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The PB Newsletter

A Publication of the Privatization Barometer
www.privatizationbarometer.net

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Reporting on privatization in the enlarged Europe

Building momentum

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THE WEBSITE ON PRIVATIZATION IN EUROPE

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The PB Newsletter

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Editor:
B. Bortolotti

Scientific Advisor:
W.L. Megginson

Researchers:
L. Farinola
M. Leone
V. Milella
E. Panetti

c/o Fondazione Eni Enrico Mattei - FEEM
Corso Magenta 63, 20123 Milano - Italy
tel +39 | 02 | 5203.6968
fax +39 | 02 | 5203.6946
e-mail: info@privatizationbarometer.net

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What is the PB Newsletter?

The PB Newsletter is a semi-annual report on privatization activity in the enlarged European Union. It aims at monitoring the most recent trends, at analyzing aggregate data on revenues and transactions, and at providing updated statistics at the country and sector level.

The PB Newsletter highlights the most important deals, which are regularly commented on by privatization guru William L. Megginson. It also hosts contributed articles by top international scholars, who will make accessible to the reader the most recent results of professional research.

The Newsletter will also report on the PB indexes, a series of indicators which will follow the performance of equity investment in privatized companies in the EU.

Rigorous, updated, easily accessible and freely distributed on the web, the PB Newsletter is an authoritative source of information and a vehicle for a more informed discussion on the choices and consequences of privatization.

Executive Summary

Fostered by favourable market conditions, European governments pushed forward the privatization agenda in the first semester of 2005. Sales were executed by 14 countries of the enlarged European Union, raising €15.4 billions in 37 major transactions. These totals mark an increasing trend with respect to those of 1H2004.

Two aspects of privatization activity of the semester stick out: the resort to accelerated (secondary) transactions (AT), and the important stakes sold in the telecommunications sector. More than a half of total proceeds of the semester have been raised through accelerated transactions, such as bloc trades and ABOs earmarked only to institutional investors. We thus observe a consolidation of a trend which started in 2004, and may have dramatic implications for public equity markets. Indeed, the preference given to AT may mark a declining role of retail investors in privatizations. A second important feature is the concentration of activity in TLC, where we observe both the largest secondary offering (the AT on France Telecom), and the largest private placement (the sale of the majority stake in Cesky Telecom to Spain's Telefonica).

France and, surprisingly, the Czech Republic lead the country ranking thanks to these major deals, immediately followed by "usual suspects" such as Germany and Italy. Since the revision agreed upon in March, distressed European governments can deal with a more flexible Stability Pact. Nevertheless, fiscal adjustment remains a top priority in the agenda and privatization one of main policies to achieve it.

But how can governments with tight budget constraints support the financing of investments, which are badly needed to foster economic growth? Some lessons can be drawn from the experience of developing nations, where more than $750 billion have been invested in private infrastructure projects. Ioannis Kessides, one of the major project finance experts of the World Bank, analyzes the issue in this newsletter. In his view, successful infrastructure development needs three basic ingredients: privatization, competitive restructuring, and regulatory reform. A key argument for privatization is that, relative to state-owned utilities, private owners and operators who face competition have stronger incentives to control costs, respond to consumer needs, and adopt new technologies and management practices. Pre-privatization restructuring is at least as important. To maximize proceeds, some fiscally strapped governments have sold utilities as monopolies. But this choice is deeply flawed. At first sight, longer exclusivity periods elicit higher bid prices because a stream of monopoly profits seems less risky than a stream of competitive returns. But without large public subsidies for customers with limited ability to pay, high monopoly prices reduce the demand for services - leading to less private investment. By contrast, lower competitive prices - as long as they provide enough revenue for the network utility to compete with other firms in the economy for financing to maintain, replace, modernize, and expand its facilities and services - increase demand and sustain more private investment.

The challenges that European policy makers are facing in the design of future privatizations have been the topic of the first PB Workshop organized in Rome under the auspices of Fondazione IRI. International policy makers, representatives of European privatization agencies, leading investment bankers and consultants, and top-tier academics have met to brainstorm over the European privatization agenda and the role of privatization as a driver of economic and financial integration.

An important issue – which has also been set forth recently by the OECD – is the peculiar corporate governance problems affecting state-owned and partially privatized firms. Indeed, these companies may either suffer from a passive attitude or from excessive political interference by the State as large shareholder. Furthermore, they are often not accountable, being subject to multiple principals with conflicting objectives. The French government – which is planning to launch a privatization process of unprecedented scale in the country – has taken an important step in that direction by establishing in 2003 the Agence de Participations del l'Etat (APE). Its general director, Denis Samuel Lajeunesse, reports in this newsletter the main mission and results of the initial activity of the agency, which manages 70 entities with assets worth €500 billions. The philosophy behind the creation of the agency seems to be a functional separation of the ownership rights which are retained by the Ministry of Finance from the control rights, which are attributed to APE. This design should improve accountability and corporate governance and make more effective and transparent the privatization process.

In his article, Leszek Balcerowicz, one of the main actors in Poland's successful transformation and now president of the National Bank of Poland, provides his insights on some fundamental issues. His key proposition is that privatization, democracy, and rule of law go hand in hand. If the economy is state-owned, the links between politicians and the managers of SOEs are so strong that it is unlikely for the former to enact and enforce legislation independently from the latter. Furthermore, the inefficiencies of the public sector are not uncovered in the absence of democratic oversight. However, public discontent – if not suppressed – may lead eventually to economic transformation.

In developed economies, privatization has been a driver of financial market development and integration. Massimo Capuano, the CEO of Borsa Italiana, provides an account of the Italian experience from his unique point of view. Privatization has contributed to a radical change in the size of the Italian stock market in terms of market capitalization, turnover, and investment flows to companies. It also had a strong impact on the ownership structure of Italian listed companies, with an increased presence of households and foreign investors. The process has promoted an equity culture among small investors, who typically have privatized companies' shares in their portfolio. Indeed, the Italian case suggests that a well-designed privatization process may jumpstart a fledgling stock market.

The challenges faced by accession countries in privatization of infrastructure are the focus of the contribution by Vittorio Pignatti, vice-chairman of Lehman Brothers. Domestic debt and equity markets are not ready to finance large projects. Furthermore, public money will be mainly spent on social security, health and education. Then, at least in the near future, infrastructure investments will have to be financed by foreign capital. The risk-return profile of these projects has improved dramatically in recent times. Financial convergence has strongly reduced the differential risk profile between New and Old Europe. Interestingly, there is clearly an "accession" effect at work: convergence in spreads is not visible in other European countries not part of the EU. But lower risk is not enough to attract the critical mass of investment which is can spur growth. Returns are needed. The definition of priorities in terms of sectors and allocation of commitment/liabilities between consumers and the governments to boost development is key to moving forward. To put it more bluntly: Who will pay?

The risk and return profile of privatized assets is a fundamentally important issue. The most recent updates from our PB Indexes – which follow the financial performance of privatized companies in the Old and New Europe – provide some new and interesting information. Overall, privatized companies strongly outperformed the Dow Jones STOXX Total Market Index (TMI) of European stocks, which we use as a benchmark. The PB Composite gained (annualized) excess returns of 11.9 percent. Sources of out-performance have been mainly the privatized companies in the banking, industrial, and telecommunications sectors. Abnormal returns survive when they are adjusted for risk. The PB Composite yielded approximately 6 percent excess returns over a broadly diversified portfolio. Indeed, idiosyncratic factors seem to affect the risk-return profile of privatized companies, and global investors may find new diversification opportunities in privatization-related funds.

As usual, we conclude with our forecast for 2005. Should present market conditions continue, the sheer size of the transactions currently under execution and the large deals already in the pipeline allows us to forecast that revenues raised in 2005 will be close to €90bn. France, by pushing strongly privatization of its energy giants Gaz de France and Electricité de France, will get the lion's share, followed by Italy and Germany. After a "business as usual" 1H2005, the next semester may truly have big surprises in store.

Italian version

Le condizioni favorevoli dei mercati hanno consentito ai governi europei di riaprire subito il dossier privatizzazioni all'inizio del 2005. Si registrano 37 operazioni rilevanti in 14 paesi dell'Unione Europea, che hanno realizzato 15,4 miliardi di euro di ricavi. Il dato tendenziale mostra un consolidamento del processo rispetto al 2004. I due aspetti principali che caratterizzano le privatizzazioni del semestre sono l'ampio ricorso a transazioni accelerate secondarie e la rilevanza delle quote cedute nel settore delle telecomunicazioni. Più della metà dei ricavi complessivi è stata realizzata attraverso *block trades* e *ABOs* rivolte unicamente a investitori istituzionali. Osserviamo dunque il consolidamento di un trend iniziato nel 2004 che può avere implicazioni significative sui mercati finanziari. Indubbiamente la scelta sistematica di transazioni accelerate potrebbe segnare in futuro una minore importanza del segmento *retail* nelle privatizzazioni. Una seconda caratteristica importante è rappresentata dalla concentrazione dell'attività nel settore delle telecomunicazioni, in cui osserviamo sia la più grande offerta secondaria (la transazione accelerata su France Telecom), sia la più grande vendita diretta (la cessione della quota di maggioranza di Cesky Telecom alla spagnola Telefonica).

La Francia e a sorpresa la Repubblica Ceca guidano la classifica dei proventi grazie a queste importanti operazioni, subito seguite dai "soliti sospetti" Germania e Italia. A seguito della revisione del Patto di Stabilità concordata a marzo, i governi europei che stanno affrontando la crisi dei conti pubblici guadagnano un margine di flessibilità. Ciononostante la correzione dei conti pubblici resta una priorità, e le privatizzazioni una delle principali politiche per realizzarla.

Date le presenti difficoltà sul fronte della finanza pubblica, come riusciranno i governi europei a recuperare risorse per finanziare gli investimenti necessari ad uscire dalla crisi e a stimolare la crescita? Alcune lezioni utili si possono ricavare dall'esperienza dei paesi in via di sviluppo in cui - nell'ultima decade - più di 750 miliardi di dollari sono stati investiti in progetti di sviluppo infrastrutturale. Nella nostra Newsletter, questo tema viene affrontato nell'articolo di Ioannis Kessides, uno dei principali esperti di *project finance* della Banca Mondiale. A suo parere, per sviluppare con successo progetti infrastrutturali sono necessari tre elementi:

privatizzazione, ristrutturazione del mercato e riforme della regolamentazione. Argomento principale a favore della privatizzazione è che, rispetto a *utilities* sotto il controllo pubblico, soggetti privati operanti in un contesto competitivo sono maggiormente incentivati a tenere sotto controllo i costi, a rispondere in modo efficace alle esigenze dei consumatori, e ad adottare nuove tecnologie e pratiche manageriali. Ma una incisiva azione di ristrutturazione antecedente alle vendite è altrettanto importante. Molti governi, nel tentativo di massimizzare i ricavi, hanno venduto le *utilities* in condizioni di monopolio. Questa strategia si rivela spesso controproducente. A prima vista, clausole contrattuali che prevedono lunghi periodi di esclusività stimolano offerte più elevate da parte degli operatori, poiché un flusso di profitti di monopolio appare meno rischioso di un flusso di rendimenti generati da un contesto competitivo. Ma in assenza di sussidi pubblici per quelle categorie di consumatori con limitato potere di acquisto, gli elevati prezzi di monopolio comprimono la domanda dei servizi e conducono a un livello inferiore di investimento privato. Al contrario, prezzi più competitivi – che consentano comunque un adeguato ricavo alla *utility* per competere con le altre imprese nell'economia, finanziare il mantenimento, la modernizzazione e lo sviluppo delle reti e dei servizi – aumentano la domanda e favoriscono l'investimento privato.

Le sfide che i governi europei affronteranno nel disegno delle privatizzazioni future sono state il tema del primo PB Workshop organizzato a Roma sotto gli auspici della Fondazione IRI. *Policy maker* internazionali, rappresentati di agenzie di privatizzazioni europee e di primarie banche di investimento e società di consulenza hanno discusso i temi caldi nelle privatizzazioni europee e il loro ruolo nella promozione dell'integrazione economica e finanziaria.

Un tema importante – che è stato recentemente affrontato anche in sede OCSE – è rappresentato dai problemi particolari di *corporate governance* che toccano le società pubbliche e quelle parzialmente privatizzate. A un livello diverso, entrambe subiscono o un atteggiamento passivo, o una eccessiva interferenza politica da parte del loro azionista di riferimento. Inoltre presentano una scarsa *accountability*, dovendo rispondere ad una molteplicità di referenti spesso con obiettivi in conflitto tra loro.

Il governo francese, che sta per lanciare un processo di privatizzazione di dimensioni senza precedenti, ha mosso passi importanti in questa direzione creando nel 2003 l'Agence des Participations de l'Etat (APE). Il suo direttore generale Denis Samuel-Lajeunesse descrive in questa Newsletter la missione e i risultati dei primi anni di vita dell'agenzia che controlla circa 70 società con un attivo che vale più di 500 miliardi di euro. La filosofia sottostante alla creazione dell'agenzia sembra essere una separazione funzionale dei diritti di proprietà - che rimangono in capo al Ministero delle Finanze - dai diritti di controllo che sono invece attribuiti all'APE. Questa importante innovazione istituzionale dovrebbe migliorare *l'accountability* e la *corporate governance*, rendendo più efficace e trasparente il processo di privatizzazione.

Nel suo articolo, Leszek Balcerowicz, uni dei protagonisti della transizione polacca e ora presidente della Banca Nazionale propone le sue riflessioni su alcune questioni fondamentali. La sua tesi principale è che le privatizzazioni, la democrazia e lo stato di diritto siano congiuntamente determinate. Quando l'economia è in larga parte controllata dallo stato, le contiguità tra politici e manager sono tali da rendere difficile per i primi emanare e applicare le leggi indipendentemente dagli ultimi. Inoltre, le inefficienze del settore pubblico non emergono in assenza di strumenti di controllo democratico, tuttavia l'insoddisfazione pubblica - qualora non venga repressa - può innescare il processo di trasformazione economica.

Nelle economie sviluppate la privatizzazione è stato un fattore che ha promosso lo sviluppo dei mercati e la loro integrazione. Massimo Capuano, l'amministratore delegato di Borsa Italiana ci propone una valutazione dell'esperienza italiana vista dal suo osservatore privilegiato. La privatizzazione ha contribuito a un mutamento radicale della Borsa Italiana in termini di capitalizzazione di mercato, scambi e flussi di investimento verso le società. Inoltre ha avuto un forte impatto sulla struttura proprietaria delle società quotate che registrano ora una maggiore presenza di investitori individuali e internazionali. Il processo ha diffuso la cultura dell'investimento azionario presso i piccoli investitori che tipicamente detengono azioni di società privatizzate nel proprio portafoglio. Di certo il caso italiano suggerisce che un processo di privatizzazione ben disegnato può innescare lo sviluppo del mercato finanziario.

Le sfide che i paesi dell'allargamento affrontano nella privatizzazione delle infrastrutture sono analizzate da Vittorio Pignatti, vice-chairman di Lehman Brothers. I mercati obbligazionari e azionari domestici non sono ancora adeguati per finanziare progetti di grandi dimensioni. Inoltre le risorse pubbliche devono essere in larga parte destinate al finanziamento delle pensioni, della sanità e dell'istruzione. Quindi, almeno nel futuro prossimo, investimenti infrastrutturali dovranno essere finanziati con il ricorso ai capitali stranieri. Negli ultimi anni, il profilo rischio-rendimento di questi progetti è migliorato sensibilmente. Il processo di convergenza finanziaria ha ridotto sensibilmente il differenziale di rischio fra la "nuova" e la "vecchia Europa". È interessante notare l'esistenza di un effetto “allargamento”: la convergenza negli *spread* è molto meno visibile nel caso degli altri paesi al di fuori dell’Unione Europea. Tuttavia, una rischiosità inferiore non è sufficiente di per sé ad attrarre quella massa critica di investimento che può veramente innescare la crescita: rendimenti adeguati sono ugualmente necessari. La sfida principale per promuovere lo sviluppo è rappresentata dalla definizione delle priorità in termini di settori da coinvolgere e di allocazione dei costi fra i consumatori e i governi. In altre parole: chi pagherà?

Il profilo rischio-rendimento degli *assets* privatizzati è un altro tema fondamentale. Le più recenti analisi dei nostri PB Indexes, che seguono la performance borsistica delle società privatizzate della “nuova” e “vecchia” Europa, offrono informazioni interessanti. In generale, le società privatizzate hanno mostrato una forte over performance rispetto al Dow Jones STOXX Total Market Index (TMI). In particolare, nell’anno in corso, il PB Composite Index ha guadagnato 11,9 punti percentuali di rendimenti in eccesso annualizzati. Le privatizzate nel settore bancario, industriale e delle telecomunicazioni sono quelle che hanno contribuito maggiormente a questo risultato. È importate sottolineare che questa elevata performance viene mantenuta anche quando i rendimenti vengono corretti per il rischio. Il PB Composite ha guadagnato all’incirca il 6 per cento rispetto a un portafoglio ben diversificato. Certamente, fattori idiosincratici sembrano influire sul profilo di rischio-rendimento delle società privatizzate, e gli investitori globali potrebbero trovare nuove possibilità di diversificazione investendo in fondi costruiti sulle privatizzate.

Come di consueto, concludiamo con le nostre previsioni per il 2005. Assumendo che continuino le attuali condizioni di mercato, la vasta dimensione delle operazioni in corso di esecuzione e le grandi operazioni già lanciate fanno prevedere che i proventi generati nel 2005 saranno all’incirca pari a 90 miliardi di euro. Ci attendiamo che la Francia, imprimendo una forte accelerazione al processo con la vendita di Gaz de France e di Electricité de France sarà protagonista, seguita dall’Italia e dalla Germania. Dopo un primo semestre non straordinario, il secondo potrebbe davvero riservare grosse sorprese.

Bernardo Bortolotti

University of Turin and FEEM

Privatization Trends in Europe

The after-the-century privatization trend is consolidated and building momentum

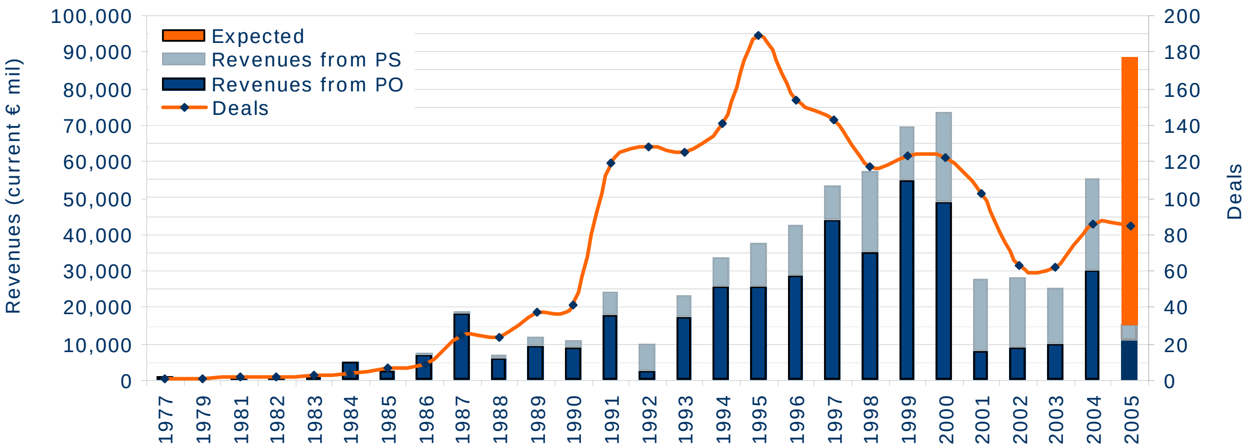
European governments have pushed privatization strongly during 1H2005. We report privatization activity in 14 countries of the enlarged European Union. The 37 transactions implemented raised €15.4 billions in revenues, marking a slight increase over the corresponding first semester of 2004. The consolidation of the rebounding sales trend after 1H2004 that we forecast in the previous PB Newsletter is therefore confirmed in the data (Figure 1 and Figure 2).

Luckily, the bearish market sentiment driven by uncertainty over oil prices, interest rates, and corporate earnings which affected US stock markets did not cross the Atlantic. Positive stock market conditions therefore favored privatization sales and especially share issuance. Indeed, European equity markets performed quite well. The Dow Jones (European) TMI gained about 9.4 percent over the period (see Figure 3).

The most recent evolution of the process confirms some newly established facts: *(i)* the predominance of share equity issuance over private sales, *(ii)* the preference given to accelerated transactions, and *(iii)* the return of telecommunication privatizations.

Even with several private sales implemented during 1H2005, 74 percent of revenues were raised through share issue privatizations, and especially secondary offerings. The resurgence of initial public offerings, which was a distinguishing feature of 2004, has lost momentum. The only sizable operation among the five IPOs reported involves Sanef, the company running the highways system in Northern France. The few remaining operations are concentrated in Poland, which reaffirmed its commitment to developing public equity markets.

Figure 1. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977- 2005



Source: *Privatization Barometer*

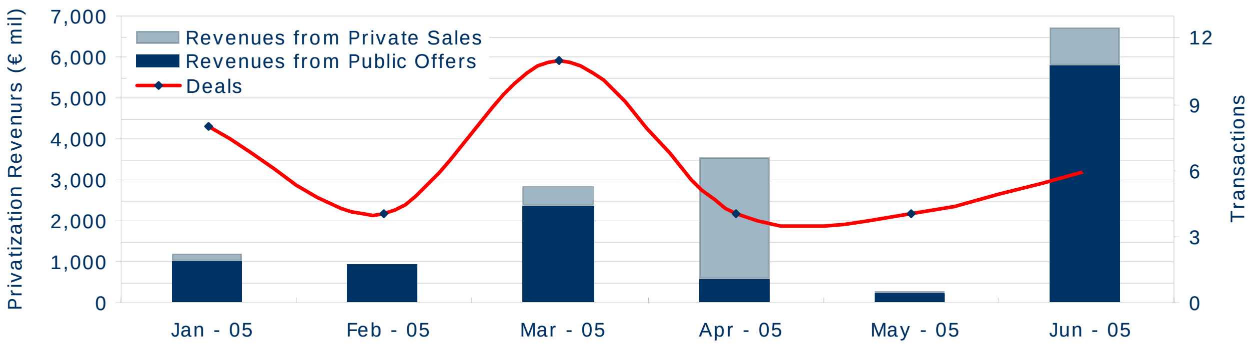
Accelerated transactions are the distinguishing feature of 1H2005 privatization activity

Interestingly, accelerated transactions stick out as being particularly relevant both in absolute and relative terms, having raised 51 percent of total proceeds and almost ¾ of revenues from secondary equity offerings. Five out of the ten top deals of the semester are accelerated book-built offerings (ABO) or block trades, fast deals earmarked only to institutional investors taking different degrees of price risk during the process. Privatization has been almost exclusively conducted via accelerated transactions in January and June, the months in which we report the most intense activity (see Figure 4). The deepening of this phenomenon may have dramatic consequences for public equity markets and may mark a declining role for retail investors in follow-on privatizations.

The largest sales involve TLC operators

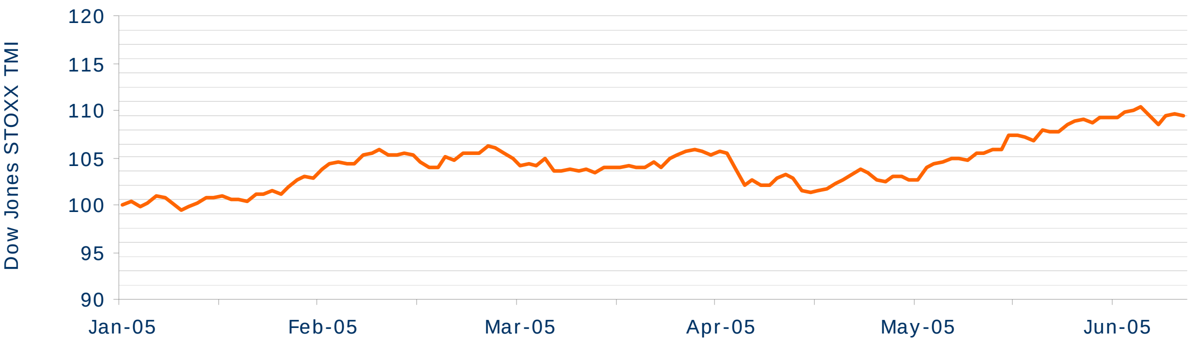
The most important deals of the semester involved major TLC operators such as France Telecom, which – amid difficulties – implemented the largest deal of the semester, the Dutch Koninklijke KPN, and Cesky Telecom, which raised top revenues by selling the majority of capital to Telefonica, the Spanish former state-monopoly. These three TLC operations raised approximately a half of total revenues, a figure which confirms continuing investor appetite for IT shares. European governments also appear eager to pursue privatization in the transportation industry (which in our broad definition also comprises postal services). Overall this industry raised ¼ of total proceeds, largely attributable to the €1 billion KfW placement of Deusche Post and to the already mentioned IPO of Sanef (see Figure 5).

Figure 2. Total Privatization Revenues and Transactions in the Enlarged Europe, 1H2005



Source: *Privatization Barometer*

Figure 3. Equity Markets in EU25, 1H2005



Source: Elaborations on *Datasream*

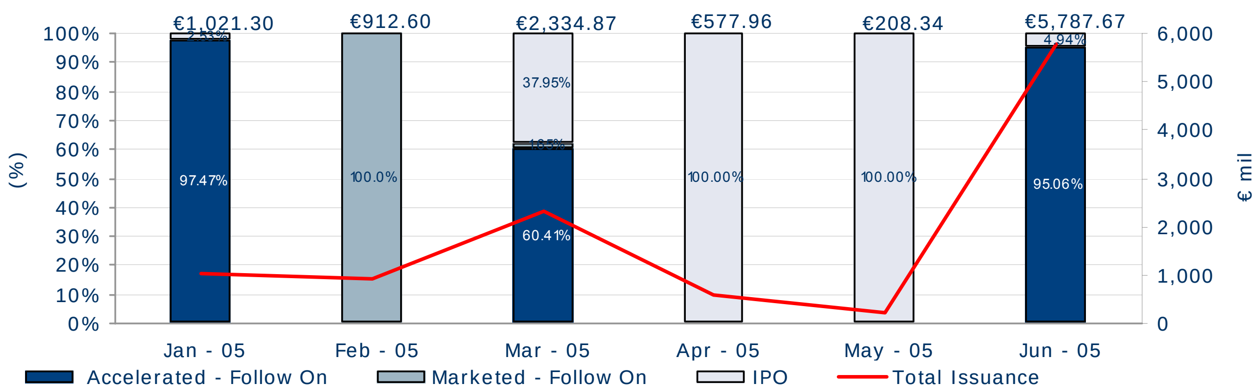
Fiscal stabilization remains a top driver of privatization in Old European countries

The breakdown by country confirms the usual predominance of Old Europe, which raised 82 percent of total proceeds. Sluggish growth rates and the consequent worsening of fiscal conditions in core European countries paved the way for the revision of the Stability Pact, ratified in March, which changed the rules triggering excess deficit procedures. Even if the revision introduced some flexibility in the application of the Maastricht criteria, fiscal stabilization remains a top priority for European governments, which usually resort privatization to alleviate debt and curb interest payments. It is thus not surprising to find countries with larger fiscal unbalances in year 2004, such as France, Germany, and Italy in top positions in the ranking by revenues. The Dutch government's continuing structural adjustment efforts are also mirrored in the privatization activity.

With the sole exception of the Czech Republic, new accession countries are lagging behind

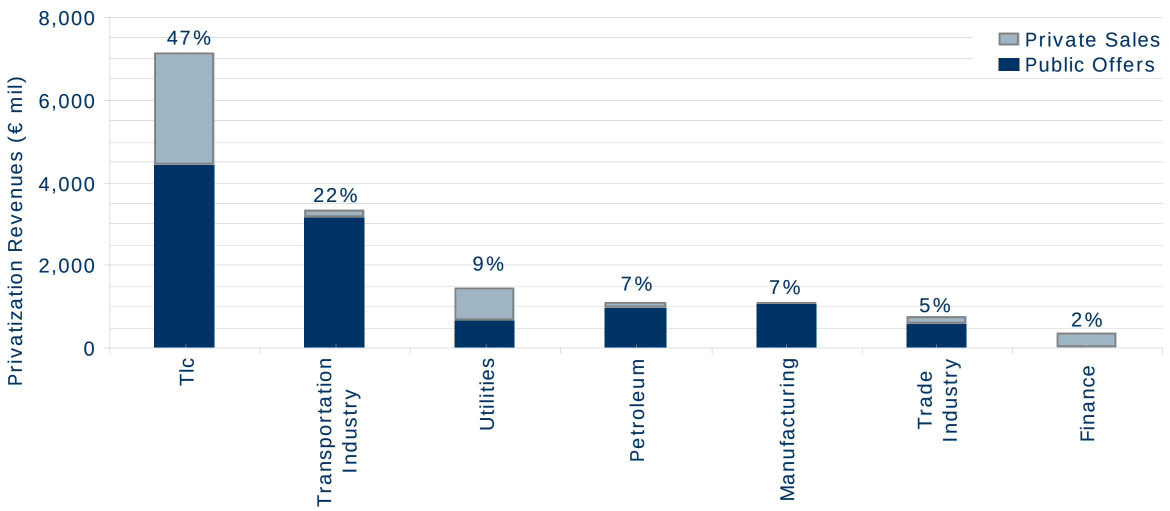
New accession countries are lagging behind, with the notable exception of the Czech Republic, which boasts the second position in the ranking thanks to the successful private sale of Cesky Telecom. Poland, one of the main drivers of privatization in the New Europe in 2004, has substantially slowed down the process reporting only a few small-scale IPOs. However, it is widely recognized that large-scale sales are seldom implemented with political elections around the corner.

Figure 4. Share Issue Privatization in the Enlarged Europe, 1H2005



Source: *Privatization Barometer*

Figure 5. Distribution of Privatization Revenues by Sector, 1H2005



Source: *Privatization Barometer*

Indirect sales are modest as compared to 2004

In the previous PB Newsletter, we introduced the distinction between direct (or first level) privatizations, where the government divests its direct shareholdings in companies, and indirect (or second level) privatizations, where state-owned holding companies sell shares they own. In 2004, indirect privatizations accounted for almost half of aggregate activity. In 1H2005, their impact has been more modest. Indirect sales are largely concentrated in Finland, with the carve-out of Neste Oil from Forum and especially in Italy, where placements in private and public equity markets of companies owned by Enel (Terna), Eni (IP), and Ferrovie dello Stato (FS Real Estate), have raised almost 90 percent of total proceeds.

But privatization activity for the year is far to be over…

But if one looks beyond the first semester and sees what the future has in store for European governments, the picture is impressive. The sheer size of the transactions currently under execution and the large deals already in the pipeline allows us to forecast that revenues raised in 2005 will be close to €90bn, marking the historical record for a single year in Europe (see Figure 1).

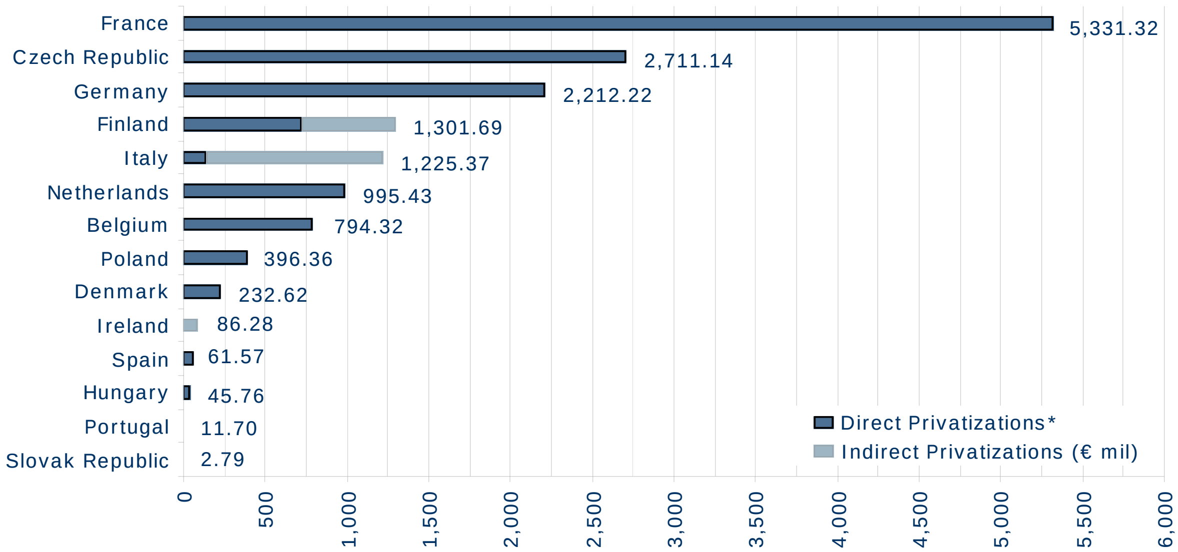
…indeed, big privatizations are already in the pipeline of big EU governments such as France…

The French government and its newly established agency APE appear committed to strongly pushing privatization by floating energy giants such Gas de France and Electricité de France. Furthermore, we should observe in the near future the complete divestiture of State holdings in the highway system and other operations in the transport sector. These future deals should boast a combined value of €25bn, more than 1/3 of the total expected revenues.

Italy...

Italy is likely to be an important driver of privatization activity in 2H2005, with ENEL (again) the main player. Indeed, the Italian electricity company has recently completed a large secondary offering and has negotiated with a foreign strategic investor the spin-off of Wind, its TLC mobile operators. Cassa Depositi e Prestiti, the Italian State-controlled financial holding, is also expected to close important transactions before the end of the year. These deals should raise

Figure 6. Distribution of Privatization Revenues by Country, 1H2005



* Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies.

Source: *Privatization Barometer*

approximately €20bn, some flowing to the Treasury coffers to amortize debt, some to the divesting companies.

…and Germany

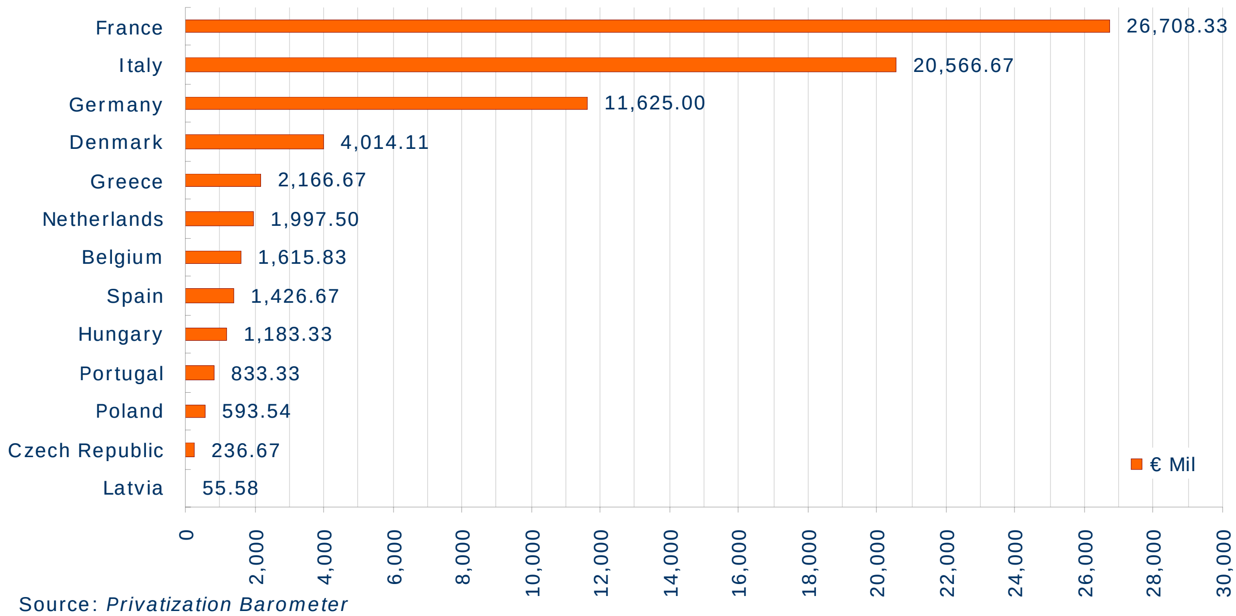
We also expect important transactions in Germany involving KfW, which has recently acquired stakes from the Federal Government in Deutsche Telecom and Deutsche Post. These transfers are not accounted as privatization as they represent a transfer from the central government to an entity fully owned by public shareholders. But having these new stakes available will likely give the KfW an opportunity to come back to the market soon.

However, also smaller countries are expected to be strongly involved in the process…

and governments could have more ATs in store

The "usual suspects" will be the main drivers. Nevertheless, we also expect a strong push in smaller countries such as Denmark and Greece. Finally, governments may take us by surprise by executing some accelerated transactions. But, as usual, stock markets will have the final say on future privatization choices.

Figure 7. Expected Privatization Revenues in Europe, 2H2005



Source: *Privatization Barometer*

William L. Megginson

University of Oklahoma

Major Deals of 1H2005

Finishing on a High Note

Privatizations sales are truly back

The first half of 2005 witnessed continued strength in global privatization activities. European governments executed 37 sales, worth €15.4 billion, during the January-June period, with €6.72 billion of these sales coming just during the month of June. Three other sales raised at least €1 billion, and seven sales raised €500 million or more. Governments outside of Europe raised €14.66 billion in seven large sales, and perhaps another €500 million from numerous smaller deals, bringing the total worldwide value of privatization offerings during 1H2005 to nearly €30.5 billion. The fact that the first two weeks of July 2005 saw four large deals - worth almost €10 billion collectively - executed, in process, or imminent further supports the idea that privatization sales are well and truly back!

Sales in Old Europe during 1H2005

France Telecom block trade is the largest privatization of the semester

Old Europe's largest privatization (and also the most surprising) of 1H2005 has been the €3.43 billion secondary offering of **France Telecom** in early June. Not only was this sale - which was launched very quickly and was structured as a bloc trade involving Lehman Brothers as the initial buyer - completely unexpected by the market, it was also executed less than a week after a decisive referendum in which the French public voted overwhelmingly to reject the proposed EU constitution. In contrast to several earlier French privatizations executed through accelerated book-buildings, the bloc trade of 6.2 percent of France's remaining FT stake was very poorly received and raised far less than the €4.5 billion envisaged under the most optimistic scenario. Additionally, Lehman Brothers was only able to immediately dispose of about half of the FT shares it purchased.

In contrast to France's FT experience, the German government enjoyed greater success with its nearly simultaneous indirect sale of a 9.8 percent stake in **Deutsche Post** through an accelerated bookbuilt offering (ABO). The sale was actually conducted by KfW, the state-owned development bank, and raised €2.07 billion, leaving KfW with a total stake of 46.2 percent in the company. Interestingly, five months earlier Deutsche Post had launched a successful €500 million exchangeable bond offering targeted exclusively at Japanese investors. If these bonds are ultimately exchanged completely into shares, the issue will reduce KfW's holdings in DP by an additional 2.3 percent.

With oil prices surging through most of 1H2005, two European governments grabbed the opportunity to dispose of sizeable stakes in state-owned petroleum companies at very attractive prices. The largest such sale was Norway's €1.63 billion secondary offering of **Statoil** shares in February, which reduced the state's holdings from 76.3 to 71.7 percent. The offering appeared to be an ABO targeted exclusively at institutional investors. However, this transaction is not reported in our statistics, since Norway is not a EU member.

In April 2005, the Finnish sate-controlled energy company Fortum executed an equity carve-out of a 15 percent stake in its **Neste Oil** (*Neste Oyj*) refining subsidiary. This IPO raised €577 million for Fortum, and saw the famous Neste name listed again for the first time since the Finnish government formed Fortum through a merger of Neste and IVO in 1998. The institutional tranche of Neste, which accounted for 90 percent of the offering, was 20 times over-subscribed. Two months after the Neste IPO, the Finnish government sold an additional 7.21 percent tranche of **Fortum** in an ABO that raised €2.07 billion. This sale left the state with a 51.7 percent holding in Fortum, very close to the 50.1 percent minimum mandated by the Finnish parliament in 1998.

Besides FT, telecom privatizations involve the Czech Republic and the Netherlands

European telecom privatizations were only slightly less fashionable during 1H2005 than were oil company sales. In addition to the FT sale discussed above, both the Czech and Dutch governments divested telecom holdings during this period. (The Cesky Telecom sale will be discussed in the next section). In January, the Dutch government sold 7 percent (one-third of its holdings) of **Koninklijke KPN** in an ABO that raised €995 million. Lehman Brothers was once more the initial

Table 1. Deals, 1H2005

Date	Company Name	Nation	Sector	Percentage for Sale	Value of Transaction (€ mil)	Direct/Indirect Privatization*	Method of Sale
06/06/05	France Telecom	France	Telecommunications	6.20	3,431.14	Direct	Accelerated Transaction *(AT)*
12/04/05	Cesky Telecom AS	Czech Republic	Telecommunications	51.10	2,711.14	Direct	Private Sale
14/06/05	Deutsche Post AG	Germany	Transportation Industry	9.90	2,070.80	Direct	Accelerated Transaction *(AT)*
19/01/05	Koninklijke KPN NV	Netherlands	Telecommunications	6.00	995.43	Direct	Accelerated Transaction *(AT)*
23/02/05	Snecma SA	France	Manufacturing	54.00	912.60	Direct	Public Offering
23/03/05	SANEF- Soc. des Autoroutes du Nord Est de la France	France	Transportation Industry	25.58	885.98	Direct	Initial Public Offering *(IPO)*
24/06/05	SPE	Belgium	Utilities	51.00	760.00	Direct	Private Sale
06/03/05	Fortum Oyj	Finland	Petroleum Industry	7.21	722.90	Direct	Accelerated Transaction *(AT)*
30/03/05	Terna *(Enel)*	Italy	Utilities	13.86	668.00	Indirect	Accelerated Transaction *(AT)*
18/04/05	Neste Oil Corporation *(Fortum Oyj)*	Finland	Trade Industry	15.00	577.96	Indirect	Initial Public Offering (IPO)
06/06/05	Grupa Lotos	Poland	Petroleum Industry	30.78	248.30	Direct	Initial Public Offering *(IPO)*
22/03/05	FS-Real Estate Portfolio *(Ferrovie dello Stato)*	Italy	Finance & Real Estate Industry	100.00	172.56	Indirect	Private Sale
08/06/05	Post Danmark	Denmark	Transportation Industry	22.00	168.80	Direct	Private Sale
13/04/05	IP *(Eni)*	Italy	Trade Industry	90.00	168.05	Indirect	Private Sale
20/05/05	Aeroporto di Venezia	Italy	Transportation Industry	33.35	136.01	Direct	Initial Public Offering *(IPO)*
29/03/05	Kavernenanlage der Bundesrepublik Deutschland	Germany	Petroleum Industry	100.00	129.60	Direct	Private Sale
17/03/05	PostTS- UK & Spain divisions *(PostTS)*	Ireland	Finance & Real Estate Industry	100.00	86.28	Indirect	Private Sale
01/03/05	City of Lyons-10 Building Properties	France	Finance & Real Estate Industry	100.00	82.08	Direct	Private Sale
14/04/05	Sviluppo Italia Turismo *(Sviluppo Italia)*	Italy	Public Administration	49.00	76.35	Indirect	Private Sale
12/05/05	Polmos Bialystok	Poland	Manufacturing	32.14	72.34	Direct	Initial Public Offering *(IPO)*
17/01/05	Statens Bilinspektion	Denmark	Services Industry	100.00	63.82	Direct	Private Sale
29/03/05	Aldeasa SA	Spain	Transportation Industry	5.06	38.47	Direct	Public Offering
26/06/05	Police	Poland	Manufacturing	20.00	37.42	Direct	Initial Public Offering (IPO)
14/01/05	Belgacom Alert Services Holding NV	Belgium	Construction	28.00	34.32	Direct	Private Sale
05/05/05	Hungexpo Rt.	Hungary	Services Industry	77.00	30.75	Direct	Private Sale
26/01/05	Zelmer SA	Poland	Manufacturing	60.00	25.87	Direct	Initial Public Offering *(IPO)*
10/01/05	LGAI Technological Center SA	Spain	Services Industry	60.00	21.78	Direct	Private Sale
10/03/05	Cie des Machines Bull	France	Services Industry	2.89	19.52	Direct	Accelerated Transaction *(AT)*
01/02/05	National Textbook Publisher Ltd	Hungary	Manufacturing	70.00	12.91	Direct	Private Sale
26/01/05	Zelmer SA	Poland	Manufacturing	25.00	12.43	Direct	Private Sale
01/01/05	ZVO Abfallwirtschafts GmbH	Germany	Public Administration	49.90	11.82	Direct	Private Sale
09/03/05	OGMA Industria Aeronautica de Portugal SA	Portugal	Manufacturing	65.00	11.70	Direct	Private Sale
23/05/05	FIME Spa	Italy	Finance & Real Estate Industry	71.80	4.40	Direct	Private Sale
20/01/05	Slovenske Aerolinie AS	Slovak Republic	Transportation Industry	62.00	2.79	Direct	Private Sale
01/02/05	Telit Rt. *(MATAV Rt.)*	Hungary	Finance & Real Estate Industry	100.00	2.10	Indirect	Private Sale
11/03/05	Laboratorio de Analisis y Fertilidad de Suelos	Spain	Services Industry	70.00	1.32	Direct	Private Sale
08/02/05	Nord Water Ltd	Finland	Manufacturing	100.00	0.84	Direct	Private Sale
Total	**37 transactions**				**€ 15,408.57 Mil**		

* Direct Privatizations refer to the sale of government's direct stakes. Indirect Privatizations include spin-offs and transfer of shares from government owned companies. Parenteses report the Parent/Seller Company name.

purchaser, and the bank reported very strong demand for KPN shares from institutional investors in the United States (40 percent of the offering), Britain (20 percent) and the Netherlands (20 percent). With its remaining 14 percent stake in KPN, the Dutch government will continue to wield effective veto power over the company.

France executed two other large privatizations during 1H2005, besides the FT sale. In February, the French electronics group Sagem launched a €913 million public offering of shares in the aero engine maker **Snecma**. The offering consummated a merger between Sagem and Snecma, in which Sagem issued 15 new shares in exchange for every 13 shares of Snecma, at a price of €20 per Snecma share. The French government took nearly all its 54 percent stake in Snecma to this operation, after which Sagem owned 83.4 percent of Snecma's share capital and 84.3 percent of its voting rights. One month after this complex operation closed, the French government executed an initial public offering of a 25.88 percent stake in the road operator **Autoroutes du Nord et de l'Est de France (SANEF)** that raised €886 million. This IPO, which was priced at the top end of its indicated range of €36-€41, valued SANEF at about €3.8 billion.

Rounding out the list of large (more than €500 million) Old Europe privatizations during 1H2005 were two sales of utility company stakes by Belgium and Italy. At the end of June, Belgium sold a 51 percent stake in its utility company **SPE** for €760 million. Three months before that, Italy's Enel executed a private placement of a 14 percent stake in its **Terna** subsidiary that raised €668 million. This sale cut Enel's ownership in Terna to 5 percent, in line with previously announced plans and with a regulatory limit on voting rights. Shortly before this sale was announced, Enel disclosed plans to sell a 30 percent stake in Terna to the state-owned development bank Cassa Depositi e Prestiti (CDP), but since such a sale would leave the state's ownership unchanged we do not consider it a privatization.

Sales in New Europe during 1H2005

Cesky Telecom is the second largest transaction of 1H2005

Although there was only one large privatization in New Europe during 1H2005, the sale of the Czech government's remaining 51 percent stake in **Cesky Telecom** to Spain's Telefonica for €2.71 billion, completed during April, was both historic and immense by transition-economy standards. The Czech government had spent much of the preceding decade trying to fully divest its holdings in Cesky Telecom, only to endure a long and contentious operating arrangement with a western consortium, followed by years of dismally low valuations for Cesky's listed shares. One can thus easily imagine the government's pleasure and surprise at the strong response to its plans to auction off the final Cesky stake. Three western telecom companies - Swisscom, Belgacom and Spain's Telefonica - and two financial consortia showed enough interest to be short-listed in early 2005 for the final auction, planned for April.

The final contest quickly narrowed to just Swisscom, which had been a member of the earlier operating group managing Cesky during the 1990s, and Telefonica, even as the final bid prices increased to a 40 percent premium over Cesky's share price before the auction began. Further complicating the sale was a political crisis that saw the Czech government survive a no-confidence vote by the narrowest of margins. In the end, Telefonica was willing to pay a higher price than Swisscom and the Cabinet survived to approve the sale on April 6. The Spanish operator thus acquired its first major operating asset in Eastern Europe, and the sale price appeared to signal that western operators were once more willing to bid aggressively for emerging market telecom operators.

Sales outside of Europe during 1H2005

Although, as usual, Europe accounted for the majority of privatization sales during 1H2005, governments in the Middle East and Asia executed eight large and several smaller sales. These totaled approximately €15 billion, with China alone raising almost €12 billion through six billion-euro-plus sales. The other two large deals were telecom sales by Israel and Pakistan, and these are discussed first.

Also outside Europe investors' appetite for IT shares is confirmed

The Pakisani government executed an initial public offering of **Pakistan Telecommunications Company Limited (PTCL)** in 1994, with the expressed intent that this would be but the first of many such sales. Over the following decade, however, political turmoil and company-specific problems prevented any further PTCL share offerings, leading the government to embrace the idea of auctioning off control of PTCL to a foreign telecom operator. By the time this process began in earnest in late 2004, the global telecom depression had lifted and no fewer than nine companies expressed firm interest in bidding for PTCL. In spite of intense domestic opposition to the idea of selling PTCL, especially to foreigners, the auction process proceeded inexorably during the first quarter of 2005. At one point, the Pakistani army had to be sent to forcibly remove demonstrators from PTCL premises, but this merely served to demonstrate the government's determination to complete the sale. In the end, Etisalat, the United Arab Emirates telecommunications group, paid $2.6 billion (€2.17 billion) in June for a controlling 26 percent stake in PTCL. Not only was this over $1 billion more than the next highest bid (from China Telecom), but the per share price was 74 percent higher than the closing price of PTCL shares on the Karachi Stock Exchange the day before the final bid was received.

The Israeli government also had reason to be pleased with the outcome of its auction of a controlling stake in **Bezeq**, the country's largest telecoms company. This company had also been an unloved asset for many years, only to emerge as a strategic gem after the telecom cycle turned back towards growth. Two financial consortia submitted bids for Bezeq, and in May the Israeli cabinet accepted the $971 million (€809 million) offer submitted by Apax, the UK private equity group, for 30 percent of Bezeq's shares. Apax also received an option to purchase a further 10.7 percent stake, which if exercised would leave the Israeli government holding a mere one percent of Bezeq.

China is the largest seller state outside Europe

Privatization observers glimpsed the future in 1H2005, since China emerged as easily the largest single seller of state assets during this six-month period, with all of the sales occurring during May and June. As is typical for China, all the large sales were indirect privatizations, with proceeds flowing to the issuing firms, rather than to the Chinese government. May saw two industrial companies execute primary (capital-raising) share offerings. After a number of false starts, **Baoshan Iron and Steel Company Ltd.**, better known as **Baosteel**, raised $3.08 billion (€2.57 billion) by selling 5 billion newly issued shares. Shortly afterwards, the coal producer **China Shenhua Energy** raised $2.94 billion (€2.45 billion) in an IPO. Unfortunately, Shenhua's shares declined 2.7 percent below their offer price on the first day of trading.

June saw no fewer than four billion-euro-plus share sales by two Chinese banks. First, HBSC purchased a 19.9 percent stake in the **Bank of Communications (BOC)**, paying $1.70 billion (€1.42 billion), which briefly ranked as the largest foreign direct investment in any Chinese bank. Later that month, BOC executed a very successful $1.90 billion IPO, which was 205 times over-subscribed by retail investors and which yielded a 16 percent first day return to initial shareholders. HBSC's investment in BOC was not to be a record for long. In mid-June, **China Construction Bank (CCB)** and Bank of America announced that BofA had committed to purchasing a 9 percent stake in CCB for $3.0 billion (€2.5 billion). BofA made an immediate investment of $2.5 billion, to be followed by a $500 million purchase of shares in CCB's upcoming IPO, tentatively planned for 2H2005. BofA also received an option to increase its stake in CCB to 19.9 percent. Two weeks later, Singapore's Temasek Holdings also committed to purchasing a 5.1 percent stake in CCB for $1.4 billion (€2.5 billion). As punishment for not also investing $1 billion in CCB, the Chinese government announced that Citigroup would not be allowed to underwrite the CCB offering when it occurred.

Ioannis N. Kessides

Lead Economist, Development Research Group, The World Bank

Infrastructure Privatization: Gone Too Far? Or Too Early to Tell?

General consensus about privatization spreads through all the 1990s

For much of the 1990s privatization was heralded as the elixir that would transform ailing, lethargic state enterprises into sources of creative productivity and dynamism serving the public interest. National leaders burdened by large budget deficits and stagnating economies were outspoken on the need to foster private initiative as a means of promoting growth and prosperity and enhancing the economic opportunities of all citizens. International financial institutions offered advice and added stimulus to this movement among their national recipients of aid. The world-wide press provided a near harmony of voices in praise of the new trend in policy thinking (Willig, 1994).

However, more recent skepticism brings to a legitimate doubt: has privatization been pushed too far?

But as with all economic elixirs, privatization was oversimplified, oversold, and ultimately somewhat disappointing. It has proved to be more difficult to effectively implement and less magical in its accomplishments than what was earlier believed or promised. Thus, there is a growing apprehension about privatization and many now ask if it was pushed too far (von Weizsacker *et al.*, 2005). Recently, its alleged failures have led to street riots, skeptical press coverage, and mounting criticism of international financial institutions. This disillusionment is not limited to the transition countries where mass and rapid privatization schemes led to the transfer of mediocre assets to people who lacked the incentives, skills and resources to restructure and manage them efficiently; or to Russia where most high-quality assets have ended up in the hands of few resourceful and well-connected kleptocrats. Public opinion polls from several Latin American countries - often cited as the successful pioneers of privatization - reveal disturbing trends of growing disenchantment with privatization. Disapproval ratings were higher in 2002 than in 2000, and those in 2000 were higher than in 1998. In 2002 nearly 90 percent of Argentines and 80 percent of Chileans polled believed that the privatization of state companies has not been beneficial--up steadily from 48 and 42 percent respectively in 1998 (Kessides, 2004).

Public discontent with privatization has been fueled by price increases, job reductions, and the high profits of firms that have improved operating performance - as well as by economic and political crises that had little to do with government policy toward infrastructure. But these adjustments have been necessary for privatization to achieve its public interest objectives. After all, revenue inadequacy was one of the main reasons for the deteriorating performance of infrastructure sectors in developing and transition economies prior to the reform era. The failure of many governments to prescribe cost-reflective tariffs had hindered service expansion and decapitalized network utilities. Service quality had suffered, and the inability to provide better and more varied services constrained domestic growth and hampered international competitiveness. This problem was particularly pronounced in telecommunications but also serious in electricity and transportation. The choice was either higher prices or more taxation. Higher prices generally fall on those benefiting from services - in many developing countries, the middle and upper classes - while higher taxes are likely to occur partly through inflation taxes that hurt poor people and other vulnerable groups. Thus a sensible, and arguably less regressive, response is to realign prices with costs. That privatization makes such adjustments mandatory - to attract investors - is one of its main appeals.

As for layoffs, state utilities in most developing and transition economies had high excess employment before reforms. Efficiency and competitiveness require eliminating redundant jobs. Efficiency is especially important in infrastructure because such services are critical for manufacturing, transportation, and commerce - and so essential to boosting economic activity.

Moreover, the market's primary incentive is the prospect of profits for firms that succeed. So, while preventing monopoly profits is a legitimate goal for public policy, it should not lead to artificial limits on post-privatization profits based on mechanistic formulas or populist demands. Otherwise, incentives for investment, innovation, efficiency, and productive growth - badly needed in the network utilities of most developing and transition economies - would be undermined or eliminated.

Finally, the role of institutions cannot be overlooked. Most developing and transition economies have suffered from much worse infrastructure performance than have advanced industrial economies. But the structure of ownership has not been the key explanatory variable for the differences in performance. After all, for many years state ownership prevailed in most advanced economies. The true explanation lies in the broader institutional context.

Post-privatization structural adjustments require a time for adaptation longer than the time needed for the execution of transactions

The performance of the state-owned network industries is an accurate summary statistic of a variety of country-specific observable and unobservable characteristics (institutional endowments, nature of organized interest groups and patterns of social conflict, business culture and code of conduct, etc.). These characteristics do not change on a time scale comparable to that of executing privatization transactions and their less prepossessing attributes would not disappear overnight. Even the advanced industrial economies took a long time to develop strong, market-supporting institutions. It would be difficult to create such institutions overnight in societies that do not have the supporting constitutional, political and legal traditions to support them.

Thus, achieving the public interest objectives of privatization is likely to require a longer time period than has elapsed since the reforms were introduced in the majority of the developing and transition countries. It should be noted that several decades were required in the "miracle economies" of the Far East before the invested effort began to produce any noticeable results. There is need for patience. Moreover, the policies of privatization and market liberalization which were conspicuously successful in the industrial countries may require various degrees of modification before they are applied in the developing countries owing to the unique characteristics of their economies. There is a need for a measure of policy experimentation. And while dynamic policy adaptation in the face of new information and changed circumstances may be appropriate, a strong *mea culpa* about privatization at this stage could prove somewhat premature. Although some outcomes have been disappointing, there have also been substantial - but not always obvious - gains. It would be unfortunate if misperceptions made governments overly cautious, because continued inefficiencies in state-owned infrastructure industries will prove increasingly costly, especially in the context of economic globalization. Thus, it is imperative to review in a dispassionate fashion where we came from and what the outcomes of the reforms have been so far.

At this stage, however, it is probably too early to tell whether privatization has really gone too far…

State-Owned Monopolies Often Exhibited Very Poor Performance

The inefficiencies of state-owned infrastructure monopolies differ quite considerably among developing and transition economies…

The performance of state-owned infrastructure monopolies varied considerably across countries. In many developing and transition economies these entities suffered from low labor productivity, deteriorating fixed facilities and equipment, poor and often declining service quality, chronic revenue shortages and inadequate investment, and serious problems of theft and nonpayment (Nellis, 2005). The history of the Brazilian telecommunications system is quite revealing and not unique. In 1989, the call completion rate for long-distance calls stood at 42 percent, almost half the 1981 figure of 81 percent. Several other indicators of quality of service had also declined over time; for example, the probability of receiving a dial tone declined from 99 percent in 1981 to 85 percent in 1989 (World Bank, 1992). Moreover, large portions of the population lacked services in developing countries—though not in transition economies, many of which achieved fairly high service coverage.

….and industrial countries

Infrastructure performance was generally much better in advanced industrial countries. Still, high construction costs (caused by delays and changing environmental and safety requirements) and expensive, politically driven programs led to problems in the electricity sector. State-owned telecommunications entities were forced to adopt inefficient pricing structures and were used to generate revenue for governments and support excessive employment - delaying investment and modernization, and undermining efficient operations and universal service. In almost all countries railroads failed to earn adequate revenue, had difficulties adjusting to changes in markets, experienced declining market shares for passenger and freight traffic, and exhibited poor productivity relative to technological opportunities.

In developing and transition economies a main cause of deteriorating infrastructure performance was underinvestment, which was largely due to the failure of governments to prescribe cost-reflective tariffs, especially during periods of high inflation. Under state ownership, prices fell to levels that could not cover the investment needed to meet growing demand. This problem was deferred as long as governments were able to provide subsidies and international financial institutions were willing to bail them out. But years of underfunding and failure to address systemic problems led to a significant infrastructure deficit in the developing world, generating substantial welfare losses. Infrastructure inefficiencies constrained domestic economic growth, impaired international competitiveness, and discouraged foreign investment.

What Effects Have Reforms Had?

Post-privatization and regulatory reforms effects on network utilities vary on a number of aspects and degrees

It is difficult to get a clear picture of reform results because every network utility's performance is multifaceted, and different observers place different weights on different aspects of performance. It is even harder to reach an unequivocal verdict on the effects that privatization and regulatory reform have had on the diverse industries and countries that have experienced them in varying ways and degrees. Assessment is further complicated by the brief history of privatization, restructuring, and regulatory reform in most developing and transition economies, by the severe measurement problems for crucial economic variables, and by the fact that privatization and regulatory reform have usually been implemented simultaneously - making it almost impossible to econometrically identify their separate effects. (Only in the United States, where the structure of ownership remained constant, can changes in performance be confidently traced to changes in regulation.)

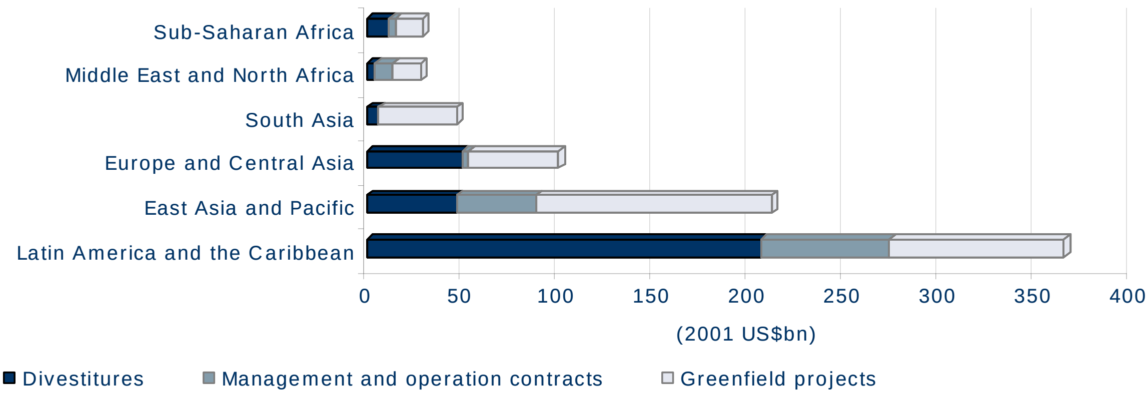
A detailed assessment of post-reform performance in the telecommunications, electricity, transportation, and water sectors is beyond the scope of this paper. Still, a brief overview of the impacts of reforms (using service expansion, operating efficiency, and allocative efficiency as criteria) gives grounds for cautious optimism.

Effects on Investment and Service Expansion

Between 1990 and 2001, private infrastructure project investments significantly increased

Between 1990 and 2001 more than $750 billion was invested in 2,500 private infrastructure projects in developing and transition economies. This investment varied enormously across regions, with nearly half going to Latin America and the Caribbean (mainly through divestitures) and more than a quarter going to East Asia and the Pacific (mainly in greenfield projects). Meanwhile, Sub-Saharan Africa and the Middle East and North Africa each received just 3 percent of private investment, reflecting much weaker reforms (Kessides, 2004). Investment also varied considerably by sector, with most going to telecommunications and power.

Figure 1. Latin America and East Asia Accounted for the Bulk of Private Investment in Infrastructure in 1990-2001



Source: *World Bank*, Private Participation in Infrastructure database.

Public service coverage improved both in presence of private monopolies and where competition was allowed after privatization

Reforms have expedited service expansion in a variety of sectors and countries. Telecommunications coverage has seen the largest jump, but significant increases have also occurred in electricity, transportation, and access to safe water (Ros, 1999, Fischer *et al.*, 2003). The size of such changes depends enormously on the extent to which the market is liberalized and the effectiveness of regulation. For example, increased competition has been particularly powerful in boosting telecommunications coverage. In Latin American countries that have allowed competition in telecommunications after privatization, networks have expanded almost twice as quickly as in countries that simply converted to private monopolies. But even private monopolies have expanded faster than public ones (Wellenius, 1997 – see Figure 2).

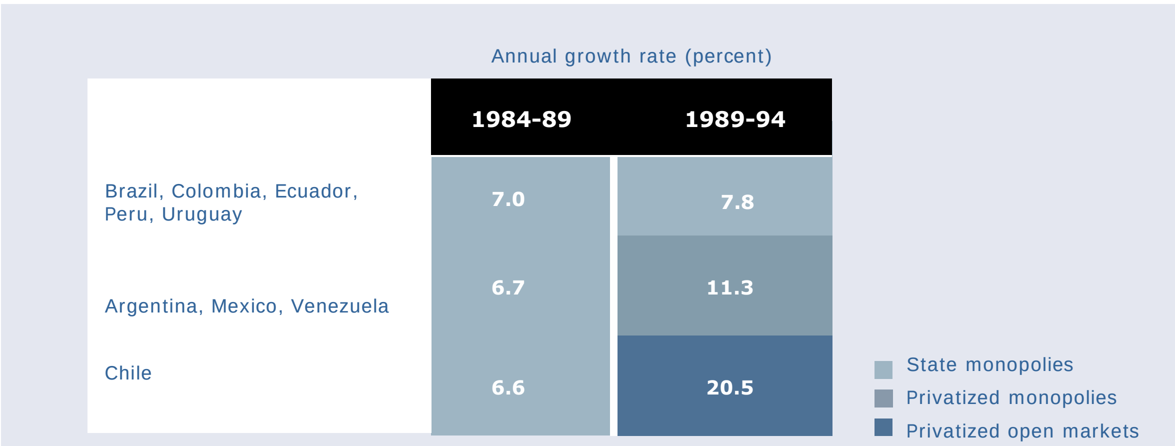
Effects on Operating Efficiency

Shedding excess employment and better incentives led to efficiency gains and higher service quality

Restructuring, privatization, and deregulation have made network utilities much more efficient in developing and transition economies. Many of these gains have resulted from policy options previously denied to state enterprises. As part of their privatization contracts, new operators could generally start shedding excess employees—one of the most vexing problems facing state-owned utilities in nearly every developing and transition economy. As a result reforming countries have often seen dramatic improvements in labor productivity (Thompson and Budin, 2001 – see Figure 3). In electricity, railroads, and water, these gains in productivity were partly obtained through shedding excess employment. In the telecommunications sector, on the other hand, efficiency gains seem to have resulted from better incentives and increased productivity rather than from firing employees (Bortolotti *et al.*, 2001).

A key argument for privatization is that, relative to state-owned utilities, private owners and operators who face competition have stronger incentives and are better able to control costs, respond to consumer needs, and adopt new technologies and management practices. Privatization and deregulation have significantly improved physical performance, service quality, and other aspects of efficiency in many developing and transition economies. Although the most dramatic gains have been in telecommunications (due to revolutionary technological changes and the sector's substantial scope for competitive entry), other infrastructure sectors have also made swift advances.

Figure 2. Growth in Telecommunications Lines in Latin America under Different Forms of Ownership, 1984 – 94



Source: Pyramid Research (1996), and *World Bank*

Higher gains involved TLC…

but also railroads, ports and electricity

In telecommunications, privatization and related reforms have dramatically reduced waiting times for new connections and improved the quality of service (Srinivasan, 2003). In railroads they have increased locomotive availability. In ports they have shortened waiting times for vessels and increased crane handling rates. And in electricity they have lowered energy losses, outages per customer, and rates of plant unavailability.

Effects on Allocative Efficiency

Despite expectations, price reforms were slower

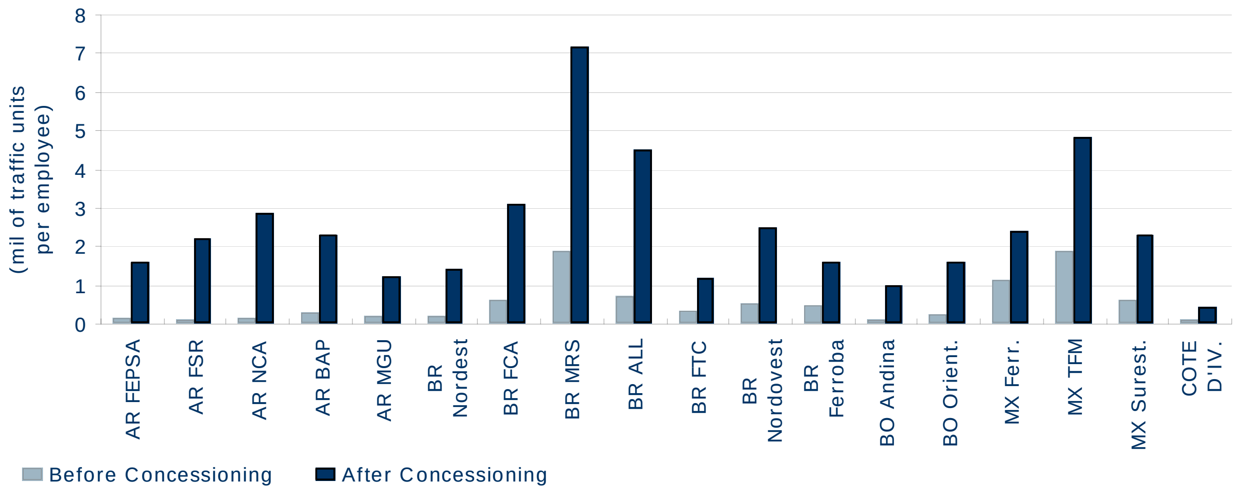
Before reforms, the failure of many governments to adequately increase service rates, especially during periods of high inflation, effectively decapitalized their infrastructure systems. Thus one of the main attractions of infrastructure privatization is the expectation that it will make price reform a policy priority. The assumption is that private investors will be unwilling to invest in infrastructure unless governments agree to implement prices that reflect costs. And indeed, many countries are dismantling longstanding policies of underpricing and cross-subsidies. But in some countries price reform has been slow, with infrastructure prices still far removed from their underlying costs. For example, in 2000 household electricity prices still covered less than 50 percent, and industrial prices less than 70 percent, of long-run marginal costs in most transition economies (Stern, 2002 – see Figure 4).

Effects on Distributional Equity

As to the welfare effects, more comprehensive distinctions need to be done…

No public policy can be justified on purely economic grounds if a country's population considers its results unjust. To mitigate the public discontent associated with restructuring and privatization, more comprehensive assessments are needed of their welfare effects - moving beyond standard analyses of their impacts on firm profitability and industry performance to include their effects on workers and households at different income levels. Moreover, distinctions between low- and middle-income countries need to be made more carefully. In low-income countries nearly all rural and many poor urban residents lack access to basic infrastructure services. Thus the policy reforms that normally accompany restructuring and privatization - such as eliminating cross-subsidies and moving toward cost-reflective prices - mainly affect

Figure 3. Railway Concessions Sharply Increased Labor Productivity in the 1990s



Source: Thompson and Budin, 2001.

higher-income groups. But in middle-income countries - such as those in Latin America and especially transition economies - such reforms can hurt poor people because many of them (mainly in urban areas) have access to basic services.

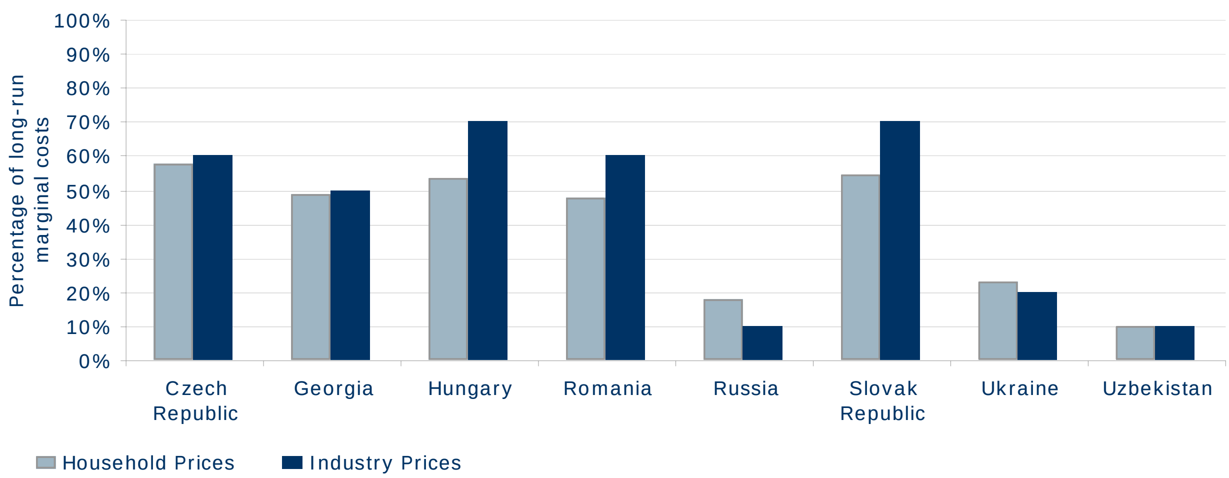
Concerns about privatization and liberalization adverse effects on low-income groups have largely been exaggerated…

The solution is not to halt the needed reforms but to put in place safety nets and tariff rebalancing schemes that do not involve radical, across-the-board price increases. Empirical evidence increasingly shows that concerns about privatization and market liberalization's adverse effects on poor people have been largely exaggerated. There is no evidence that such reforms hurt poor or rural consumers - at least in terms of access to service. Even when service prices increase, the share of poor and rural households with connections does not decrease. And in many cases coverage increases, possibly because connection fees fall once service is no longer rationed. Indeed, case studies show that allowing entry and competition in infrastructure services can dramatically increase services for poor people. Competition introduces a range of price and quality options, making service possible in regions and at income levels that monopoly providers would never have considered (Clarke and Wallsten, 2002).

…on the other hand, the provision of more efficient infrastructure sectors promote economic growth, enhancing poor people's economic opportunities

Recent empirical work offers insights on the distributive effects of privatizing and regulating network utilities. Argentina began privatizing its utilities in 1990, and post-privatization changes in utility prices and access led to varying changes in welfare (as measured by consumer surplus) among sectors and income groups. Studies using computable general equilibrium models have found that all income groups in Argentina benefited from the efficiency, quality, and access improvements resulting from the privatization of utilities (Chisari, Estache, and Romero, 1999). The provision of more efficient infrastructure services affects most other sectors of the economy and promotes economic growth, enhancing poor people's economic opportunities. When these general equilibrium effects are taken into account, the poorest groups seemed to benefit the most from the increased productivity and access that resulted from privatization (Benitez, Chisari, and Estache, 2003).

Figure 4. Electricity prices often fail to cover costs in Europe and Central Asia, 2000



Source: Stern. 2002.

Recent research in four Latin American countries (Argentina, Bolivia, Mexico, Nicaragua) indicates that privatization has no clear effect on prices—prices fell in about half the cases. But privatization did have adverse distributive impacts on the poorer half of the population because of large layoffs in privatized utilities. Still, the negative effects of layoffs and higher prices were more than offset by increased access for poor consumers, enhanced service quality, and changes in public financing that benefited poor people more (McKenzie and Mookherjee, 2003).

Privatization has generally been successful in technical terms, but socially contentious…

Thus there is a discrepancy between the statistical evidence of privatization and public perceptions. None of the empirical studies so far adequately explains the growing popular disenchantment with such reforms. It is possible that due to data limitations and perhaps even methodological flaws, statistical models do not accurately measure the true welfare impact of these reforms. It is also possible that public perceptions are subject to systematic biases. The benefits of reforms are generally shared by a large number of consumers with relatively modest individual gains - certainly not the topic of newspaper headlines. On the other hand, firing a significant portion of the employees of a large utility is more likely to lead to protests and attract media attention, even if the employment contraction is small relative to a country's total labor force.

…probably also due to the fact that the costs of privatization are concentrated among few dismissed workers represented by powerful public sector unions

Effective Design - Crucial to Success

Negative popular perceptions of privatization also reflect a process that has at times been deeply flawed. Achieving the public interest goals of infrastructure reform requires strong policy attention to all three elements: privatization, competitive restructuring, and regulatory reform. In practice, however, governments and their financial advisers have focused on privatization transactions.

Heavy state involvement, poor contract-design, tendency toward exclusivity after privatization, lack of regulation and competition had negative repercussions on popular perception…

To generate more revenue, some fiscally strapped governments have sold utilities as monopolies - accompanied by regulation that ensures this outcome instead of promoting competition. This tendency toward exclusivity has been encouraged by prospective investors and underwriting investment banks (whose fees are generally calculated as a percentage of the sales price). International financial institutions have also supported such arrangements, on the presumption that even poorly designed privatization is better than continued state ownership (Noll, 2000).

Longer exclusivity elicits higher bid prices because a stream of monopoly profits is more valuable than a stream of competitive returns. But without large public subsidies for customers with limited ability to pay, high monopoly prices reduce the demand for services - leading to less private investment. By contrast, lower competitive prices - as long as they provide enough revenue for the network utility to compete with other firms in the economy for financing to maintain, replace, modernize, and expand its facilities and services - increase demand and so lead to more private investment. This argument is especially powerful in developing countries, where much of the population has a limited ability to pay (Noll, 2001). Recent empirical analysis of telecommunications in developing and transition economies found that exclusivity periods are associated with a substantial reduction in investment and up to 40 percent lower growth in the number of telephone mainlines (Wallsten, 2000). Thus, the basic argument for exclusivity is economically flawed, and such arrangements have led to problems after privatization.

Especially during the early years of privatization, establishing appropriate regulation to curb the potential abuse of monopoly power was subordinated to the immediate goal of closing transactions. The limited attention paid to regulation focused on creating regulatory entities and writing their charters to meet the formal requirements of the privatization process or the conditions of international organizations. Regulatory institutions were often created simply by replicating systems from advanced industrial countries, mainly the United Kingdom and the United States.

…opaque processes accompanied by scarce technical expertise undermined effectiveness

Regulators in developing and transition countries have a decidedly mixed record in achieving effectiveness. In some countries an unrealistically hopeful presumption guided the creation of regulatory institutions: that if issues of funding, organizational design, and procedural safeguards were resolved, satisfactory regulatory performance would emerge—serving the public interest. This approach underestimated the probability that the same political interference that made public enterprises in these countries so effective in collecting and dispensing favors to special interests would seek to preserve these benefits by capturing or weakening regulation. Moreover, in most of these countries effective regulation has been undermined by scarce technical expertise (Stern, 2000), particularly in accounting, economic policy analysis, finance, and law.

Public-Private Partnerships (PPPs)

Since private investments in infrastructure have been sharply declining in recent years, PPP seems to be the necessary financing solution

Private investment in infrastructure peaked at around $130 billion in 1997, but by 2001 had fallen to about $60 billion. This sharp drop was mainly due to the deteriorating global market for private financing of infrastructure assets - reflecting financial crises, stock market collapses, and corporate scandals - though lack of economic reforms might also have played a role. Whatever the cause, utility operators around the world are having an extraordinarily hard time securing the financing needed to maintain and expand services. Even with effective regulation and attractive domestic conditions, foreign direct investment in the infrastructure sectors in many of these countries has proven elusive. Thus the necessary financing will at best be achieved through a partnership between the public and private sectors.

In order to be efficient, the designing of PPP must take into account the underlying economic characteristics of each activity and the technological conditions of its production

The cooperation between the government and the private sector can take a variety forms. These range from management contracts - which transfer only limited risks and responsibilities to the private sector - through operating leases and concessions, design-build-finance-operate schemes, and outright asset sales. The optimal choice among these options and the relationship between government and the private sector may vary depending on the underlying economic characteristics of each activity and the technological conditions of its production. There exists the danger that unless the PPPs are accompanied by appropriate public policies deriving explicitly from these characteristics they may very rapidly revert to the low-level equilibria that characterized the performance of most state-owned infrastructure industries.

What Are the Main Lessons?

There is now more than a decade of experience with privatization, competitive restructuring, and regulatory reform of network utilities. Though experiences have varied considerably across sectors and countries, many important lessons have emerged:

- When properly designed and implemented, institutional reforms in infrastructure - privatization, vertical and horizontal restructuring, and establishment of effective regulation - can significantly improve operating performance.
- Although private sector interest has differed markedly across countries and sectors (and even within sectors), reforms have significantly increased private investment in infrastructure - one of the key goals of restructuring.
- Fears that restructuring and privatization would curtail service to the poor by raising prices beyond their reach have proven largely unfounded. These reforms have increased coverage, often delivering the biggest benefits to poor households.
- Regulation that provides a credible commitment to safeguarding the interests of investors and customers alike is crucial to attracting the long-term private capital needed to secure an adequate, reliable supply of infrastructure services.
- The public interest, especially the welfare of low income consumers, is not served by tariff policies that preclude expansion and improvement of service or that require taxpayers to foot the bill.
- It is often hard or costly to change structural choices - such as the degree of vertical and horizontal integration - after privatization. Restructuring to introduce competition should be done before privatization, and regulation should be in place to assure potential buyers of both competitive and monopoly elements.
- Regulatory institutions that are independent, well staffed, and have access to necessary information about costs, prices, and service quality are important linchpins of successful infrastructure reform. Many developing and transition economies have paid inadequate attention to creating such institutions.

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Spotlight on the PB Workshop

"The Future of Privatization in Europe"

On Friday May 13, 2005, Privatization Barometer has organized in Rome, at Fondazione IRI, its first Workshop entitled "The Future of Privatization in Europe".

International policy makers, representatives of European privatization agencies, leading investment bankers and consultants, top-tier academics have discussed the European privatization agenda and the role of privatization as a driver of economic and financial integration. The workshop has been attended by 100 invited participants from the Italian and international economic, financial, and political community.

The workshop has been opened by the Italian Minister of Economy and Finance Domenico Siniscalco, and by the President of Fondazione IRI Antonio Pedone. Professor William Megginson and Professor Giuliano Amato served as moderators.

The proceedings of the conference are available on the website (http://www.privatizationbarometer.com/pb.htm).

Some speakers have turned their presentations into an article that we present in this section.

Dénis Samuel-Lajeunesse

Agence de Participations de l'Etat, General Director

The Government Shareholding Agency (APE) is a national organization belonging to the Department of Treasury and of Economic Politics ("Direction Générale du Trésor et de la Politique Economique") within the Ministry of Economy. Its mission is to act as a shareholder for the French Government in order to develop its assets and maximize the value of its stakes.

The Agency is a very recent institution, founded only two years ago. It was set up in reaction to some adventurous investments by a few large public sector French companies. The idea was to try to provide the Ministry of the Economy and Finance with a tool to control more effectively the management of some big state-owned companies that not very often but sometimes made big mistakes. The APE has thus been established in order to rebalance the capacities between strong management of very large corporations and a classical civil servants task force.

The agency hires 60 people, half of which come from the previous Treasury Department. One of the innovation is that APE it is an autonomous body within the Ministry which can recruit staff from the private sector. It is therefore able to run the state-owned companies – hopefully– at the best of the public and private sector standards.

One of the objectives APE has already achieved has been the establishment of a code of corporate governance, clarifying the relationship between the public sector and APE. This code contains for instance rules similar to those which are adopted for large private companies, but also tailor-made rules to deal more effectively with those entities. Secondly, APE tried to make the running of the public sector in France and the privatization policy itself more transparent, more accountable to the public at large and to the parliament in particular. In this direction the Agency publishes every year an annual report where it tries to analyze quite fairly the progress and the failures of the various entities it is shareholder of. Last year APE also issued for the first time a consolidated financial statement showing control of 50 significant groups or entities; overall the Agency manages 70 entities, which globally own 1,000 subsidiaries. Total assets are worth above €500bn: one would see a rather unbalanced balance sheet with less than €40bn of equity and 4 times that value as net financial liabilities. These are the figures at the end of 2003, the figures at the end of 2002 were worse, so APE is trying to help these companies improve their management and balance sheets.

The French State is a very active player in privatization: since 1993 more than €60bn of proceeds were raised through 21 transactions worth about €1bn, 14 IPOs across sectors, and 50 trade sales. On top of that we have to take into account the indirect sales by the main companies which are actively selling subsidiaries and also buying new ones. Evaluating the risk they take when they buy new subsidiaries is one of APE's important tasks in combination with the surveillance of other balance risks.

France has been since 1993 one of the major privatization players, or even the major one in terms of volume. This is certainly due to the fact that France is a large country. Certainly we inherited a large public sector – which I must say we were lucky enough/or unlucky to increase even further as late as 1981. Our remaining portfolio is still very large. The market value of our listed companies is €45bn with 10 stakes above €1bn. It is more difficult to be specific about the value of the non-listed assets: they are very huge but it would be difficult to provide a figure for example for Railways Company or even the Post Office at present. Hopefully it will be easier in a few years; those companies have large balance sheets but very thin profits when they are profitable, so the value is a big question mark. Just to give a finger figure I would say at least €100bn for those non-listed companies (included non commercial entities).

During last year and this year we had several important transactions: through the IPO of Snecma (which is an aircraft engine maker) and a few months later through the merger of Snecma with Sagem, which is a defence and communications company, we achieved in just one year the full privatization of Snecma. In early September last year France Telecom executed the largest accelerated book building, representing more than 10 percent of FT (shares capital), and made the stake of the French State break the 50 percent barrier. This year we have also listed two motorways companies (APRR and SANEF). These deals raised close to €10bn of proceeds but let me also mention some important transactions achieved by major SOEs such as the IPO of Pages Jaunes.

APE has achieved these results thanks to a very stable and transparent process which derives from the constitutional provisions and several laws dating back to 1986 and 1993. The approach is rather pragmatic, applying a principle of symmetry: companies which have entered the public sector by law must be privatized by law. For other companies the pragmatic approach means that the rules are strict for high stakes sales, but a little bit less for smaller size entities. We can have specific legal provisions in order to protect national interest in case of transfer to private sector, but this is very rarely utilized. In October 2002, we redeemed the golden shares in Total (the oil company). France has one remaining golden share in Thales (a defense company) and shareholders agreements to protect the French interests in EADS. The process is driven by the Minister of Finance with our assistance. The Minister is of course politically responsible to take the main decisions and gives us the green light. We are backed by an independent commission with very senior or retired people both from private sector and public service. Their approval is needed on minimum pricing decisions and on the process before privatization.

Basically, we feel that our mission is to slate state companies to privatization. But before that we try to help them to grow. This task encompass both cultural changes and legal changes. For instance, several entities need to be incorporated before we can privatize them. For instance, we incorporated our military naval shipyards two years ago, and also incorporated the energy companies EdF and GdF last year, while the process is ongoing for Paris Airport. We are creating at present Postal Bank as a subsidiary of the French Post Office. We devote particular attention to accounting standards. One of the most important tasks at present is the transition to international accounting standards, which force us to take account of liabilities such as pensions, or nuclear dismantling provisions. These standards allow us to exert pressure towards the government to tackle such difficult issues as the pension funds for public entities like the Railway company or the Post Office.

We think also that privatization is not a purely financial game; of course the money that privatization brings back to the government is important, but we take privatization as an opportunity to strengthen our companies, which could eventually be large companies in France, in Europe and hopefully the world over. For instance I would like to quote some transactions like the acquisition of Nissan by Renault, the merger between Air France and KLM which brought this company to a leading role in the airlines, and the transaction between Sagem and Snecma.

As regards the methods of privatization, we use all the classical methods from IPO or fully marketed offers to accelerated bookbuildings. As in other countries we have found a lot of merit in that technique, for instance the sale of the 10 percent of France Telecom, which brought us €5bn was done in one day. The process has been incredibly smooth: we just called several French and international banks by the evening and by the end of the next day, the stake was sold. We can have from these banks the guarantee about the minimum price, according to the of the advice of the independent body I've mentioned. We are also looking for innovative techniques and open our eyes to what large banks can tell us about new techniques. Competition is very keen in those processes to recruit banks or the advisors, or to execute operations.

To conclude my presentation I would like to mention our current programme, which is a very large, mainly directed at the energy sector. We had unfortunately taken a few months delay because of the intricacy of French politics, and more specifically because of the difficulty with the present referendum on European Constitution, so we had not any green light before the referendum and I hope the outcome of the referendum will allow us to catch up our timetable and probably start with Gdf and open the capital of Edf by the autumn, which is our present planning. We have further activities preparing other companies like Paris Airports which is scheduled for 2006, setting up the postal bank, restructuring the freight activities of the railway companies, and also we still have quite a lot of work with the closing of former companies such as mining companies, or difficulties with very small companies such as the printing company or the ferry company between Marseille and Corsica, and small companies are often using our time as much or even more than large ones.

So, to really conclude, thank you for listening to me. The main message I think is that we try to behave as would behave any large shareholder in the private sector. Of course there are differences, the main one being that we are not incorporated as in a holding and also that the decision making power for large and final decisions - given the nature of this very specific holding – is in the hands of the government and in particular to the minister of Finance.

Leszek Balcerowicz §

National Bank of Poland, President

Privatization in the Post-Communist Countries: Some Observations

Privatization, together with macroeconomic stabilization and liberalization, is one of the fundamental political and economic reforms. In this short article, I would like to make a few observations on this reform based on the experience of the post-communist countries.

As a starting point, it is useful to define privatization in a broad way, namely as a process whereby the share of the private sector increases in an economy.

From here, we can define a few basic sub-processes of privatization:

- entry privatization – i.e. reducing or removing barriers to entry for private enterprises;
- asset privatization – the transfer of assets from the state sector to the private sector, without reducing the number of the state-owned enterprises, and through policies which force or induce the SOEs to downsize and restructure (liberalization, hardening of the SOEs' budget constraint);
- transformational privatization – usually identified as privatization *per se* is a process by which the very nature of a state-owned enterprise is changed.

Mature Market Economies vs. Post-Communist Countries

Having this typology in mind, we can basically distinguish between two polar cases of privatization in the world during the last twenty years:

1. Privatization in the mature market economies.
2. Privatization in the post-communist countries and in a large part of the third world.

In the first case, privatization of the economy has been typically limited to transformational privatization. In the second case, all the three processes have been at work. For example, in Poland, entry privatization and asset privatization have played a very important role thanks to tough macroeconomic policies and radical liberalization, which exposed SOEs to competition (for more on this topic, see Balcerowicz, 1995).

We can also distinguish an intermediate case in the examples of some Latin American countries. There is an entrenched state sector in Brazil (e.g. Petrobras) and even in Chile (Codelco). One interesting question is the issue of what types of political coalitions and conditions exist in these countries that make it virtually impossible to privatize these enterprises even though they are usually very wasteful.

Privatization, Democracy and the Rule of Law

There are some important links between privatization, democracy and the rule of law:

- In the long run, it is impossible to have elected governments, called democracy, without privatization if you have inherited a totally state-owned economy. I think it is no accident that there is not a single case, to my knowledge, of a lasting, peaceful co-existence of a state-dominated economy and elected government (Friedman, 1982). [1]

- The dominance of the state-owned sector, i.e. the absence of privatization, is in conflict with the rule of law, which is distinct from democracy and just as important. If the economy is state-owned, the links between politicians and the managers of SOEs are so strong and intense that it is difficult for the former to enact and enforce legislation independently of the latter.
- For example, under socialism, Poland had an advanced ecological legislation, but it was not enforced.

Economics of Privatization

As far as the economics of privatization is concerned, I think the case is rather clear. Only under very artificial and unrealistic models and assumptions, can one show that ownership does not matter for productivity and efficiency. Of course, such models can be constructed. They remind me of the old style debate about the efficiency of socialism between Oscar Lange and other proponents of socialism on one side and Friedrich von Hayek and Ludwig von Mises on the other. The “socialist” side tried to prove, on the basis of an extremely simplified model of the economy (and of human nature), that socialism can be equally efficient as capitalism.

It is not by chance that one cannot find even a single case of a state-dominated economy which would be economically superior over the long-run to a comparable private economy. It is not an accident because the theory of ownership is basically the theory of owners. And the basic distinction here is between political owners and non-political owners. Political owners face incentives which make them less capable and willing to be the guardians of a firms’ efficiency than non-political owners. And state ownership does not allow the capital market to play a large (if any) role in monitoring and enforcing discipline on enterprises.

So, one should more closely look at the state as an owner. There are two distinctions: foreign versus domestic and democratic versus non-democratic. An analysis of the impact of these distinctions would not invalidate, I believe, the general conclusion that state ownership, compared to a private one, is economically deficient, but there might be some interesting differences. Somewhat paradoxically, domestic states (i.e. domestic politicians) may be more deficient as owners than the foreign ones because, guided by popularity considerations, they may be keener to intervene than the latter.

Another topic for investigation would be the performance differentials between public and private ownership across sectors. Even though in every sector or almost every sector a private ownership is economically superior to a state one, these differences may vary across sectors. For example, in the energy sector this difference may be less evident than in retail trade or agriculture. If this is the case, then what matters is not only the share of the state owned sector in the economy, but also its distribution across sectors.

The third point on the economics of privatization would question the traditional position that competition is more important than privatization for economic efficiency. This argument supports competition-enhancing liberalization, but it is incomplete because the intensity of competition depends on privatization. Private enterprises have more incentives to engage in behavior which results in more competitive threats to other enterprises than public ones. So, there is a link between privatization and competition.

The Polish Experience

I would also like to share with you the Polish experience with privatization.

- The experience of post-communist economies suggests that the longer the delay in privatization, the worse the results. The performance of state-owned enterprises tends to be a declining function of time from the onset of the transition process. The longer one waits with privatization, the higher the probability that the enterprise will finally go bankrupt. It is estimated that of the 8,453 SOEs in Poland in December 1990, about 40 per cent went bankrupt by March 2005.[2] And if one finally manages to sell it to a private owner, one usually sells it for a lower price than would have got had it been sold earlier.
- Second, the data on Poland suggest that there are considerable differences in post-privatization performance of companies, depending on the privatization method. Those enterprises which have been privatized with the participation of foreign direct investors perform much better than those which became employee-owned enterprises. For example, as far as productivity is concerned: enterprises privatized with foreign participation increased productivity by 127 per cent between 1993 and 1999, whereas enterprises which were privatized as employee partnerships, close to co-operatives, have increased productivity by less than 25 per cent in the same period. Of course this is not an ideal comparison, because the data concern different sectors. However, the difference is significant. Enterprises privatized with foreign participation increased their revenues by almost 92 per cent between 1993 and 1999, whereas enterprises which took the form of employee partnerships increased their revenues by a mere 14 per cent (Bałtowski, 2002).

Banking Sector

At the beginning of the transition, all banks were state-owned. And because of the previous regime, there were no sources of domestic capital large enough or competent enough to take over the state-owned banks. These initial conditions were very different from the ones that existed, let's say, in Spain after Franco, where private banking sector was present.

Two different models emerged in the process of transition. One, which I would call the Central European model, went for relatively rapid privatization of the banks. Given the initial conditions, this had to be the privatization with the heavy participation of foreign direct investors. It was the case in Poland, Hungary, the Czech Republic, Slovakia, Slovenia. What other countries? (Besides this group, Mexico and New Zealand also have the heavy participation of foreign direct investors in the banking sector).

The second model, given the same initial conditions, is the one of delayed privatization. This leads to a sort of Russian situation, in which the banking sector is dominated by one huge state-owned bank - a savings bank - and there are many small or domestic private banks. China and India also belong to the group of countries with the banking sector dominated by the state-owned entities. Countries belonging to the first group achieved rather fast modernization of their banking sectors and they do not face at the moment any serious problems of non-performing loans. Countries of the second group appear to be lagging in the modernization of their banks, while having to deal with an “overhang” of bad debts.

Final Remarks

Privatization in a state dominated economy is fundamentally important for democracy and the rule of law as well as for economic growth. Notwithstanding this basic conclusion I would like to suggest a few topics for further research. They may include the link between privatization and competition, public-private efficiency differentials across economic sectors and the issue of various types of states as owners. As the Polish experience suggests, delays in privatization are socially costly and the privatization method, i.e. the resulting type of a private enterprise, matters for efficiency.

Notes

[§] The article is based on a speech I gave at a workshop organized by Privatization Barometer and Fondazione IRI in May 2005. I would like to thank Marek Radzikowski for his help in editing this text.

[1] In Balcerowicz (1995) I envisage a system which combines democracy and socialism (i.e. a state-dominated economy) and ask what would happen to socialism or to democracy. I find three forces which make the enduring co-existence of these two factors rather unlikely: 1) State-dominated economy produces poor economic results relative to competitive market capitalism. This poor relative economic performance would be common knowledge thanks to liberties related to democracy such as freedom of speech, mass media, freedom to travel etc. The discontent bred this way would either have to be suppressed, which would mean an end to democracy, or it would lead to economic liberalization, i.e. transition to capitalism. 2) A democratic political order would include free market parties which would demand that the ban on private entrepreneurship – a necessary condition for the lasting existence of socialism – be eliminated. 3) Democracy requires a certain social structure which is at least partly related to the institutions of capitalism (e.g. private entrepreneurs, free professions).

[2] Source: The Ministry of Treasury and own calculations.

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Massimo Capuano

Borsa Italiana, President and CEO

During the 80s and 90s privatization programs around the world played an important role in the rise of a global capital market. In many countries they contributed to an increase in stock market capitalization, trading and in the number of listed companies.

In Italy the dimension of this phenomenon, its contribution to the development of the equity market and its effects on investors behavior have been impressive. The fact that Italy's privatization process has concerned large companies with well known brands (i.e. Credit, Comit, IMI and INA, Telecom, Eni and Enel) and very often active in strategic sectors (i.e. banking, insurance, industrial, telecommunications, energy and more recently local utilities) has played a key role.

Italy registered the highest flow of funds raised by privatization programs among OECD countries with more than US$100bn collected by the Italian public sector [1]. Considering all operations which led to a reduction of government stakes in a already or newly listed company during the period 1993-2005 (March), it is possible to identify:

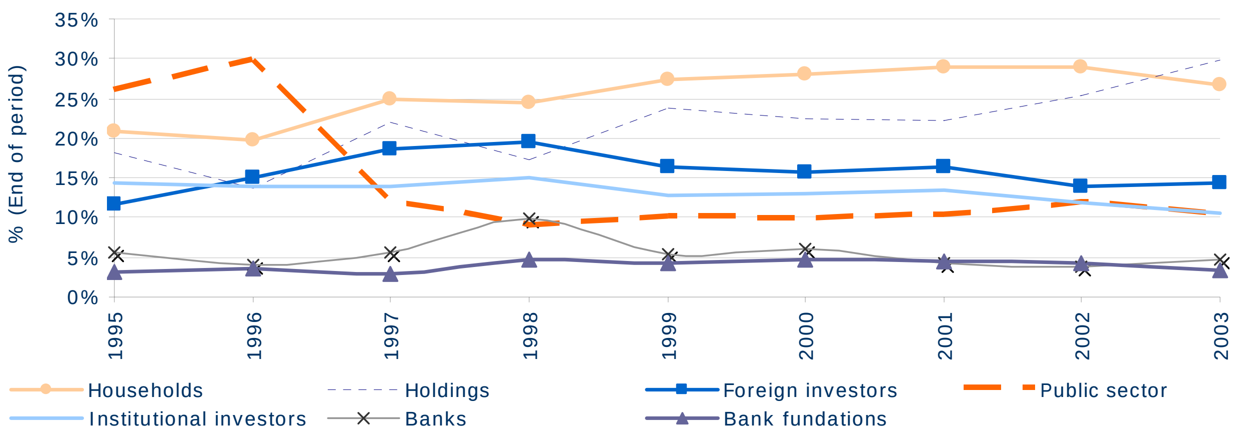
- 46 operations of privatization concerning 30 companies;
- 18 Initial Public Offerings.

Almost €90 billion were raised through the equity market, of which €31 billion through an IPO.

Privatization has contributed to a change in the size of the Italian stock market in terms of market capitalization, turnover and investment flows to the companies.

Companies privatized through IPOs represented - at the end of March 2005 - 30 percent of the overall market capitalization and 20 percent of the total turnover; considering all privatized companies we reach about 60 percent for both variables. In addition economic literature on this subject supports the existence of spill over effects: good liquidity for privatized companies results in an increase in the overall market turnover. In terms of investment flows the privatization program has accounted for 42 percent of the total flows channeled through the exchange.

Figure 1. Italian equity market capitalization ownership by institutional sectors, 1995-2003



Source: Borsa Italiana – R&D on Assogestioni, Banca d'Italia, Consob, Covip, Uic data

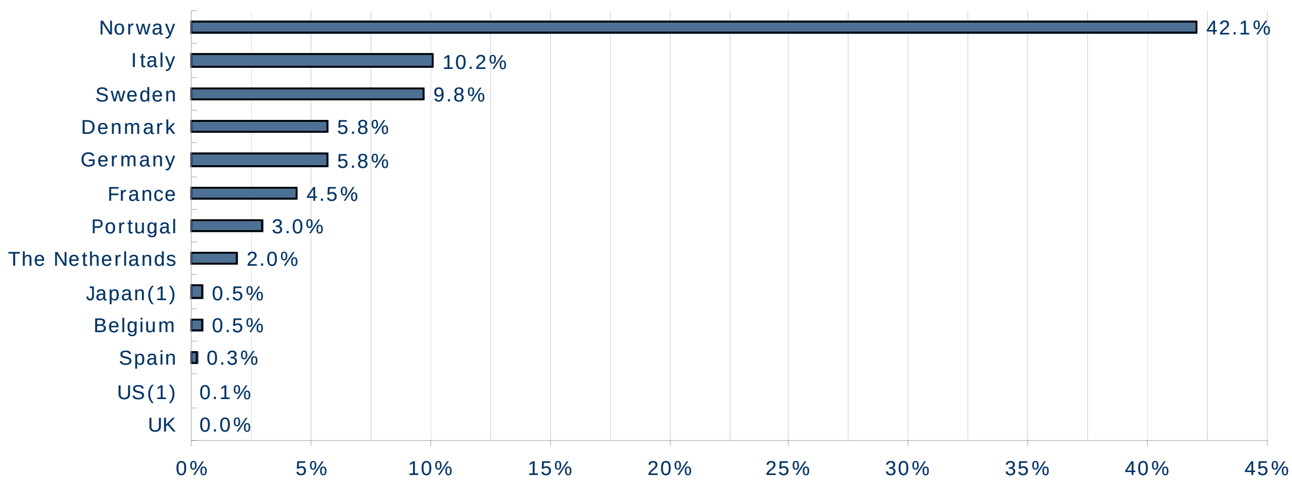
Privatization has changed the ownership structure of Italian listed companies (Figure 1). During the period 1995-2003 we registered a sharp decrease in the public sector's ownership, from 30 percent in 1996 to 10 percent and as a consequence, an increasing importance of holdings, households and foreign investors. At the end of 2003, households and holdings represented about 25 percent and 30 percent of total market capitalization respectively. Foreign investor ownership reached 20 percent in 1998, declining to 15 percent in 2003. In the meanwhile the role of domestic institutional investors remained unchanged (10 percent)[2].

The present composition of ownership of Italian listed companies is partially the result of investors involved in Italian privatization, where the highest participation was registered among foreign and retail domestic investors. Among different classes of buyers of public offers, domestic retail investors have always represented the largest one (47 percent). International investors have been very receptive too (34 percent), while domestic institutional investors have played a smaller role (19 percent) [3].

Italy has a significant pool of households investing directly in Italian listed shares (3 millions, about 14 percent of total Italian households) [4]. The role played by privatized companies in bringing them closer to equity shareholding is clear; 65 percent of household shareholders interviewed by Borsa Italiana in 2001 had privatized companies shares in their portfolios and this percentage was still 40 percent in 2004 [5]. This result is especially remarkable if we consider that Italian households equity portfolios are highly concentrated: 50 percent have a stake in one company and 25 percent in two.

Finally, over the last ten years the households financial portfolio has registered a dramatic transformation. Government bonds, representing more than 20 percent in 1995, reduced their weight to 7 percent in 1999. New free resources were made available for mutual funds (from 5 percent in 1995 to almost 20 percent in 1999, then declining to 13 percent in 2003) and equity investment. At the end of 2003 Italian listed

Figure 2. Public sector on domestic market capitalization among major countries, 2003



Note (1) Year 1999
Source: *Fese* and *FIBV*

shares represented 5 percent of Italian households wealth, a sudden change compared to 2 percent in 1995.

In relation to other leading European equity markets, there is still room for a further reduction of the public sector in Italian listed companies, now accounting for 10 percent (Figure 2). Furthermore, IPOs of new privatized companies could increase the dimension of the Italian stock market and its capability to accurately represent the Italian economy.

Privatization in Italy started later compared with other countries and in a context characterized by a less developed financial market. At their launch, there were widespread doubts about the existence of enough demand for buying privatized companies and the capability of the stock market to absorb such a big amount of flows.

Conclusions

The Italian financial system reacted very well. The exchange fully exploited these opportunities and played an active role in making Italian privatization successful.

Borsa Italiana made an accurate effort to provide efficient and international markets with the creation of new markets and segments: Nuovo Mercato (1999), STAR (2001), Mercato Expandi (2003) and TechSTAR (2004). Key factors included continuous improvements of market microstructure and technology and paying special attention to corporate governance best practices (introduction of the Corporate Governance Code of Conduct in 2000 and of compulsory corporate governance requirements for high quality mid and small caps).

Italy’s experience in privatization could be an excellent model for New Europe privatization programs.

Notes

[1] OECD (2002) “Recent privatization trends in OECD Countries”, *www.oecd.org*
[2] Filippa, L. e Franzosi, A. (2001a) *“Capitalizzazione di Borsa, settori istituzionali e portafoglio retail. Analisi dell’evoluzione recente*” BItNotes No. 2, november, *www.borsaitaliana.it*
[3] Goldstein, A. (2002) “Privatization in Italy 1993-2002: Goals, Institutions, Outcomes, and Outstanding Issues”, CESifo Working paper no. 912, *www.CESifo.de*
[4] Franzosi, A. Grasso, E. Pellizzoni, E. (2004) “*Investitori retail e Borsa. Secondo rapporto sullo shareholding in Italia*” BItNotes No. 12, November, *www.borsaitaliana.it*
[5] Surveys made by Doxa for Borsa Italiana on a sample of 700 households investing in Italian listed shares. First survey on Spring 2001; second survey at the beginning of 2004.

Vittorio Pignatti Morano

Lehman Brothers, Vice Chairman

May 2004 represents a key milestone in the European Union economy: 10 new countries (Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia – "New Accessions") have joined as member states. Financial and economic integration of New Accessions and of those countries that applied to join the EU (Bulgaria, Croatia, Romania, Turkey) is an important challenge for the next decade and an occasion of consolidation of the European block within the international economic arena.

An economic and financial gap still remains between Western countries ("EU15") and New Accessions. Privatizations of state-owned companies, as a way to reduce public debt and foster liberalization, have been a key tool to integrate Western Europe and will have to play the same role also for Eastern Europe (see Figure 1).

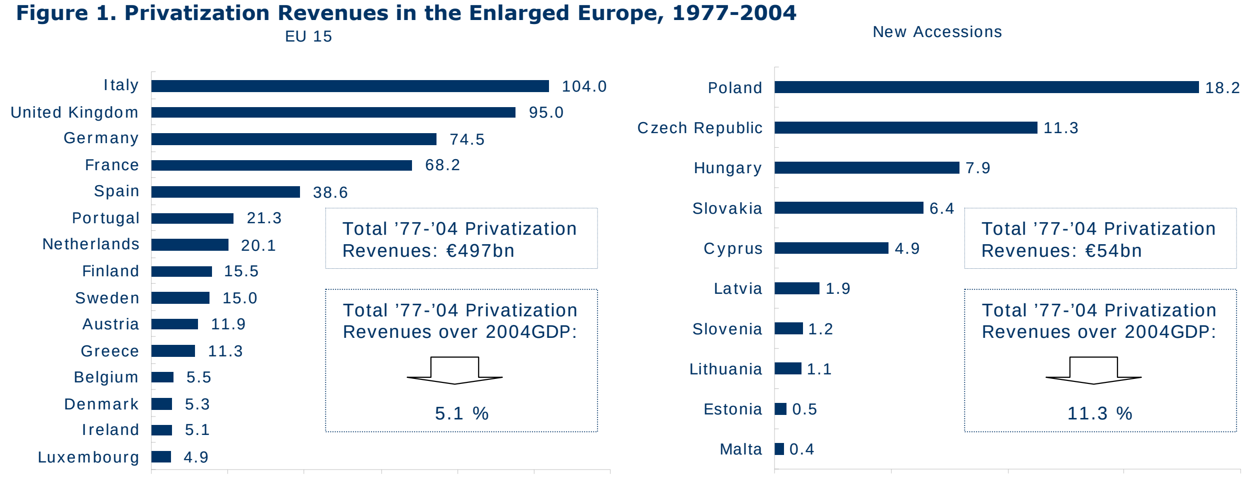
Privatizations started to play a significant role in the European market in the '80s with the UK, followed by Italy and the other major Western European countries.

Companies privatized were mainly in the utility (energy, telecommunications), aerospace and defense, banking and to a lesser extent in the manufacturing sectors. Recent privatizations have been mainly in the service sector and in the tobacco, postal services and gaming industries .

One of the top priorities of privatizations processes in Western Europe has been the public debt reduction as also determined by the EU rules (Stability and Growth Pact, Maastricht criteria).

By lowering public debt, governments achieved more efficiency in the privatized companies taking benefits from a renewed and more proactive management, with positive effects on prices paid by customers/clients, ability to efficiently manage employees and their development and capacity to generate dividends for shareholders.

Figure 1. Privatization Revenues in the Enlarged Europe, 1977-2004



Source: Privatization Barometer, newsrun, Lehman Brothers' estimates. Privatization revenues relate to the 1977 – 2004 period and are restated at current purchase power parity

Legal/regulatory framework has been an important requisite to ease privatizations especially for natural monopolies. Utilities such as National Power or National Grid of the UK, Enel of Italy or Endesa of Spain required a high degree of certainty of the regulatory framework to make them appealing to local and foreign investors.

New Accession countries will have to use privatizations as a tool for economic development rather than to lower public debt. They have already put in place a notable amount of privatizations, especially if the ratio of privatization revenues over current GDP is considered.
Central/Eastern European countries have started by privatizing companies in the industrial and financial sectors, kept in the State hands as per the former socialist regimes. More recently they have focused on privatizing the telecommunication and utility/energy sectors, with key examples being Cesky Telecom in the telco sector, Slovenske Elektrarne, CEZ and PKN Orlean in the energy/utility sectors.

Despite the massive privatization programs implemented in the New Accession countries, lower economic, financial and infrastructural development compared to Western Europe represent the key challenges (Table 1).

Infrastructural development in Central/Eastern Europe is essential for growth and it is also necessary on a broad European basis, considering the position of these countries as a natural link between Russia / Far East economies and Western Europe.

Financing of the infrastructural development is a key point within the context of New Accession countries as equity and debt markets are not ready for the challenge and development will have to be financed by foreign capitals; financial convergence has already started reducing the gap in terms of risk profile of Central/Eastern countries compared to Western ones (Table 2).

New Accession countries present a slightly higher risk profile than other EU15 countries (+100 bps) but significantly lower than Eastern European countries not part of the EU (-400 bps) such as Turkey, Bulgaria, Croatia. Government bond yields in New Accession countries are 10/20 bps above those of EU15 countries.

Average fiscal pressure of 20 percent in New Accession countries compared to 35 percent in EU15, is a key investment lever to attract foreign capital but is also a relevant constraint for the financing of public spending if Central/Eastern Europe countries want to maintain this tax advantage.

Table 1. Economic / Infrastructure Indicators

	EU 15	New Accessions
GDP / Head	€ 28,400	€ 8,500
Electricity Consumption / Head	MWh 8.1	MWh 4.4
Highway length / 100sqkm	Km 2.4	Km 1.1
Avg # of Airports per Country with Runaways > 3km	Km 3.3	Km 1.7
Mobile Telephone Lines / Head	5.5	3.0
Internet Accounts / Head	0.9	0.7

Source: *Eurostat*, *CIA Fact Book*, *EIA* Country Analysis, *Lehman Brothers*

The opportunity for Central/Eastern European countries to fill the gap with Western Europe is a great challenge. Within the context of efficient financial markets, a convergence in the cost of equity and debt between Western and Central/Eastern Europe economies has already started and will favor capital flows to finance investments with adequate risk – return profile. The determination of priorities in terms of sectors that favor development and allocation of commitment/liabilities between consumers and the governments to boost development is key to moving forward. If the favorable fiscal pressure gap is meant to stay, public spending in Central/Eastern Europe will have to finance primarily social security, education and healthcare. Privatizations will have to boost the economic development and financial integration. The necessity to provide local and foreign investors with adequate risk/return profile raises the key political question about the extent consumers will have and be able to sustain the development.

Table 2. Financial Market Indicators

	EU 15	New Accessions
Govt Debt / GDP	59.60%	39.80%
Avg € Govt Yield - 10YR	3.40%	3.50%
Stock Exch. Cap / GDP	72.70%	36.80%
# of Listed Companies	6,341	965
Avg Company Mkt Cap	€ 1.1 bn	€ 182 mil
Country Risk Premium	5.10%	6.10%

Source: *Eurostat, Bloomberg, Damodaran, Facyset, Lehman Brother's Equity Research*

The PB Index
Performance Analysis

Overview

The PB Index tracks the performance of shares of privatized companies that are listed for trading in domestic stock markets of the enlarged European Union.

The PB Index is capitalization weighted, and denominated in Euro. It is restricted to ordinary shares of privatized companies trading in the stock exchanges of the European Union, including the ten new accession countries.

It is subject to a quarterly review by the PB Index Administrator, who ensures the overall consistency with the purposes of the Index. Index maintenance implements the adjustment for company additions and deletions and stock price adjustments due to corporate actions (including dividends) and merger and acquisition (M&A) activity.

The new version of the PB Index, which is presented in this Newsletter for the first time, tries to take into account more precisely M&A operations which may affect the risk and return profile of privatized companies. Particularly, the privatized company's share price is replaced by the one of the acquiror *(a)* if the acquiror is a European company listed in a stock market of the enlarged European Union and *(b)* if the acquiror's market capitalization is not more than double of the one of the target. The first condition avoids to include in the PB Index non European stocks exposed to different systemic risk. The second is based on the assumption that in case of M&A the idiosyncratic factors affecting privatized companies spill over only if the private acquiring company is comparable in size.

Following these rules, a Composite Index, two regional sub-indexes (one including EU15 and one the ten new accession countries) are constructed, together with five sector sub-indexes (Banking, Industrial, Oil & Gas, Utilities, and Telecom).

As of June 2005, the PB Composite Index includes 214 stocks. The two regional indexes include 158 companies of EU15 countries and 56 companies of the ten new accession countries of Eastern Europe. The five sector sub-indexes Banking, Industrial, Oil & Gas, Utilities, and Telecom include 31, 34, 10, 42, and 21 stocks, respectively (see Table 1).

A more detailed description of the PB Index can be found in the Rulebook (available at www.privatizationbarometer.net/site/rulebook.pdf).

Analysis

In this section, we briefly describe the return and risk characteristics of privatized companies over the last year, and for longer periods (up to 3 years.

Figure 1 refers to the PB Composite Index, which includes the whole set of privatized companies for which we track the performance. The figure shows that, had one invested €100mil in this index at the end of May 2002, after three years the investment would be worth €119mil. Due to the overall negative outlook on equity markets during 2002, higher performance is found in shorter time periods (59.8 percent and 25.2 over two and one year period, respectively), (Table 2).

Overall, privatized companies strongly outperformed the (European) Dow Jones STOXX Total Market Index (TMI), which we use as a benchmark. The PB Composite gained (annualized) excess returns of 11.9, 8.7, and 7.8 percent on a yearly, two, and three years basis, respectively (Table 3).

The analysis of the regional indexes shows a slightly lower abnormal performance of the PB Old Europe with respect to the PB Composite. Excess returns shrink considerably when the PB New Europe is considered. The similar behavior of the PB New Europe and its benchmark (i.e. the Dow Jones EU Enlarged TMI) is not particularly surprising, given that a large fraction of the constituents of the benchmark includes former State-owned companies. Indeed, the two indexes have 75 percent of overlapping market capitalization. The slight rescaling of the abnormal performance of the PB Old Europe with respect to the PB Composite is instead due to the presence of stocks from the enlarged Europe in the latter but not in the respective benchmark. The small cap of these stocks does not affect significantly the overall performance of the PB Composite.

The analysis of our five sector benchmarks over the last year shows higher raw returns in the utilities (26 percent), followed by the banking sector and industrial sector (23.2 and 22.2 percent, respectively). Slightly lower performance is reported in the telecom and oil and gas sectors (17.9 and 15.1 percent, respectively), (Table 2).

Over the last year, the drivers of excess returns of our composite index have been mainly stocks in the banking and industrial sector, and to a lesser extent telecommunication companies.

The PB Banking Index marked a strong over-performance relative to the Dow Jones STOXX banking, gaining an additional 10.1 percent on a yearly basis. This high yield is largely attributable to the strong performance of the Dutch ING Groep and of three Italian banks such as Capitalia, Banca Nazionale del Lavoro, under pressure of the Banco Bilbao Vizcaya Argentaria, a large Spanish bank, and Mediobanca, a primary merchant bank. Bank Austria Creditanstalt – the 2004 top performer in Old Europe – keeps a prominent position in the ranking by yearly return as of end 2H2005 and also has great bearing on our sector index (see Table 3).

Table 1. PB Indexes Constituents (as of 23/05/2005)

PB Indexes	# of Constituents	Old Europe	% Old Europe	New Europe	% New Europe
Composite	214	158	73.83%	56	26.17%
Banking	31	23	74.19%	8	25.81%
Industrial	34	30	88.24%	4	11.76%
Oil & Gas	10	8	80.00%	2	20.00%
Telecom	21	16	76.19%	5	23.81%
Utilities	42	36	85.71%	6	14.29%

Source: Elaborations on *Datastream*

Table 2. PB Indexes Returns

PB Indexes	Value as of 23/05/2005	3 Months	6 Months	1 Year	2 Years	3 Years
Composite	115.285	2.512%	10.362%	25.291%	59.867%	19.101%
Old EU	110.287	1.327%	7.770%	21.648%	55.142%	14.002%
New EU	184.983	-7.415%	14.877%	42.642%	81.546%	64.798%
Banking	112.139	0.020%	8.684%	23.279%	61.447%	15.488%
Industrial	117.755	2.283%	10.555%	22.289%	72.729%	17.774%
Oil & Gas	97.238	0.187%	7.572%	15.166%	40.599%	-0.329%
Telecom	114.086	-1.751%	3.644%	17.973%	36.232%	23.832%
Utilities	108.091	2.636%	11.918%	26.050%	46.801%	11.338%

Note: The base date is the 04/30/2002. Return indicates the % increase/decrease of the index. All values are annualized.
Source: Elaborations on *Datastream*

Table 3. PB Indexes Average Excess Returns

PB Indexes	Benchmarks	1 Year	2 Years	3 Years
Composite	DJ Stoxx TMI	11.961%	8.706%	7.861%
Old EU	DJ Stoxx TMI	8.335%	6.833%	6.332%
New EU	DJ Stoxx EU Enlgd TMI	3.312%	0.106%	n.a.
Banking	DJ Stoxx Banking	10.147%	9.793%	6.018%
Industrial	DJ Stoxx Indl Goods&Serv	8.058%	9.993%	11.001%
Oil & Gas	DJ Stoxx Oil & Gas	-0.836%	1.529%	1.635%
Telecom	DJ Stoxx Telecom	6.338%	2.414%	1.331%
Utilities	DJ Stoxx Utilities	0.707%	-1.296%	0.381%

Note: The base date is the 04/30/2002. Average excess return indicates the historic average differential return of the index to its respective benchmark. All values are annualized.
Source: Elaborations on *Datastream*

Figure 1. Performance of the PB Indexes

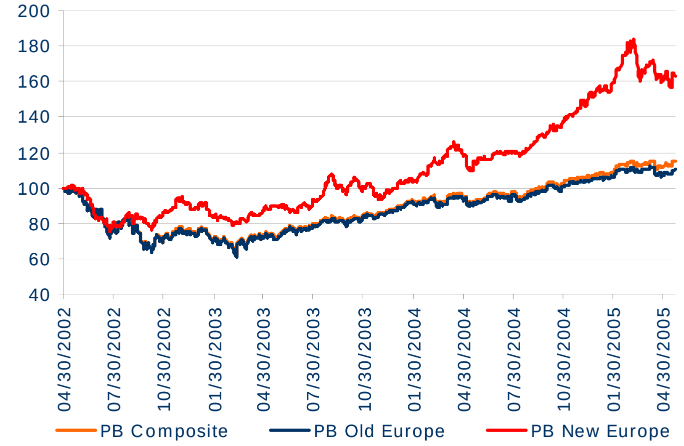


Figure 2. Cumulative Excess Returns of the PB Indexes

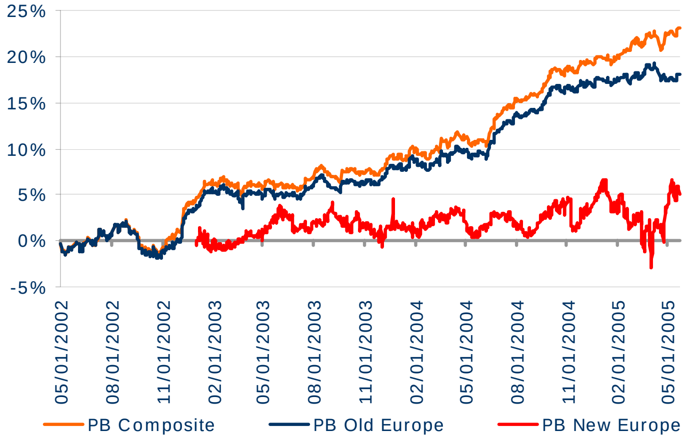


Figure 3. Performance of the PB Indexes

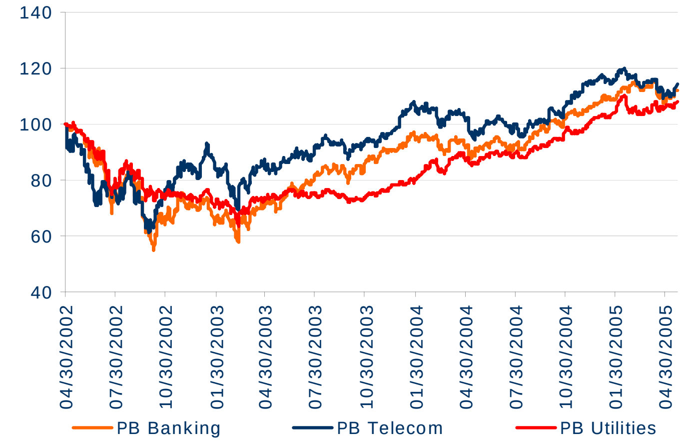


Figure 4. Cumulative Excess Returns of the PB Indexes

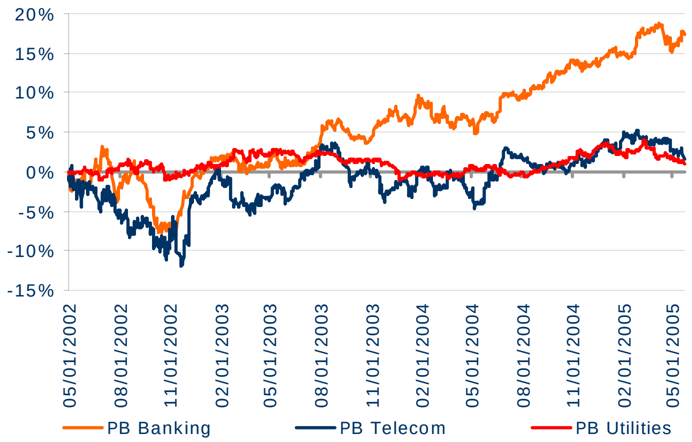


Figure 5. Performance of the PB Indexes

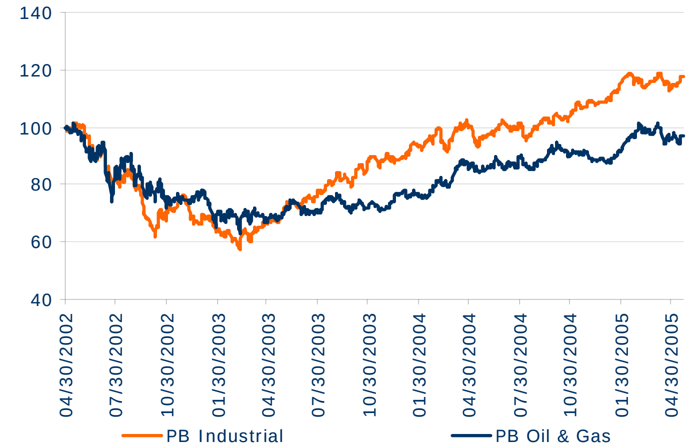
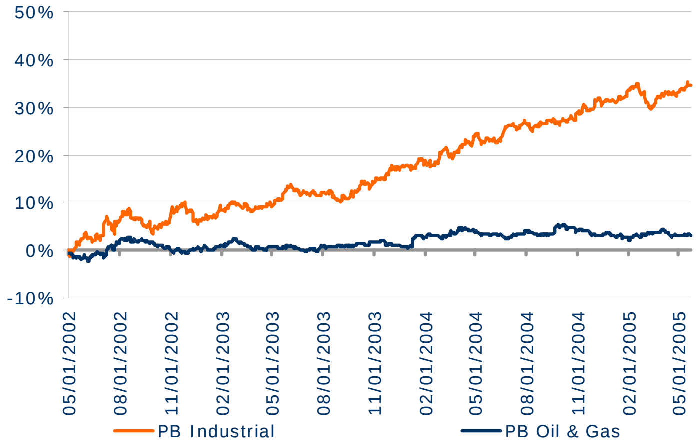


Figure 6. Cumulative Excess Returns of the PB Indexes



Privatized companies operating in the industrial sector also performed remarkably well. The PB Industrial Index out-performed the benchmark by 8 percent over one year, mainly driven by stocks of the aerospace and defense sector (such as the pan-European consortium EADS and the British BAE Systems). High yields are found for companies operating highways systems such as Autostrade Spa and Autoroutes du Sud de la France.

Interestingly, privatized telecom operators recovered strongly during 1H2005 after the negative performance observed in 2004. The PB Telecom Index significantly over-performed the Dow Jones STOXX Telecom Index, yielding 6.3 annualized excess return. The Greek and Austrian former state monopolies OTE and Telecom Austria have yielded 39.2 and 33.4 return over the year. But it is mainly thanks to sector behemoths such as Telefonica, France Telecom, and Deutsche Telecom that our PB Telecom Index has over-performed its benchmark.

As customary, we also report the risk-adjusted performance yielded by our PB Indexes. We have therefore calculated the conventional Sharpe ratio, given by the differential return of our index relative to a risk-free investment (namely, the 3-month Germany Interbank Rate) divided by the standard deviation of the differential return. The Sharpe ratio has also been computed for our benchmarks, in order to gauge the differential risk-adjusted performance. We have also computed the Information ratio, given by the differential return relative to its benchmark divided by the so called tracking-error volatility (i.e. the standard deviation of the excess returns). While the Sharpe ratio provides a measure of return per unit of total risk, the Information ratio provides a measure of active risk and hence of relative risk-adjusted performance.

Data availability allows us now to calculate these ratios for the three-year period, which is the conventional time-horizon used by asset managers and investment consultants.

In relative terms, privatization companies performed well also after controlling for volatility. Over the 36-month period, the PB Indexes show higher Sharpe ratios with respect to all benchmarks, which often report negative values. The only negative Sharpe ratio reported refers to the PB Oil and Gas Index, which is nevertheless higher than the corresponding DJ STOXX Index.

The PB New Europe Index Sharpe ratio sticks out with a value of 0.86. As we have already documented in our previous analyses, investors seeking high risk-adjusted yields should take very seriously the opportunities given by the companies privatized in the new accession countries (Table 7).

The analysis of the Information ratio is particularly interesting. A top quartile manager has typically an information ratio of 0.50 or higher. The information ratio of the PB Composite Index is more than three times larger (1.54). This value indicates approximately 180 basis points of out performance relative to the benchmark Dow Jones STOXX TMI for every 120 basis points of (active) risk (Table 8).

The PB Industrial, Old Europe, and Banking also yield values in the top quartile of the distribution of the information ratios. Indeed, the excess returns gained by privatized companies survive when they are adjusted for risk.

As a final step, we have estimated a conventional Capital Asset Pricing Model (CAPM), where excess returns over the risk free asset are regressed against a market risk factor. Not surprisingly, the returns of portfolios constructed on our PB Indexes display a high beta (i.e. the estimated coefficient of the market return). Nevertheless, the PB Composite and the PB Old Europe Index regressions yield intercepts which are statistically different from zero. These intercepts are the conventional Jensen's alpha, a widely used measure of over performance over large and broadly diversified portfolios. Our estimates based on daily data yield an alpha of 2.7 basis points (Table 9). A back of the envelope calculation suggests that a passive investment in a fund based on the PB Composite index gained approximately 6 percent excess returns on an annual basis with respect to a broadly diversified portfolio. Similar results are obtained when sector risk factors are fully taken into account. Indeed, idiosyncratic factors seem to affect the risk-return profile of privatized companies, and global investors may find new investing opportunities in privatization-related funds.

Table 4. PB Index TOP & WORST 10 Performers

OLD EUROPE

	YTD TOP 10 Performers Company	Nation	Value as of 23/05/05	1 Year Change (%)		*YTD WORST 10 Performers* Name	Nation	Value as of 23/05/05	1 Year Change (%)
1	Salzgitter	Germany	18.68	93.17%	**1**	AEA Technology	UK	82.14	-73.68%
2	Capitalia	Italy	4.32	86.08%	**2**	Olympic Catering	Greece	1.81	-70.52%
3	Fortum	Finland	12.24	77.13%	**3**	Austrian Airlines	Austria	7.02	-34.51%
4	Bull	France	0.63	75.00%	**4**	STMicroelectronics	Italy	11.76	-33.18%
5	OMV	Austria	255.15	74.10%	**5**	Agricultural Bank of Greece	Greece	4.38	-29.35%
6	ACEA	Italy	9.39	73.89%	**6**	Alcatel	France	9.20	-19.65%
7	Banca Nazionale del Lavoro	Italy	2.80	72.86%	**7**	TF1	France	22.25	-11.14%
8	Rautaruukki	Finland	10.63	72.29%	**8**	Deutsche Lufthansa	Germany	10.60	-10.02%
9	Bank Austria Creditanstalt	Austria	75.20	66.37%	**9**	Jenoptik	Germany	8.75	-8.85%
10	Mediobanca	Italy	14.79	60.06%	**10**	Sirti	Italy	1.86	-8.17%

NEW EUROPE

	YTD TOP 10 Performers Company	Nation	Value as of 23/05/05	1 Year Change (%)		*YTD WORST 10 Performers* Name	Nation	Value as of 23/05/05	1 Year Change (%)
1	CEZ	Czech Rep.	13.77	154.67%	**1**	Swarzedz	Poland	0.32	-63.68%
2	EGIS	Hungary	68.29	116.18%	**2**	Prochnik	Poland	0.15	-62.06%
3	Vistula	Poland	7.39	96.56%	**3**	Globus	Hungary	1.40	-60.43%
4	MOL	Hungary	60.45	91.12%	**4**	Mostostal Warszawa	Poland	1.34	-51.21%
5	Mennica Panstwowa	Poland	18.23	82.29%	**5**	Stalexport	Poland	0.42	-36.44%
6	PKN Orlen	Poland	10.74	78.26%	**6**	Elektrim	Poland	1.32	-35.86%
7	Ceska Pojistovna	Czech Rep.	606.18	73.81%	**7**	Mostotal - Export	Poland	0.24	-34.26%
8	Elmu	Hungary	90.31	59.95%	**8**	Rolimpex	Poland	2.39	-30.03%
9	Bytom	Poland	2.73	59.54%	**9**	Polifarb Cieszyn-Wroclaw	Poland	1.72	-21.36%
10	Antenna Hungaria	Hungary	16.30	57.86%	**10**	Raba	Hungary	2.54	-19.75%

Source: Elaborations on *Datastream*

Table 5. PB Index Old Europe Sectorial Top Performers

		Company	Nation	Value as of 23/05/2005	1 Year Change (%)
Banking	**#1**	Capitalia	Italy	4.32	86.08%
	#2	Banca Nazionale del Lavoro	Italy	2.80	72.86%
	#3	Bank Austria Creditanstalt	Austria	75.20	66.37%
Industrial	**#1**	Metso	Finland	15.50	55.00%
	#2	Kobenhavns Lufthavne	Denmark	176.26	49.20%
	#3	Eniro	Sweden	9.29	47.05%
Oil & Gas	**#1**	OMV	Austria	255.15	74.10%
	#2	Saipem	Italy	9.67	32.65%
	#3	Eni	Italy	20.30	24.01%
Telecom	**#1**	OTE - Hellenic Telecom Organization	Greece	13.92	39.20%
	#2	Eircom Group	Ireland	1.92	36.17%
	#3	Telekom Austria	Austria	15.00	33.45%
Utilities	**#1**	Fortum	Finland	12.24	77.13%
	#2	ACEA	Italy	9.39	73.89%
	#3	AWG	UK	1311.33	55.55%

Table 6. PB Index Old Europe Sectorial Worst Performers

		Company	Nation	Value as of 23/05/2005	1 Year Change (%)
Banking	**#1**	Agricultural Bank of Greece	Greece	4.380	-29.35%
	#2	Banco Espirito Santo	Portugal	12.860	-6.13%
	#3	Banco BPI	Portugal	3.100	1.97%
Industrial	**#1**	Jenoptik	Germany	8.750	-8.85%
	#2	Outokumpu	Finland	11.350	-6.66%
	#3	Piraeus Port Authority	Greece	11.160	1.45%
Oil & Gas	**#1**	British Petroleum	UK	790.870	10.88%
	#2	Total	France	178.400	14.36%
	#3	Hellenic Petroleum	Greece	7.880	17.61%
Telecom	**#1**	Sirti	Italy	1.855	-8.17%
	#2	Cable & Wireless	UK	191.539	5.59%
	#3	Telecom Italia	Italy	2.705	5.87%
Utilities	**#1**	AEA Technology	UK	82.140	-73.68%
	#2	Thessaloniki Water Supply and Sewerage	Greece	4.400	-4.35%
	#3	Energias de Portugal	Portugal	2.140	0.94%

Source: Elaborations on *Datastream*

Table 7. PB Indexes Sharpe Ratios

Indexes	PB Index	Benchmark	PB Index	Benchmark	PB Index	Benchmark
	1 Year		*2 Years*		*3 Years*	
Composite	2.495	1.158	2.070	1.262	0.173	-0.208
Old EU	2.047	1.158	1.877	1.262	0.097	-0.208
New EU	2.534	2.518	1.927	2.097	0.860	n.a.
Banking	1.879	1.038	1.757	1.113	0.096	-0.150
Industrial	1.933	1.101	2.143	1.380	0.171	-0.409
Oil & Gas	0.945	1.016	1.049	0.940	-0.106	-0.173
Telecom	1.302	0.758	1.019	0.815	0.199	0.137
Utilities	2.537	2.254	1.806	1.762	0.073	0.046

Note: Sharpe Ratio indicates the historic average differential return of the index over a risk-free asset (Germany Interbank Rate 3m) per unit of historic variability of the differential return.
Source: Elaborations on *Datastream*

Table 8. PB Indexes Information Ratios

PB Indexes	1 Year	2 Years	3 Years
Composite	3.154	2.063	1.547
Old EU	2.307	1.649	1.244
New EU	0.482	0.014	n.a.
Banking	1.986	1.551	0.685
Industrial	1.425	1.500	1.312
Oil & Gas	-0.299	0.443	0.400
Telecom	1.174	0.343	0.132
Utilities	0.214	-0.378	0.081

Note: Information Ratio indicates the historic average differential return of the index to its respective benchmark per unit of historic variability of the differential return.
Source: Elaborations on *Datastream*

Table 9. PB Indexes Jensen Alphas

PB Indexes	Jensen α	β	R-squared
Composite	0.027%	0.974	93.99%
	(2.51)	(111.74)	
Composite*	0.023%	0.636	94.97%
	(2.29)	(10.42)	
Old EU	0.022%	0.992	94.12%
	(2.04)	(113.01)	
Old EU*	0.018%	0.617	95.17%
	(1.75)	(10.12)	
New EU	0.008%	0.971	78.81%
	(0.41)	(48.15)	
Banking	0.024%	1.043	88.52%
	(1.23)	(78.45)	
Industrial	0.040%	0.875	81.04%
	(2.26)	(58.40)	
Oil & Gas	0.004%	0.973	97.06%
	(0.43)	(162.38)	
Telecom	0.003%	0.868	85.51%
	(0.13)	(68.62)	
Utilities	0.000%	0.884	93.89%
	(0.09)	(110.72)	

* Market sectorial controls included
Source: Elaborations on *Datastream*

Selected News

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BELGIUM

2005-04-07 - **Flemish Government To Sell 30%-35% Of GIMV**

BRUSSELS (Dow Jones) -- Flanders' regional government wants to sell between 30% and 35% of its listed holding company **GIMV,** De Standaard reports.
The privatization is expected to bring in between EUR277 million and EUR323 million.
Companies that have expressed interest include Ackermans&van Haaren, Fortis Private Equity and AXA SA.

HUNGARY

2005-07-05 - **Csepel Harbor For Sale, Bids Due July 22**

BUDAPEST (Dow Jones)--Hungary is selling a 99% stake in dockyard operator **Budapesti Szabadkikoto Logisztikai Rt**. in a three-round tender, several papers report.
The company will have a 75-year concession to operate the Csepel harbors on Csepel Island, in the south of Budapest.
The state privatization agency APV Rt. expects preliminary bids by July 22 from investors with at least five years of experience in port operation.

2005-06-24 - **Malev To Sell Fuel Op To Budapest Airport**

BUDAPEST (Dow Jones)--Hungarian national air carrier **Malev R**t. will sell its fuel operations to airport management company Budapest Airport Rt., boosting probably both companies' privatization prospects, Magyar Hirlap says, citing unnamed sources.
State privatization company APV Rt., which is in the process of selling the two companies, approved Thursday that Budapest Airport will buy the operations for 5 billion forints ($1=HUF204.60) from Malev and, in exchange, the airport management company will write off Malev's HUF3 billion debt.

2005-06-22 - **Government May Delay Selling MOL Stake**

BUDAPEST (Dow Jones)--Hungary may decide not to sell its 11.8% remaining stake in oil and gas company Mol Rt. this year, Nepszabadsag quotes Prime Minister Ferenc Gyurcsany as saying.
At current prices, the state's stake is worth about 200 billion forints ($1=HUF203.36), which is more than half of the country's HUF300 billion planned privatization income this year.
State Privatization and Holding Company APV Rt. President Tamas Meszaros told Nepszabadsag that other sales can make up for the income

gap. The largest expected assets on sale this year are the 75% plus one share stake in broadcaster **Antenna Hungaria Rt**., a 51% plus one share of mortgage bank **FHB Rt**. and **Budapest Airport's** 75% minus one share.

2005-05-03 - **Hungary To Keep MVM, Paksi, Post Office 100% State-owned**

BUDAPEST (Dow Jones)--Hungary is to keep a small number of companies deemed strategic in state hands, news agency MTI reported Tuesday.

The parliament discussed Tuesday government proposals to maintain electricity wholesaler **Magyar Villamos Muvek Rt.**, or MVM, the country's only nuclear power plant **Paksi Atomeromu Rt**., and the post office **Magyar Posta Rt**., as 100% state-owned companies. **Tokaj Kereskedohaz Rt**., which makes the country's best-known dessert wine is also on the list.

Approval of the proposals are a formality as the ruling Socialist-Free Democrat coalition government commands a parliamentary majority.

Hungary has sold off nearly all of its state assets over the past 15 years in a drive to transform to a market economy from a centrally-planned economy.

GREECE

2005-07-01 - **Greece To Sell 16.4% Stake In Opap In July**

ATHENS (Dow Jones)-- Greece will sell a 16.4% stake in betting company **Opap** by the end of July, a government official told Dow Jones Newswires Friday.

Just under 54 million shares in Opap will be offered via a public offering to both local and foreign institutional investors.

A person close to the deal said that the government has told lead co-ordinators for the sale that the placement will likely take place from July 13 to 15.

The sale will be the fourth offering in Opap since 2002 and is part of the government's aim of raising EUR1.6 billion this year from privatizations.

Greece has a 51% stake in Opap at present, but even after the sale it will continue to appoint the majority of Opap's board members.

2005-06-01 - **Greek Government May Sell 10% OTE Stake By End Of August**

ATHENS (Dow Jones)--Greece is considering selling a 10% stake in **Hellenic Telecommunications Organization (OTE)** by the end of August, Finance Minister George Alogoskoufis said Wednesday.

The Greek government holds an exchangeable bond in the telecom company widely known as OTE and the bond corresponds to 10% of the company's shares.

"However, the government's holding in OTE won't fall below 34% in OTE," Alogoskoufis added.

2005-04-15 - **Greece To Delay Athens Intl Airport Stake Sale Until '06**

ATHENS (Dow Jones)--Greece will postpone selling part of its stake in **Athens International Airport** until next year, the country's Finance Minister said Friday.

"The privatization will not take place this year, it will happen next year," George Alogoskoufis said.

"Athens' airport services are too expensive and need to be cheaper and more competitive," Transport Minister Michael Liapis said.
The comments came after a joint meeting between Greece's Finance and Transport and Communications ministries and German construction company Hochtief. Greece has a 55% stake in the airport while Hochtief, which has management control, owns a 40% stake. Greece's Horizon Air Investments owns the remaining 5%.
In January, Alogoskoufis said Greece would sell a stake in the airport's operating company in 2005. He didn't specify at the time the size of the offering, but economists say they expect the government to sell around a 10% stake.
Greece is looking to raise around EUR1.6 billion in 2005 from privatizations in a bid to boost revenue and to reduce its budget deficit to below 3% of gross domestic product.

POLAND

2005-06-30 - Polish Power Co Elektrownia Kozienice To Launch IPO Nov 7

WARSAW (Dow Jones)--Poland's state-owned power company **Elektrownia Kozienice** will launch its initial public offering November 7, according to the issuing prospectus released Thursday.
The subscription period for the company's shares will take place between Nov. 7 and Nov. 14, the prospectus said.
The Treasury Ministry plans to float about a 30% stake in Kozienice.
Simultaneously, a majority stake in Kozienice will be sold to a strategic investor.
In May, the Ministry shortlisted Enea, Czech power group CEZ AS, Spanish companies Endesa SA and Iberdrola SA, Germany-based PCC Ag, and Sweden's Vattenfall AB for the majority stake in Kozienice.
Kozienice has power generating capacity of 2.88-gigwawatts and last year posted net profit of 47.7 million zlotys ($1=PLN3.3500) on sales of PLN1.70 billion.

2005-06-02 - Polish Treasury Minister: Up To 2 IPOs Possible Before September Election

WARSAW (Dow Jones)--Polish Treasury Minister Jacek Socha said Thursday that only one or two initial public offerings of state-owned companies were possible before Sept. 25 general elections.
He said the list of companies which could debut on the Warsaw Stock Exchange included gas monopoly **Polskie Gornictwo Naftowe i Gazownictwo**, or **PGNiG**, and chemical maker **Zaklady Azotowe Pulawy SA**, which have already been cleared by the stock market regulator for listing.
Other companies likely to be listed would be chemical producer **Zaklady Chemiczne Police**, power distributor **Grupa Enea**, electricity generator **Elektrownia Kozienice** and press distributor **Ruch**.
"One or two of this list could debut in September," Socha told a news briefing.
Earlier Thursday, Socha, who acts as a 100% owner of state-owned firms, announced his decision to delay until autumn the IPO of PGNiG, which had been scheduled to begin June 13. He argued that the recent flotation of state-owned distiller Polmos Bialystok SA and bookbuilding for the current public offer of refiner Grupa Lotos show that investor demand is "too weak" to support the PGNiG offer.

2005-05-05 - **Poland To Seek Strategic Investor For Lotos In 3Q 2005**

WARSAW (Dow Jones)--Poland will seek a strategic investor for its second-largest oil refiner, **Grupa Lotos**, after floating a minority stake on the Warsaw Stock Exchange in June, a senior oil-sector official said Thursday.

"An invitation to bid could take place in the third quarter," Adam Sek, president of state-owned oil holding Nafta Polska told reporters. "I expect we'll be offering a significant stake. It would have to be at least 25%, in my opinion."

State-owned Nafta Polska currently controls 75% of Grupa Lotos, along with a 17.3% stake in Poland's largest oil refiner, PKN Orlen. The company acts as a Treasury-controlled vehicle for restructuring and privatizing Poland's oil sector.

In recent years, both Russia's Lukoil and PKN Orlen have both expressed interest in acquiring Lotos.

GERMANY

2005-06-22 - **German Government Option Of More Privatization In 06 Budget**

BERLIN (Dow Jones)--Selling further state assets in **Deutsche Telekom AG** and **Deutsche Post AG** remains an option for the government to plug the gap in the 2006 budget, a finance ministry spokesman said Wednesday.

Spokesman Stefan Giffeler said, however, that no concrete decisions had been made. He estimated the 2006 budget gap at EUR17 billion, but didn't elaborate on how the government intended to close the gap.

Current polls suggest the conservative opposition would win an election, while comments by conservative lawmakers suggest that the current government's 2006 budget would be changed by a new conservative government.

The government has said in the past it is looking to fully privatize its stake in Deutsche Telekom - currently at 23%, although the government holds a further 15% indirectly via shares sold to state-owned bank KfW - and its stake in Deutsche Post - currently at 7.3% with the government holding a further 37.4% indirectly via shares sold to KfW - by the end of 2006.

In this year's budget, it has penciled in total privatization revenue of EUR17.15 billion.

The constitution requires the government's budget to have higher investment than net new borrowing. "Privatization remains the second-best solution as long as we make no progress to cut subsidies."

2005-06-14 - **German Govt Coalition Mulling Sale Of WestLB Stake -FT**

NEW YORK (Dow Jones)--Senior members of Germany's Christian Democrat Union and Free Democratic parties, which are preparing to form a coalition government, said Tuesday that they planned to sell the state's current 25% stake in **WestLB AG,** the Financial Times reports in an article on its Web site.

"We want to make best use of the state's share in WestLB. That includes a sale via the capital markets," said Andreas Pinkwart, a regional FDP leader, the FT said.

A CDU spokesman told the FT: "Nothing is definite and there is no fixed timetable. But we have agreed in principle with the FDP that WestLB could be sold."

FRANCE

2005-06-09 - **French Minister of Finance: EdF Part-Privatization Possible From October**

PARIS (Dow Jones)-- French Minister of Finance Breton said overall he expects state asset sales - including **EdF**, GdF and a placement of shares in France Telecom earlier this week - to raise "between EUR15 billion and EUR20 billion" for the state, as it seeks fresh funds for depleted coffers.

France has pledged to reduce its budget deficit to below 3% of gross domestic product this year, from 3.6% last year, in line with its commitments under the Stability and Growth Pact for the euro zone.

SLOVAKIA

2005-06-08 - **Slovak Govt Mulls Airports' Majority Share Sale**

BRATISLAVA, Slovakia (AP)--Slovakia's transportation ministry has prepared a plan under which the state would sell a majority 66% share in the country's two largest airports, the minister said Wednesday.

Under the plan, which still needs to be approved by the government, the state would keep a 34% share in the **Bratislava and Kosice airports**.

Minister Pavol Prokopovic told reporters that officials hope to finish the process by the end of the year.

The Bratislava airport will likely be more attractive for investors, mainly for its proximity to Vienna's airport, which is just 60 kilometers away.

Bratislava Airport is Slovakia's largest international airport.

2005-02-01 - **Slovak Government Appeals For Transpetrol Ownership Rights**

PRAGUE (Dow Jones)--Slovakia's Economics Ministry has filed an appeal over a recent court ruling that would force the country to give up some of its 51% stake in oil pipeline operator **Transpetrol AS**, a ministry spokesman said Tuesday.

That court had ruled in favor of a group of privately held companies and several individuals who claim ownership of up to 34% of Transpetrol based on a court ruling from the mid-1990s. The government argues the group's claims are without merit, both because Transpetrol is a strategic company, important for the country's entire economy, and because the mid-1990s court ruling violated the country's laws.

The legal battle between the government and the group of claimants for up to 34% of Transpetrol dates back to mid-1990s - the heydays of the nearly authoritarian regime of Prime Minister Vladimir Meciar.

Meciar lost his reelection bid in 1998, opening room for the current coalition government of Mikulas Dzurinda to clean up the country's image abroad and prepare Slovakia for its entrance to the European Union.

Dzurinda's government sold a 49% stake in Transpetrol to OAO Yukos in 2002 for $74 million, a year before the Russian oil company's chief executive, Mikhail Khodorkovsky, was imprisoned for alleged tax evasion by the Kremlin authorities.

IRELAND

2005-05-18 - **Irish PM: Government To Proceed With Aer Lingus Partial Selloff**

DUBLIN (Dow Jones)--The Irish Prime Minister Bertie Ahern said Wednesday that he'll proceed with the partial selloff of state carrier Aer Lingus Group PLC.

Aer Lingus has been cutting costs, shedding jobs and rebuilding its long-haul network after it almost faced bankruptcy following the Sept. 11, 2001, attacks.

"The reality is that Aer Lingus needs equity and to argue otherwise is to totally misrepresent the need for the workers and trade unions," Ahern said.

But he said the government still needs to decide what percentage of equity will be sold off and the subsequent management structure of Aer Lingus.

Speaking to the Irish parliament, he added, "We have to develop the airline's long-haul operations and get more access into airports in the U.S. and the Far East."

Some analysts say that more than 50% of the airline may have to be sold to raise the money it needs for the expansion and upgrade.

However, trade unions have said they want the airline to remain in state hands.

Analysts value Aer Lingus at EUR600 million and say the government's approximately 85% stake is worth nearly EUR510 million. The other 14.9% is owned by staff.

DENMARK

2005-04-08 - **Danish Govt Postpones Sale Of TV2 Denmark**

STOCKHOLM (Dow Jones)--The Danish government has postponed the sale of television company **TV2** due to uncertainties regarding the station's financial position, Swedish channel TV4 said Friday.

TV4 said it has made a joint offer with Danish newspaper publisher Det Berlingske Officin for the 66% stake in TV2 the government plans to sell.

The government wants to delay the sale until after the European Court of Justice rules on whether TV2 is receiving illegal state support, TV4 said.

TV2 is a joint-stock company wholly owned by the Danish government.

However, TV4 said the government has informed it that the sale continues to be a priority and the process will resume when the state believes it will get a good price for the asset.

UNITED KINGDOM

2005-06-01 - **EU To Probe UK Government Sale Of Betting Operator To Racing Group**

BRUSSELS (Dow Jones)--European regulators opened an investigation Wednesday into the legality of plans by the U.K. government to sell state-run betting operator, the **Tote**, to Racing, a group that represents the U.K. horseracing sector.

European regulators believe the sale might involve substantial state aid to racing and question whether aid favoring racing and betting activities is "necessary and proportionate," according to a statement.

Table 1. Announced Deals

Date of Announcement	Company Name	Country	Percent for Sale	Method of Sale	Date Expected (as announced)	Rescheduling /Notes	Delay*
Jun-05	ASF	France	up to	unspecified	2005		-
Jun-05	SAPRR	France	up to	unspecified	2005		-
Jun-05	SANEF	France	up to	unspecified	2005		-
Jun-05	OTE	Greece	10.00	Public Offer	aug 2005		-
Jun-05	Snam Rete Gas	Italy	up to 30	unspecified	2005		-
Apr-05	OPAP	Greece	16.40	Public Offer	mid 2005		-
Apr-05	Enel	Italy	10.00	Public Offer	1H2005	completed	0
Jan-05	Athens Intl. Airport	Greece	up to 55	unspecified	Jun-05	postponed to 2006	-
Dec-04	Olympic Airlines	Greece	unspecified	unspecified	2005		-
Dec-04	Olympic Airways Services	Greece	unspecified	unspecified	2005		-
Nov-04	Areva	France	35 to 40	IPO	1H2005	postponed	1
Nov-04	Portucel Tejo	Portugal	unspecified	Private Sale	2005		-
Nov-04	Electricidade dos Acores	Portugal	40.00	IPO	2005		-
Oct-04	Post Office	Belgium	up to 49	Private Sale	2H2005		1
Oct-04	DCN	France	up to 49	unspecified	2005		-
Oct-04	Iberia	Spain	5.30	Private Sale	2005		-
Oct-04	Endesa	Spain	3.00	Public Offer	2006		-
Oct-04	Altadis	Spain	2.80	Public Offer	2005	completed	0
Oct-04	Aldeasa	Spain	5.60	Public Offer	2005	completed	0
Sep-04	Aeroports de Paris	France	up to 49	IPO	1Q2005		3
Sep-04	RAI Radiotelevisione Italiana	Italy	20 to 30	IPO	1Q2005		4
Sep-04	Aguas de Portugal	Portugal	up to 49	IPO	2H2005	postponed	-
Sep-04	EDP	Portugal	up to 20	Public Offer	2004		7
Jul-04	SANEF	France	20 to 30	IPO	1Q2005	completed	0
Jun-04	Deutsche Bahn	Germany	unspecified	IPO	2006	postponed to 2008	-
May-04	Electricité de France	France	up to 30	IPO	end 2004	postponed to 4Q2005	7
May-04	Gas de France	France	up to 30	IPO	end 2004	completed	6
Mar-04	Oesterreichische Post AG	Austria	25.10	Private Sale	2006		-
Feb-04	Koninklijke KPN	The Netherlands	unspecified	Public Offer	2005	completed	0
Jan-04	DONG	Denmark	up to 49	Private Sale	1H2005		1
Jan-04	Deutsche Flugsicherung	Germany	74.90	unspecified	2006	anticipated to 2005	-
Jan-04	Postal Savings Bank	Greece	up to 40	IPO	2005		-
Jan-04	Depa	Greece	unspecified	Private Sale	2004	delayed to 2005	7
Jan-04	Aer Lingus	Ireland	up to 50	unspecified	2005		-
Jan-04	Red Electrica	Spain	18.50	Public Offer	2004	delayed to 1H2005	7
Jan-04	Post Danmark	Denmark	25.00	Private Sale	1Q2005	completed	0
2004	TV2	Denmark	66.00	Private Sale	1Q2005	postponed	4
2004	Fraport	Germany	18.30	unspecified	2005		-

* Number of months from Date Expected
Source: *DowJones*

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