British Telecom confronts falling share prices and £30bn debt

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British Telecom (BT), once the pride of the Tory privatisation program and a flagship of the Thatcherite myth of popular capitalism, is reeling under a mountain of debt and share prices that have slumped to less than a third of what they were a year ago.

Hopes of selling off BT Cellnet, the company's wireless sector, and Yell, the yellow pages directory division, to help cut at least £10bn from an estimated £30bn debt were dashed by the recent collapse in stock market valuations in the US and internationally. Selling these parts of the business now at a much lower price than expected would only earn the company further criticism from its shareholders.

BT, privatised in 1984, was among the first of Britain's state-owned industries to be sold off by the then Conservative government. Essentially aimed at bringing revenue into the Treasury to facilitate tax cuts for the Tory government's big business backers, the privatisation was dressed up by references to ending BT's monopoly and encouraging popular share ownership. Over two million small investors bought shares in the company, and thousands of employees were given shares as part of their new contracts or severance packages. These quickly found their way back to the major institutional investors however, as many small investors sold while the values were high.

Within three months of privatisation more than 80,000 jobs were shed. As with other former state-controlled entities, one of the first priorities of the new board of directors was to safeguard their own substantial salaries and bonuses, which bore no relationship to the real position of the company. In the year 2000 alone, the board received some £2.2m in salaries and a further £1.3m in special bonuses.

Privatisation was presented as paving the way for an end to the monopoly, which BT (previously part of the Post Office) had maintained for much of the 20th century. Three years prior to its flotation, BT's monopoly was replaced by a duopoly under the 1981 British Telecoms Act, which forced BT to compete with Mercury, a Cable & Wireless subsidiary. Privatisation brought with it the promise of greater competition and reduced costs for telecommunications services. In the event, it was to be a further seven years after privatisation before the duopoly of BT and Mercury was brought to an end.

Even now, BT has had to be instructed by the government's telecom watchdog Oftel to open up more of its network and exchanges to competitors, as well as to cut its own prices. The company is currently engaged in a heated battle with rivals over providing access to its local exchanges, an important step in allowing the introduction of un-metered high-speed Internet services.

Under conditions where a *Guardian/ICM* opinion polls shows 66 percent of the general public in favour of the re-nationalisation of former state-owned industries, BT remains the exception, with a majority of respondents saying they do not want to see it taken back into state ownership.

The monopoly still enjoyed by BT on the “local loop,” the final mile or so of the wires linking a telephone exchange to home or business premises, is generally regarded as the reason why the cost of calls in Britain is above average by international standards, and why the UK retains a system of metered local call charges as opposed to the unmetered fixed-rate system in the US. This pricing structure provokes hostility not only from household consumers, but also from sections of big business and government, who see it as hindering the growth of electronic commerce and access to the Internet.

Far from securing the healthy development of telecommunications in Britain, however, the privatised company has stumbled from one crisis to the next.

The introduction of competition into the UK telecommunications market proved disastrous for BT. As the firm's new competitors such as cable companies and resellers began to cut into its profits, BT looked to international markets to boost revenues it was losing at home.

Of particular importance was the US market. BT's attempted to merge with MCI in 1997 failed when BT tried to renegotiate the terms of the merger following a profit warning issued by MCI. While BT dithered, its US rival Worldcom secured a deal instead.

A year later in July 1998, BT clinched a deal with America's AT&T to form a joint $10bn global venture. By international standards however, BT remained small and limited in terms of global reach.

Despite the specific history of BT as a former state-owned company, which for many years enjoyed an unchallenged monopoly, similar problems confront other telecommunications companies throughout the world. BT's difficulties arise from the intensive international competition and a frenzy of mergers and acquisitions within telecommunications, creating giant conglomerates with huge revenues.

As with several of its European counterparts, a large slice of BT's £30bn debt came from the purchase of so-called “third generation” mobile phone licenses at much-inflated prices at the height of the international boom in technology stocks. The subsequent drop in the value of these shares has prompted demands that BT deal with its debt problem as a matter of urgency.

Moody's Investor Services is an international credit rating agency. The ratings they award to a company largely determine the interest rate the firm will pay on its debts. Moody's has warned that it might downgrade BT, making its debt more expensive, also placing the company under further pressure.

The BBC reported Tuesday March 20 that BT had cancelled a meeting with disgruntled shareholders due to fears that senior executives would be called on to resign. The company has already replaced finance director Rober Brace with Philip Hampton, who helped in the break up of British Gas. With its stocks at a three-year low, shareholders want to know how the company will reduce its massive debts. One rumoured solution involving shareholders purchasing a further £5bn worth of stock is thought likely to be rejected.

On Friday, BT was expected to name Land Securities Trillium and the Mapeley consortium as the two short-listed bidders for the sales of the company's estate of 7,500 sites. While some of the sites include office space, BT owns 6,400 telephone exchanges and it is these that are expected to raise the most money. Oftel has prevented BT from selling the exchanges outright. Instead they will be leased for 130 years, and then leased back by BT on 30-year agreements with an option for BT to vacate the premises after 15 years. The sale is expected to raise £2bn. In addition, the plan means that BT can outsource its real estate ownership, extricating itself from what it regards as “non-core activities.” Contracts are unlikely to be exchanged before the end of the year, but BT building and support staff could be transferred to the new owners before the end of the summer.

While good news for Hampton, who is credited with kick-starting the property sale, it would have little impact on BT's wider debt problems.

Reports indicate that BT may look towards a solution being considered by Deutsche Telekom. The German company is considering using future income from phone bills to cut the cost of its present debts. The prospective revenue would be used as security to gain cheaper loans. However, such a strategy is not without dangers. International competition and new developments in telecommunications such as Internet telephony are pushing the cost of calls downwards. The value of tomorrow's phone calls may prove far less than BT has estimated.

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