

Poland

Privatization Recap and Update

PAN EURASIAN COMMENT

The period of the AWS government (1997-2001) saw a number of changes in Poland, and a great deal of work on privatization. To its credit, that government tackled some very sensitive issues: the privatization of the “family silver.” The problem was that the public was not helped to understand that the family silver was tarnished, incomplete, damaged, and was plate, not Sterling.

At the same time, the government elected to proceed with five essential reforms of government that were, in hindsight, more of a bite than they could swallow effectively.

Those two factors, combined with enormous amounts of squabbling and alleged increases in corruption, has left the country in 2001 in worse condition than it was in 1997.

In privatization, there seemed to be a lack of consensus even amongst the government policy makers themselves about what should be privatized, how and when. Great tension existed between the Ministry of the State Treasury and the Ministry of the Economy with Economy winning out in the end. MOE was no great advocate of privatization.

But the Treasury ministry also created enormous problems for itself, especially when it tried (one year after the deal was closed) to cancel an insurance industry privatization. It seemed each week brought a new announcement of the strategy for privatization, and each new strategy was a odds with previous versions. Confusion reigned.

In the power sector, the result was mostly the sale of State assets to State-owned companies from other countries, notably France. The following lists show the dominance of Électricité de France in the privatization of the Polish power sector. The motives of the French government for the diversion of tax-payer monies in this direction are not clear to us, but it is clear that EdF, GdF and SNET are on an acquisition campaign of significant proportions with the full support of the French government. Shareholder-owned companies are noted by their absence from the following lists.

The period has also been one of “teething” for the new Energy Law and the regulatory agency that it established (“URE”). It has been most uncomfortable, as teething usually is, for both the baby and all those around it. There have been a number of squabbles between regulated companies and the regulator, some of which have ended up in the courts. In general, there are complaints from those regulated that the regulator is capricious and arbitrary in his treatment of costs of equity and recognition of the need to make a profit. The regulator is accused of putting social considerations way ahead of economic ones. In fairness, we accept that he is charged with considering both, and in a fundamentally Socialist country, emerging from a period of Communism, favoring economic considerations would be difficult and unprecedented.

For these reasons, we will watch with interest the workings of the new, SLD, government. This government is avowedly Socialist, but has promised more discipline and less squabbling. Certainly, Poland needs to concentrate on getting the country steadied down and back on track to catch up with its western neighbors. The main priorities of the new government will be to get the economy back on a stable footing and to join the EU in 2004. Those alone will take a great deal of work. Where privatization fits into that picture has not yet been made clear.

Below we present a recap of what is happening, and what has been “completed.” The word ‘completed’ may overstate the status because in many cases the government still holds a majority of the shares and the investors hold minority stakes.

IN PROGRESS:

1. The “Group of Eight” distribution companies in western and north-central Poland. A package of eight of the thirty-three electricity distribution companies (no significant ownership of generating capacity) was put on offer earlier this year. Iberdrola was awarded exclusivity, but failed to complete negotiations within the allotted time. Exclusivity has more recently been awarded to the Polish electricity and telephone conglomerate - Elektrim. Reports are that Elektrim is seeking a “money” partner to join a consortium of Polish companies that are already in it with Elektrim. The problem is, none of them, even collectively, have enough money to pull it off, so they need a money partner.
2. Elektrociepłownia Skawina, a combined heat and power plant serving the city of Kraków is in the final stages of privatization. Exclusivity has been awarded to PSEG Global, a U.S. electric utility company investment arm. This deal has been rumored to be ready to close for some time now. We expect something will happen soon. (PSEG is also building a new CHP in Chorzów, Poland. See below.)
3. Elektrociepłownia Zielona Góra, a combined heat and power plant serving the city of Zielona Góra. Exclusivity was awarded to a consortium of EdF, Polish Energy Partners, Dalkia, and Kogeneracja (the Wrocław-based CHP also controlled by EdF). It, too, seems overdue for finalization. We expect to hear something soon about this project.
4. Toruń (2 CHPs). Exclusivity was awarded to a consortium of EdF, GdF, and Dalkia. Not much is being said about this privatization project and we are unsure of its status.
5. Elektrociepłownia Tychy was withdrawn after SNET (owned by Charbonnages de France, EdF and ENDESA) failed to negotiate a satisfactory agreement with the previous government.
6. MPEC Poznań (the district heating company (no electricity generation) in Poznań) The seller is the City of Poznań. No recent progress has been noted on this transaction.

Prominent on the list of companies being “talked about” for privatization is STOEN, the electricity distribution company serving the city of Warsaw. No announcement has yet been made by the new government, but it is generally expected that bids will be invited in the near future.

However, in pre-election speeches, the new Minister of the State Treasury Kaczmarek repeatedly expressed a preference for restructuring the industry into a series of vertically integrated, regional monopolies before privatization. Such companies would include coal mines, generating companies, and distribution companies. He also has stated on numerous occasions a preference to hold off on privatizing the sector until the Polish capital markets, notably pension funds, were large enough to absorb a series of power IPOs. He seems to be reluctant to put infrastructure assets into the hands of foreign investors. In view of the present government budget deficit problems, it is a question as to whether he has the luxury of time on his side to implement such a strategy.

COMPLETED

1. Elektrociepłownia Kraków (Og); purchased by EdF, and generally considered a very successful privatization. The transaction was the first power sector privatization, closing in the mid-1990s. The process by which it was privatized was painful, and controversial, and took many years of negotiating, with many buyers, starting in 1990.
2. ELCHO, a semi-greenfield CHP in Chorzów owned by PSEG Global. This was also a long and painful project in its development, starting in 1991. It is considered a privatization because the existing CHP, serving the city of Chorzów and local industrial customers, was included in the deal.
3. Elektrociepłownia Nowa Sarzyna, an industrial CHP built on a greenfield basis by ENRON. This was not a true privatization as the previous CHP serving the chemical plant at Nowa Sarzyna was not taken over by ENRON. The project was selected as part of a competitive bidding round in 1995 sponsored by the Polish Power Grid Company ("PSE"). The project was the first true project financed power project in Poland, based on the traditional structure of long term power purchase agreement and fuel supply agreement (linked with pass-throughs), and limited recourse to the project sponsors.
4. Elektrownia im. Tadeusza Kościuszki S.A. ("Pomianiec"), a system power plant for which Tractebel (Electrabel) was the successful bidder.
5. Górnośląski Zakład Elektroenergetyczny S.A. ("GZE"), the largest single electricity distribution company in Poland, located near Katowice. The successful bidder was Vattenfall. This was the first privatization of an electricity distribution company in Poland, and was important because of the huge debts owed it by state-owned steel mills, coal mines, and the like. The collection of these debts by the new owners has turned out to be controversial and difficult.
6. Elektrociepłownia Warszawie S.A., the heat and power company serving Warsaw. It actually consists of six power plants, one of which is largest CHP in Europe. The successful bidder was Vattenfall.
7. Elektrownia Rybnik, and large system power plant located south of Katowice. The successful bidder was EdF with EnBW (in which EdF is a significant investor). This was a controversial result as the initial bidder selected (U.S.-based NRG) could not accept the fuel supply risk and had to withdraw from the process.
8. Zespół Elektrociepłownia Wybrzeże, the heat and power plant serving the city of Gdańsk. The successful bidders were EdF in partnership with GdF.
9. Elektrociepłownia Białystok, a CHP in northeastern Poland. The successful bidder was SNET. One year after the deal "closed," SNET is still awaiting Ministry of Interior approval.
10. Kogeneracja, the heat and power company serving the city of Wrocław. Initially, this was a stock market IPO, but EdF and EnBW bought up the stock.
11. MPEC Wrocław, the heat distribution company serving the city of Wrocław. This was an IPO, and remains a listed, publicly traded company.
12. Elektrociepłownia Białdzin, initially an IPO, then absorbed by MEAG.

Note: SNET is Société National d'Électricité et de Thermique, France, of which EdF is a shareholder. EdF is also the major shareholder of EnBW. EdF is Électricité de France, and GdF is Gaz de France.