Poland: A Fork in Road

Poland enters 2002 with far more questions asked than answered. This applies not only to questions about what is the future for privatization and liberalization in the power markets, but for the general economy as well.

The elections of September resulted in a radical change in government: the previous government's party (AWS) did not only lose control of the parliament, it didn't even get into the new parliament. The new (Social Democratic Left, "SLD" or ex-Communists) ruling party, with nearly an absolute majority in the parliament, takes this as a mandate from the public for change.

But, the new government lacks resources to make a number of the changes it would like to make. The country's monetary and fiscal situations are in chaos. The expected budget deficit for this year could be more than 5% of GDP, unemployment has soared, and economic growth has come to a virtual halt. The new government comes in with a mandate to fix things, but "fix" in the eye of the public may not be what "fix" in the eye of those who view the task of government in a responsible way would have in mind.

In the last years of the AWS government (in power from 1997 to 2001), a policy of rapid and aggressive privatization started to develop. In the power sector, quite a bit was done. Two of Poland's largest coal-fired power stations (Rybnik and "Połaniec") were sold. A number of CHPs, including the Warsaw Heat and Power Company with five plants, two of which are very large CHPs, were sold. As well, the largest electricity distribution company ("GZE") was sold. In general, "sold" meant that a stake of 25% in the case of large power plants, or over 45% in the case of CHPs, was sold with the government retaining the rest of the shares. The employees got a small stake that they are free to sell after time, and a small stake is set aside for the "Reprivatization Fund." In all cases, the buyer takes over management control of the company, although it remains to see how real that control will be when the government retains veto rights at a minimum (generally, major decisions need to be ratified by at least 75% of the shareholders), and in many cases the government kept over 50% of the shares.

Furthermore, when AWS left government, it left in process a number of major privatizations such as the so-called Group of Eight (eight electricity distribution companies in central-western Poland, amassed but not merged), the Warsaw electricity distribution company (second largest in Poland), and a number of CHPs. The completion of these is very much in question.

There is a tug-of-war going on presently in the Polish government. At issue is whether or not to continue the privatization program the government inherited in any form, and if so, how should that form be modified. On one side of the issue is the Minister of Finance, Marek Belka, whose task it is to find a way to finance the budget deficit. The previous government had become addicted to revenue streams from privatizations, so slowing or stopping privatization puts a big hole in the government's revenue stream.

On the other side of the issue is the Minister of the State Treasury, Wiesław Kaczmarek. In the run-up to the elections, Kaczmarek was highly visible and very articulate on the campaign trail, being sharply critical of the AWS privatization program. He had two primary themes.

First, he believed that the AWS government lacked a coherent plan of privatization that included preparing the companies, and the sectors, properly for privatization. It also lacked criteria and well thought-out procedures for the privatization sale itself.

Second, he thought that it was simply bad government policy to use privatization revenues for general budgetary purposes. Not only did he think that was a bad habit to start with, but he also felt that privatization proceeds should be more directed to the companies themselves rather than to the government. For the long term development of the Polish economy, he felt that the money from investors should go to the development and restructuring of industry so as to create wealth and jobs.

In theory, it is hard to fault Mr. Kaczmarek as far as that goes. But, he also went further. In the power sector, Mr. Kaczmarek seemed to embrace a concept that had been hatched in the AWS Economy Ministry under Janusz Steinhoff. That is the idea of building regional, vertically integrated monopolies. The trailblazer in this concept was the Southern Energy Consortium ("PKE") under the leadership of Jaworzno president Jan Kurp. The idea would be for a group to be created that would include coal mines, power generation facilities, and electricity distribution. Following on PKE, the Bełchatów power plant, coal mine complex sought to start another consortium as did the Turów power plant, coal mine complex. How such consortia would function under the principles of the Polish Energy Law was not clear, but seemed possible. The president of the Energy Regulatory Agency ("URE") voiced no strong objections. How that concept fit with bringing the Polish power sector into line with EU policies of liberalization and competition is another question.

The tug-of-war, however, is clear. Minister Belka wants and needs any revenues he can get his hands on and opposes any plans to slow or halt privatization. Minister Kaczmarek seems opposed to carrying on with privatization for a number of theoretical and practical reasons, supported by a general political resistance to "selling the family silver."

Mr. Kaczmarek has also stated a firm preference for limiting the sale of strategic assets, such as power generation, to Polish investors.

To make matters worse, Poland's sense of timing over the last decade could have been better. When Poland was being overrun by investors from all over the world, Poland played the reluctant bride. By the time the bride decided it was time to get married, world market conditions had changed, as had the universe of investors in the power sector. A great deal of consolidation had taken place, reducing the number of players, and many investors had filled their plates and had little appetite left over for Central Europe, where things are difficult and slow in any case.

The result has been that Poland's privatization splurge in the power sector during the last two or three years of AWS government was, in simplest terms, the sale of Polish state-owned assets to state-owned companies from France and Sweden, plus a state sanctioned near-monopoly company from Belgium. Totally absent from the scene, in the end, were companies from the U.S., U.K., Spain, Ireland, Italy, and others where the governments were less involved. This raised the question: is the sale of a state-owned asset to another state-owned company, albeit foreign, really a privatization?

What's next, then, for Poland? "Forecasting is difficult, especially when it concerns the future." Especially now. As a practical matter, the lack of qualified bidders makes any return to aggressive privatization difficult. A preference for sale to Polish investors implies a delay in waiting for the pension funds to develop significantly. A complete stop to privatization also will not occur, so here is what we expect.

Privatizations likely to bring significant revenues into the state coffers this year are likely to proceed after much squabbling and shifting of blame from ministry to ministry. Examples are the Group of Eight and STOEN, the Warsaw electricity distribution company. Smaller CHPs that do not rouse too much political opposition will also proceed.

But, do not expect any great new initiatives this year, nor the revival of any “hot potatoes” like Bełchatów. This will be a year of planning, political hassles, and economic restructuring in Poland. Sometime during the year, we expect that the Council of Ministers may approve a policy for privatization. We do not expect to hear any echoes of Thatcherism in such a policy. Longer term, we hope, but cannot predict, that Poland will turn away from a return to Socialism and state control of infrastructure assets. But, we do not advise that anyone count on it just yet.