different methods of privatisation.

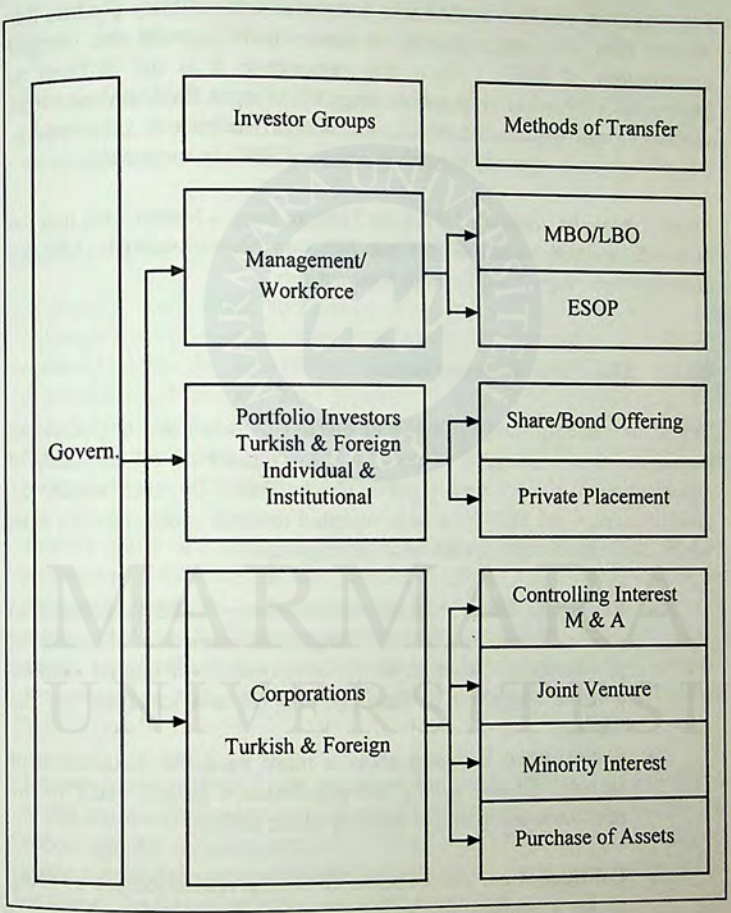
Considering the transfer of ownership, Figure 4.3 indicates the most common linkages. Accordingly, the method by which ownership is transferred to the private sectors is to some extent determined by the type of investor group which is targeted.

In regard to other privatisation alternatives, this category of partial privatisation involves bringing in an element of private capital and/or management into the SEEs while the ownership of those remains with the Government. Different methods in this category favoured by the Morgan Bank are as follows:

- Revenue Participation Certificates
- Leasing/Renting
- Management Contract
- Contracting of Services
- Creeping Privatisation
- Reduced Government Role

[67] The Morgan Bank, 1986.

Figure 4.3 Transfer Ownership



Source: The Morgan Bank, 1986, "Privatization Master Plan (Executive Summary, Objectives of Privatization, Review of Foreign Privatizations, Methods of Privatization)".

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It should here be emphasised that the Morgan Bank's above mentioned sale methods and evaluation of their advantages and disadvantages does not mean that the Master Plan was completed without bias. Rather, this Master Plan was prepared with a view which supports the outright privatisation of SEEs. From this perspective it is not difficult to understand why at the preparation stage the Morgan Bank's Master Plan was kept from experts, academia, and institutions such as trade unions. All of these have opposed the privatisation of SEEs in some way.

Finally, it can be concluded from the Morgan Bank's Master Plan that the best sale method would be for the SEEs to be transferred to the big domestic or foreign companies in their entirety.

4.2.2 Objectives of Privatisation

Before any attempt can be made to discuss in detail the objectives of privatisation in Turkey, it is necessary to concentrate on the aims of privatisation in the Morgan Bank's Master Plan. In other words, the privatisation of the SEEs has been oriented towards some concrete aims which can be generally divided into three groups:

- **Economic aims**: Making the economy more responsive to market forces is the most important economic objective of privatisation. Another is the development of capital markets and the reduction of financial support and subsidies for the SEEs.
- **Social aims**: Bringing about a more equitable distribution of income, thereby giving the population a greater stake in the economic and political stability of the nation.

- **Political aims**: The political aims of privatisation are to bring about a change in commercial psychology and to prevent a resurgence of left-wing agitation. Put another way, the private entrepreneurs attached great importance to the transfer of state

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ownership into private hands, leading to a widening of private capital ownership again giving a larger proportion of the population a stake in their own livelihoods. Privatisation seems to be an effective means of achieving this.

Now we deal with some of the privatisation objectives formulated by the Morgan Bank in order to find out how successful the Government was in meeting them.

4.2.2.1 Promotion of Competition and Improvement of Efficiency

In Turkey, some SEEs still have a monopoly in the domestic market, although the abolition of some legal monopolies on tradable goods has occurred since the mid-1980s, such as tea production and fertiliser distribution, tobacco and hard liquors. Another public enterprise which operates in the monopoly market and enjoys great market power is MKEK (Turkish Machinery and Chemicals Industry Complex) and , the state machine and chemical industry.[68]

Several SEEs are also the predominant domestic producers in such sectors as non-ferrous metals, newsprint, paper, sugar, petrochemicals and bulk chemicals. A large number of SEEs are concerned with provision of non-tradable services and hold a monopoly position in these areas. They include post and telecommunications, railways, air transport, air and sea-port administration, and until recently, electricity distribution.[69]

However, competition is an important mechanism for the maximisation of the consumer surplus. It is therefore necessary to take measures that encourage the development of a competitive environment in order to erode the SEEs' current monopolistic position. In order to relieve this situation, the following measures may be adopted:

[68] OECD, 1992, "Turkey (1991/92)", p. 92
[69] Ibid.

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- The monopoly may be broken up.

- Monopoly advantages can be reduced through the formation of competing firms.

- The monopoly may be diminished by encouraging foreign capital into these sectors. This has the added advantage of increasing the country's stock of knowledge and technology.

- Encouragement of share ownership through the discount pricing of SEE shares. However, considering the underdeveloped structure of the Turkish capital markets, this plan may fail to achieve popular share ownership, and simply redistribute wealth to those who are already wealthy enough.

- The SEEs may also be privatised and regulated by an independent agency on the UK model (e.g. water, gas, electricity). However, this experiment is widely regarded as having had disappointing results to date in the UK.

As a result, it can be said that privatisation of public monopolies would simply mean the transformation of state monopolies into private monopolies without creating conditions for competition in the market. SEEs must therefore restructure for competitive market conditions where this is feasible.

As experience with privatisation in the UK has shown, ownership does not of itself directly impact upon the efficiency of the companies concerned. Put another way, there are also serious doubts that the transfer of SEEs into the private sector would increase the efficiency of enterprises by giving workers and entrepreneurs alike an incentive to cut costs and waste. As seen in the case of privatisation in the UK, it is necessary to remember what Professor Yarrow said in connection with the ownership transfer (See section 3.2.2.1). So, the argument that

privatisation would increase the efficiency of SEEs is more economic than political. It may therefore be possible to increase the efficiency of SEEs through meaningful restructuring without the need to transfer them to the private sector. However, governments have real political disincentives to implement painful restructuring on the scale required.

This view is also reflected in the research of the World Bank:

"In principle, a state-owned firm should be able to operate as efficiently as a private firm if both function in a competitive setting according to the same rules and incentives. But experience shows that governments find it difficult to level the playing field or to keep it level. Governments have intervened to provide publicly financed support for their public enterprises, discriminated against their private competitors, or both".[70]

In this research the World Bank also attaches importance to the causes of the inefficiency in the SEEs. The reasons for that are many. Successive governments stifled competition in the market place by awarding monopoly privileges to SEEs when such privileges were unnecessary. Tax collection was deliberately lax, eroding the tax base and needlessly exacerbating the PSBR. This on top of an already favourable tax regime for the SEEs. Furthermore, SEEs were saddled with social roles - the provision of employment for example - thereby distorting their development strategies. At a more fundamental level however, as there was no incentive to make profits, and guaranteed subsidy for losses, many SEEs continued to lose massive amounts of money, encouraging the Government simply to extend yet more protection.[71]

The measures advocated by the World Bank research have, with the exception of ownership transfer, been adopted by most developing countries over the last two decades or more:[72]

[70] Kikeri, S.; Nellis, J. and Shirley, M., 1992, "Privatisation: the Lessons of Experience", The World Bank, p. 16
[71] Ibid., p. 16
[72] Ibid., p. 17

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- SEEs have seen a diminution of their protective shields of stifled competition and favourable tax and subsidy regime.

- Favourable banking terms have been abolished for SEEs, and a requirement to produce profits more strictly imposed.

- Managers of SEEs have enjoyed increased empowerment to run their businesses, with less emphasis on social objectives.

- Accountability has been improved, and the institutional framework within which managers work, improved.

However, the research of the World Bank concluded that it is true that the above mentioned measures effected some improvements in the performance of the firms concerned, but some problems persisted. These included technical and political difficulties which hindered implementation of reform programmes in these countries generally.

4.2.2.2 Privatisation Revenues and Their Impact on Reducing the Public Debt

Although "provision of revenue for the state" ranks as the last goal of privatisation according to the Morgan Bank Master Plan, it has been observed with passing time that this goal has become the most important one because privatisation revenues offer large sums of instant cash without the political implications of tax increases which would otherwise have been necessary.

Although Teletaş was sold by "offer to the public", subsequent privatisation such as Çitosan and Usaş were effected by sale to foreign companies. Many advocated this method of privatisation as the best alternative at the present time. Turkey has also seen the emergence of the debt for equity "swap", whereby a company is absolved from its debt to a

bank, but that bank then takes a corresponding share of the firm's equity, often giving it a controlling interest in order that it may effectively safeguard its investment.[73]

A "debt-equity swap" policy has also been used in several countries characterised by high levels of foreign debt, for example, Argentine, Chile, Mexico and the Philippines. All of these have attached great importance to privatisation proceeds in order to reduce their foreign debts.

The same problem is also affecting Turkey, which is one of the most indebted countries in the world. When it is taken into account that Turkey's foreign debt rose to over $ 59 billion in June 1993,[74] it is not difficult to understand how important the revenues of privatisation are for the Turkish Government.

Moreover, privatisation of SEEs is also seen as an instrument for providing additional revenue in order to reduce the rate of increase in Public Sector Borrowing Requirement (PSBR). Put another way, public-sector deficits as a share of GNP have been on a rising trend since 1988 as Table 4.4 indicates. In 1990, the PSBR widened by a striking 3.25 per cent to 10.5 per cent of GNP, the highest in a decade. This was largely due to the doubling of the SEEs borrowing need to 5.3 per cent of GNP.[75]

Considering the expectation of revenues from privatisation, the total state assets in Turkey are estimated at $ 60 billion. However, from its inception in 1986 up to September 1994, the proceed of privatisation amounted to only $ 2.76 billion. The Government aims to increase the sale revenues to $ 5 billion in 1995.[76]

Finally, the privatisation of SEEs should be in a strict accordance with a strategy to decrease the public debt.

[73] Karataş, C., 1990, "Privatisation in Britain and Turkey", p. 94
[74] DPT, 1994, "Temel Ekonomik Göstergeler", p. 66
[75] OECD, 1992, p. 37
[76] OECD, 1995, "Turkey 1995", p. 40

Table 4.4 Public Sector Borrowing Requirements (1980-1990)

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Public sector deficit (TL billion)	-465	-319	-374	-687	-1 194	-1 267	-1 869	-4 563	-6 235	12 322	-30 239
General government	-208	-127	-168	-385	-773	-397	-549	-2 093	-3 430	-7 902	-15 123
SEEs	-257	-192	-206	-302	-421	-870	-1 320	-2 470	-2 805	-4 420	-11 116
Public sector deficit/GNP	-10.5	-4.9	-4.3	-6.0	-6.5	-4.6	-4.7	-7.8	-6.2	-7.2	-10.5
General government	-4.7	-2.0	-1.9	-3.3	-4.2	-1.5	-1.3	-3.6	-3.4	-4.6	-5.2
Central government	-3.7	-1.9	-1.8	-2.7	-5.3	-2.9	-3.6	-4.5	-4.0	-4.5	-4.2
Local administrations	-0.4	0.0	0.1	0.0	0.1	0.1	0.3	-0.6	-0.5	-0.3	-0.3
Revolving funds	-0.5	-0.1	-0.2	0.6	0.0	0.5	0.4	0.8	0.3	0.5	0.4
Extra budgetary funds[1]	-	-	-	-	1.0	0.8	2.2	0.7	0.7	-0.3	-1.2
SEEs	-5.8	-2.9	-2.4	-2.7	-2.3	-3.1	-3.4	-4.2	-2.8	-2.6	-5.3
Source of financing (% of total)											
Central Bank	22.2	12.1	8.7	10.5	11.2	27.3	14.1	20.4	15.8	3.7	1.1
Foreign borrowing, net	27.6	61.7	56.1	16.6	54.1	1.7	58.0	44.2	43.3	15.3	11.9
Domestic borrowing, net[2]	50.2	26.2	35.2	72.9	34.5	71.0	27.9	35.4	40.9	81.0	87.0

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Table 4.4 Continued

	1980	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Memorandum items											
Public debt/GNP											
General government	22.8	23.7	27.9	43.8	47.3	49.9	35.5	61.9	61.6	53.7	43.5
Domestic	11.9	11.6	12.3	27.5	25.3	25.6	27.0	31.0	29.7	25.3	20.2
Foreign	10.9	12.1	15.6	16.3	22.0	24.3	28.5	30.9	31.9	28.4	23.3
SEEs											
Domestic	..	..	..	..	..	..	..	..	..	..	..
Foreign	3.6	2.3	3.3	3.1	3.0	3.9	5.6	6.4	5.6	5.1	4.4
General government primary deficit/GNP	-2.7	0.3	-0.6	-0.7	-2.3	0.4	1.6	0.7	3.0	0.9	0.7

[1] Including State Economic Enterprises in the process of privatisation.
[2] Including short-term borrowing.

Source: OECD Economic Survey, 1992, "Turkey 1991/92", p. 38

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Opponents of privatisation criticise this strategy for reducing the foreign debt or the PSBR through privatisation revenues. They believe that it would be misplaced to consider the process of privatisation of SEEs as a way to obtain debt relief, rather than as a strategy to improve the functioning of markets. In other words, the use of revenues raised from privatisation for repayment of international debt and financing the PSBR has become the most important goal over the last decade - such revenues are not sustainable because there will eventually be nothing left to sell. They implore the government not to use this revenue for rehabilitating inefficient SEEs, which should be an important aim of a privatisation programme.

4.2.2.3 Curbing Public Sector Union Power

An important criticism of the Morgan Bank's Master Plan is that the establishment and rank of privatisation objectives were the results of interviews with officials who are enthusiastic advocates of privatisation, whilst the concerns of experts, academics and other interested institutions such as unions, were overlooked.

Although it cannot clearly be seen in the previously mentioned 14 objectives of privatisation there is no doubt that the Government and the private sector were anxious to curb union power.

The supporters of privatisation attach great importance to two major reasons for curbing union power. Firstly, SEEs are highly unionised and wage-leaders. In other words, wage levels in SEEs are often double those in the private sector for comparable jobs. In short, wage increases in excess of productivity gains were rountively granted, with no risk of bankruptcy encouraging inflationary wage increases in the private sector. Secondly, SEEs often "absorbed" excess labour. Originally, SEEs were created to play a leading role in investment, employment and economic growth. As a result, after World War II, their share in industrial

employment was predominant, and by the mid-1980s they provided nearly half the jobs in manufacturing. By 1991, the number of employees in SEEs amounted to 600 000, a decline from about 4 per cent in the early 1980s.[77]

The influential unions have resisted privatisation for two reasons. Firstly, the Morgan Bank's Master Plan recommended lay-offs for many public-sector workers: "In making SEE's more efficient and improving longer term privatisation potential, the issue of overmanning needs to be addressed".[78]

The second issue for the unions was that of the "contractualisation" of the work force and the attendant loss of "jobs for life". By employing workers on a contractual basis, they not only lose their status as "officials" or "workers", but may also be paid less and be more easily controlled. In the UK, this has caused serious political problems for successive Conservative Governments because such measures strike at the heart of middle class security, eroding their political power base in the process. Moreover, contractual personnel of SEEs may not be included in the scope of collective labour agreements. This situation reduces union power in the SEEs because there are fewer incentives for contractual personnel to become unionised. In addition to this, the prohibition of strikes in some sectors has diminished union power.

4.2.2.4 Widening the Ownership of Economic Assets

One of the objectives of privatisation is the widening of share-ownership. It means that the privatisation issue is seen as a step towards "making the ordinary people the real masters of the Turkish economy". The Morgan Bank Master Plan stated that "the goal of widespread share ownership is important in order to reduce the concentration of economic power and to bring about a more equitable distribution of income and wealth.

[77] OECD, 1992, p. 91
[78] The Morgan Bank, 1986.

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Corporate wealth in Turkey is still in the hands of a few founding families. There are many economic, social, and political benefits to making this ownership structure more broadly based. Widespread share ownership is also important to the development of the secondary markets which is in turn important for the long term development of capital markets".[79]

The Master Plan admits simultaneously that when the capital market is underdeveloped, as in Turkey, equity securities of SEEs will need to be priced very attractively. Additionally, the UK privatisation programme in which several measures were taken in order to spread ownership more widely is given as an example for Turkey. The British Telecom sale attracted over 2 million individual investors.

However, it should be remembered that the British capital market is highly developed and is characterised by the basic prerequisites, namely, by a stable political and economic environment, an adequate supply of capital, a sufficient demand for stock, and an efficient intermediary network. It was therefore possible for the number of shareholders to increase from 2 million in 1983 to 9 million in 1988. However, as seen in the case of privatisation in the UK, there is a disagreement in the literature as to whether the expansion in the number of shareholders can be regarded as successful. The reason for this was the decline in the original number of shareholders. Many small shareholders disposed of shares after only a short time.

The Turkish capital market is very small by European standards. A lack of standardised accounting practices on the national stock exchanges makes it practically impossible to rely on the accuracy of figures among listed companies, even where they could be obtained at all. Notwithstanding that the Istanbul Stock Exchange is a new institution, the sale of Teletaş in 1988, which was the first experience in Turkey of an "offer sale" inviting applicants for shares at a set price, proved to be successful.

[79] Ibid.

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Part of Teletaş, a telecommunications equipment manufacturer, was sold on February 29-March 4, 1988. Just over 3 million shares, representing 22 per cent of the overall equity, were sold to the public, with 10 per cent of the total equity being reserved for Teletaş workers and a small portion also being reserved for Turkish expatriate workers. The state's remaining 18 per cent was being retained for the time being.[80]

Within five days of flotation the number of shareholders in Teletaş reached 42,000, including 2286 Teletaş and 587 PTT (Postal Service Co.) employees. The proceeds from the sale of Teletaş shares, amounted to TL 14.1 billion of which TL 8.2 billion was derived from the sale of shares to the public and TL 5.9 billion from sales to employees of Teletaş and ITT.[81]

The reason for choosing Teletaş for the first privatisation in Turkey was the good image of the company. It produces modern technology and good quality switchboard equipment at a competitive price. This combined with high profitability to impact upon shareholders positively. Additionally, in order to encourage the employees, the Government lent them up to TL 3 billion, to be repaid over 12 months in equal instalments.[82]

Because of a lack of data, it is difficult to say whether the measures taken by the Government to encourage the purchase of Teletaş shares have created sufficient incentives for small investors to retain long term ownership of shares in the company. This is because in developing countries, such as Turkey, the high inflation rate is often the main reason why small investors prefer such investments as real estate to those which provide income through dividends. This sentiment betrays the financial naivety of the Turkish small investor however, since the whole point of investment in listed shares is not so much the income that may be derived from them, but the capital appreciation they provide in an inflationary environment. In the UK nowadays, share ownership through such

[80] Karataş, 1990, p. 43
[81] Ibid.
[82] Ibid.

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instruments as pensions, unit trusts and personal equity plans are considered to be a far superior hedge against inflation than real estate.

Generally speaking, the privatisation of Teletaş through the sale of its shares on the capital market was successful. However, the privatisation of Teletaş was the only example of a sale by an offer to the public. There has been no other significant public sale since February 1988.

Clearly, as can be seen in the case of Çitosan, which had been privatised after Teletaş, the basic goal of wider of share ownership had been overlooked by the Government. So, Çitosan's five cement plants, which have been very profitable over the years, were sold to foreign companies without giving priority to individual shareholders. This contradicts an important, though not essential objective of privatisation.

The major reason for the sale of SEEs to foreign investors was that they could transfer modern technology and the foreign exchange needed to enable the Government to repay its external debts and to reduce the PSBR. Such companies also brought with them management and organisational expertise, as well as ready access to lucrative export markets.

4.3 Summary and Conclusions

Before studying the development process of SEEs in Turkey, it was necessary to define étatism precisely and to review the chain of events preceding the birth of étatism as the official policy.

The founders of the Turkish State, Atatürk and his associates, were of the opinion that Turkish étatism could be defined as an economic policy based on an objective analysis of Turkey's economic situation rather than upon any of the dogmatic ideologies then in the ascendancy. Étatist economic policy as practised in Turkey had to be a home-grown product. The RPP Government which led the country from 1923 to 1950 established the SEEs. These came to play a crucial role in the industrialisation process from the 1930s onwards.

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The RPP Government adopted a policy of industrialisation which was based on a concept of economic independence and autarchic development, significantly oriented towards import substitution, with these new industries processing domestically produced raw materials. In the years following World War II, however, Étatist policies were gradually abandoned as the global economy was liberalised by organisations such as GATT. The étatist era ended with the coming to power of the Democrat Party in 1950.

This political sea change was an indication of the growing political influence of the merchant class, industrialists and large landowners. Indeed, this unusual coalition of interests formed the basis of the Democrat Party when it was founded in 1946. The new party's raison d'etre was a reaction against many of the RPP's policies, for example in land reform. Towards to the end of the 1970s, Turkish governments were confronted with problems such as unemployment and inflation due to the political difficulties, inefficient management, and the effects of the two Oil Crises.

By 1980, Turkey had put into effect a comprehensive stabilisation programme that involved radical structural reforms, under the guidance of the IMF. The Turkish Government was in desperate need of foreign aid to overcome the growing economic crisis by 1978-1979.

The January 24th Regulations included a radical change in the orientation of economic policy, shifting the Turkish economy from import-substitution to an export-oriented economy based on free market principles. Accordingly, a number of measures were taken. One of these measures was an effort to enhance the efficiency of the SEEs, improving their viability, and laying the ground for their privatisation.

In 1985, the Government commissioned the Morgan Bank to prepare a Master Plan for privatising SEEs. The government also commissioned foreign companies to produce Master Plans for restructuring some sectors. The Morgan Bank Master Plan concluded that the objectives of privatisation were fourteen in number and ranked them accordingly. The

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generation of proceeds of sale was not among these, although this has now become a principal objective of successive Turkish Governments.

The Morgan Bank Master Plan was criticised in many ways. For example, the public was not informed about the privatisation programme and strategy. Thus, various groups such as unions, universities, and political parties have opposed the privatisation programme of the Government based on the Morgan Bank Master Plan.

In conclusion, a great deal has been said about privatisation since the early 1980s, but very little has as yet been done. Many developing countries, such as Mexico and Argentina had started with their privatisation programmes at the same time as Turkey, and they had put into effect a large part of these. Turkey however is still at the initial stage of privatisation. This situation encourages the view that the privation of SEEs in Turkey will turn out to be a long process.

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Chapter V

Coal Sector in the UK and Turkey

So far we have explored the general case of the privatisation of publicly owned companies in the UK and Turkey. In the following chapter, we will concentrate on the particular case of the privatisation of the energy sector as a whole, and more specifically that of the coal sector.

5.1 Coal Sector in the UK

5.1.1 Historical Background

The British coal industry holds a pivotal position in the history of industrial relations. In many respects, it represents the story of British industrial relations over the past two centuries in microcosm. Undoubtedly, the industrial revolution and the subsequent rapid industrial and economic progress would never have been possible, had there not been very substantial reserves of coal in the UK which could be exploited as a cheap energy source and raw material.

By 1850, British coal output had already reached 60 million tonnes per annum. By the outbreak of World War I, output had reached 250 million tonnes, and by 1923, 290 million tonnes. This last figure was never exceeded. Up to one third of this output was exported, and at its peak, 1¼ million people were employed.[1] The years following World War II saw the penetration of other energy sources into the British energy market. Despite this, coal remained the UK's principal energy source during and beyond the 1940s.

[1] Ray, G. F., 1989, "British Coal", p. 75

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In 1947, 90 percent of UK fuel consumption was derived from coal. 12 percent of coal output was converted to coal gas, 13 percent burned to produce electricity, 10.5 percent was reduced to coke, 17.5 percent burned by the railways, and 19 percent consumed by the rest of industry. The remaining tonnage went for export and domestic fuel.[2] Towards the late 1950s, the decline in demand for coal in the domestic economy gathered speed. From 1957 onwards, the combination of a small industrial recession, intense competition from other fuels and improvements in coal burning techniques precipitated a steep path of decline.

The saleable output of coal fell by 44.5 per cent between 1957 and 1979, from 220 million tonnes to 121.5 million tonnes.[3] This period of rapid decline in the coal industry's output was accompanied by massive capital investment in new plant and machinery, an increasing number of pit closures and a steady reduction in manpower. By 1960, there were 698 pits being operated by the National Coal Board (NCB), (In 1987, the NCB was renamed the British Coal Corporation but, for convenience and to avoid possible confusion, we will use the older title throughout the discussions). As a result of closures, the number of these fell to 223 in 1979. The number of colliers fell from 693,000 to only 235,000 over the same period.[4]

The principal markets of the coal industry changed dramatically. There were three dominant factors at work during the post-war period.[5]

The first factor was major variations in supply and demand. There had been an acute shortage of coal for a decade after the nationalisation in 1947. Demand for coal in the UK increased steadily from 1947 in

[2] Redwood, J., 1980, "Public Enterprise in Crisis: the Future of the Nationalised Industries", p. 52

[3] Ibid., 1980, pp. 52-53

[4] Chakravarty, S. P., 1988, "Structural Adjustment in Europe : the case of UK Coal", p. 184

[5] Ezra, D., 1993, "A Framework for Energy", p. 391

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absolute, though not in relative, terms. Nevertheless, the UK coal industry found it increasingly difficult to meet this demand. Production targets were regularly missed. Industrial relations in the coal industry had historically been very poor indeed, and there was an entrenched, blinkered opposition to change of any kind. It was the most traditional of industries. Compounding this, nationalisation precipitated an exodus of managers from the industry, causing a dearth of expertise and experience.[6] A further crisis of supply arose during the 1970s when the Organization of Petroleum Exporting Countries (OPEC) massively increased the price of oil and reduced supply.

The second factor was the progressive emergence of other forms of energy, diminishing the long-held dominance of coal. In the mid-1950s, substantial quantities of oil began to penetrate the industrial and domestic markets. Since oil was very cheap during the 1950s and 1960s, industry began to substitute for coal with great enthusiasm. Coal was above all a dirty and inconvenient fuel, so both homes and industry switched to fuel oil, gas and electricity, much of the latter being derived increasingly from hydroelectric power in Scotland and nuclear power.[7]

At the same time, the discovery of oil and gas reserves in the North Sea transformed the energy market in the UK. Moreover, with oil and gas in the North Sea, the British coal industry's strategic importance also diminished. The gas supply industry itself was beginning the long process of conversion from gas generated from coal to almost total dependence upon supplies from the North Sea.

The third factor was the changing ownership structure of the British energy supply industry. By 1979, the coal, gas supply (though not production), electricity and nuclear industries were owned by the state. The nationalisation of these industries is regarded by many to have been detrimental to their development.

[6] See, Redwood, 1980, p. 52
[7] See, Ibid., 1980, p. 53

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5.1.2 Nationalisation in the UK Coal Industry since 1946

It is now necessary to consider briefly the period of nationalisation from 1946 to 1986 in the coal sector. As has been seen in Chapter III, a basic element of economic policy during the pre-war period was to take over the industry and place it under public control. The principle underlying the ownership by the state of the commanding heights of the economy was to ensure that basic products and services would be operated in the national interest as efficiently and fairly as possible.

This process of nationalisation was illustrative of a much wider, Keynesian economic philosophy that was employed as the justification for a great deal of other government intervention on both sides of the political spectrum. The Government intervened in prices, wages, investment and the location of industry, crippling competitiveness in many instances.

It was decided to establish Boards which would be responsible for the day-to-day management of these enterprises according to broad principles laid down by government in the various Acts of nationalisation.

Coal was the first major industry to be brought into public ownership by the newly elected Labour Government in 1945. The 1946 Coal Industry Nationalisation Act gave the NCB a complete monopoly over the UK's coal resources. Prior to its nationalisation, the UK coal industry was notable for its fragmented structure.

Since there was no case for a natural monopoly in this sector, arguments in favour of increased economies of scale played only a small part in justifying nationalisation. The principal motive and justification for nationalisation was political, to institutionalise the industry for the benefit of its workers and British society as a whole. Many hoped that state ownership would reverse the coal industry's seemingly irreversible decline.

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By the end of the war, the UK Government was faced with three choices for the coal industry's future:[8]

- Firstly, it could completely deregulate the domestic market, leaving market forces to decide the fate of participating firms.
- Secondly, it could continue its price support policy whilst leaving the industry in private hands.
- Thirdly, it could simply nationalise the entire industry.

The first option was politically unacceptable. The second would avoid this difficulty, but inhibit modernisation. In fact, Atlee's Labour Government had little option. The nation clamoured for nationalisation, and in the post-war political environment, Atlee was compelled to deliver. However, improvements in mine workers' wages and increased capital investment would prove costly promises to keep.

The new NCB was given property rights in the UK's coal reserves. These rights, unlike those of oil and gas, were not held by the Crown. Those pits that did remain in private hands therefore (representing only a tiny proportion of the workforce) were effectively regulated by the NCB itself - their direct competitor. In small mines, private producers were simply licensed to extract and sell the coal, but on larger sites, these producers became merely sub-contractors. These small producers who operated deep mines were compelled to pay royalties to the NCB - at an arbitrary level. Open cast mines remained in private hands, and by 1986-87 were producing some 13.3 million tonnes per annum. "Licensed" mines in that year produced just two million tonnes.[9]

[8] Vickers, J. and Yarrow, G., 1993, "Privatization: an Economic Analysis", p. 326
[9] Ibid., p. 330

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The whole edifice was to be overseen by a nine man Board. Nationalisation was what colliers had wanted most for almost a century and a half. The Board was also charged with breaking even in the long term, and was given powers to employ whatever techniques, technology and human resources it saw fit in order to achieve its aims. The social welfare of its workforce was a high priority.[10]

Increasing government intervention began to blight the industry however. Indeed, the UK coal industry is an excellent example of ham fisted and often counter productive government intervention in industry. A "gentleman's agreement" between the Government and the Board for example, prevented domestic coal prices from rising above the 1939 level, despite the inflation of the war years. Consequently, when the market changed to a buyer's market during the 1950s, the NCB had accumulated no financial reserve. In 1955, the average price of coal per ton was around 69.1 Shillings, or £ 3 9s, including both domestic and export tonnage. [11]

This at a time when the export price of coal exceeded the domestic price by between £ 1 and £ 2 per ton.[12] This meant that the export price must have been between at least 25 per cent and 50 per cent above the artificially low domestic price. The domestic market could clearly have absorbed a higher price for its coal, and had the NCB been permitted to raise prices earlier, its reserves might have mitigated the coming crisis. Of course, however, the artificially low price was enforced for a reason, namely cheap power and raw materials for the export drive that was so crucial to Britain's post-war economic recovery.

UK coal output reached its post-war peak in 1947, at 187.5 million tonnes. By 1973, this had fallen to 133 million tonnes, due largely to the advent of cheap fuel oil and natural gas. Although the Oil Crisis of 1973 increased coal's share of the energy market, reduced demand for energy

[10] Redwood, 1980, pp. 50-51

[11] Shepherd, W. G., 1965, "Economic Performance Under Public Ownership: British Fuel Power", p. 15

[12] Ezra, 1993, p. 392

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generally meant that UK coal output continued to decline , though more slowly.[13] The Oil Crisis of 1973 played a very great role in the changes in energy use during the 1970s. The greater part of the fall in coal consumption took place before the oil price rises imposed by the Arab states and followed by other OPEC members at the end of 1973.

However, as Table 5.1 indicates, UK coal consumption fell from 133 million tonnes in 1973 to 112 million tonnes in 1988, despite the enormous rise in oil prices during 1973-74 and the great competitive advantage this gave the industry.

The advantage enjoyed by coal continued for a short time and led to a large rise in the coal burn at UK power stations. However, apart from this, the advantage did not enable the coal sector to raise its market share in other industrial markets. Preceding the rise in oil prices at the end of 1973, coal was more costly than heavy fuel oil. Nevertheless, oil did become more expensive. Since 1974, coal has been cheaper than gas. Yet gas picked up the business that oil lost. This was because oil burning equipment can be switched to gas but not to coal. While gas supplies have been restricted, coal's price advantage has not been a great enough incentive to encourage firms to replace oil-fired burners with coal burning equipment.[14]

There were also sharp declines in coal consumption before the sharp upward movement in oil prices in 1973-74. Industrial consumption reduced and household usage decreased by virtue of substitution of gas for coal. There was also a fall in coke consumption due to the decline in steel production and energy saving during iron making. Power generation was the only sector where consumption rose.

Increasingly after 1978, natural gas, nuclear power and French electricity imports have taken market share from oil and coal in the power

[13] See Ray, 1989, p. 75; Vickers and Yarrow, 1993, p. 329
[14] Pryke, R., 1981, "The Nationalised Industries: Policies and Performance Since 1968", p. 48

Table 5.1 Indicators of UK Primary Energy Consumption, 1973, 1979 and 1988

millions tonnes of coal equivalent

	Coal	*Oil*	*Natural gas*	*Nuclear*	*Electricity*		*Total*
					Hydro	*Imported*	
1973	133.0	164.2	44.2	10.1	2.0	-	353.5
1979	129.6	139.0	71.1	13.8	2.2	-	355.7
1988	112.0	116.1	81.5	22.9	2.4	5.2	340.1
Per cent shares in total consumption							
1973	37.6	46.4	12.5	2.9	0.6	-	100
1979	36.4	39.1	20.0	3.9	0.6	-	100
1988	32.9	34.2	24.0	6.7	0.7	1.5	100
Index of energy intensity[1] 1973=100							
1979	91	79	150			123[2]	94(91)[3]
1988	64	54	149			192[2]	73(74)[3]

[1] Energy consumption related to GDP.
[2] These figures concern all primary electricity (nuclear, hydro, imported)
[3] The figures in brackets are temperature-corrected.

Source: Ray, G., F., 1989, "British Coal", National Institute Economic Review, November, p. 75

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generation and domestic fuel markets. The "energy intensity" of the UK economy has The "energy intensity" of the UK economy has improved dramatically since 1978. Energy consumption per unit of Gross Domestic Product (GDP) in 1988 was just 75 per cent of what it was in 1973. The relative capacity elimination fell not just upon oil however, but also coal. In the 1990s, coal-fired power stations are being replaced wholesale by controversial gas fired stations.[15]

It is interesting to note that whilst the UK's energy sector is oil-dependent, its domestic supply (mainly derived from the North Sea) is fast running out. Even if the new North Atlantic field off Shetland fulfils its early promise, the UK will run out of its own oil quite soon. Indeed, the more pessimistic projections give the North Sea field just six years.

The UK possesses far more coal than oil, but is hampered by the geological complexities of its coal fields and the absence of a technology to process coal derived hydrocarbons as efficient as that for crude oil (i.e. fractional distillation). Some estimate that natural gas supplies will last no longer than fourteen years. However, coal (see Table 5.2) would last for almost a century at current consumption levels. These data should of course be treated with caution due to the constant revision of reserve estimates, yet they are pertinent in their representation of the present relative reserves of oil, gas and coal.

World estimates show a similar situation on a different scale. World-wide reserves of coal, based upon present rates of consumption, are estimated to last up to four times as long as oil or gaş, reserves of which anyway tend to be located only in specific areas, such as the Middle East

[15] Ray, 1989, pp. 75-76

Table 5.2 The Pattern of UK Coal Consumption 1973 and 1988

Consumer Category	*Coal consumption*		*Change 1973-88*	
	1978[1]	*1988*[1]	*Per cent share*	*Million tonnes*[2]
Collieries	1.1	0.2	-0.9	-1
Secondary producers of which:	77.1	85.4	+8.3	-7
Electricity generation	57.6	73.9	+16.3	+6
Coke ovens and processed fuel plants	19.5	11.5	-8.0	-13
Final users of secondary producers of which:	21.9	14.4	-7.4	-13
Industry	9.1	7.3	-1.8	-4
Domestic	10.9	5.8	-5.0	-8
Other[3]	1.9	1.2	-0.6	-1
Total all users	100	100		-21

[1] Per cent share.
[2] Coal equivalent, rounded.
[3] Public administrationand miscellaneous.

Source: Ray, G. F., 1989, "British Coal", National Institute Economic Review, November, p. 76

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for oil and the former Soviet Union for gas. Table 5.3 shows that the proportions of world consumption are similar to those in the UK.

Table 5.3 UK and World Consumption 1988

	UK [1]	*World* [2]
Oil	38.4	37.7
Natural Gas	22.9	20.2
Coal [3]	31.5	30.1
Hydroelectricity	0.7	6.6
Nuclear Electricity	6.5	5.4

[1] These figures differ from those in Table 5.1 because different conversion methods are applied in the source of the two tables.
[2] Including centrally planned economics.
[3] Including other (commercial) solid fuel.

Source: Ray, G. F., 1989, "British Coal", National Institute Economic Review November, p. 76

It should be emphasised that in 1983 the UK was still a net coal exporter. Coal exports reduced from 7 million tonnes in 1983-84 to around 2 million tonnes in subsequent years, whilst coal imports increased to almost 13 million tonnes in 1985 (due partly to the Miners' Strike of 1984-85), falling to around 10 million tonnes in the following two years and increasing again to 12 million tonnes in 1988.[16]

The reason the UK imports so much coal as opposed to utilising its indigenous supply is simply cost. Internationally traded coal is considerable cheaper on world markets than British coal. The international Energy Agency confirms this. The cost differential is

[16] Ibid., p. 77

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explained by many things, chief among which being the geological difficulties of many UK coal fields, particularly in South Wales, otherwise one of the most prolific fields in the world.

This state of affairs is not unique to the UK however. Indeed, imported steam coal was consistently less expensive than steam coal produced within the EC. Since 1986, a drop in the price of heavy fuel oil has improved its competitive edge over coal.

It is difficult to see how an overall policy for energy can emerge from the mixture of controls presently operating in the UK energy sector.

The oil market is traditionally competitive. Nevertheless, it is very much subject to the fiscal regime of the domestic governments. In Britain there are substantial taxes on motor fuel and also on fuel oil. In the North Sea operations are subject to the Government's procedures. The relative levels of exploration and production activity are affected by the incidence of the Petroleum Revenue Tax which was previously designed to encourage exploration. However, this tax now hinders more intensive production.[17]

Nuclear energy is still in the hands of the public sector even though the Government tried hard to sell it off along with the rest of the electricity industry. It has been heavily subsidised by the British Government. However, doubts remain about the future of nuclear power. This is because the opponents of nuclear power are gaining more support among the electorate, and the costs of decommissioning become greater and greater. Anti-nuclear campaigners have encouraged public antipathy towards the construction of new nuclear power plants in the UK, seeking a reduction in nuclear power generation throughout Britain. The nuclear catastrophe in Chernobyl fuelled controversy and public concern over the future of the UK's nuclear programme.

[17] Ezra, 1993, pp. 393-394

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It is mostly unlikely that much more nuclear capacity will come on stream in the UK for the foreseeable future though this is due less to public opposition than to the massive cost of building such plants, as illustrated recently by the massive cost overruns on the new Thorpe nuclear reprocessing plant.

The environmental issue is confused with regard to fossil fuel and nuclear power generation. Nuclear power is "clean" in the sense that it produces no CO_2 [18], but has against it the disposal of nuclear waste. Fossil fuel burning causes no nuclear waste, but does pollute the atmosphere.

The gas industry was privatised as a single entity. This had the advantage of securing the greatest revenues for the Treasury, but the disadvantage of limiting competition. This competition problem has been remedied to some degree, particularly in the market for business supplies. Indeed, British Gas' market share in the commercial (as opposed to domestic) sector is now down to about 35 per cent. Deregulation of the domestic market is slower to reap benefits because of the scepticism and slow response of householders.

Regarding the future of the gas industry in the UK, one should attach great importance to two issues. First is the structure and regulation of the UK gas industry. Here there needs to be coherence of policy between electricity and gas industries in terms of security of supply and the limits and objectives of competition. Second is the increasing demand for gas as a consequence of the building programme of gas-fired power stations. This warrants a re-examination of the rate of British gas depletion and the consequences of greater dependence upon imported gas in the longer-term.[19]

Competition in the electricity industry is again divided between large and domestic users. There is effective competition in the commercial sector,

[18] Parker, M. and Surrey, J., 1993, "The October 1992 Coal Crisis and UK Energy Policy", p. 407
[19] Ibid., p. 407

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but this is absent in the domestic sector, where the Regional Electricity Companies (RECs) have been widely criticised for overcharging. The regulator body "Offer" has also been criticised for failing to protect the consumers' interests. Furthermore, what little competition there is in the market for electricity supply is mitigated by the generation duopoly of National Power and Power Gen.[20]

Looking at these different arrangements for each part of the UK energy sector, it is impossible to visualise the successful development of a common strategy. There is still a strong degree of government intervention, even in the traditionally competitive areas such as oil. Some of these interventions are ideological while other intervention is related to fiscal requirements. There is no consistent pattern. At the same time the regulatory regimes introduced for gas and electricity are very different. The powers of the regulator were more limited in the case of gas than of electricity. With electricity, they have been more extensive. Thus it may be said that there is uncertainty in the energy sector as a whole, and it is unlikely to lead to a positive long-term strategy.

5.1.3 Privatising the UK Coal Industry in 1994

With regard to UK energy policy since 1990, the White Paper published in March 1993 reviewed the coal industry and considered important questions about its future and more generally the UK's energy policy as a whole.

The objectives of UK energy policy stated in the White Paper are: "to ensure secure, diverse and sustainable supplies of energy in the forms that people and businesses want, and at competitive prices", and that policy in the energy sector should be compatible with other government policies

[20] Ibid., p. 405

for the economy as a whole, including policies on safety, health, the environment, and EC legislation (par. 3.1). This is broadly what government critics have been demanding.[21]

The White Paper states that "the market is the most effective and efficient means for meeting energy needs, both nationally and internationally" (par. 3.2) and "security and diversity of supply are best achieved through the operation of competitive and open markets" (par. 3.3). Therefore, "the Government's policy has been and remains to encourage effective markets and make them work efficiently" (par. 3.4). The best way to achieve this is to privatise where possible (par. 3.5).[22]

According to the White Paper, the privatisation of British coal has been a clearly stated intention of the Government since 1988 (par.14.14). The Government has now succeeded in privatising the industry with a minimum of political controversy. The Stock Market is pleased with the initial performance of the privatised coal interests, owned by RJB Mining. This sale is in line with the Government's stated intentions in the White Paper, particularly those contained in paragraph 13.6: "Exposure to the disciplines of the market is essential to provide the right incentive for cost reduction and more commercial attitudes. The Government's hope for a larger viable industry can be achieved only with the industry in the private sector".[23]

So then, in the 1940s, nationalisation was seen as the best means of achieving the most effective energy policy, but in the late 1980s and 1990s, privatisation and competition are held up as the best way to achieve the same result.

[21] Ibid., p. 397
[22] Ibid., p. 397
[23] Ibid., p. 398

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The Conservative Government believed that its privatisation programme offered the best chance of political survival in the long run. British Coal's high costs relative to imported coal or other sources of energy contributed to a sharp decline in its market share. As a consequence, a coal industry which had 1,500 pits and employed three quarters of a million people in 1947 was reduced to just 30 pits and 33,000 employees in 1988.[24]

It seems inevitable that the coal industry will shrunk again to perhaps half its current size. Any hope of stemming further decline rests on improving productivity at a rate much faster than the state-owned concern was ever able to achieve.

In earlier privatisations such as that of the buses and the ports, the market-place in which these concerns operated was already competitive, thereby allowing an easy transition to more extensive and effective competition. However, the privatisation of the public utilities has been more complicated. These operated as monopolies and retained this status after privatisation.

To deal with this problem, the regulatory system was introduced. This was a new concept in British administration on the scale being attempted. The regulatory regime for each utility has differed slightly. This has been due to the natural differences between each enterprise.

There were three main arguments being considered as the best means of privatising the coal industry.

- The first view was that, in light of experiences in the privatisation of British Gas and British Telecom, breaking up the coal industry into many competing companies would deliver lower prices.

[24] Ray, 1989, p. 83

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- The second view was that the industry should be privatised as a single entity because of the duopsonistic position of National Power and PowerGen. A fragmented coal industry could more easily be dictated to. In reality, despite the fact that this was the option eventually chosen, RJB's coal interests remain very heavily depended on these two bulk contracts, due to expire in 1998.

- The third view was distinct from both competition arguments. British coal was in a different type of situation to the privatised utilities because it had to compete both with other fuels and foreign coal.

The National Coal Board was established in 1947 to own and operate Britain's mines as an early part of the incoming Labour Party's programme to nationalise basic industries.

It was the Conservative Government under Mrs Thatcher which decided in 1989 to reverse the process, despite bitter memories of the Miners' Strike of 1984-85 and public sympathy for the mining communities generally. This bitter strike was principally a political conflict between the unions and the Thatcher Government, but the ostensible reason for the strike was the rapid rate of closure of inefficient collieries, the National Union of Mineworkers (NUM) lost its fight, but the Government paid a heavy financial cost - NCB's deficit ballooned to some £ 2 ¼ billion in 1984-85.[25] The Strike also had an knock-on effect on the power and steel industries. Indeed, these costs became much greater when miners' redundancy payments and social subsidies for the areas affected by the closure programme were added in. Arguably, the costs were so great and the dispute so acrimonious because inevitable change had been delayed for too long.

[25] Vickers and Yarrow, 1993, p. 332

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The coal industry was not to escape privatisation. Promotion of competition in the UK coal industry was the chief aim, and initial proposals were for deregulation of open-cast and licensed mines and the removal of import restrictions. The deep mine sector needed to be decentralised. In February 1987, the Energy Committee Report on the Coal Industry recommended the industry remain in public hands for the immediate future. In 1988, the Centre for Policy Studies recommended privatisation and job losses. Privatisation of the electricity supply industry would increase price pressure on the coal industry. In October 1988, N. M. Rotschild were asked to draw up privatisation plans for the industry, but a leaked report in 1991 recommended that viability would require further pit closures.[26]

Reform of the industry could however accelerate after the NUM's defeat in 1985, and so pit closures and job losses increased, raising productivity and profitability. Between 1984 and 1992, employment fell from 171,400 employees to just 52,560 - a 70 per cent reduction. Output fell by just 20 per cent however, from 88.4 million tonnes to 70.5 million tones. Productivity increased from 2.72 tonnes per manshift to 5.36 tonnes, a 97 per cent increase. Productivity rose even faster at the coal face, from 12.03 tonnes per manshift to 25.28 tonnes per manshift - a 110 per cent increase.[27]

These rises were achieved by:[28]

- The closure of less productive pits and expansion of output at the most productive ones, for example, Selby.
- The application of new technology and work practices.

[26] Winterton, J. And R., 1993, "Coal", p. 81
[27] Ibid., p. 82
[28] Ibid., p. 82

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- Increased and improved supervision, coupled with incentive schemes for workers.

- Fear of unemployment and accumulated strike debts.

In 1992, the Government announced that 31 of British Coal's 50 pits were to close. The justification was that demand has reduced substantially and productivity improved, leaving great over capacity.

Public outcry led to a compromise. Initially, just ten pits were shut down, but more followed later. Eventually, the number of closed pits totalled thirty four, some of which were subsequently reopened by private investors. Sixteen operating pits were transferred to private ownership[29] though not all of them to RJB Mining. For example, Tower Colliery in South Wales was bought and reopened by the miners who worked there.

By the end of 1994, the privatisation of the coal industry was for the most part completed. Accordingly, British Coal's English operations were sold to RJB Mining for £ 815 million. The sale British Coal's Scottish assets to Mining Scotland fetched £ 39.4 million, plus £ 5.7 million for coal stocks. South Wales' open cast workings were sold to Celtic Energy for £ 94.5 million. Taken together, revenues from the sale of mining assets amounted to more than £ 955 million. This sum will increase through the sale of ancillary businesses and property.[30]

RJB Mining has become dominant in this industry. Its production from 1995 up to 1998 is scheduled to increase to 35 million tonnes per annum, sold to the two big fossil fuel generating companies, National Power and PowerGen. However, doubts remain about long-term demand when the existing contracts expire in April 1998.[31]

[29] Hollinger, P., 1994, "RJB Ends 48 Years of Nationalized Coal", Financial Times, 30 December.
[30] Tiemann, R., 1994, "Minister Hails New Era for Coal", The Times, 31 December.
[31] Tiemann, R., 1994, "New King of Coal Rules Out A Revolution", The Times, 30 December.

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In addition, the threat posed by the cheap foreign imports is very great, particularly now that the Government subsidy has been cut. It seems unlikely that RJB's productivity will increase sufficiently to compete effectively on price terms with foreign supplies, at least in the short term.

Although the main economic objectives of privatisation were to encourage competition and efficiency, continued protection of some sort still appears necessary if RJB Mining is not to be priced out of business in 1998. The fossil fuel generators have always resented being forced to pay too much for their coal, and it will take a great deal of political pressure to prevent them taking full advantage of foreign imports when the RJB contracts expire in 1998.

There are still very substantial reserves of coal in the UK. However, the number of economically viable coal mines is limited. There is also a need for large investment in the industry for viability to be achieved when the indirect subsidies disappear in 1998. The problem is that large scale investment is unlikely to be undertaken by the private sector on the basis of short-term contracts alone. Regarding the subsidy of the coal sector, it rapidly became clear that nationalisation was doing little to improve the competitive position of the NCB, nor to arrest the decline in output and employment. Consequently, additional support policies were implemented on a piecemeal basis.

Successive governments put pressure on the power industry to buy more British coal at inflated prices. These moves required no legislation, simply ministers' "influence" on the Central Electricity Generating Board (CEGB) and South of Scotland Electricity Board (SSEB) managements to direct investment towards coal-fired stations, and discouraging these boards purchasing foreign coal. In 1981, the Thatcher Government placated the NUM by persuading the CEGB to drastically reduce its coal

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imports. Thereafter, until 1987, the CEGB was obliged to purchase no less than 95 per cent of its coal requirements from domestic pits.[32]

Further measures included a specific tax on domestic fuel oil, mitigating this oil's increasing cost competitiveness, and government grants to firms willing to convert from oil or gas to coal.

Efforts to support the industry were also made on the supply side, with concessionary loans for capital investment, undemanding financial objectives and other indirect subsidies. A "Plan for Coal" emerged in 1974 in response to the Oil Crisis. It projected an energy demand of 400 million tonnes coal equivalent by 1983, of which deep mined NCB coal would account for 120 million tonnes. An ambitious investment plan was drawn up with the aim of improving labour productivity by 4 per cent per annum.

By 1983 however, UK energy consumption had reached only 330 million tonnes coal equivalent, with NCB mines accounting for only 100 million tonnes in a protected market. In contrast, real investment expenditure far exceeded the plan - by some 47 per cent. Capacity targets were not met, and the closure of inefficient capacity was slower than anticipated. Labour productivity grew at only 2 per cent per annum. The "Plan" failed.[33]

Another important problem is the fact that EC environmental pressures are also likely to increase.[34] Complying with EC environmental

[32] Vickers and Yarrow, 1993, p. 330
[33] Ibid., p. 331
[34] For more details, see Newbery, D. M., 1993, "The Impact of EC Environmental Policy on British Coal", pp. 66-95

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legislation will prove costly, and it is doubtful whether such measures will be considered economically defensible of the basis of short-term contracts for coal supply. Of course, not complying with such legislation will also prove to be costly in terms of legal action by aggrieved parties. The Environmental Protection Act, common law, and future legislation may combine to have a potentially devastating effect on RJB Mining's balance sheet.

This is not unique to the UK of course. Experience with the privatised coal industry supports this view. Germany, as an important coal producing country in the EC, has similar problems. Even though the German coal industry is in private hands, the Federal and Lander Governments still subsidise the industry on a massive scale, directly via the "Kohlepfenning" (a levy on electricity accounts of 3.5 per cent) and indirectly via the "Jahrhundertsvertrag". The latter is an agreement signed in 1980 between the coal mining industry and the power generators to raise the supply of coal from 33 to 45 million tonnes between 1980 and 1995.[35]

The German Trade Union Organisation (DGB) resists any shift away from domestic coal use in power stations. The unions are supported by the Social Democratic Party (SPD) and the Green Party which govern in coalition in the regions of Lander Hesse and North Rhine-Westphalia, home to Germany's coal industry. More than 100,000 miners in North Rhine-Westphalia force the SPD to compromise with the DGB for further subsidy of domestic coal through its use in power stations.[36]

[35] Lippert, B., Stevens-Strohmann, R., Gunther, D. and Woolcock, S., 1993, "Case-Study: the Energy Sector", p. 80

[36] See, Dempsey, J., 1995, "Decision Time for German Energy", Financial Times, 9 February

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As a result, it may be said that there is uncertainty in the coal sector, and this is unlikely to lead to an effective long-term strategy. In the UK, it may be concluded that the emphasis on market forces, competition and privatisation has succeeded in contracting the industry to a more economically viable size.

Apart from this, coal retains a large share of the electricity generation market, based on contracts which expire in April 1998. Beyond this, whether RJB can succeed in re-negotiating new contracts for subsidised domestic coal is uncertain. RJB's future as a coal producer would be put into serious doubt, should "cost plus" contracts be unforthcoming.

Naturally, there is also the issue of maintaining a strategic energy reserve for the UK, but this argument finds little favour nowadays due to the UK's supplies of oil and gas, and the perceived security of Europe - justified or not. Oil and natural gas resources are of course finite. However, recent discoveries of reserves in the North Atlantic have extended the horizon of the UK gas and oil supply.

This brings us to the important issue of energy policy as a whole, not just for the UK, but the world as a whole. The world's current energy policy has led to too great a dependence on oil and gas, much of which lies in regions of unstable government such as the Middle East and Russia.

In terms of costs and benefit then, coal loses out for the time being to oil and gas, but should the supply of these diminish and their cost increase sufficiently, then the UK will be well placed to supply her massive coal reserves profitably on the world market. Coal may well prove to be the "fuel of the future" and a valuable source of hydrocarbon feed stock. The UK's current energy policy may therefore prove its efficiency in the long-term.

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The need for a long-term strategy remains and is becoming more pressing. Energy, a basic commodity, must be priced reasonably and have long-term security of supply. Also, environmental pressures make new technologies and methods of using energy essential. The past forty years have demonstrated that a desirable and consistent energy strategy cannot emerge from a regime of public ownership or a regime of privatisation. A degree of state intervention cannot be avoided, and a large scale of operations in some instances verging on monopoly may be efficacious.

What is needed, based on past experience, is a clearly defined buffer between the state and the energy sector. This buffer is starting to develop in the form of the regulatory regimes for electricity and gas. However, the concept needs to be refined.

A new and common body to supervise energy is needed. In the White Paper the Government stated that the aim of their "energy policy is to secure diverse and sustainable supplies of energy in the forms that businesses and people want, and at competitive prices". These are desirable objectives, but there should also be conformity with environmental requirements. As a result of all these, it can be said that the energy policy of the UK is short-term in nature. Regarding the future of the coal, a long-term view must be taken with increased emphasis on security of supply. This may be achieved with the UK's substantial reserves of coal and the adoption of a more gradualist solution.

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5.2 The Coal Sector in Turkey

5.2.1 Historical Background

Turkey's energy related mineral base is great, with many proven and potential reserves of coal. Nevertheless, full development of this resource will require a programme of expensive exploration and capital investment. Up to the end of the 1970s, successive governments considered public sector involvement to be the best means of ensuring the comprehensive development of the Turkey's mineral resources. As a consequence, Turkey has developed integrated industries in coal, iron and steel, aluminium, copper, zinc and has become self-sufficient in cement and other construction materials. Furthermore, Turkey has developed a very lucrative export industry in boron minerals and chemicals, chromate and ferrochrome, emery, magnesite and strontium.

Although mining in Anatolia dates back as far as 6,000 BC[37], Turkey's present day mining sector was not developed seriously until 1935. As mentioned in Chapter IV, the exigencies of war and depression led the Turkish Government to introduce the étatist economic policy during the 1930s. Consequently, the 1930s witnessed the increasing intervention and involvement of the Turkish state in all sectors, but particularly in mining.

As part of this policy, the Turkish Government enacted laws creating and defining the rules of a state Institute for Mineral Research and Exploration, (MTA) and a public corporation (Etibank) with special interests in mining and electricity generation.[38]

From the mid-1930s, both of these institutions became important players in the development of Turkey's mining industry. MTA was created in

[37] For more details, see T.C. Enerji ve Tabii Kaynaklar Bakanlığı, 1993, "Madenciliğin Ülke Ekonomisindeki Yeri ve Önemi", pp. 2-3

[38] Akben, F., 1985, "The Mining Coal Sector of Turkey", pp. 4-5

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1935 and was empowered to conduct scientific exploration of the natural reserves for both public, and private companies. This institution assumed the role of both a national geological survey and a mineral exploration agency. Etibank, also state-owned, was created in 1935. Initially, Etibank's primary objective was to develop the mineral resources of the nation and to generate and distribute electricity.

The performance of both mineral extraction and electricity generation and distribution eventually proved too burdensome for Etibank, so the company was restructured. Accordingly, in 1955, the Divriği iron ore mines were transferred to the newly created integrated iron and steel enterprise, and in 1957, coal production was transferred to the Turkish Coal Board (TKİ). Finally in 1970, the electricity generation and distribution interests were transferred to the Turkish Electricity Board (TEK).[39]

The Turkish Coal Board was created in 1957 to operate the hard coal mines of the country. It also became the major producer of lignite. By the late 1970s, only a number of small scale private coal enterprises remained.

Turkish public companies maintained their dominant position in the coal sector. Moreover, the Nationalisation Law enacted in 1978 strengthened further these public companies. World War II had led the Turkish Government to attach increasing importance to mining activity in order to safeguard and expend the strategic reserves of this vital commodity. After the War, the mining industry retained its privileged status. A new Ministry of Energy and Natural Resources was established in 1964 with jurisdiction over the whole of Turkey's mining industry. The Ministry's primary objective was to maximise exploitation of the resource base as rapidly as possible, regardless of whether this was achieved by the public, private or foreign sectors.[40]

[39] Ibid., p. 5
[40] Ibid., pp. 3-4

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During the 1960s, growth in mineral based industries, stimulated exploitation of raw materials. These investments were made mainly by the State Economic Enterprises (SEEs). While the private sector's share of total fixed investment approached that of the public sector, the share of private sector capital in mining amounted to just twenty five percent of the total.

The Third Five Year Development Plan for the period 1973-77 called for a rapid increase in the production and export of minerals by both the public and private sectors. However, these targets were not achieved due to the global economic instability of the 1970s.[41]

Turkey was facing a mounting bill for imports, particularly oil, yet experiencing declining demand for its exports, particularly minerals. Consequently national policies relating to mineral production were revised. There were also some incentives to encourage investment in the mining sector by either foreign or private Turkish companies. Nevertheless, economic conditions in the mining sector remained unfavourable.

The stabilisation programme of 1980 brought a new export orientated industrialisation strategy. This programme constituted a turning point in the economic history of Turkey because it was the foundation for the radical policy changes to come. Thus, as part of the effort to reorientate the Turkish economy and to encourage foreign investment, the Government repealed the Nationalisation Law of 1978 and revised the 1954 Mining Law in order to make them comparable with modern mining legislation in other countries.[42]

The decision to open the Turkish mining industry to foreign investment was intended to facilitate even more rapid development. Turkish private companies have recently been seeking foreign partners to develop or upgrade their mining operations.

[41] Ibid., p. 3
[42] Ibid., p. 3

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Since 1980, various measures have been implemented to encourage the influx of foreign capital, such as the creation of the Foreign Investment Department within the State Planning Organisation. Most important are the following two principal laws regulating the mining industry of Turkey.[43]

- The Mining Law 3213 was enacted in 1985 and has since been amended three times. It regulates mineral exploration, development, extraction and distribution.

- The Foreign Investment Law 6224 governs foreign investment in Turkey. The provisions of this law are set out in the Framework Decree on Foreign Capital 8/168, issued in 1980. This is the basic legislation governing foreign investment in Turkey. The law applies to all fields of investment with the exception of the petroleum industry and service industries.

The commercial extraction of coal in Turkey dates back well into the nineteenth century. It was in 1829 that a soldier, Uzun Mehmet, began in ernest the extraction of coal for profit on a large scale. His find was accidental, and the incumbent Sultan Mahmut II was shrewd enough to appreciate the importance of the find. As the Ottoman Navy was converted to steam, so abundant coal reserves to fuel it became increasingly important.[44]

The increasing use of steamships alone led to much of the expansion in demand for coal in the late nineteenth century Ottoman Empire. Domestic coal production was unable to meet the increased demand, so it became necessary to import coal from European countries, such as Germany and Britain.

[43] Ibid., pp. 7-10

[44] Quataert, D.,1983, "Social Disintegration and Popular Resistance in the Ottoman Empire, 1881-1908: Reaction to European Economic Penetration", p. 45

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Approximately one-third of all coal consumed in Turkey was used by the navy and armaments factories. Aside from this, the developing Ottoman Railways also consumed an increasing proportion of coal output.

Mineral rights for coal extraction (as with other minerals) tended to be concentrated in foreign hands, mostly British, French and German. For example, Zonguldak and Ereğli coal fields which still make up virtually the whole of Turkey's hard coal deposits were operated by the French and the Ergani copper mines by the Germans, until the wholesale nationalisation in 1923 by the newly formed Turkish state.[45]

In 1911, over two-thirds of mineral production by value was derived from foreign owned mines. Due to financial and technological weakness, the activities of domestic companies in the mining sector was limited.[46] Copper, chromate and coal, of which deposits were abundant, were regarded as the most important minerals during the Nineteenth Century. A market for them was furnished by the developed Western powers. Due to the advantages of the geographical proximity and the availability of convenient transportation by water, each of these European countries endeavoured to maintain control over the Ottoman minerals. As a result, these valuable minerals were extracted usually for export on unfavourable terms.

The Sultans of the Ottoman Empire were interested only in the short-term profits from the sale of this valuable mineral resource. The state neglected to make any effort to industrialise using domestic minerals as a basis for the expansion of production.

[45] Wålstedt, B., 1980, "State Manufacturing Enterprise in a Mixed Economy: the Turkish Case", p. 73

[46] Hale, W., 1981, "The Political and Economic Development of Modern Turkey", p. 36

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5.2.2 Policy Developments in the Turkish Coal Industry since 1923

In the period following the foundation of the Turkish state (1923), Turkey's economic development was accompanied by a rising demand for energy. Significant expansion in coal demand was evident in both the industrial sector and the domestic markets. In particular, this is illustrated by massive growth in the steel industry, construction industry and domestic heating requirements. Consumption of coal for domestic purposes in 1988 reached 21 million tonnes with a small volume of overseas deliveries. Chief supplier was the former Soviet Union, with smaller volumes from South Africa.[47]

Hard coal in Turkey contributes approximately 9.4 per cent of primary energy consumption with brown coal accounting for 17 per cent. Hard coal production in 1988 amounted to 3.25 million tonnes with imports of 4.7 million tonnes. Brown coal production in 1989 rose by over 18 per cent to 42 million tonnes. Lignite is more abundant than coal, but its calorific value is lower and it is more prone to air pollution. However, it is a perfectly practical fuel for power stations. The use of modern technology will certainly enable Turkey to exploit its substantial coal reserves efficiently and with environmental efficacy.[48]

Turkey lies fifth in the ranking of European lignite producers. The current output is over 22 million tonnes. By 2000, output should reach 52 million tonnes. Some 45 per cent is used for power generation, 30 per cent for household fuel and 18 per cent for industry. Coal-fired power stations currently in operation total only nine, and all are lignite-fired except for one at Çatalağzı.[49]

Over time, Turkey's energy policy has embraced various resources. Turkey maintains an energy policy directed at diversity of supply based

[47] Mining Annual Review, 1988, p. 422
[48] Metals & Minerals Annual Review, 1990, p. 119
[49] Mining Annual Review, 1988, p. 422

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on hydroelectric, thermal, and fossil fuel resources. Energy imports, largely from Russia, account for about one third of overall consumption. As far as it is known, Turkey is the only Near Eastern country in possession of substantial coal reserves. Turkey's overall coal reserves are estimated at 6,500 million tonnes, many years worth of supply even at projected consumption levels.[50]

In addition to coal, there are also abundant lignite reserves. However, lignite is a low-grade fuel with high sulphur, ash and moisture contents, making it unsuitable for domestic use, and particularly prone to pollution. Nevertheless, lignite is used as a fuel for power stations which now require more environmentally acceptable technology.

Apart from these solid fuel resources, Turkey also has an immense hydro-electric generating potential. Hydro -power will become more important as demand and environmental pressure increases. Construction of several new dams on the Tigris and Euphrates basins will be completed within the next decade. These projects are known collectively as the "South East Anatolia Project" (GAP).[51]

Oil is the one important source of energy in which Turkey is notable deficient. Her known commercially viable reserves are almost entirely confined to Siirt province, in south-eastern Anatolia, and meet only a tiny percentage of her current consumption.

[50] Metals & Minerals Annual Review, 1990, p. 119

[51] GAP is one of the largest regional projects in the world with a total bill of $ 30 billion. 36 per cent of the project, including the Karakaya and Atatürk dams, have been completed so far, financed mostly by domestic sources. In November 9, 1994 a new stage will be achieved by the inauguration of Urfa twin irrigation tunnels. With a diameter of 7.6 m and a length of 26.4 km each, they will irrigate a total area of 30,000 ha. With the completion of GAP in the year 2005, 1.7 million ha. land will be irrigated and 27 billion kW-hour of electricity will be produced. GAP will rise per capita income by five times in the region and supply jobs for its 3.5 million population (Yatırım Bank, 1994, "Turkey: Quarterly Economic Report", Third Quarter, p. 2)

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The increasing demand for oil is met through rising imports. For example, crude oil imports in 1987 totalled 19.6 million tonnes, an increase of 17.3 per cent on 1986. The value of the imports increased by around 50 per cent $ 2,711 million. The state-owned oil company (TPAO) produced just 1.1 million tonnes of crude oil in the first 10 months of 1987, 13.8 per cent more than during the whole period of 1986. This expansion of output was made possible by the drilling of new wells in south-eastern Anatolia.[52]

Since the 1960s, Turkish energy policy has consistently neglected to use indigenous energy resources, such as coal, efficiently and has instead preferred other forms of energy, such as oil. This has naturally led to an increasingly worrisome dependence on imported fuel. Such policies impacted upon the Turkish economy very heavily during the Oil Crisis of the 1970s.

Indeed, during the 1973-74 Crisis, Turkey was forced to spend the totality of her export earnings only on imported oil. The balance of payments naturally deteriorated and the Government sought vast quantities of foreign capital in order to fund it.

During the winter of 1979-80, it became clear that Turkey was in the grip of a severe energy famine. By virtue of the chronic shortage of oil, as well as mismanagement in the coal industry, power was cut off in all the major cities for around 4-6 hours per day, disrupting production in factories and offices. Additionally, families shivered in their homes for lack of heating oil.

Undoubtedly, part of the energy famine was the result of the world-wide oil-crisis, something well beyond the control of the Turkish Government. However, more importantly, the famine's principal cause was the growth of energy consumption in Turkey. This was exacerbated by energy

[52] Mining Annual Review, 1988, p. 423

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policies which gave overwhelming priority to the use of oil (see Table 5.4 for the period of the first three Five-Year Development Plans in 1963-67, 1968-72, 1973-78). The 1979 Crisis was thus a mirror of 1974 in this respect.

Turkish dependence on oil quickly led to economic disaster, a situation made worse by a fall of 25 per cent in domestic oil output between 1969 and 1978. Consumption however, grew by 114 per cent in the same period. Drastic measures became necessary, and consumption was cut back by more than 50 per cent in 1979. This of course held back economic growth, exacerbating the attendant recession. Despite the cutbacks however, Turkey's oil bill remained a massive 63 per cent of her foreign currency earnings.[53]

Turkey's dependency on oil was threatening to break the back of her economy, with serious social and economic implications. Domestic crude oil production could be expanded only very slowly, and reserves were in any case limited. Cutting back consumption without damaging growth was also difficult however, since any switch into coal burning would involve high capital expenditure, which could only be funded by capital imports and would offer few, if any, short-term financial benefits.

Turkey enjoys no indigenous natural gas reserves. Since the 1980s, however, natural gas became an increasingly significant energy resource, imported chiefly from the former Soviet Union, although this could have serious strategical implications. For the time being, growth in natural gas consumption has been primarily attributed to the domestic heating sector.[54] This increasing degree of dependency on natural gas fails to solve Turkey's foreign currency problems however. A repeat of fails to solve Turkey's foreign currency problems however. A repeat of 1973 and 1979 is therefore possible. Additionally, since domestic users

[53] Hale, 1981, pp. 203-204

[54] For more details, see Dünya, 1994, "Doğal Gaz", March 7

Table 5.4 Primary Energy Consumption

	1962		*1977*		*Av. annual growth rate (%)*
	Consumption	*As % of total*	*Consumption*	*As % of total*	
Coal	2.4	19.2	3.0	8.9	1.2
Lignite	1.0	8.0	4.1	12.3	9.9
Oil	2.8	22.4	17.7	52.3	13.1
Hydro-electric	0.3	2.4	2.1	6.4	13.9
Imported electricity	-	-	0.1	0.4	-
Total commercial energy	6.5	52.4	27.1	80.3	10.0
Non-commercial[1]	5.9	47.6	6.7	19.7	0.8
Grand total	12.5	100.0	33.8	100.0	6.9

[1] Wood, animal and plant residues.

Source: DPT, 1979, Dördüncü Beş Yıllık Kalkınma Planı, p.396

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in the cities pay their bills on a dollar basis, as the price of imported gas increases, so the average household bill will rise, fuelling inflation and making the government unpopular.

Doubts remain about the security of the pipeline which runs through Russia, Ukraine, Romania and Bulgaria. The collapse of the Soviet Union has led to great political instability, threatening the security of supply of natural gas. The re-establishment of political stability in this region would appear to be along way off.

With regard to nuclear power, Turkey does not yet possess nuclear power. Efforts of the Turkish Government to contract a nuclear power station during the 1980s failed. An additional problem here is that Turkey is prone to powerful earthquakes, which might compromise the safety of any future nuclear plant.

We may therefore conclude that Turkey's energy requirements are met chiefly by four energy resources. Crude oil and natural gas, of which Turkey has very little or non at all, must be imported. Turkey is thus dependent upon the international markets to supply these two fuels.

As regards coal and hydro-power, Turkey is possessed of abundant reserves. However, these reserves, despite their strategic importance, are still not used efficiently. In order to meet the increasing energy demands of Turkey in the medium -to long- term, this imbalance must be rectified. We are however, concerned here with only coal production in Turkey. The data below shows clearly that Turkish coal production fell during the 1980s, and costs rose. This was partly a means of garnering public support for the planned privatisation of the Turkish Hard Coal Authority (TTK).

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5.2.3 The Planned Privatisation of the Turkish Coal Industry

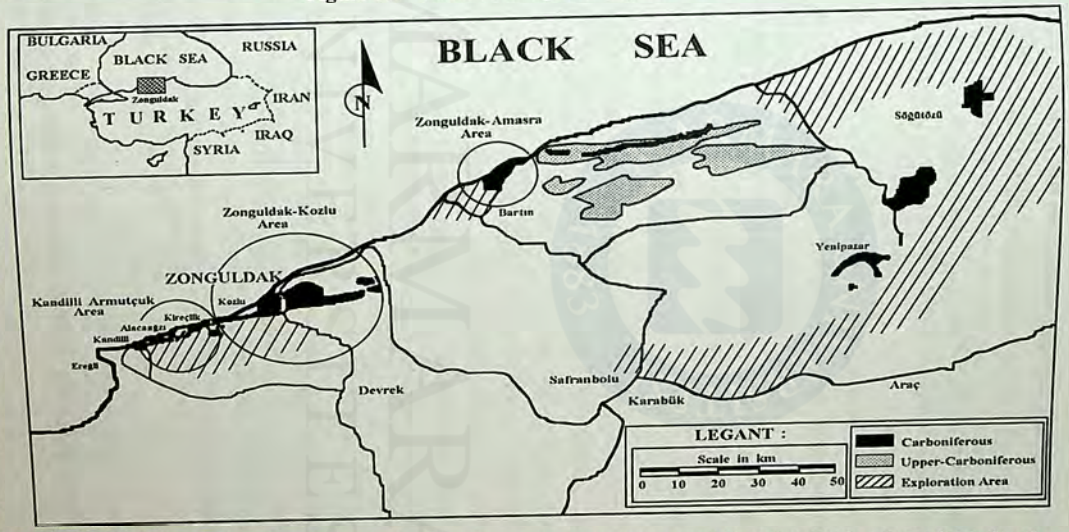
Virtually all the hard coal reserves in Turkey are within the Zonguldak basin, on the Black Sea coast in Turkey (see figure 5.1). As it has been indicated in the chapter IV (see Table 4.3), the Privatisation Master Plan of the Morgan Bank classified the TTK as one of the "second priority companies saleable only with government financial support".

The Morgan Bank contended that the TTK was probably the most difficult of all of the second priority SEEs to privatise due to the geological difficulties and poor location of its reserves. TTK's coal costs more to produce than rival imported coal from mines such as South Africa, Australia and Colombia. TTK's mines remain relatively unmechanised, so productivity is low. Overmanning exacerbates this problem. Large subsidies would therefore be necessary to make TTK more attractive to investors, in addition to freedom to make heavy redundancies.

The Morgan Bank Master Plan analysed and prioritised the SEEs, such as the Turkish Coal Authority, on the basis of two criteria: "economic viability" and "investment needs". Accordingly, the Master Plan concludes that TTK is not economically viable. The Morgan Bank arrived at this conclusion by using a "viability matrix" which consisted of certain economy criteria (Table 5.5).

The Morgan Bank concluded that the Turkish Government should close the coal mines of Zonguldak since private investors would not be interested in TTK unless there was a far reaching modernisation programme, which would involve high capital expenditure. The Turkish Government has displayed indifference to the prospect of taking over the financial burden of modernising TTK before privatisation. This

Figure 5.1 Location Map of Zonguldak Coalfield.



Source: Güney, M., 1967, "Underground Mining Operations in Zonguldak Coal Mines", in Bulletin of the Mineral Research and Exploration Institute of Turkey, No.68, April, p.92

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Table 5.5 Economic Viability Matrix for the TTK

Is the company economically viable ?	No
1. Expected Demand Relative to Supply	High
2. Quality of operations	Low
Quality of Products	Medium
Cost Competitiveness	Low. Domestic steam coal is not competitive internationally. TTK's labour efficiency is very low, with an estimated 200 Kg. of clean coal/man hour.
Quality of Assets	Low
*Mines and Plans	Frequent folding and faulting of mine seems prevent mechanisation. Steep slope and thickness of the seams make only 19 per cent of the present proved reserves economically exploitable. Frequent rock falls due to poor roof conditions have led to a high accident rate. Equipment is old, inefficient, and suffers from poor maintenance. No pollution control equipment (wastes are dumped into the Black Sea).
*Coal	High reject rate from r.o.m. coal because of the close specific gravity of coal and ash resulting in high ash content of the saleable coal (13 per cent).
Operating Rates	Low
3. Profitability	Very Low reported margins. Negative inflation adjusted operating profit over Invested Capital *after* subsidies.

Source: The Morgan Bank, 1986, "Privatization Master Plan (Summary and Discussion of Methodology) ".

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is shown clearly by the low levels of investment since 1989. As a consequence, Etibank, the state banking and mining company, is one of the most profitable SEEs with a 100 per cent increase in profits in 1989, whereas TTK was the biggest loss maker TL 156,666 million in 1988 and TL 369,149 million in 1989.[55]

Since the mid-1980s, the Zonguldak mines have been at the top of successive governments agendas. During that time, discussions among experts, academics and concerned institutions (such as political parties, trade unions, chambers of industry and commerce etc.) have concentrated on the issue of whether or not "coal production in Zonguldak should be stopped".

Those who support the closing of coal mines prefer imported coal as it is cheaper than domestic coal. In this way the Government reduces the subsidies it has to pay to maintain Turkey's coal industry, though of course this also has an adverse effect on the balance of payments. The same proponents claim that the unemployment created by closing the Zonguldak mines could be absorbed by encouraging new private investment into the area and introducing a programme of re-training and education.[56]

Those who oppose the closures, however, acknowledge the problems of TTK but resist the closure nevertheless. These commentators believe that the problems of low productivity and profitability of this state-owned company may be solved by a more committed and purposeful approach by those institutions concerned.

[55] Mining Annual Review, 1990, p. 146

[56] See for example, Viya, 1992, "Aslında İyi Niyet Yok" (An interview with one of the outstanding businessmen), No. 3, pp. 14-19

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For example, Professor Arıoğlu says that the basic factors which are responsible for the low performance of TTK are as follows:[57]

- **Lack of a national policy for hard coal production**

  This hinders the achievement of the maximum hard coal output level.
  Secondly, important investment programmes have been neglected or abandoned.
  Thirdly, there has been little or no co-operation between TTK and Turkey's iron and steel industry.
  Fourthly, obsolete technology has only served to exacerbate the already complex geological problems of the region.
  Finally, lack of investment in exploration has held back discovery of new resources.

- **supine management**

  Overmanning has reduced the productivity and the reliability of output.
  Management authority has broken down, and central government dictates prices regardless of market conditions at any one time.

- **Inadequate investment in research and development of new extraction technology**

  This has led to an increased number of accidents, increased production costs, and poor coal washing efficiency.

[57] Arıoğlu, E., 1994, "Zonguldak Kömür Havzası Gerçeği".
For more details, see, Arıoğlu, E., 1996, "The Evaluation of the Zonguldak Coal Enterprise/Turkey", published in this book.

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Arıoğlu opposes the views of those who advocate closures in Zonguldak with a number of assertions which include the following:[58]

- By using the Purchasing Power Parity of the Turkish Lira against the US Dollar rather than the free market exchange rate, Arıoğlu finds that imported is in fact cheaper than the domestically produced coal by a factor of between1.2 and 1.4.

- Since the 1980s, the Turkish Government has deliberately held back production of hard coal at between 2.7 million and 3.5 million tonnes per annum, when the maximum output level is estimated by Arıoğlu at around 10 million tonnes per annum.

- Also the opponents of the TTK criticise the company for the overmanning of coal mines in Zonguldak. This overmanning was created for the purpose of political support of successive governments between 1950 and 1980. This had a negative impact of productivity in this sector which subsequently led to an increase in the cost of output.

Arıoğlu explains this increase in output cost as the result of a relationship between the total number of employees and the number of those underground. In the 1980's, the number of employees was reduced as a consequence of retirement and redundancy payments which were a result of the privatisation process. However, this did not alter the problem of not enough employees underground in comparison with too many above ground. For example, in 1983, the total number of employees was 38,652 of whom only 60 per cent were working underground. In 1986, there were 36,557 employees in total, yet again only 60 per cent below ground. In 1989, there were 35,492 employees of whom 62 per cent were underground. In those years the output was 3.54 million tonnes/year,

[58] Ibid.

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3.52 million tonnes/year, and 2.789 million tonnes/year respectively. (In 1993 and 1994, the number of miners who lossed their jobs reached 9,402 - mostly underground workers. This mismanagement led to an increase in the deficit of miners underground which has amounded for 2,400 in 1995).

According to Arıoğlu, if these mines had been working at proper efficiency they could potentially have produced an output which was three times greater. He argues that the high cost per tonne is not the result of workers' "high wages", but is instead caused by low productivity. Arıoğlu's conclusion is that there is a deficit of workers underground and an excess of workers above. This needs a new form of management free of government intervention.

Additionally, both groups have developed various projects for changing the monopoly structure of Zonguldak economy based on the coal sector. These projects have been scheuduled mainly for a development of other industry sectors in Zonguldak, such as Filyos Project. However, the important difference is that the group, which supports the closing of coal mines, offers their projects as a alternative to stop coal production. The other group also wishes to develop their projects, yet still maintain the existing coal mines[59].

[59] See, for example,
-DPT, 1990, "Zonguldak İli Raporu: Sosyal ve Ekonomik Durum, Sorunlar ve Öneriler";
-Türkiye Kalkınma Bankası, 1991, "Zonguldak ve Bartın Uygun Yatırım Alanları Araştırması";
-Genel Maden-İş Sendikası, 1992, "2. Zonguldak Kurultayı: Sorunlarımız ve Çözüm Önerileri";
-Eraydın, A., 1993, "Zonguldak Krizi'nin Işığında ve Havza Kalkınması Açısından Mevcut Durum Değerlendirilmesi: Sektör/Mekân Boyutları İle Kaynaklar, Potansiyel, İhtiyaçlar";
-Aysan, M. A., 1993, "Türkiye Taşkömürü Kurumu (TTK): Kapatma, Özelleştirme, Rehabilitasyon Yaklaşımlarındaki Temel Görüşler, Değerlendirmeler, Önlemler";
-Katırcıoğlu, E., 1993, "Zonguldak Bölgesi ve TTK ile İlgili Politika Önerileri".

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5.3 Summary and Conclusions

In this Chapter, we have dealt with the energy sector both in the UK and in Turkey, with special emphasis on their respective coal sectors. From the mid-1940s to the early 1980s, the UK's nationalised energy sector provided the goods and services on which the rest of the economy depended. Yet, successive Conservative Governments had by 1994 privatised the whole of the UK's energy sector with the exception of the nuclear industry. The bulk of the economic activity in the electricity, gas and coal industries had been placed in the hands of public corporations which had, to varying degrees, been protected from competition by statutory monopolies. Only in oil has the private sector been allocated the major role from the beginning, yet even here, public policy has had a pervasive influence on the evolution of the industry.

Even before the privatisation programme, however, the structure of the energy industries was far from static. In the late 1940s and early 1950s primary fuel supplies were largely drawn from the coal industry. As well as being the principal source of energy for domestic heating and for many of the nation's major industries, coal was the basic input for both the generation of electricity and the production of gas. During 1950s and 1960s however, this picture changed somewhat as relatively cheap imported oil became more readily available. Petroleum products gradually increased their share of domestic consumption of primary fuels until the early 1970s, by which time they had overtaken coal as the UK's principal source of energy. Since 1973, relative demand for both oil and coal has fallen, to be replaced by natural gas and to a lesser degree, nuclear energy.

The discovery of North Sea oil and (most importantly) natural gas has had a profound effect upon the UK energy sector. Indeed, had it not been for the North Sea reserves, the UK coal industry would very probably have thrived in the aftermath of the Oil Crisis. The issue of UK coal as a strategic reserve will be dealt with later in this research. The emphasis

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upon market forces, competition and privatisation has clearly put increasing downward pressure on the British coal industry. The proponents of privatisation considered that competition would lead to the most beneficial and efficient allocation of scarce resources. As far as the energy industries in the UK are concerned however, it is difficult to see whether this aim has been met. The privatisation in 1992 exacerbated the pressures on the coal industry: indeed the privatisation of British Coal in 1994 was of secondary significance to its contracts with the electricity generators.

With regard to energy industries in Turkey, much of the energy sector was dominated by foreign companies during the Ottoman Empire. After the foundation of the Turkish state in 1923, the Government nationalised these. However, from the 1980s onwards, as a consequence of changing economic conditions in the post-war period, successive Turkish Governments began to attach great importance to attracting foreign investment. This policy has largely succeeded. The Turkish energy sector is currently being prepared for privatisation and an injection of foreign capital. Turkey remains heavily dependent however, upon foreign energy supplies, notably from Russia and OPEC.

The Oil Crisis of the 1970s had a very negative impact upon the Turkish economy, compelling the Government to divert precious foreign exchange into oil purchases on a massive scale. The 1980s saw proposals for privatisation of Turkey's coal reserves, but more recently, the formidable capital investment required to make state mines attractive to private investors has brought the Government to the view that perhaps closure of some of the Zonguldak pits may in fact be preferable to wholesale privatisation, since imported coal is anyway much cheaper. However, opponents of these policy claim that Turkey needs its coal industry on strategic grounds because it does not possess the UK's oil and gas reserves.

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Chapter VI

Summary, Conclusions and Recommendations

- Both in the UK and Turkey, nationalisation was necessary in the aftermath of the World War II and the Depression, and the War of Independence respectively. By the 1970s however, economic and political opinion was changing. UK government policy, by 1979, had abandoned the post-war Keynesian consensus and moved instead towards the Monetarist viewpoint, advocating large reductions in the role of the state in the national economy. Privatisation symbolised, and was an indispensable part of this policy. Whilst the UK led the way in privatisation initiatives, many other nations, including Turkey, have seen the potential benefits of this economic philosophy.

- Privatisation per se is no panacea for inefficiency however. It must be accompanied by an effective regime of competition (where this is not prevented by natural monopoly), liberalisation of the market structure, and regulation. This has certainly been the experience in the UK, where the regulatory agencies (such as OFWAT, OFGAS, etc.) and the competitive regime have come in for some criticism. For example, the regulators of the natural monopolies of water, gas and electricity have been criticised for permitting monopoly profits in low risk sectors, and not effectively directing investment into priority investment projects (such as water supply infrastructure). Whilst the

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UK's natural monopolies have been split up into many regional companies, these companies do not compete with one another and prevent new entrants coming into the market.

- The market structure of privatised industries must also be liberalised, though this is not always beneficial (as in the case of the UK bus industry, where excessive deregulation proved disastrous). Liberalisation can sometimes encourage firms to erect protective market barriers, so market structure reforms must be effectively regulated by agencies with sufficient power and independence to act in the consumer interest. There is a feeling in the UK that some of these agencies have neither the power nor political independence to achieve this important aim.

  Effective regulation is particularly important where natural monopolies are concerned, for here, privatisation alone may simply result in monopoly positions being more effectively exploited, to the detriment both of the consumer and the economy as a whole.

  In the UK, the learning process in this regard continues, but the broad principle of the British regulatory regime can be commended. In Turkey no such regime yet exists. If such measures are not adopted, the Turkish government will simply turn a "public monopoly" into a "private monopoly", and a valuable opportunity will be lost.

- Privatisation revenues have become an easy short-term solution to Turkey's budget deficit problems, given the political difficulties of tax reform (indeed of tax enforcement), spending cuts and obtaining foreign credit. The privatisation programme began with more high-minded objectives, such as increasing the nation's economic efficiency, but its degeneration into such short-termism may be

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detrimental to Turkey's long-term economic goals. Only fiscal structural reform will remedy Turkey's chronic debt problem. Indeed, this outcome was precisely that which the Morgan Bank Master Plan sought to avoid, listing reduction of the short-term PSBR as the lowest of its fourteen objectives. In this respect, Turkey's experience is similar to that of the UK.

- One of the major barriers in Turkey to implementing a privatisation programme successfully has been the lack of a developed capital market. The difficulty has been that the Istanbul Stock Exchange (İSE) is a very new institution and few people are accustomed to this form of transaction. The İSE began functioning in its present form at the end of 1985, with full operations commencing in January 1986. Since then, it has developed quickly.

  However, the İSE is short of capital, so short in fact that the market does not have the capacity to absorb the privatisation on the open market of too many SEEs. Reform of Turkey's capital markets is therefore essential, along with sufficient time to allow confidence in these markets to grow, both domestically and abroad. Fiscal prudence and lower inflation are just two of the many measures necessary to achieve this end, along with the expansion and improvement of the personal savings industry.

  The participation of ordinary people as well as medium sized and large private businesses should be actively encouraged, perhaps by the use of tax incentives and certainly by improving economic stability and the availability of effective legal redress in commercial transactions of this kind. The development of mutual funds, unit trust schemes and similar financial instruments would aid this process.

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High inflation is the principle impediment to savings growth however, with savers relying primarily on gold as a store of value and many others preferring to spend their money rather than SEE its value fall in real terms on bank deposit. However, an effective stock market could benefit from inflation once investors believe that quality shares are often a better hedge against inflation than property or gold. Empirical evidence in the UK certainly bears this out, with equity prices consistently outperforming property and precious metals over the long-term.

- Privatisation can be implemented under different legal and institutional structures depending on the prevailing economic and political conditions in a country. It is important that any privatisation programme is accompanied by fundamental structural reforms in the economy, and with an effective regulatory framework and market structure to foster a competitive environment.

A successful programme requires a firm legal foundation and the organisational and institutional capacity for the execution of the programme. Resistance to privatisation is always a phenomenon of the middle management of the publicly-owned companies, the bureaucracy and the ministers who use the companies as part of their political power base. All these groups have a vested interest in the status quo and will do everything in their power to delay if not stop the privatisation. This has been the case in Turkey, but less so in the UK.

The legal framework for privatisation in Turkey is ambiguous. There are three separate and partially contradictory Decrees governing the process. This has been exacerbated by frequent changes at the top of

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the Turkish Privatisation Administration and widespread criticism of its operations. In the UK, by contrast, there was a consistent political will to privatise on clear lines throughout all the privatisations, regardless of changes at the top of the Department of Trade and Industry. Each privatisation was effected by a separate Act of Parliament, the political motivation behind which remained strong and unswerving.

- The trade unions opposed privatisation. The most important reason for their opposition was that the sell-offs often resulted in plant closures. Paradoxically, the workers themselves rarely shared their union's concern, tempted as they were by employee share option schemes and large pay increases for those lucky enough to remain in work.

  Union resistance may be overcome by compromise however. Employees' interests in the publicly-owned companies may be protected. Firstly, employees may be given financial incentives on the UK model to support a sell-off, and secondly, assurances may be made not to lay off too many workers at first, though this would of course reduce the price that potential buyers would be prepared to pay.

  Another measure that might be taken is the establishment of education programmes for the young workers made redundant by privatisation - retraining them to work in new industries. Indeed, this could have a beneficial impact on the economy as a whole, contributing to improvements in productivity and national literacy rates. Older workers could be retired on favourable terms with an option to retrain if they wished.

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Unfortunately, privatisations thus far have failed to offer any of these incentives or provisions, and have therefore resulted in social tension and increasingly vehement opposition. Some argue that it is unreasonable to expect workers to be able to afford to buy shares, but this problem may be overcome at relatively low cost by offering workers free shares or perhaps reduced price shares on favourable credit terms. The social benefits of such a scheme could more than compensate for the short-term economic cost.

In accordance with Act No. 3291 of 1986, privatisation is to proceed either through a tender offer of shares or through sales offers direct to the public, where shares are to be offered first to privatised enterprise employees, then - in order of priority - to domestic investors, Turkish workers abroad, and lastly to any other investors. The Government has never taken this second option seriously however. Instead, it has always been more interested in the foreign exchange earnings to be gained from the sale of SEEs to foreign companies and joint ventures. Where the Government has chosen the public share offer route, it has often ignored its own order of priority of allocation. In these cases, the courts have compelled the Government to observe their allocation procedures and renegotiate the sales.

Also, related to the issue of job security was the government's creation of a third category of SEE employee - the "contract worker". These contract workers enjoyed neither the right to unionise of the old "worker" category, or the job security of the old "civil servant" category. Decree No. 233 of 1984 and No. 308 of 1989 prevented such workers from engaging in political activities, and made possible their niring and firing virtually at the discretion of SEE managers. Under these conditions, it is logical for trade unions to oppose privatisation.

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As the privatisation programme has gathered pace, unions have suffered a marked decline in their membership. Some workers have been lost and others have become subject to contract worker legislation. The conflict between Government and trade unions can be minimised through a programme which includes job security assurances or, if this is not possible, as in the case of coal, education initiatives for the young.

Until now the Turkish unions' fears for job security have been justified. Even the SEEs which were operated profitably before privatisation, increased their profit after sale by large reductions in manpower. This may be a good thing in the economic long-term, as it has been in the UK, but the process has had a damaging effect of the cohesion of Turkish society and political stability. The privatised SEEs have not yet produced real wage increases for their workers, and the poor job security offered to contract workers encourages a feeling of dispossession even among those in work.

To the unions' credit, they have stopped demanding that privatisation should be stopped, and instead now discuss how best to effect the process. The exception here of course is the coal industry, but otherwise, union opposition may be placated with small concessions in their direction, for example, fewer sales to foreigners and improved job security.

The UK's experience with union opposition to privatisation bears little resemblance to Turkey's because in Britain, the unions were not only weakened by legislation, but faced a strong, stable and determined government, and had lost both public support and many of their members. UK unions in short, posed little threat to societal

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cohesion during the 1980s and 1990s. Unlike the UK, Turkey lacks the stability and political will to enable it ignore the unions. However, it must be emphasised that the achievement of the privatisation programme does not depend wholly upon relations with the trade unions.

- In the course of privatisation in Turkey thus far, the sales of national assets to foreign investors at bargain prices has come under heavy criticism. The tender offer of some SEEs to foreigners has brought strong opposition from concerned institutions and persons (such as opposition parties, trade unions, and academics) particularly in the cases of Çitosan and Usaş. This policy has caused a great deal of unfavourable comment on the subject: "privatisation or foreignisation?" Determining the national interest must be considered on a case by case basis. To ensure that the companies' continued independence is guaranteed, the Government may require chief executives to be Turkish nationals and may restrict foreign ownership in companies where defense or security interests are at stake.

British merger policy (which applies as much to newly privatised companies as to other other large firms) adopts an informal and liberal approach to the foreign ownership question. The UK, unlike Germany, has no legislative restriction on foreign ownership, adopting instead the system of referals to the Monopolies and Mergers Commission (MMC), which has power to allow or prevent foreign takeovers from going ahead. Experience in the UK shows, however, that the MMC is mostly unwilling to prevent foreign takeovers, even in such industries as electricity distribution (SWEB) and motor manufacture (Rover). This laissez-faire approach may be unsuitable

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for Turkey of course, and a more European way of regulating mergers and sales of nationalised companies may be preferred (that is, a system more like that which prevails in Germany, with quantitative restrictions on foreign share ownership).

- Popular support for the privatisation programme is crucial. It was never particularly popular in the UK. The public must be kept well informed about the progress of the process. In other words, the public's support is necessary to secure the continuity and the successful implementation of the privatisation programme. In Turkey, the public was not offered a clear and comprehensive account of the privatisation programme or the economic arguments that drove it.

  Neither the Master Plan prepared by the Morgan Bank, nor the other foreign consultancy reports were discussed in the press or similar public platforms. It is indeed difficult to understand why these reports were kept from the appropriate persons and institutions. Furthermore, the veil of secrecy that shrouded the cost of those reports led to a proliferation of speculative comment in the Press. It was possible to gain only a limited amount of information from the publications of the State Planning Organisation and from summaries of the Morgan Bank Master Plan. This is why it is important for the Privatisation Authority to be more open to the public, to be "transparent" in executing its remit. Interestingly, such criticisms are made not only by the trade unions which oppose privatisation, but also by business organisations who support the principle of privatisation, for example, Turkish Industrialist's and Businessmen's Association (TÜSİAD).

- The energy industries, with the exception of oil, were monopolies, and of course, one of the "commanding heights of the economy". The

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success of this sector was therefore of crucial importance to the UK economy as a whole. In 1947, the NCB was the largest employer of labour in the Western world. A similar picture is seen by Turkey. Moreover, the coal sector is especially important because of its link with steel manufacture.

The UK coal industry no longer enjoys such strategic importance and may no longer be fairly described as a commanding height industry. Coal suffered a demand crisis during the 1980s. This diminution in coal's economic and political importance facilitated the Conservative Government's restructuring programme, though it was nevertheless the final energy sector industry (except nuclear, a special case) to be privatised.

Whether the 1994 privatisation has improved coal's fortunes in the UK is uncertain. Until existing contracts expire in 1998, no-one will know for definite. Increased productivity and profitability have yet to make the UK industry internationally competitive. Privatisation of the electricity generation industry in 1992 exacerbated the pressure on coal. In coal's case, the threat of precipitous price falls has been the main force behind productivity improvement, not privatisation per se.

If the UK coal market becomes truly free, only massive further productivity gains will save the industry. This discussion is of prime importance to the debate in Turkey. Privatisation without restructuring and market liberalisation will not be enough, but this requires political will - a scarce commodity in Turkey. The UK example is therefor e a salutary warning to the Turkish coal industry - contraction and upheaval in some manner or form will be inevitable.

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- As far as the energy sector is concerned, the parallels between Turkey and the UK are less easy to draw. Whilst it is true that the UK has successfully privatised its entire energy sector (with the exception of nuclear power), it has been able to do so without regard to the strategic concequences of so doing, in that it possesses not only large reserves of oil, gas, coal (and if necessary hydro and wind power), but large foreign currency earnings which may be used to import energy in a crisis.

  Turkey possesses none of these except coal, the extraction of which is at present extremely unprofitable. The Turkish Government cannot find a buyer for this industry at any price and seeks to shut it down. This is a mistake. Coal is Turkey's only strategic energy reserve, and its unsaleability to the private sector is no reason to close it down, regardless of the potential savings in subsidies, which may anyway prove false in the long-term. Moreover, evidence shows that world coal reserves will outlast other fossil fuels, adding further to the case for retention of Turkey's coal producing capacity.

- In summary then, privatisation offers many potential benefits for the Turkish economy and consumer. However, from the UK's experience there is still much to be learned. A Study of the UK experience will be helpful in learning not only the facts but also the mistakes which had been made among the privatisations of nationalised industries. This is necessary to avoid these mistakes in Turkey. It can also be concluded that the British experience is rich enough to make it clear that privatisation is a much more difficult process than nationalisation. Furthermore, this is a much harder exercise in a developing country, such as Turkey, than in the UK especially in the case of monopoly

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industries. In other words, privatisation of public enterprises that operate as natural monopolies is more difficult than privatisation of enterprises in competitive markets. This is mainly because the enterprises are larger, the stakes are higher, and the capital markets are thin.

Turkey has problems relating to privatisation peculiar to itself, not least among which are political and economic instability and uncertainty, institutional resistance to the process, underdeveloped capital markets, and a dearth of indigeneous experts on the subject. In Turkey, with a market friendly policy framework and a relatively well-developed institutional and regulatory capacity, privatisation will be both easier to undertake and more likely to yield financial and economic benefits. It is important that a privatisation programme is undertaken as part of structural reforms for the economy with a proper regulatory framework and market structure to create a competitive environment.

There is no doubt that in any privatisation, the greater the degree of competition produced, the greater the likelihood that efficiency will be enhanced. This is why such structural reforms will make the privatisation process feasible. They also ensure that privatisation will expand competition and productive efficiency rather than simply transfer rents from public enterprises to new private enterprises. Achievement of these targets requires also the will and determination of the political leadership in a manner like that of the UK experience in privatisation.

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GENERAL OUTLOOK FOR WORLDWIDE HARD COAL MINING AND THE EVALUATION OF THE ZONGULDAK COAL ENTERPRISE/TURKEY

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1. General Outlook for Coal Use, Worldwide Hard Coal Reserves, Productions, International Coal Market, Future Trends

1.1 Present and Future Coal Use

Coal mining commenced in the 18th century for use mainly in the ferrous and non - ferrous metals and electricity generation industries, displayed an uninterrupted dynamic development right up to the present day and most likely will perform well in the coming century. Coal, the second oldest world commercial fuel after wood, has the worldwide distribution especially compared with crude oil and natural gas reserves. This property of coal, i.e. amount, diversity and worldwide distribution, provide security of regional fuel supply, independence and stability. Moreover, as no substitute for coking coal has yet been developed, its production is still indispensable for the iron and steel industry.

Broadly speaking, coal utilization processes can be divided into two groups i.e. conventional coal utilization and future processes.[1] Conventional coal utilization processes mainly cover combustion for energy product, gasification, degassing, production of moulded coke, and smokeless fuels. Future coal utilization processes in the experimental stage are production of liquid - gas fuels from coal and non conventional methods for energy production.

The contribution of solid fuels (hard coal, brown coal) to energy consumption largely depends upon the following factors.

- National long term energy policies;
- Competition from other energy resources (crude oil, natural gas, uranium);
- Improving trends in energy intensity;
- Labour relations;
- Environmental issues associated with the mining, processing and use of coal,

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- Combustion and conversion technologies with reduced SO_2, NO_x, and CO_2 emissions,
- Researches into "inherently sufe nuclear reactor".

For example, the present share of solid fuels according to the Organization for Economic Co-operation and Development (OECD) is about 21.4 %. (Oil: 42.7 %, Natural gas: 19.8 %, Nuclear / Renewables: 16.1 %). By contrast, the share of solid fuels in gross energy consumption in 1991 for China, as a developing country, is over 70 %. (Oil: 17.2 %, Natural gas: 1.8 %, Nuclear: 7.8 %).[2]

In accordance with world proven(*) coal reserves and other proven conventional primary energy and uranium reserves (Table 1), coal would become the "number one" fuel again in 2020.[3]

Table 1 Proven Coal Reserves, Other Proven Conventional Primary Energy (Million Tons of Coal Equivalent)**

Hard Coal (Bituminouscoal and anthracite) (1)	Brown Coal-Lignite (Sub Bituminous Coal) (2)	Crude Oil (3)	Natural Gas (4)	Uranium (5)
404 002	167 090	135 419	113 470	29 826
(1) + (2)		(3) + (4)		
571 092		248 889		

(*) **Proven Reserve:** Defined as tonnage in place that can be produced under existing and expected local economic conditions with present available technology.[3] This reserve does not include those large resources of coal which are currently being, will be in the future, fully evaluated.[4]

(

(**) 1 million tonnes coal equivalent = 1 million tonnes of coal at 28.0 [MJ/kg] or 6692 [kcal / kg] gross calorific value.

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From equation 1, we can calculate the length of time required to make use of an amount Q; [4]

$$t = \frac{1}{r} \ln \left(\frac{r.R}{P_o} + 1 \right) \qquad (1)$$

t = The length of time required to use an amount R
r = The exponential rate of growth in production (dynamic case)
R = The proven reserves produced by time t
P_o = The initial production rate

An applications of equation 1 for hard coal is given below:

P_o = 3 179 Mt, (1992)
R = 404 002 Mt
r = 1.7 % (Average production growth rate is assumed)

$$t = \frac{1}{0.017} \ln \left(\frac{0.017 \times 404002 \times 10^6}{3179 \times 10^6} + 1 \right) \cong 68 \text{ years}$$

If there were no growth in the rate of production (static case), the 404 billion tons of coal proven reserve would last 127 years. For comparison, the world proven reserve production for natural gas (static case, i.e. no production growth rate is realized) is estimated to be 60 equivalence in years the ratio under consideration for North America and Western Europe are 11 years and 25 years respectively. The world (proven reserve / production) ratio based upon static case or crude oil is predicted to be about 40-50 years.[5]

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According to [6], the supply shares of the energy sources are predicted to alter in 2020 as follows: oil declining from 34 % to 27-28 % due to decrease in crude oil reserves, gas remaining at about 28 % nuclear power rising from 6% to 11%, renewables rising from 9 % to 10 % and coal rising from 28 % to 30 %. Also, with reference to various works, world proven reserves of coal will meet easily cumulative demand by 2020 and huge reserves of would be economically obtainable in the next 2-3 centuries.

1.2 World Hard Coal Reserves, Production and "Production / Reserve" Ratios

Table 2 provides numerical information on fundamental values in related to coal mining. Figures 1 and 2 illustrate relationships between production and proven reserve and (production / population) and (proven reserve / population) derived from regression analysis respectively. From this figures it can be seen that there are meaningful relationships between the parameters in question. Namely, production of hard coal on country scale is determined by the amount of coal i.e. reserve.[8]

According to world hard coal production based upon 1992 figures, producers are China, USA, CIS, (formerly USSR), India, Australia, South Africa, Poland, UK and Germany.[9] Figure 3 displays a statistical relationship between export and production for main exporter countries. From this figure it is obvious that large coal producers are also large coal exporters, e.i., Australia, the USA, South Africa, Canada, China, CIS and Poland based upon 1992 figures. It is interesting to note that production of developing producers such as Indonesia, Colombia and Venezuella, who produce more coal then they utilize domestically are markedly intended for the export market. In the future, Indonesia and Venezuela will increase production. These countries will become important exporters in the international coal market.

Table 2 The "Reserve", "Production", "Export" Values Belonging to the Main Hard Coal Producer Countries in 1992.

Countries	Population "N" ($x 10^6$ person)	Proven Reserve, "R" ($x 10^9$ ton)	Production "P" ($x 10^6$ ton)	Export , "E" ($x 10^6$ ton)	Export , "E" % of production	(P)/(R) (x 100), (%)	(E)/(P)	(R)/(N) (ton /person)	(P)/(N) (ton /person)
Australia	17.540	45.054	176.62	120.20	72.20	0.390	68.06	255.00	10.060
Brazil	153.800	1.940	4.60	-	-	0.237	-	12.61	0.030
Canada	27.844	3.753	32.30	34.10	55.60	0.861	105.00	134.78	1.160
Chile	13.599	0.020	2.74	-	-	13.70	-	1.47	0.201
China	1 166	153.701	1 020.00	18.80	1.90	0.664	1.80	132.00	0.913
CIS	-	102.980	469.00	28.10	6.70	0.455	6.00	-	-
Colombia	33.405	9.632	23.70	14.70	63.90	0.246	62.00	288.00	0.710
France	57.338	0.188	9.50	-	-	5.050	-	3.28	0.165
Germany	80.553	23.761	65.50	3.30	5.00	0.276	5.04	295.00	0.813
Hungary	10.202	0.225	1.30	-	-	0.578	-	22.00	0.127
India	883.470	60.553	224.40	-	-	0.371	-	69.00	0.254
Indonesia	184.274	0.991	22.70	6.50	45.50	2.291	28.60	5.38	0.123
Japan	124.318	0.835	7.60	-	-	0.910	-	6.72	0.061
Korea DPR	22.610	0.600	43.10	-	-	7.180	-	27.00	1.906
Korea ROK	43.660	0.114	11.90	-	-	10.44	-	2.60	0.273
Mexico	84.967	1.232	11.80	-	-	0.958	-	14.50	0.139
Poland	38.365	28.330	132.00	18.00	12.80	0.466	13.60	738.00	3.441
Romania	22.865	0.050	3.20	-	-	6.400	-	2.20	0.140
Spain	39.077	0.341	15.00	-	-	4.400	-	8.72	0.384
South Africa	39.760	54.977	174.10	47.80	26.90	0.317	27.50	1383.00	3.780
Turkey	58.600	1.300	6.00	-	-	0.461	-	22.18	-
UK	57.701	8.694	80.80	1.80	1.90	0.929	2.22	151.00	1.400
USA	255.410	130.194	607.00	98.80	16.20	0.471	16.30	510.00	2.376
Venezuela	20.310	0.416	2.90	2.10	84.00	0.697	72.00	20.40	0.142
MEAN VALUE						2.534	34.00	178.00	1.320

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Figure 1 Statistical Relationships Between Production of Hard Coal and its Reserve (R <160 billion ton) and Ratio of Production to and its Reserve

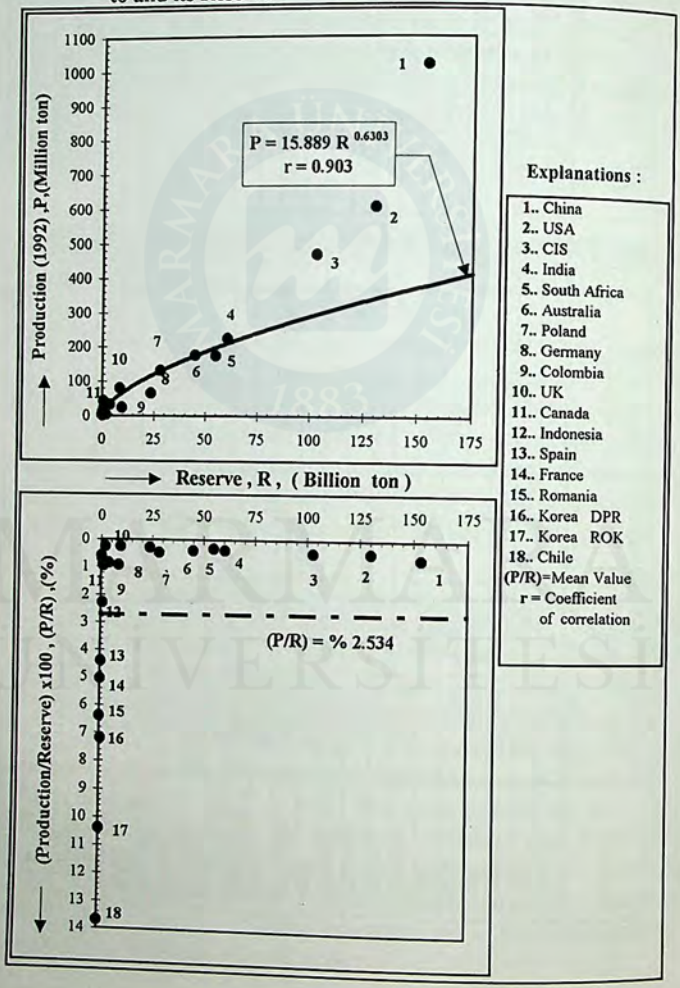

Figure 2 Statistical Relationships Between "Production / Population"and "Reserve / Population" of Main Hard Coal Producer Countries in 1992.

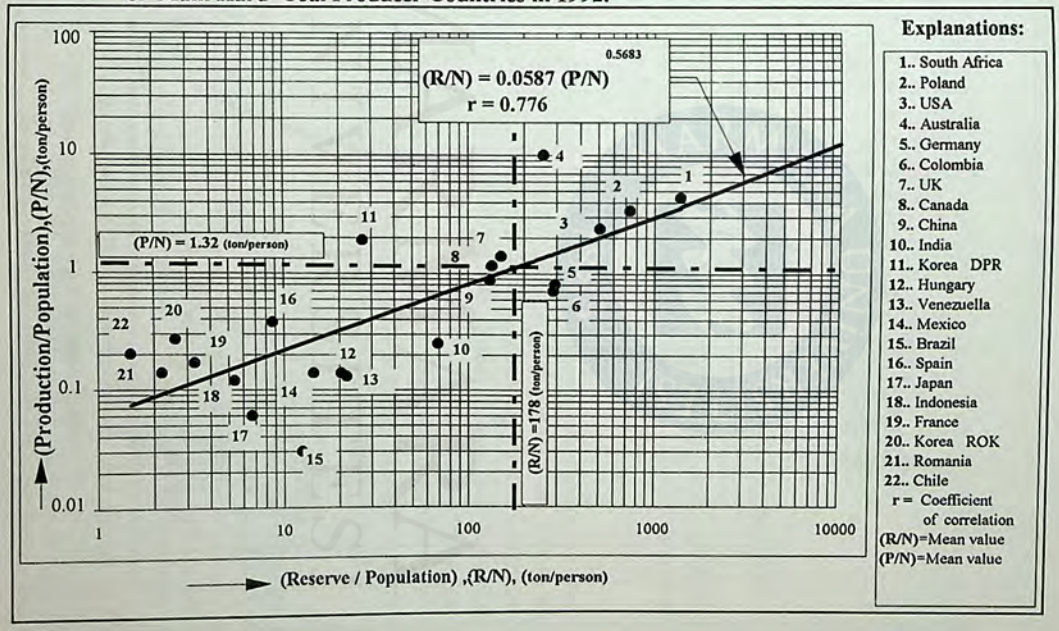

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Figure 3 Statistical Relationships Between "Export"and "Production"of Hard Coal (1992)

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1.3 Demand and Supply Projections

World coal demand / supply in the future largely depends upon the following key factors:

- Population growth;
- Economic growth;
- Energy intensity;
- Decrease in crude oil-gas reserves, possible increase in oil-gas prices;
- Developments in mining, combustion and conversion technologies, especially liquid-gas fuel production economically from coal.

According to reference [3], the demand production projections based upon different economic growth rates i.e. low and medium growth rate scenario are given in Table 3.a and 3.b respectively. As can be estimated the anticipated average growth rate per annum of hard coal demand for 1990-2020 period is between 1.8 and 2.1 per cent depending upon economic growth rates. It is evident that production is needed to meet "demand" and at times even exceed demand slightly. Average production growth rate per annum for 1991-2020 can be predicted to be 1.5 and 1.9%.

The investment needs for production projections for the 1990-2020 period can be estimated to be well above US$ 700 billion. (The investment value largely depends on actual mining conditions (geological strata conditions, methane emission, depth etc.) existing infrastructure (housing, energy, all transport facilities). This value is in the range of US $ 60 to 70 / ton year excluding infrastructure of the mine and cost attributable to environmental control.[3] For deep hard coal mining (depth ≥ 400-500 m) the investment value under consideration is well above US $ 60-70 / ton year. In brief, for deep hard coal mining the investment needs and the financial risks involved in projects are remarkabily higher.[3]

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In order to obtain a general idea the amount of investment for an underground longwall (depth < 500 m) mine, (Output of about

Table 3 Hard Coal Demand (a) - Production Projections (b), (Million tons of coal equivalent)

a - DEMAND						
Regions / World	**1980**	**1990**	**2000**		**2020**	
			M	**L**	**M**	**L**
ECE Region	1 420.0	1 672	2 022	1 960	2 520	2 285
• **Western Europe**	303.8	338	450	430	2540	505
• **EasternEurope** (Include USSR)	578.9	673	760	745	1 000	860
• **North America**	537.6	661	812	785	980	920
LATIN AMERICA	19.7	38	80	63	105	95
ASIA	650.1	814	1 488	1 171	1 960	1 810
AFRICA	75.0	134	221	211	365	290
OCENIA	29.2	53	82	68	115	100
WORLD	2 194.3	2 711	3 893	3 473	5 065	4 580

b - PRODUCTION						
Regions / World	**1980**	**1990**	**2000**		**2020**	
			M	**L**	**M**	**L**
ECE Region	1.515	1.655	2.024	1.791	2.370	2.085
• **Western Europe**	234	190	243	174	220	205
• **Eastern Europe** (Include. USSR)	650	707	760	742	1.040	850
• **North America**	631	758	1.021	875	1.110	1.030
LATIN AMERICA	14	35	78	65	115	105
ASIA	591	969	1.370	1.327	2.020	1.910
AFRICA	94	148	290	270	420	310
OCENIA	60	118	190	161	240	210
WORLD	2.274	2.925	3.952	3.614	5.165	4.620

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2.5 million ton / year-run of mine), the following figures (*) are given.[11]

1.4 International Coal Prices

Generally speaking, in the past prices of coal were largely related to prices of crude oil. In recent years the following factors also play important roles in the international coal market.

- New exporter countries,
- Surplus coal supply,
- Intensity of market competition,
- Variations in exchange rates of the US dollar against the currencies of coal trading countries,
- The method of transport from the mine,
- Miners' transportation workers' strike.

Table 4 [12] provides a general picture of steam coal prices delivered to Europe in 1986 depending upon production type and transport cost. From the table it can be seen that the delivered cost (CIF price) is independent of

- Sources of coal,

(*)

Investment component	A$ (millions)
• Underground mine	45
• Surface infrastructure	11
• Surface material handling	7
• Township	18
Total Direct Cost	**81**
• Construction facilities support	2
• Design	3
• Administration	2
Total Indirect Cost	**7**

Total Pre-production investment Cost ~ A$ 90 (million) or **A$ 45** / ton annual capacity. This investment does not include cost figures related to underground development. For example, a typical 300 m deep underground mine. Then the investment cost would be increased by ~ A$ 40 / ton annual capacity.

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Table 4 FOB and CIF Prices of Steam Coal Delivered into Europe in 1986

Country	Production Type	FOB cost (US $ /t)	Transport cost (US $ /t)	Delivered cost (US $ /t)
SOUTH AFRICA	Open Cast	13.50	7.49	20.99
	Underground	19.00	7.49	26.49
	Richards Bay Phase IV Open Cast	21.0	7.49	28.49
AUSTRALIA	Queensland open cast	22.0	12.32	34.32
	New South Wales open cast	30.50	12.32	42.82
	New South Wales underground	31.00	12.32	43.32
COLOMBIA	Open cast	50.00	5.95	55.95
USA	Large open cast	40.50	5.94	46.44
	Large underground	42.00	5.94	47.94

- Production type, open pit, underground mine;
- Distance of rail-sea transport from sources.

It is evident that South Africa's coal is the cheapest in the international coal market, due to low labour cost and uncomplicated geological situations. There is also a concrete conclusion that FOB cost of coal produced by open pit method is considerably lower than FOB cost of coal mined from underground depending on country.

The general idea about variations experienced in the international coal market can be obtained from Table 5 and 6.[12] As indicated, variation in coal price results from the reasons mentioned above. For example, the rise in 1984/1985 was directly related to the miner's.

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Table 5 Fluctuations In The Import Price of Coking 1983-1991 (US $/ton CIF)

Country	1983	1984	1985	1986	1987	1988	1989	1990	1991
Australia	59.37	58.51	60.50	55.32	53.10	50.32	50.37	76.38	59.74
Canada	-	62.29	64.53	53.69	52.84	53.79	56.87	67.80	60.32
USA	64.97	60.76	64.17	59.92	60.99	60.72	59.90	72.47	64.43
Poland	54.46	54.08	64.68	57.81	58.15	57.83	57.16	65.78	59.70
CIS	-	-	-	58.82	-	44.17	50.42	46.99	-
Average	60.46	59.20	62.74	57.45	56.87	56.49	56.66	72.40	61.89

Source: OECD

Taking into consideration the average import price of coking coal (1983-1991), the mean value, standard deviation and variation of coefficient are 60.46 (US $/ton CIF), 5.04 (US $/ton CIF) and 8.3 % respectively. The same statistical calculations carried out for the import price of steam coal, 1983-91 give mean value; 63.76 (US $/ton CIF), standard deviation: 5.96 (US $/ton CIF) and coefficient of variation 9.35 %.

In the medium term, untill about the 2000, coal prices, especially for steam coal are anticipated to go up, albeit at a lower rate than competing oil and gas.

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Table 6 Fluctuations in the Import Price of Steaming Coal, 1983-1991 (US $/ton CIF)

Country	1983	1984	1985	1986	1987	1988	1989	1990	1991
Australia	9.37	58.51	60.50	55.32	53.10	50.32	50.37	76.38	59.74
Canada	-	62.29	64.53	53.69	52.84	53.79	56.87	67.80	60.32
USA	64.97	60.76	64.17	59.92	60.99	60.72	59.90	72.47	64.43
Poland	54.46	54.08	64.68	57.81	58.15	57.83	57.16	65.78	59.70
CIS	-	-	-	58.82	-	44.17	50.42	46.99	-
Average	60.46	59.20	62.74	57.45	56.87	56.49	56.66	72.40	61.89

Source: OECD

This situation would make coal more appealing for electric power generation and large-scale industry. Furthermore, other reasons can be said to affect coal demand and prices in positive manner. Those are: [3]

- The tendency of rising oil prices;
- Increasing investment and operating costs in nuclear power;
- Continuous uncertainties influencing nuclear energy programmes in important developed countries.

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1.5 Summary

The coal reserves of the world are far bigger than oil and gas energy sources (Table 1) and provide continuous security that growth in economy can be accomplished.[13] According to several references[3,14] there are prospects for coal from many origins to maintain a competitive prices advantage over traditional fuels (oil-gas) due to comparatively beneficial resource conditions in technical terms and increasing productivity figures in coal mining[11] and remarkable developments in clean coal technologies - combustion - methods synthesis of coal - produced fuels at competitive prices[14], and land-sea transportation facilities. On the other hand, there are several factors which have negative influences on coal mining. They are:

- Today, there is a considerable over-supply in the international coal market resulting from over-investment in new mines in the period following the 1973 oil crisis. It may be stated that the over-supply question is giving rise to low priced coal.

- Strict environmental regulations related to reduction and elimination of "SO_2" and, "NO_x" emissions which need additional and intensive investments. Improvements in clean coal technologies and combustion of coal to be realized in the next future are one sure way to reduce emissions effectively.

Evaluation of the present results of researches performed on clean coal and combustion technologies provides a strong evidence for the prospect of coal as an energy source for the foreseeable future.

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2. Realities In Zonguldak Coal Basin

2.1 Brief Remarks on Zonguldak Coal Basin

The "economic and functioning performance" of Zonguldak Coal Basin has been on the public agenda for a long time. Nevertheless, information continues to be presented in an erroneous or misleading way to the detriment of public understanding. In this part, the Zonguldak Coal Basin Zonguldak Coal Basin will be reviewed in a scientific and unbiased way in the interest of a more informed public discussion.

- Official records of TTK (Turkish Hard Coal Enterprise) indicate that the total reserve in the Basin is 1.356 billion tons (Table 7). Considering the current economic and technical facilities, the reserve subject to production potential may be regarded roughly as 0.5 billion tons. This reserve should be investigated in accordance with the elaborately detailed geological and mining studies in systematic way. The "dynamic life" of the Basin indicated by the amount of the reserves is expected to last 40-45 years. Stated more openly, the Basin with its current potential has a reserve dimension that could serve the national economy for a long time. Both reserves of "coking coal" and "steam coal" that could be used in the energy sector are available in the basin (Table 8). Also, the distribution ratios in accordance with technological characteristics (coal type, calorific values, ash, sulphur, moisture etc.) should be investigated through detailed studies.

- The price of imported coal is not $ 50 per ton. This is a comman but serious fallacy. For example, the average CIF price of "coking coal" in international coal markets is $ 65.57 / metric ton and thevariation coefficient identifying the price fluctuations is 12.59 % (values for 1977-1991 period). They are fixed neither for product nor for the periods (short and medium run) (see Table 5 and Table 6).

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Table 7 A Short Look To Zonguldak Coal Basin

• Discovery of Hard Coal	: Uzun Mehmet, 1829
• Basin under the State Management	:-Parts of current mines and railways-roads were acquired State by Law 3241 passed delivered to Etibank (11.6.1937) -The basin was organized as "Ereğli Coal Enterprise Etibank on 03 .1.1940 and coal enterprising authority was left to this organization. -All production units in the basin were acquired by State by Law 3867 passed on 30. 5.1940 and delivered to ECE.
• Current production organization	: Turkish Hard Coal Enterprise
• Table for reserve and its distribution	: Totally 1.356 billion ton Proven reserve : 10 % Probable reserve : 32 % Possible reserve : 58 %
• Maximum production amount	: 8.545 million ton / year (1974) Run of Mine : 8.545 million ton/year Saleable : 4.956 million ton/year Ratio : 58 %
• Use of Reserve Ratio	: Run of Mine:0.65 % ,Saleable: 0.38 %
• Total production during 1941-1992	: Run of mine : 322.466 million ton Saleable: 193.391 million ton
• Mean production amount and general mean productivity during 1990-1993 (based on saleable)	: Run of Mine : 5.059 million ton/year Saleable : 2.781 million ton/year Ratio : 55 % , 315 kg/miner
• Minimum average total miner (1960-1990)	: 31 264 miner / year (1964) Production worker : 12 028 Out of production worker : 19 236 General productivity (saleable):718 kg/worker -day)
• Average total miner during (1960-1990)	: 30 898 miner / year
• Actual average investment per unit of production (1985-1990)	: 3.85 $/ton (based on run of mine)
• Sectoral distribution of sales as of 1992 (saleable)	: 2.920 million ton/ year, Iron-Steel : 24.31% , Energy : 43.77% Industry : 15.16% , Various : 16.76%
• Commercial cost and distribution as of 1992	: 243 $/ton , Labour+personnel : 62.50 % Material : 4.35 % Electricity : 4.70 % Depreciation : 2.40 % Financial expenses : 26.80 %

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Table 8 General Informations Regarding Properties Zonguldak Hard Coals

- Total Reserve (1) : 1.356 Billion ton
- Total Workable (Recoverable) Reserve (in 1988 year) (2) : 0.490 Billion ton
- [(2) / (1)] x 100 : 36 %
- Proven Reserve (3) : 0.151 Billion ton
- [(3) / (1)] x 100 : 11 %
- Properties of Hard Coal (As received)
  - Kozlu and Karadon Production Region
    - Ash : 9-13 %
    - Sulphur : 0.8 % (max)
    - Lower calorific value : 6300-6950 [Kcal/kg]
    - Type of Coal : High Volatile -bituminous Coal, (Coking Coal)
  - Karadon Production Region
    - Ash : 10-14 %
    - Sulphur : 0.8 % (max)
    - Lower calorific value : 6200-6950 [Kcal/kg]
    - Type of Coal : High Volatile - bituminous Coal, (Coking Coal)
  - Armutçuk Production Region
    - Ash : 11-17 %
    - Sulphur : 0.9 % (max.)
    - Lower calorific value : 6800-7050 [Kcal/kg]
    - Type of Coal : High Volatile - bituminous Coal, (Coking Coal)
  - Amasra Production Region
    - Ash : 12-16%
    - Sulphur : 1.5 % (max.)
    - Lower calorific value : 5820-6050[Kcal/kg]
    - Type of Coal : High Volatile-bituminous Coal, (Steam Coal)

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The CIF price of imported coal is dependent not only on the intersection of supply and demand functions but also on the oil price, long term strikes in the coal mines and transportation sectors of primary producer countries, capacity declines due to inevitable mine accidents and fluctuations in political stabilization and longevity of unstable situations in these countries. The extrafactory price, just to give an idea, of imported coal for iron-steel industries varies from $ 68 to $ 80 per ton (1992). The computable cost of the coal, in national currency terms, is TL 2 368 000 /ton (1994) based on average "extrafactory price". Furthermore, the following point should be taken into consideration in the economic assessments relevant to the Zonguldak Coal Basin: the growth of our country is very much dependent on "foreign debts". Imports always exceed exports and the latter are subsidized continuously. It is sometimes financed through "hot money" (highly appreciated national currency with depreciated foreign exchange). Under these macroeconomic conditions, the official rate of the dollar may not be regarded as realistic. More clearly, in macroeconomic analysis, the "adjusted official rate" should be considered. We believe it could be (1.2-1.4) x (applied official rate). (As a matter of fact the current rate for foreign exchange is kept stable by means of a huge volume of "international borrowing" which undoubtedly has a cost on the national economy). The most optimistic approach leads us to the conclusion that the real cost of the imported coal is $ 74/ton x 1.25 x 32 000TL/$ = TL 3 million/ton (1994). In fact, the following point should be remembered: the commercial cost in the Basin under extremely low scale of saleable production is TL 3.14 million/ton - in 1993. This will be indicated in detail in the following parts.

- The leading problem in assessing the commercial value of the Zonguldak Basin is that the "scale of production" could not be carried out in conformity with the natural and technical characteristics. Especially the policies adopted in 1980's caused a

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steady decline in production from 3.5-4 million ton/ year to 2.7 million ton/year (saleable production). Run of mine saleable production and commercial cost trends of the Basin for 1941-1994 period are depicted in Figure 4. Arithmetic averages of engineering values for the Basin (i.e., mean production, timber consumption, productivity and costs) are also depicted in Table 9. As it is clearly indicated in Figure 4 and Table 9, the run of mine production and aggregate productivity increased continuously during the 1941-1970 period whereas both declined gradually after 1970, with significant drops in the 1990's. Unfortunately, no sound policy exists to rapidly remove the current problems of the Basin. "Remissness" continues irresponsibly. "Optimal production scale" computed in various ways should be 10 million tons (run of mine) per year in the basin (Appendix 1). When the saleable production amount (ton/year) - commercial cost (TL/ton) parameters are refined by the regression analysis, the critical production scale is estimated to be 4 million tons/year. This is roughly equivalent to 7 million ton/year in terms of run of mine. In the computation of critical production scale the commercial cost = (unadjusted) C.I.F. coal price is assumed). The basin may only compete with imported coal and create "funds" if the "production scale" is raised to at least 10 million ton/year (5.5-6 million ton/year of saleable production) - by means of a stable and realist policy. The technical and financial performance of the Basin depends on achieving the "optimal production scale". (When this value is reached, the Basin - if desired - will be in a position to export coal).

- The total number of workers in the Basin is subject to public criticism. Due to political pressures over the period, (1950-1980) the aggregate number of workers increased. This affected the "productivity" and "work discipline" of the enterprises negatively. Production costs increased. The total number of workers and their ratios (underground/total) in certain years is as follows (Table 10): 1983: 38 652 workers, 60%; 1986: 36 557 workers, 60%;

Figure 4 Trendline of Production (Run of Mine, Saleable) and Cost of Production Between 1941-1994 Years.

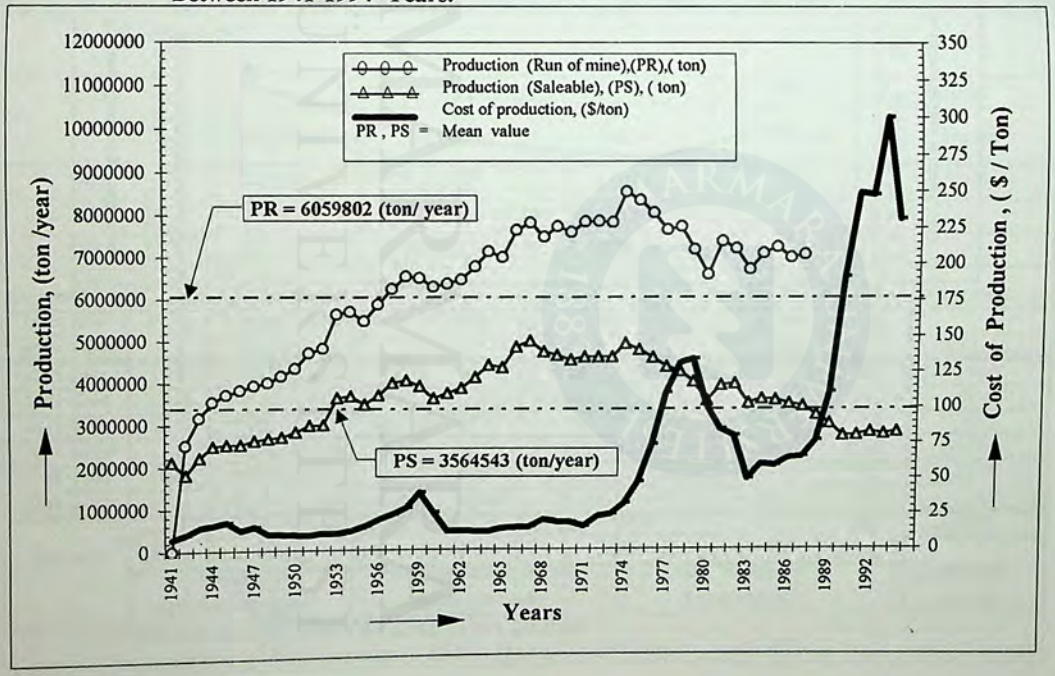

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Table 9 Variations of Main Characteric Values (Production, Timber Consumption , Productivity ,Cost) in Zonguldak Coal Basin for 1941 - 1994 Periods

Period	Mean Production, (x million ton)			Mean Timber Consumption, (dm3 / ton)			Productivity (kg / manshift-day)			Cost of Production
	Run of Mine , 1	Saleable 2	(2/1)	Run of Mine, 3	Saleable 4	(4/3)	Run of Mine , 5	Saleable 6	(6/5)	($ / ton)
1941-1950	3,328	2,452	0,737	47,8	70,6	1,477	648,6	395,3	0,61	13,71
1951-1960	5,796	3,625	0,625	34,1	55,0	1,613	885,2	552,0	0,62	20,51
1961-1970	7,211	4,459	0,618	30,2	49,2	1,629	1174,3	724,7	0,62	15,67
1971-1980	7,772	4,468	0,575	30,0	52,5	1,750	1204,0	690,0	0,57	69,45
1981-1990	5,739	3,478	0,61	21,9(*)	42(*)	1,918(*)	747,2(*)	376,0	0,50	83,97
1991-1994	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	N.A	256,8 (**)
Mean Value (1941-1990)	6,027	3,696	0,63	35,5	56,8	1,617	931,9	547,6	0,59	

N.A = Not available, (*) This period considers between 1981 and 1987 years, (**) This period considers between 1991 and 1995 years.

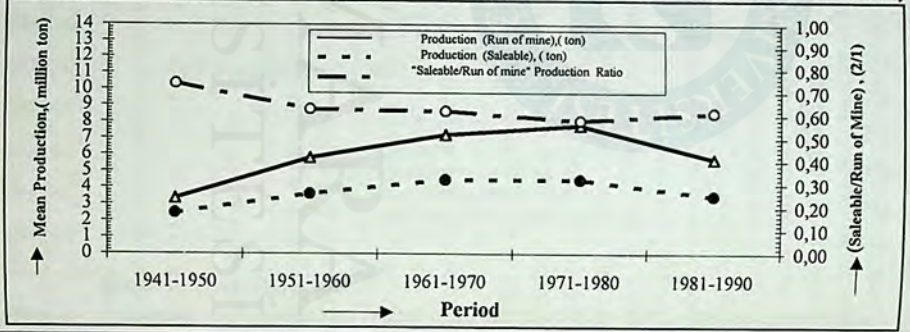

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Table 10 For Zonguldak Coal Basin Trends of Underground Workersand Ratio of Underground Workers %.

Years	Number of Worker			% of Underground	
	Underground	Surface	Total	Turkey	Japan
1980	24230	17697	41927	58	86.0
1981	23569	16366	39935	59	-
1982	23427	15832	39259	60	-
1983	23398	15254	38652	61	-
1984	23047	14598	37645	61	-
1985	23828	14403	38231	62	87.0
1986	22203	14354	36557	61	-
1987	22388	14235	36623	61	87.0
1988	22618	13858	36476	62	86.2
1989	21868	13624	35492	62	86.6
1990	21024	13325	34349	61	87.0
1991	18338	12877	31215	59	-
1992	17003	12492	29495	58	-
1993	16592	11837	28429	58	-
1994	14427	9537	23964	60	-

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1989: 35 492 workers, 62%; and saleable production quantities are 3.54 million (ton/year); 3.04 million (ton/year) and 2.789 million (ton/year) consecutively. The productivity for 1993, assuming 300 working days, is 0.326 (ton/daily fee). This low productivity destroys the production economy in the Basin. The productivity of the workers needs to be increased threefold.[17] The following should clearly be understood: Due to high labour costs, the unit production cost per ton is high. This high unit cost stems directly from low productivity. Stated otherwise, "productivity" is directly related to the "system" itself. Underground/total worker ratio is another noteworthy variable. This is frequently connected with technical parameters about production (distribution of reserves, production intensity (ton/km^2), level of underground production technology, dispersion intensity in the working area, dimension of service units on the ground) and varies between 0.70-0.80. For example the relevant values in 1960 and 1965 in Japanese coal enterprises exhibiting similar geological structures, are 71.8 % and 80.3 % respectively. (Productivity in these years in Japanese hard-coal enterprises were 0.716 and 1.897 ton/daily fee). In other words, the number of surface workers should be reduced from 38 % down to 25 % of the total workforce.

The following points should be remedied in the rebuilding and restoring of the Basin. The principles on which the wages are based are far from the contemporary practices used in modern undertakings and the number of workers is excessive. Wage appraisal does not depend on analytical criteria like "productivity" or "workplace safety or health". Furthermore, the current wage system caused a shift from underground workers into "out-of-production" type of labour force. As of June, 1994 the monthly gross wage of underground and production worker was TL 15 672 038 ($ 490) whereas it was TL 13 760 500 ($ 430) for transport workers. There is a slight difference of about 14 %. This situation distorts the work-place discipline and production and must be eliminated.

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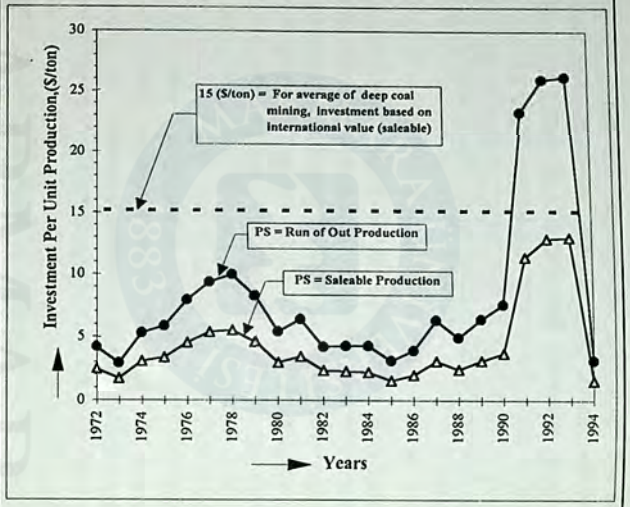
This is also a valid case for technical and administrative personnel. Although the main aim of the enterprise is "production", its organisational structure has moved, in time, from technical into administrative units. For example, it has no "Research and Development Department" composed of its own personnel in order to create, apply and assess the new production technologies. This is one of the shortcomings of the Basin.

- The frequency of accidents in the Basin causing injury or death is higher than the world average. This is also related to productivity. As productivity rises, the accidents remarkably decrease. One may find this conclusion from the data related to the Japanese coal industry. For example, in 1960, the number of workers that lost their lives due to mining accidents is 12 per 10^6 ton /year and the general "productivity" is 0.716 ton/daily fee. The numbers for 1965, 1970, 1975 and 1989 are as follows; 12.9 workers - 1.446 (ton/daily fee), 4.3 workers - 2.267 (ton/daily fee), 3.5 workers - 2.669 (ton/daily fee), 0.7 workers - 4.836 (ton/daily fee) respectively.[18] As you may notice the number of workers who lost their lives through mining accidents declines as productivity increases. This is valid for various countries.[19] In Zonguldak Coal Basin this number was 11 (workers) per 10^6 ton/year of run of mine production for 1941-87 period. This was the case in Japan during 1960-65 period. The remedies in Japanese hard coal enterprises are significant especially after 1975. Briefly "workplace- workers safety" concept and productivity increments will provide a significant decline in accidents in the Basin.

When the investments in the Zonguldak Basin are compared with those in other hard coal producing countries, they seem to be too low. Table 11 shows the run of production, saleable production, investment and investment amount per unit production in the 1972-1994 period. The periodic variations of them are also displayed in the same Table. For example, the investment made in 1985 by TTK is TL 5.7 billion. The amount of investment per unit of saleable production is TL 1387 ($ 2.6 per ton as of June 1985). This requires, at least, a renovation and running investment of $ 10-15 per ton (Table 11).

Table 11 For 1972-1994 Period Variation of Run of Production, Saleable and Production, Investment and Investment Amount Per Unit Production

Years	Production "PR" (ton) 1	Production "PS" (ton) 2	Investment, (x million$) 3	3/1 ($/ton)	3/2 ($/ton)
1972	7862422	4641461	19,500	2,48	4,20
1973	7841542	4642394	13,786	1,76	2,97
1974	8545927	4965469	26,492	3,10	5,33
1975	8355283	4812934	28,371	3,40	5,89
1976	8059282	4631854	36,855	4,57	7,96
1977	7665937	4405396	41,391	5,40	9,39
1978	7741311	4295237	42,958	5,55	10,00
1979	7199786	4051331	33,582	4,65	8,29
1980	6598755	3597628	19,466	2,95	5,41
1981	7387892	3970139	25,454	3,45	6,41
1982	7222871	4008382	16,938	2,35	4,22
1983	6725000	3539091	15,136	2,25	4,28
1984	7103413	3631706	15,466	2,18	4,26
1985	7260013	3605416	11,143	1,53	3,09
1986	7015292	3526283	13,741	1,96	3,90
1987	7084479	3460889	21,847	3,08	6,31
1988	6666495	3255645	16,066	2,41	4,93
1989	6221840	3038448	19,409	3,12	6,39
1990	5621432	2745242	20,780	3,70	7,57
1991	5655160	2761710	64,505	11,40	23,36
1992	5706056	2828727	73,619	12,90	26,00
1993	5626171	2788788	73,178	13,00	26,22
1994	5726317	2838548	8,910	1,55	3,14
MEAN VALUE			28,65	4,29	8,24



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This stems from the fact that we do no have a "national policy" for hard coal as depicted clearly in a 1994 study by the Zonguldak Branch of Mining Engineering Chambers[20] (Table 12).

Table 12 Shares of Investment for Turkish Hard Coal Enterprise (TTK) , (%)

Years	1970	1975	1980	1986
TTK / Production	56.20	34.11	10.19	8.10
TTK / Energy	4.34	3.11	0.91	0.85
TTK / Public	1.06	0.76	0.31	0.46

- It is noteworthy that during the period (1970-1975) when the production in the Zonguldak Coal Basin exhibited a large increase, the share of TTK in total public investment was 0.91% and this has declined to 0.385% during 1980's. Even this is enough to understand the reasons of "distortion" in financial performance of Zonguldak Coal Basin. In other words, there has not been steady investments for "renovation" and "development" of Zonguldak Basin. This hindered preparatory works (i.e. roadways in rock and coal) needed for coal production in the Basin. The data[21] presented in the Table 13 show this lucidly.

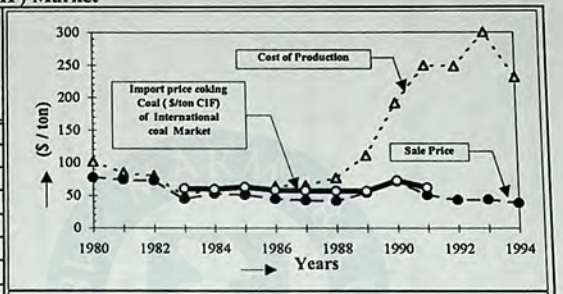
Table 13 Drops in Preparatory Works Due to Decrease in Investment

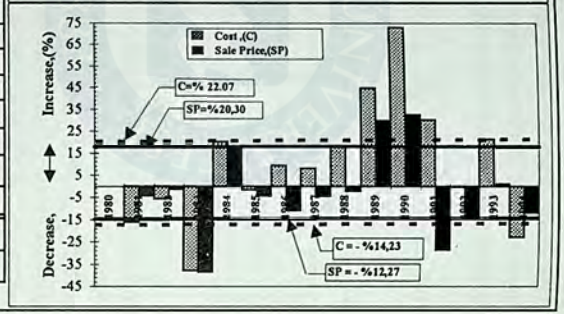
Period	Roadway (in rock) (m / year)	Roadway (in coal) (m / year)
1983-1993 (average)	12 491	26 624
1993-actually	8 502	20 165
Decrease , (%)	32	24

The average sale price in the Zonguldak Coal Basin was continuously held below the commercial cost. Table 14 shows that the prices are even

Table 14 For 1980-1994 Period Cost of Production, Mean Sale Price Trends and Those Variations, Comparison with Import Price of Coking Coal ($/ton CIF) Market

Years	Cost of Production ($/ton) 1	Mean Sale Price ($/ton) 2	Price of Coking Coal ($/ton CIF)	(2/1)	Increase in Cost (%)	Increase in Sale Price (%)
1980	101,50	77,0	-	0,758	-	-
1981	84,89	73,5	-	0,866	-16,36	-4,50
1982	80,03	72,4	-	0,905	-5,70	-1,50
1983	49,56	44,4	60,46	0,895	-38,00	-38,60
1984	59,56	52,5	59,20	0,881	20,17	18,20
1985	58,53	50,1	62,74	0,856	-1,75	-4,60
1986	63,88	44,5	57,45	0,697	9,10	-11,00
1987	65,07	42,4	56,87	0,652	7,90	-4,72
1988	76,42	41,4	56,49	0,542	17,44	-2,36
1989	110,55	53,7	56,66	0,486	44,66	29,70
1990	191,20	71,1	72,40	0,372	72,95	32,40
1991	248,87	50,6	61,89	0,203	30,16	-28,83
1992	247,43	43,2	-	0,175	-0,58	-14,62
1993	300,00	43,6	-	0,145	21,20	0,92
1994	231,00	38,4	-	0,166	-23,00	-12,00
					-14,23	-12,27
MEAN VALUE			60,46	0,573	+22,07	+20,30





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lower than CIF prices of "coking coal" in the European ports. This is a derivation of a wrong "pricing" policy and provides the iron steel sectors with "sources". TTK could have the possibility to employ these sources in renovation investment. The cost, as stipulated in the same table, during 1983-1987 period was equivalent to international coal saleprices

- The commercial costs have increased constantly due to the non-availability of national coal policy - finance policies and the absence of "optimal production scale". Table 15 indicates the main parameters in commercial cost and their percentages % ratios for 1994.[21]

Table 15 Main Characteristics of Expected Commercial Cost and Its Distribution for Zonguldak Coal Basin, 1994

Type of Expenditures	Value , ($x10^9$ TL)	(%)
Labour costs	8 129	54.50
Personnel	569	3.80
Material	658	4.40
Electricity	501	3.40
Depreciation	220	1.50
Others	73	0.40
Financial Expenditure	4764	32.00
Mean unit cost of production (based upon saleable coal, 1994- saleable production $2.83x10^6$ ton/year)		154 $/ton

As can be observed, the labour share is the leading factor (54.5 %) followed by financial expenses (32 %). As it has been emphasized before, the high ratio of labour cost may not be attributed to high wages. This is directly related to the non-availability of optimal production scale which should be 10-11 million ton/year (6-5 million ton/year of saleable production). In other words, the main reason is not the high wages but the productivity that can not be increased in one way or another. Very high financial expenses are a result of a huge borrowing from commercial banks with higher interest rates to

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cover the labour and running investment costs. In spite of all these facts, the average cost in Zonguldak Coal Basin ($154 per ton) is well below those in Spain ($ 188.5 per ton) and in Germany ($ 176 per ton).

2.2 Conclusion and Suggestions [21, pp. 103-106]

Coal, among primary sources of energy, will continue to be a leading one in the next 60 years. Between 1990-2010, 10 % of the world's hard coal consumption will be provided via imports. Turkey's share in world imports is 1.4 % in 1990s and will be doubled, in 2005, to 2.8 % and will be 7.4 % in 2010 with an increase of 164 %. So the dependence ratio of Turkey on imported hard coal will increase from 64 % up to 74 % in 2005 and 89 % in 2010. The saleable production of TTK is assumed to be raised from 2.8 million ton/year to 4.6 million ton/year.

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The following conclusions can be drawn:

- The Zonguldak Coal Basin has a strategic importance to supply Turkey's coal requirement not only today but also in the future.
- TTK must steadily increase its production.
- The regions which are economically not feasible for TTK to operate should be left to the private sector in a way to support coal production in Turkey.

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- Amasra-B basin must promptly be opened for production.
- A research programme must be developed to find new coal beds in Turkey.
- TTK should become partner to foreign coal enterprises abroad and be the single importer in order to guarantee the supply and appropriate price of imported hard-coal.

- In general, for the deep-mined coal enterprises, a running investment of $ 10 to $ 15 per ton of saleable coal is required. In TTK, this was $ 7/ton in 1970's but decreased by 23 % down to $ 5/ton in 1980's. Due to insufficient running investment, the saleable production of 4.6 million ton/year dropped by 22 % to 3.6 million ton/year in 1980's and 2.8 million ton/year with a further decrease of 22 % in 1990's. While the investment for saleable coal was $ 24 per ton in 1991, 1992 and 1993, it became only $ 4 per ton in 1994. The estimates in this study targets the production level of 4.6 million ton/year of 1970's, via an investment of $ 275 million in four years ($ 158 million foreign and $ 157 million domestic - 65 % being labour cost).

- The personnel expenditures were kept stationary in 1980's, and peaked at $ 584 million/year in 1993 after a dramatic increase starting in 1989. This is five times the of total sales revenues of TTK. These expenditures decreased by 120 % down to $ 264 million/year in 1994 subsequent to currency devaluation in the first half of that year and the decline in total work force. This is targeted to be as low as $ 182 million/year in 2000 with saleable production of 4-6 million ton/year. In the calculation of personnel expenditures, gross wage cost is assumed to be $ 10 047 man/year as it was in 1994, and gross salary to be $ 7 278 man/year as of 1994.

- An examination of the 21 years period from 1973 to 1994 indicates that the sale price has always been lower than the commercial costs. The gap between average sale price and costs widened especially during 1989-1994. This is a result of decreasing production,

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augmenting personnel and financial expenses and unleavened sale prices that coincide with this period. Similarly, in this period, the losses of the organisation reached its highest level of $ 685 million/year in 1993. The projection for the 1995-2000 period indicate that with the lowering of personnel cost and financial burdens, the gap between costs and sale prices diminishes from $ 137/ton in 1994 to $ 36/ton in 1995 and $ 6/ton in 2000. Considering that the subsidy per ton of coal sold in EU countries varies between $ 50-110, it may be seen that even in 1995 the subsidy by TTK per ton of the saleable coal decreased to internationally acceptable levels.

- The average coal sales price was $ 37.5/ton in 1994 and the average in the last 5 years was $ 48.9 /ton. In the estimates for 1995-2000 the last 5 year average of coal sale price was taken into consideration. Even this makes clear that TTK can manage to support itself. If the average sale price is assumed to be $ 50-60/ton or even $ 77/ton as in 1980, the enterprise turns out to be profitable. This analysis points out that the sales revenue is sensitive to the average sale prices. The sale of briquette coal dust from Armutçuk and Amasra regions for heating purposes can restore financially not only these regions but the wholeTTK.

- International experience makes it clear that a worker in an underground coal mine creates indirect employment for 10 people outside the enterprise. This goes up to 13 for TTK. In other words, 21 000 workers in TTK in 1995, create indirect employment for 210 000 people according to the international standards.

The following points were assumed in the estimates presented in this report:

- The infrastructure of collieries will be renovated by an investment of $ 275 million, considering the maximum capacity of main shafts.

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This helps to obtain maximum production objectives in run of mine coal with no extra workers.

- Operation of the surface facilities such as coal preparation plants, briquetting plants and coal transportation plants should be externally supplied, provided that all necessary research and project studies are carried out by the TTK.

- There will be fewer underground workers. A significant part of surface workers will be employed as "underground workers" after a training programme financed by donation of about ECU 3.4 million ($ 4.2 million) by the European Community and administrative personnel will be compatible with the "norm" numbers. The ratio of surface workers, which have been around 40 % since 1980's, will be reduced to 20-25 % in the estimated period after 1995, as a result of the satisfaction of the above criteria.

- As a result of the operation of new facilities for briquette and coal preparation plant, higher sales revenues can be obtained by improved products (even under the assumption that prices continue at the current lower levels). The predictable developments in the world coal markets in favour of TTK have not been considered.

- 40 % of the average periodic loss that occurred between 1988-1994 comes from interest and similar "out of operation" financial expenses. Since the end of 1994 preventive measures have been taken in order to pull the financial burden down to bearable levels. (Reducing the debts to zero, discharging TTK of SSK social benefit payments, etc.)

- Subsequent to the reorganisation in the structure and management of TTK, a dynamic structure emerged. Which is sensitive to marketing and producing projects for future years, planning investment in the

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energy sector and import-minded. Especially, the detail projects of investments are carried out rapidly.

- In both the 7th Five Year Development Plan and the General Studies of Energy Planning by the Ministry of Energy and Natural Resources, the hard coal production for 1995 and 1997 is e forecasted to be 4.4 million ton/year and 5.6 million ton/year respectively and kept stable until the year 2010. However, TTK is assumed to be diminished in size and no production increase is considered in the reports of State Planning Organisation and Undersecreteriat of Treasury and Foreign Trade. A possible resolution of this contradiction is to raise the production to 3.5 million ton/year in 1995, 4.4 million ton/year in 1997 and 4.6 million ton/year in 2000 (saleable production) and improve of TTK in accordance with the suggestions in this study.

The following targets are reached on the above assumptions if improvements are made:

- $ 275 million [$ 158 million domestic finance (mostly labour)+ $ 117 million external finance] infrastructural investment is realized in 4 years. This raises the run of mine production to 7.6 million ton/year and saleable coal production to 4.6 million ton/year.

- The saleable coal production is increased from 2.8 million ton/year to 4.6 million ton/year in 2000. Sales prices goes up from $ 37.5 /ton to $ 41.5 /ton in 2000 assuming the maintenance of current pricing policy. However, the average sales price of coal in the last 5 years is $ 48.9 /ton. Product improvement may raise it to $ 55.5 /ton approximately in 2000.

- The total numbers of workers and personnel drop to 17 000 and 1 550 total respectively (a decrease of 6 600). This will double productivity.

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- In case of relief of debts of TTK as of 1994, the subsidy requirement will go down from $ 684 million/year in 1993 to $ 199 million/year in 1995. It will than rise to $ 218 million/year in 1996 and fall again to only to $ 71 million/year in 2000 with further improvements between 1996 and 2000. By the attainment of current market prices, the subsidy requirement will only be $ 26 million in 2000.

- Costs, keeping the wages constant in dollar terms, goes down from $ 154.4 per ton to $ 64.4. The subsidy requirement falls from $ 116.9 per ton to $ 15.5. If the wages are agreed to be held constant in TL terms for one year in the 1995 collective bargaining, the subsidy requirement will cease after 4 years.

- The vital point is the start of the establishment of briquette and coal preparation plant undertakings by enterprises in 1995. These estimates will be postponed to the coming years as long as the establishment of the facilities are delayed.

- Amasra and Armutçuk could turn out to be profitable undertakings in the shortest run.(Appendix 2) Other undertakings will attain this level only after infrastructural investments. The reason is that the average coal sales price of Armutçuk and Amasra regions is $ 67.5 per ton due to briquetting of their dust coal whereas the average sale price for the coal is $ 37.5 in other usages.

2.3 Proposals [21, pp. 105-106]

- The results of the studies by TTK Commission for Inspection point out that the public enterprise management in Zonguldak Coal Basin is to the benefit of the national economy. In other words, there is no alternative to the operation of TTK as a SEE (State Economic Enterprise). Nevertheless, it is a contradiction that the problems TTK face stems from its SEE structure. This contradictory situation can only be avoided either by means of a renovation in the

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legislation concerning the SEE's or by letting TTK have an autonomous administrative structure that would serve to its aims via exclusive legislative regulations.

- Its openness to political intervention makes autonomy in TTK's administration almost impossible. Autonomous administration would only be feasible if a Board of on directors are insensitive to political pressures and where the labour force (both workers and technicians) is represented. The administrative structure and its numbers should be reduced in order to have a less bureaucratic and more dynamic managerial constitution.

- The managerial structure must be simplified, and an administrative model directly tied to the head office must be formed by increasing the authority and responsibility of the directors in the establishments. A more dynamic, contemporary undertaking should be attained by delegating more authority to lower levels and limiting the administrative structure.

- All hindrance on the managers to act like successful traders must be eliminated by appropriate control mechanisms. A skillful cost accounting team should be formed to provide restructuring required for modern managerial techniques.

- A wage system compatible with the realities of TTK based on the job evaluation will be applied to encourage productive labour instead of periodic wage increments.

- The penetration into the thermal coal market will significantly affect the financial structure of the enterprise. For this reason this should not be confined to Amasra and Armutçuk area heating coals, but compressed dust coal from Üzülmez, Karadon and Kozlu regions should also be considered for the market.

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- Beside briquetting and marketing of thermal coal, one most notable factor affecting the financial structure in the short run, is toown or take shares of Çatalağzı thermal power station. The prices for steam coals marketed to Çatalağazı were observed to be kept lower than the price prevalent on the world markets. As it is pointed out in the estimates, it would be more profitable for TTK to turn to the metallurgy sector by modernising the coal preparation plant. Since the operation in the energy sector affects the TTK's revenues adversely, possession of or partnership in an electrical power station would provide it with the possibility of obtaining a surplus value accrued in the sector or reducing its loss. If it is not possible to do so, the policy must be to determine the coal prices at world standards.

- TTK should take part in the energy sector rather than being a company only producing and selling coal. Apart from Çatalağazı electric power station proposed in Article 3, Amasra - B integrated project must also be considered within this context. TTK should also consider the production of coking coal and chemical materials based on coal for which the demand in the world goes up and should develop models to establish or become a partner to this kind of establishments.

- TTK's intensive knowledge and experience in mining may be utilised in establishing units to provide engineering and project services in both domestic and foreign markets. The revenues of TTK may be increased by the entry of these units into world markets and Turk republics.

- TTK should allocate resources to training and research and development concerning the diversification of product and activities and raising of productivity by lowering the costs in the medium and long-run.

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- Turkey, where the import of petro-coke with high sulphur (5-9 %) amounted to 2.2 million (ton/year) in 1993 and also an equivalent in 1994, is a good market for briquette hard coal. This will also help ease the environmental problems in big towns like İstanbul and Ankara. It will also be to the advantage of both itself and big cities if TTK enters rapidly into thermal coal market.

- The current sales organisation and marketing policies of TTK must be re-organised effectively. A novel and dynamic marketing unit must be established and this unit should be able to market other products and services of TTK. Considering the rising demand, in the coming years, for hard coal in Turkey, TTK may involve itself in importing of, and trade in, coal, and increase its revenues through participation in coal enterprises abroad.

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Appendix 1 Estimation of Optimal Annual Production for Zonguldak Coal - By Means A Simple Approach

The optimal annual production of a coal colliery can be determined approximately by the following "Zwiagin empirical formula".[15,16]

$$P_o = 31.62 . f . R_w^{0.9} . \varnothing$$

P_o = Optimal annual production corresponding to minimum production cost, ton/year

f = An empirical factor which can be related to production of a face "P_{face}" ton/month (in 10^3)

$f = 4.2 + 0.29\ P_{face}$

R_w = Recoverable reserve of colliery

$\varnothing$ = A factor taking into geological situations (increasing seam thickness, dip, frequency of tectonic disturbances)

Assumptions:

$$P_{face} = 300 \text{ ton/day} \times 26 \text{ day/month} = 7800 \text{ ton/month}$$

$$f = 4.2 + 0.29 \frac{7800}{10^3} = 6.462$$

$$\varnothing = 0.8$$

The optimal production can be written in the following form:

$$P_o = 31.62 \times 6.462 \times 0.8\sqrt{R_w} = 163.5 \sqrt{R_w}, \text{ ton/year}$$

By making use of this equation for Zonguldak Coal Basin production can be estimated. The results are summed up below: These results should be treated as "conservative values", possible increase in reserves in the next future will affect the optimal production in a positive manner.

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Name of Region	Reserve, ton ($x 10^6$)	Recoverable Reserve (*), ton ($x 10^6$)	Optimal Production, (ton/year) ($x 10^6$)
Kozlu	286	143	2.00
Üzülmez	254	127	1.85
Karadon	483	241	2.50
Armutçuk	94	45	0.60(**)
Amasra	291	145	2.00
Zonguldak Coal Basin			9.05

(*) (0.5 Reserve) is taken

(**) Actual production value is assumed because of specific geological situations belonging to Armutçuk Region

Referring to regression equation given in figure 2, annual production value for Zonguldak Coal Basin can be predicted as follows:

$$\frac{P}{N} = 0.0587 \left[\frac{R}{N}\right]^{0.5683}$$

Where;

P = Production of Hard Coal, ton/year
N = Population, $N = 60x10^6$ person
R = Proven reserve, ton (in this calculation, the reserve is assumed to be "workable reserve" i.e. approximately 0.5×10^9 ton for Zonguldak Coal Basin)

$$P = 0.0587 \left[\frac{0.5x10^9}{60x10^6}\right]^{0.5683} = 0.195 \left[\frac{\text{Ton/year}}{\text{person}}\right]$$

$$P = 60.10^6 x 0.195 = 11.7x10^6 \text{ ton / year}$$

Estimated annual production value is in a quite good agreement with the production value based upon Zwiagin empirical formula.

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Appendix 2 Prediction of Saleable Cost in Armutçuk Coal Region (1000$)

Saleable production costs for Armutçuk Coal Region were given in the following table.

Expenditure	1994(*)	1995	1996-1999	2000
Material	1 167	1 470	1 470	1 470
Labour	18.233	13.128	13.128	13.128
Personel	700	399	399	399
Electricity	1 067	1 344	1 344	1 344
Depreciation	467	588	588	588
Others	233	294	294	294
Financial	13.200	10 060	10 060	10 060
Briquetting	-	5 655	5 655	6000
Total	35.067	32.938	33.269	333.614
Production	311.700	377.000	377.000	400.000
Cost	113	87	88	84

(*) Actual Values

As can be seen production cost of Armutçuk Coal is approximately 87 $/ton , which is cheaper than import steaming coal price (100-130 $/ton) in domestic markets during winter season in Ankara and Istanbul. The same economic situation is also valid for the Amasra Coal Region .

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Glossary (4, ppix-xiii)

Ash: The inorganic residue remaining after the combustion of coal. It is less than the mineral matter content because of the chemical changes occurring during combustion, i.e. the loss of water of hydration, loss of carbon dioxide and loss of sulphurous gases from sulphides.

Bituminous coal: Bituminous coal lies between subbituminous coal and semi-low volatile nedium volatile and high volatile.

Calorific value: Also known as specific energy. This is the amount of heat per unit mass of coal when combusted.

Coking coal: Coal suitable for carbonation in coke owens. It must have good coking properties and should be high to medium volatile bituminous coal.

In situ reserves: The amount of coal in the ground within geological and economic limits. This can include both mineable and umineable reserves for which the tern resources may be used.

Raw coal: Coal which has received no preparation other than possibly screening.

Recoverable reserves: The reserves that are or can be extracted from coal seam during mining. Recovetertable reserves are obtained by deducting anticipated geological and mining losses from the in situ reserves (also known as Extractable reserves.)

Reserves: The amount of mineral which is calculated to lie within given boundaries. The reserves are described in away which is dependent on certain arbitrary limits in respect of thickness, depth, quality and other geologicoal and economic factors.

Run-of-mine coal: Coal produced by mining operations before preparation.

Saleable coal: The total amount of coal output after preparation of the run-of-mine coal. It equals the total run-of-mine tonnages minus any material discarded during preparation.

Steam coal: Coal not suitable as a metallurgical coal because of its non-coking characteristics; primarily used for the generation of electric power.

Sulphur: May be a component of the organic or mineral or both, fractions of a coal.Forms sulphur dioxide during coal combustion; a serious pollutant. It is also undesirable in coking coals because it contaminates the hot metal.

Volatile matter: Represents that component of the coal, except for moisture, that is liberated at high temperatures in the absence of air.

Washed coal: Coal that has been beneficiated by passing through a coal preparation wash plant.

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UK PRIVATISATION

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UK Privatisation

The term privatisation began to be used to describe the programme being pursued by Mrs Thatcher's administrations during the 1980's to roll back state involvement in industry. By the early 1980's the nationalised sector accounted for 10.9% of UK GDP at factor cost, some 7% of total employment and almost 17% of gross fixed capital formation. Apart from their overall, quantitative, significance, public enterprises monopolised or dominated the transport and energy sectors and steel making. Hence, the influence of their performance was pervasive throughout British industry. If they performed efficiently, they could underpin success elsewhere; conversely their inefficiency could undermine performance in the private sector. The ultimate motive for privatisation was the perception that nationalised industry was indeed holding back potential economic performance.

Although the intended result of privatisation was to transfer significant areas of economic activity from the public to the private sector, the policy involved more than straight-forward denationalisation. Indeed, privatisation does not necessarily involve any transfer of *ownership* of industrial assets at all. The military dockyards, for example, remained in public ownership for some years while their management (and therefore the entitlement to profits made) were transferred into private hands. But even when (as in most cases) ownership was transferred to the private sector, the intention was to couple denationalisation with other measures designed to change radically the way their business was conducted. In some cases liberalisation measures were adopted, aimed principally at sweeping away artificial restrictions on the freedom to enter and compete in an industry. In other cases, where utilities or natural monopolies were involved, more effective regulatory regimes were established to safeguard the consumers' interest.

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1. The Philosophy and Objectives of UK Privatisation

Most of the nationalised industries in the UK were created by the Labour government elected in 1945. Privatisation is clearly identified with the Conservative administration elected in 1979 (and which has held over since then). However the change cannot be attributed solely to differences in party political ideology. There had been earlier Conservative administrations (1950-1964 and 1970-1974) which had not attempted any significant reversal of the trend to public ownership.

What had changed by 1979, however, was the climate of intellectual opinion, as M. Dartan has pointed out. The corporatist, "statist", consensus of much of the post second world war period and the Keynesian revolution in economics had given way to attitudes which were much more free-market, liberal and laisser-faire. Privatisation in Britain was therefore primarily motivated by a general desire to reduce the influence of the state and, specifically, to get politics taken out of business decisions. Establishing the general philosophy underlying privatisation is a relatively easy task. More difficult is to determine the particular objectives sought by the government. These were never spelled out in any very specific form. Rather, as Vickers and Yarrow suggested[1] they have to be inferred from ministerial statements and speeches. The perceived objectives turn out to be multifarious, mutually conflicting in some cases and rather muddled.

According to Vickers and Yarrow, the implied objectives were as follows:

"[i] improving economic efficiency by introducing competition and removing constraints (e.g. in respect of borrowing) on the firms concerned;

[1] Vickers, J. and Yarrow, G., 1989, "Privatization in Britain".

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[ii] reducing the public sector borrowing requirement (PSBR);
[iii] reducing government involvement in enterprise decision making;
[iv] easing problems of public sector pay determination;
[v] widening share ownership;
[vi] encouraging employee share ownership; and
[vii] gaining political advantage."

The greatest scope for conflict occurs probably between the first two of these aims. The greatest potential source of improved efficiency for many of the huge undertakings lay in breaking them up into smaller units so that more competition, either actual or comparative, would be possible. However, the government's financial motive, to maximise the proceeds from the sale of the enterprises in order to reduce public borrowing, was most likely to be achieved by maximising their attractiveness to potential investors (and thereby also satisfying objectives [v] and [vi]). If investors could be promised high and stable earnings, most likely to be the case if the industries were monopolies or at least dominant in their industry, then the financial outcome would be more assured. Another consideration which had a bearing on the success of any privatisation measure was the extent to which incumbent management and workers could be persuaded to co-operate in the transformation process. This again was more likely if the degree of disruption to them was minimised, which again militated against any radical shake-up in managerial or working practices or in the degree of competition they faced.

Objectives [iii] and [iv] were clearly aimed at making the enterprises responsive to commercial rather than to political pressures and are in tune with the efficiency objective. Likewise, it could be argued that wider employee share ownership would promote behaviour in sympathy with efficient and profitable operations. The final objective reflects the political rewards that would accrue as a result of shareholder goodwill, should the investments made by them turn out to be lucrative. A

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controversial aspect of shareholder benefit was the early "windfall" gains made by many as the value of their shares soared above the offer price when trading began on the Stock Exchange.

Academic commentators have tended to be critical of the UK privatisation policy. Much of the criticism relates to a lack of consistency in terms of objectives and particularly to the failure of the government to pursue the efficiency aim more vigorously by promoting competition. Such criticism is only partly valid, however. It is important to relate the privatisation programme to the political context within which it was pursued. It represented a radical departure from what had gone before and has never enjoyed popular support before the event (although, paradoxically, once an industry was privatised there was no support for reversing the measure either). The main opposition party, the Labour Party (whose constitution contained the famous 'Clause Four', committing it to public ownership), fought each measure using every available legitimate means, inside and outside of Parliament and, until relatively recently, pledged to restore the enterprises to public ownership. And, although hindsight allows us to judge that the Conservatives had time to make the structural changes which would permit competition (breaking up monopolies), this was not apparent at the time. Indeed, it appears that Mrs Thatcher was heading for electoral defeat toward the end of her first term, during most of which her government was highly unpopular. It was the successful prosecution of the war to regain the Falkland Islands which allowed her to win a second (and subsequent) terms. Without the benefit of hindsight, the government was anxious to proceed as quickly as possible, privatising as many industries as it could, if only to render the task of renationalisation more difficult for any succeeding government. Thus it was that some of the large utilities, including British Telecom and British Gas, were left virtually intact, transforming them from public to private monopolies, albeit with stiffer regulatory constraints on their pricing.

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Fortunately privatisation is an on-going process and many of the early lessons have been learned and were and are being rectified by subsequent legislation. Hence, following the controversy over the "lock-stock-and-barrel" privatisation of British Gas, the government was careful to restructure the electricity supply industry prior to its privatisation in 1990 and 1991. The industry was thus separated into dependent companies responsible for, respectively, generation (initially two companies plus the nuclear plants which are to be privatised in 1996), transmission and retail distribution (several regionally based companies). Likewise the railways, which are being privatised during 1996, have been divided between several business operations, e.g. 'Railtrack' and various passenger and freight operating franchises.

Even companies which were privatised in an earlier phase are now being subject to more stringent regulation and greater competition. British Telecom, for instance, is obliged to allow its competitors access on fair terms to its transmission network; and those competitors are also allowed privileged opportunities to exploit cable technology to develop competing services tot hose of BT. British Gas is shortly to be broken up into separate transmission (pipeline operator) and supply companies and the latter are due to face competition in the market for domestic customers for the first time when, in May 1996, a pilot scheme is launched in the South West region of England. Industrial customers already have the opportunity to choose alternative suppliers to BG. This illustrates the point made earlier, that privatisation is about more than straight-forward denationalisation.

Privatisation was pioneered in Britain. It marked, as we said earlier, a radical change of direction in industrial policy. It is not surprising, therefore, if some of the early decisions produced less than optimal outcomes. What is important is that the UK (and others) learn the lessons that accumulating experience and changing circumstances provide and that the programme is adapted accordingly. This does appear to be happening.

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2. Specific Issues Raised by Privatisation

Privatisation raises a number of issues which have contributed to the controversy surrounding the programme in the UK. These include: allegations that the shares were underpriced; "cherry-picking" i.e. that only the most attractive, most profitable services will be undertaken, putting "public service" functions at risk; job losses; prices charged and quality of service to consumers; executive pay. These will be considered in turn.

2.1 Underpricing of Shares

In the case of many privatisation issues, shareholders made "instant" profits when the opening prices established on the first day of stock market trading rose to levels well above the offer price at which they acquired them. The controversy concerns the extent to which new shareholders made windfall gains at the expense of taxpayers who, under nationalisation, had been the ultimate owners. Some of the welfare transfers involved very large amounts. British Telecom shares, gained 86% and the amount of underpricing amounted to £1.29 billion. British Gas shareholders enjoyed a 25% gain and £518 million was transferred from taxpayers to their pockets. Similarly shares in British Airways (68% premium) Rolls Royce (73%) and British Airports Authority (46%) gave shareholders windfall profits of various amounts.

Some of the largest gains accrued to the early privatisation issues. In part this may be excused by imperfect information. Even with a liquid and well established stock exchange, no one in the UK really knew beforehand whether investors would take up very large amounts of new shares. The success of the BT flotation proved that the market could absorb such large new issues, partly because a new class of shareholder was created by the privatisation process (one of the government's subsidiary objectives). Unfortunately the large premiums created a "get

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rich quick" mentality among many new shareholders, many of whom sold out to take the instant profits. Nonetheless, privatisation has significantly increased the number of personal shareholders.

2.2 "Cherry-Picking"

There was considerable concern expressed, and skilfully exploited by opponents of privatisation, that some of the more unattractive (i.e. less profitable) activities undertaken by the nationalised concerns would be scaled back or shut down by the new private sector undertakings. They would, it was alleged, "cream off" profitable business, leaving many customers without a service. Many non-commercial, "social service" functions would thus be eliminated. As an example of these concerns, it was suggested that public telephone boxes (especially in rural areas) could disappear. Currently, concern is being voiced about the future of many branch railway services.

There are several responses to this issue:

[i] Less profitable functions can be safeguarded by including them as obligations laid down in the licence awarded to privatised firms which gives them the right to conduct their activity.

[ii] Loss-making activities can be specifically subsidised by the government if it is felt they should be continued. Some of the railway franchises currently being negotiated will be awarded on the basis of the least amount of subsidy tendered for.

[iii] Such specific subsidies are generally regarded as more efficient than the cross-subsidies (whereby one group of consumers support the benefits enjoyed by another group) that were used hitherto to finance unprofitable activities.

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[iv] In some cases there is little justification for the continuation of loss-making services on cost-benefit grounds. Inertia and the absence of a profit motive by nationalised industries had therefore delayed closures which were anyway justified on efficient resource allocation grounds.

[v] In other cases, activities on which nationalised dinosaurs had lost money can be performed more profitably by private businesses using more appropriate technology. An example in the UK is the employment by privatised British Airways of smaller, more economical aircraft, for the Scottish highlands and islands routes.

Some of the evidence accumulating suggests that "cherry-picking" is a less serious issue than was alleged. In the example of public telephone boxes, for instance, the number of British Telecom payphones *increased* from 76,000 in 1983/84 to 122,000 in 1993/94 and, moreover, a higher proportion (from 75% in 1987 to over 96% in 1993/94) were in working order at any one time. In addition, rival companies have supplied additional payphones.

2.3 Job Losses

There have been gainers and losers from privatisation. Greater efficiency, especially in terms of factor productivity, has benefited shareholders through higher profits and consumers through lower prices (in nearly all cases prices have been reduced in real terms). However greater output per employee has been principally due to significant reductions in the workforce since privatisation. Employment in British Telecom, for example, was reduced from 241,000 in 1983/84 to 151,000 in 1993/94. International competition forced large cost-cutting reductions in employment also at Rolls Royce (aero-engines), British Airways and British Steel, all of which are now among the world's most

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efficient operators in their respective fields. Though more insulated from competitive pressures, utility companies had also shed labour.

International competition and changing technology necessitated many such job losses. Elsewhere, they resulted because industries which had hitherto (in the public sector) been immune from commercial pressures and strongly unionised, were exposed to be cold draft of economic reality. One of the purposes of privatisation was indeed to replace political influences, which arguably delayed unduly such changes, with market forces which mandated a quick response to changing conditions. Initial job losses were the sharper, the greater the level of overmanning under nationalisation.

2.4 Prices and Service Levels

With the exception of the water services, real utility prices have been reduced following privatisation. In the case of telephones real prices were reduced by 35% between 1987 and 1994. Reductions in gas and electricity prices were obscured by the government's decision to apply Value Added Tax on fuel for the first time (the original intention was to apply the standard rate of 17.5% but this was subsequently reduced to 8% after Parliamentary pressure). Water charges, however, have risen, partly to fund much needed investment which had long been neglected under public ownership and partly to implement more rigorous European Union directives on water quality and seaside cleanliness. Unfortunately the higher water charges have tended to offset in the consumers' mind the benefit of lower prices for other services. Nonetheless, it is significant that prices do not figure very strongly in public comment about the effects of privatisation.

A possible indicator of service levels under privatisation is the number of customer complaints logged, either by the utilities themselves, or by their regulatory watchdogs. Judged by this criterion, the impression is one of

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growing dissatisfaction. However, other, more objective, indicators (such as response times when services are requested) do show improvements. It seems that the general public now expects more of private companies than they used to expect from public bodies. Also the government's own "Citizens' Charter" initiative, which specifies acceptable standards of performance, has raised expectations and encouraged people to complain when these are not fulfilled. It is also the case that political opponents of privatisation have lost no opportunity to blame any mishap on privatisation itself.

2.5 Executive Pay

A politically sensitive (rather than economically significant) issue has been the tendency for the chief executives and senior managers of privatised companies to award themselves large salary increases, compounded by very generous share option schemes. Their earnings therefore grew rapidly at the same time as a large number of employees were losing their jobs, while the remaining workforce were forced to accept very modest pay awards.

In part this has been an adjustment from the levels of pay prevalent in the public sector to those obtaining in the private sector. Political influences tended to make workers in the nationalised industries among the better paid unionised workers while managers tended to be paid well below comparable levels elsewhere in industry. One of the alleged reasons for the disappointing performance of nationalised industry was the inability to attract senior managers of suitably high calibre because of the poor relative rewards. While most people would accept the need to pay a competitive salary to attract the right personnel when a vacancy occurred, there seemed less justification in raising the reward substantially of an incumbent manager. Poor public relations in many cases exacerbated the controversy. However, to extend these were once-for-all adjustments, the issue is likely to disappear in time.

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3. Is the UK Experience Applicable Elsewhere?

The tide of intellectual thought which turned against public ownership and large scale state involvement in the UK has swept through many other countries around the world. Privatisation has become very much the orthodox approach across a wide variety of economic systems, ranging from advanced industrial economies, newly industrialising, developing, economies and the former communist bloc countries of eastern Europe. Given the range of different circumstances and different problems which privatisation was supposed to address, it is clear that the philosophy, motivation and methodology applied in the UK cannot be relevant everywhere.

An obvious conclusion to be drawn from this is that privatisation policy needs to reflect the particular economic, social and political conditions which obtain in each country which seeks to implement it. This was true even of the UK which has been held up as something of a rôle model. There are a number of features which characterised the British approach which may not be found in perhaps the majority of other cases.

1. Although a variety of methods were used in Britain, including trade sales and management (and employee) buy-outs, the dominant approach has been by new share issues. This was facilitated by the fact that the London Stock Exchange ranks among the world's top three (behind Tokyo and New York in terms of capitalisation and turnover, ahead in terms of international business). Even with a highly capitalised and liquid share trading system, however, privatisation proceeded very tentatively at first and it was not until the successful flotation of British Telecom that it was proved that the investing public would take up new shares in large quantities. In addition to the stock market, a highly sophisticated network of merchant banking and financial intermediation also contributed to the successful implementation of the programme. Where financial markets are smaller and less developed, the pace of privatisation by this method would be severely constrained.

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2. Although the UK government's perceived objectives were, as noted earlier, somewhat multifarious and mutually conflicting, there was a fairly well defined belief underlying them. This was a faith in the superiority of commercial judgements about investment, employment, wages and prices etc. and a belief that this and the profit motive would improve efficiency. The financial (public sector borrowing) aspect was really an incidental (and one-off) benefit. In other countries the proceeds from the sale of state assets (and their use) seems to be a more prominent concern. In less developed countries, for instance, governments have been under pressure from creditor institutions such as the International Monetary Fund to reduce their public sector deficits. Elsewhere, particularly in transitional (eastern European) countries, privatisation has been seen as a means of establishing or re-establishing private property rights. Privatisation has also been used as a means of facilitating the establishment or development of share trading.

3. The pursuit of efficiency has also become an imperative because of the increasing globalisation of competitive pressures. A failure to eliminate inefficiencies in a country's national infrastructure could result in severe damage to its trading and economic performance vis-à-vis other nations with which its industry competes. This concern with international competitiveness was prescient in the case of Mrs. Thatcher's administration and indeed the success of UK privatisation partly explains her determination to press the European Union to dismantle internal barriers to free trade and to establish a genuinely single market. Other EU countries are now having to emulate efficiency gains in order to ensure the survival of industries, such as airlines, which face direct competition and of others which depend for their competitiveness on the provision of efficient service by their own input suppliers. In the wider world, only countries prepared to maintain protective barriers (and suffer the consequences in terms of living standards) are immune from such pressures.

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4. In the UK, as was seen earlier, party political controversy and conflict affected the way privatisation was undertaken. Had the Conservative Party lost office earlier, the extent of the programme would, at least, have been curtailed and it may even have been reversed. Only comparatively recently have opposition parties recognised the fact that pledges to renationalise industries are electorally unpopular and even the Labour Party has now dropped the notorious "Clause Four" commitment to public ownership from its constitution. It now, somewhat inconsistently, vigorously opposes further privatisation measures but subsequently accepts the *fait accompli*. There is little doubt, however, that a more single minded approach to the issues would have helped to avoid some of the more doubtful consequences of speedy legislation.

Clearly, political considerations cannot be ignored. They differ from country to country and from time to time. In democracies particularly, the political consequences of job losses, regional decline, the price effects of ending subsidy payments, the loss of services altogether, as well as ideological factors must all be weighed in the balance. In some ways the international competitive imperative has helped governments do things which their national politics would not have allowed.

The general conclusion is, therefore, that privatisation is unlikely to be precisely the same phenomenon throughout the world. Even within the one country where it was first applied, it has adapted to changing circumstances and in the light of experiences. Each country must do its own thing in the light of its own unique character and objectives.

Rereference

Vickers, J. and Yarrow, G. (1989), "Privatization in Britain", in MacAvoy, W., Stanbury, W. T., Yarrow, G. and Zeckhauser, R. J. (eds.), *Privatization and State-Owned Enterprises: Lessons from the United States, Great Britain and Canada*, Kluwer Academic Publishers, London, pp. 209-245.

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THE ALTERNATIVE SOLUTION TO SECURE THE FUTURE OF THE "TTK" IN ZONGULDAK

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The Alternative Solution to Secure the Future of the "TTK" in Zonguldak

Zonguldak is a typical city of coal mines with is villages and countries. There are about 40 thousand workers in mines, but there is no one who doesn't have any relation with mine-working in Zonguldak, where live more then 1 million citizens. For this reason, any kind of development about mines affects Zonguldak deeply. Even a little shock underground causes big earthquakes at the surface. Because of this, every policy dealing with mines and miners must take the whole Zonguldak into account and guarantee a future for all our people.

1. To close or sell the mines to monopolies should never be considered.

2. In order to clarify the issues which have historical and political bases such as unproductivity of mines, loss of TTK (Turkish Coal Enterprise), surplus in employment; to prepare and implement *a shock* plan of investment and production; to control distribution and consumption system, a council, so called *Zonguldak Council*, that will represent the whole of Zonguldak people, must be established.

3. This council must be formed by:

   a) The representatives of a trade union which has the knowledge of coal production, and the capability of representing workers, and implements the principles of class and mass unionism.
   b) The representatives of engineers and technicians who know the science of mining well and who want to use the knowledge for the utility of miners and people.
   c) The representatives of local municipalities, from Amasra to Alaplı, from Devrek to Yenice, from Zonguldak to Çaycuma, from Kozlu to Kilimli, who represent and serve the whole Zonguldak people.

   - The formation and working rules of this Council should be determined independently and on behalf of Zonguldak people.

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- All existing plans of investment and production about Zonguldak mines have to be canceled; a short run "shock plan" that is based on the interests of mines and people, not of capital must be prepared.
- The Council must determine and implement a new employment and deployment of labour policy.
- In every process from production to distribution, from job safety to life security, new and productive technologies must be oriented and realised in the context of the "shock plan".
- Electro-mechanical services and all workshops must be developed and become productive.
- Buying the products of TTK by real price must be an obligation for every enterprise which uses coal as input, especially iron-steel factories; the official authorities must be responsible against Zonguldak Council for the implementation of this decision.
- Governments should declare the annual energy need of the country to Zonguldak Council 3 months ago and prepare an energy plan to satisfy the need according to reply from the Council.

However, in this restructuring process the government must realise a historically important demand: the loss caused by selling coal under market prices for 20 years and the investment and this debt must be paid to the enterprise.

This reconstruction model can be suggested for all public enterprises in the privatisation process that have big losses because of policies that favour capitalists. It will improve productivity and working of these enterprises in the interests of people. It will also provide for working people, who produce values and wealth, to learn management consciousness and practise. We must be in class struggle every time for more humanistic, more equitable and more beautiful world and we must know to win our rights as we know to pluck coal by pickaxe.

If we believe that producers will be managers, we must learn how to manage as we learn coal producing. As a result, privatisation or closing is not the solution. The solution is the voice, power and decision of Zonguldak Council.

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The primary purpose of this book is to examine the changing role of the state in a market economy in the cases of the British and Turkish privatisations. Given the prominent role of public enterprises in the economy, and their often disappointing performance, policies to improve their efficiency and financial results would be crucial in achieving a structural transformation and modernisation of the economy. And important instrument to be used this effect is privatisation which has been brought to the forefront of the worldwide political debate since the 1980s.

Especially, the UK has played a leading role to carry out a privatisation programme successfully and has encouraged many developed and developing countries. In the course of studying the UK privatisation process, and as a second purpose, we analyse the transferability to Turkey generally and then in the coal sector particularly.

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