The PB Report 2012

A Publication of the Privatization Barometer
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A Surprisingly Strong Year

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The PB Report

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What is the PB Report?

The PB Report is a twelve-month summary on privatization activity in the enlarged European Union. It aims to monitor the most recent trends, to analyze aggregate data on revenues and transactions, and to provide updated statistics at the country and sector level.

The report highlights the most important privatization deals of the year, focusing on the European Union but also monitoring the process around the rest of world. It hosts contributed articles by top international scholars, who will make accessible to the reader the most recent results of professional research.

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

The Privatization Barometer was developed by Fondazione Eni Enrico Mattei (FEEM) with the financial support from Fondazione IRI. As of 2010, KPMG Advisory S.p.A. becomes unique partner of PB, providing data, research skills and financial resources. This second joint issue of PB Report represents the long term strategic partnership between FEEM and KPMG Advisory S.p.A.

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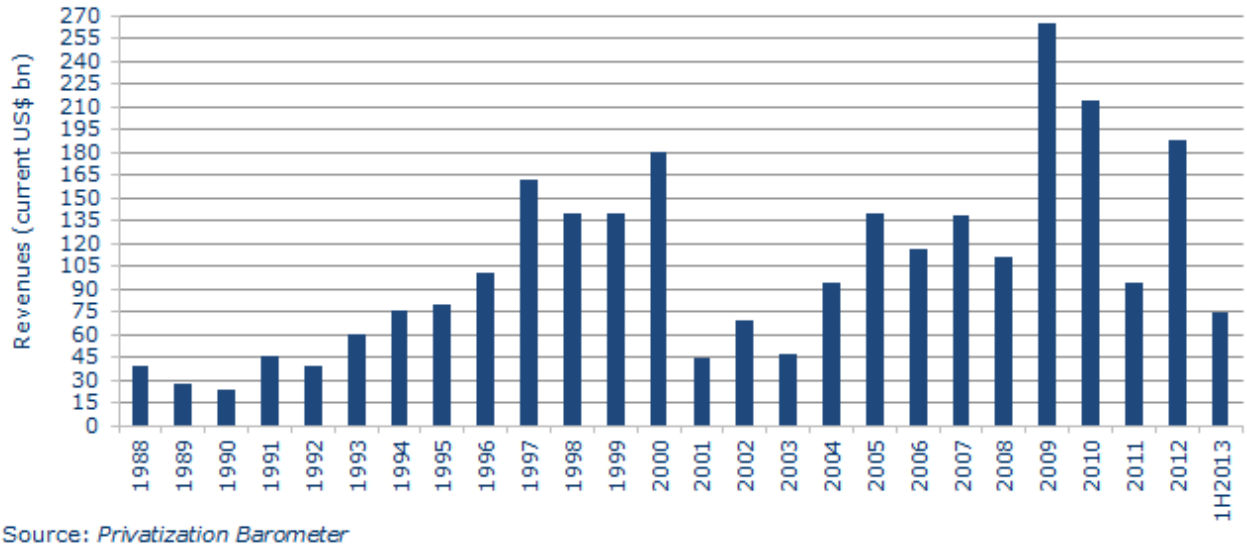
Privatization Trends and Major Deals in 2012 and 1H2013

Abstract

This article details major privatization deals executed during 2012 and the first half of 2013 and surveys trends shaping the privatization landscape worldwide. We document several important facts, including the following: (1) Governments raised $189.4 billion (€145.7 billion) through privatization sales during 2012, more than twice the 2011 figures [$94.4 billion (€68.2 billion)] and the third largest total on record; (2) Share issue privatizations (SIPs) accounted for almost four-fifths (79.3%) of this total, while auctions, targeted stake sales, and share repurchases accounted for the rest; (3) For the third year out of four, the United States raised more proceeds [7 deals worth $53.1 billion (€41.0 billion)] through privatization sales than any other country—including five public offerings of AIG stock that raised $41.6 billion (one raised an astounding $18.0 billion), completely eliminating the federal government's holdings acquired during the 2008 rescue--followed by China, Brazil, and Portugal, the leading EU privatizer of 2012; (4) The €28.5 billion ($37.6 billion) raised by EU governments represented only 19.9% of the worldwide total, the lowest on record and far lower than the long-run average EU share of 41.5%; (5) There were a significant number of failed, withdrawn, and cancelled privatization sales during 2012, but these represented a much lower proportion of attempted sales than was the case in 2011, when over one-fourth of all privatizations attempted were withdrawn or cancelled; and (6) The large number (45) and value [$74.6 billion (€57.4 billion)] of privatizations executed during 1H2013, coupled with several massive planned sale announcements, suggests that a major new global privatization wave may be forming.

Figure 1. Worldwide Revenues from Privatizations 1988 - 1H2013



Source: *Privatization Barometer*

Global Trends in Privatization, 2012

While 2012 was not an especially good year for global investment banking or capital markets generally, it was an excellent year for privatizations. The total value of privatizations last year, $189.37 billion (€145.66 billion), was the third highest on record and the highest total outside of the immediate post-Crisis period of 2009-10, when banks repurchased shares governments had acquired through rescues. The 2012 total was more than double 2011's anemic value [$94.4 billion (€68.2 billion)], and no fewer than twelve transactions raised $5.0 billion or more. [1] An additional 32 deals were worth between $1.0 billion and $5.0 billion.

The single largest share issue privatization (SIP), and the largest of all privatization deals during 2012, was September's seasoned equity offering (SEO) of the U.S. government's stake in insurance company **AIG**, which alone raised $18.00 billion (€13.91 billion) for the Treasury.[2] Four other sales of AIG shares brought in $23.61 billion during the year, which—coupled with the offering of shares in **AIA** in Hong Kong (in March, raising $6.02 billion) and the repurchase by **GM** of $5.50 billion of its shares—made the United States the world's leading privatizer for 2012, with a total value of $53.13 billion (€41.05 billion) from seven SIPs.[3]

China was the second leading privatizing country during 2012, with 29 large ($500 million or more) SIPs and private sales raising $41.70 billion (€32.23 billion), nearly triple the 2011 values. As is often the case, the bulk of China's privatization proceeds came from private placement share offerings by Chinese state-owned enterprises (SOEs) that reduced the state's equity ownership stake only indirectly, by increasing the total number of shares outstanding. The two largest Chinese privatizations of 2012 were the March and February private placements of the **Bank of Communications**, and the **Industrial Bank**, which raised $8.92 billion (€6.82 billion) and $3.80 billion (€2.90 billion) for the companies, respectively.[4] The next largest Chinese privatization was the IPO the insurer PICC, which raised $3.10 billion (€2.38 billion) and was distinctive for having no fewer than 17 investment banks serving as bookrunners (lead underwriters) for its November offering of primary (newly-issued) shares.

Brazil was the third largest privatizer of 2012 on the strength of a single major transaction—the February sale through auction of a 30-year concession to operate and improve the country's three most important airports, which yielded R$24.5 billion ($14.4 billion; €11.0 billion), far more than expected. The

[1] See William Megginson and Bernardo Bortolotti, "Privatization Trends and Major Deals of 2011 and 1H2012," Privatization Barometer Report 2011 (http://www.privatizationbarometer.net/PUB/NL/4/9/PB_Report_2011.pdf) and Gill Plimmer, "Number of state sell-offs cut in half," *Financial Times* (August 12, 2012).

[2] The $18.0 billion AIG share offer is described in Shahien Nasiripour, "US profit at $12bn after AIG stock sale," *Financial Times* (September 11, 2012).

[3] The March, May, August, and December AIG offerings are described in Marcy Gordon, "Treasury launches sale of $6B of AIG stock," *Associated Press Online* (March 8, 2012); Telis Demos, "US Treasury reduces AIG stake to 70 per cent," *Financial Times* (March 8, 2012); Shahien Nasiripour, "US Treasury to sell $5bn of AIG shares," *Financial Times* (May 7, 2012); Aaron Smith, "U.S. to make $15 billion profit on AIG bailout," *CNN Wire* (May 8, 2012); Martin Crutsinger, "Treasury plans to sell AIG stock worth $5 billion," *The Associated Press* (August 3, 2012); Tom Braithwaite, "Treasury in $5bn AIG share sale," *Financial Times* (August 3, 2012); James O'Toole and Aaron Smith, "Treasury sells remaining AIG shares," CNN Wire (December 11, 2012); and Arash Massoudi, "AIG climbs on sale of government stake," *Financial Times* (December 11, 2012). The GM share offer is described in Robert Wright, "GM buys back $5.5bn in Treasury shares," *Financial Times* (December 19, 2012).

[4] The Bank of Communications and Industrial Bank offerings are both discussed in Simon Rabinovitch and Paul J Davies, "BoComm raises $9bn in private placement," *Financial Times* (March 15, 2012).

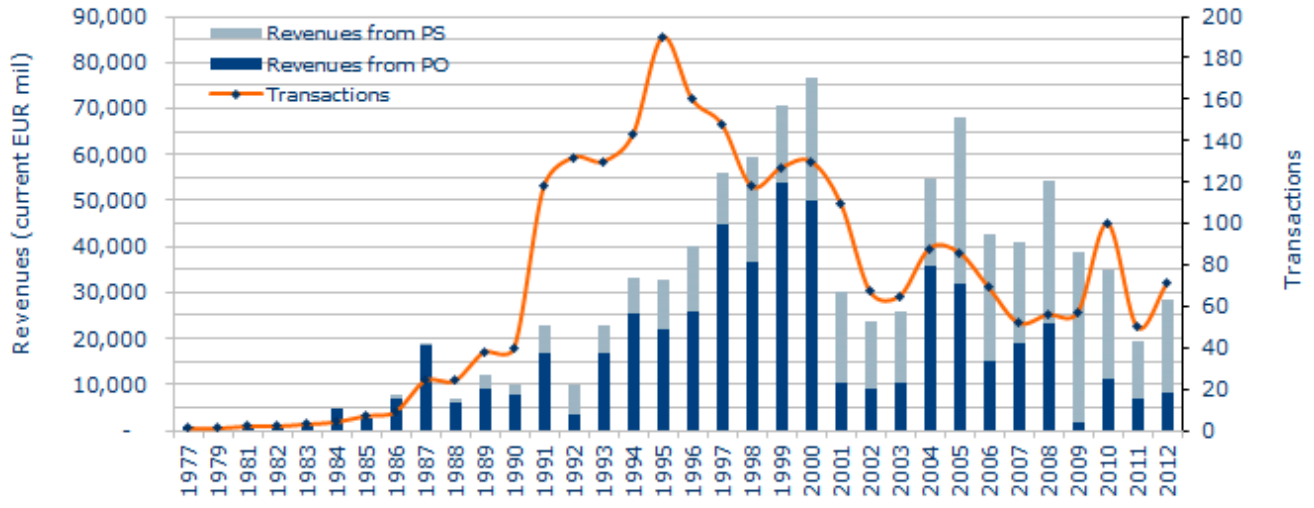
winning bidders, mostly Brazilian pension funds and state-owned enterprises, paid R$16.2 billion ($8.96 billion; €6.84 billion) for **São Paulo's Guaralhas International Airport**, five times the minimum bid, and more than eight time the minimum bid price for Brazilia's airport. This was the first major privatization of President Dilma Rousseff's administration, and was motivated by the pressing need to upgrade the nation's infrastructure before hosting the World Cup in 2014 and the Olympics two years later.[5] The next five largest privatizers of 2012--after the United States, China, and Brazil--were Portugal (8 deals; $11.04 billion; €8.36 billion), Japan (2 deals; $10.30 billion; €7.84 billion), Ireland (2 deals; $9.23 billion; €7.00 billion), Russia (3 deals; $7.73 billion; €5.90 billion), and Italy (10 deals; $5.07 billion; €3.96 billion). These sales are described in detail in the next two sections.

Privatization Deals in the European Union, 2012

Figure 2 describes the evolution of total privatization revenues (in current € millions) and transactions in the enlarged European Union over the entire privatization era 1977-2012. This clearly illustrates that the number of EU privatizations peaked in the mid-1990s, before beginning a long but mostly steady decline though 2011. Sale revenues peaked during the Bubble Era of 1998-2000, with €211 billion being raised just during these three years, dropped sharply during the recession of 2001-2003, and then fluctuated between €41 billion and €68 billion between 2004 and 2008. Proceeds then declined monotonically from 2008 to 2011, falling to only €19.5 billion last year, before rebounding to €28.5 billion ($37.6 billion) in 2012.

Continuing a trend that has been emerging for several years, the 25 countries (excluding Bulgaria and Romania from EU27) of the European Union accounted for a small minority of the total number and value of privatization deals worldwide. Table 1 presents the total proceeds, in US$ billions, raised by European Union and non-EU countries between 1988 and 2012. This shows the fraction of privatization revenues raised by EU governments represented only 19.9% of the worldwide total, the lowest on record. This is far lower than the long-run average EU share of 41.5% and vastly lower than the 68.2% share of total global divestments that the EU accounted for as recently as 2008. The

Figure 2. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2012



Source: *Privatization Barometer*

[5] See Joe Leahy, "Brazilian airport bids airlines' fears," *Financial Times* (March 27, 2012).

aggregate EU value in 2012 is also below recent annual levels, which averaged over $62 billion (€46 billion) from 2004 to 2010. While EU governments are highly likely to eventually turn to privatizations to help recover from their current fiscal woes, this will probably not begin in earnest until European economies and markets stabilize.

Table 1. Privatization Revenues. Worldwide and European Union, US$ billions, 1988-1H201

Year	World	EU25	% World (ex EU25)	% EU25
1988	39.00	7.82	79.9%	20.1%
1989	28.00	14.21	49.2%	50.8%
1990	24.00	12.58	47.6%	52.4%
1991	46.00	28.02	39.1%	60.9%
1992	39.00	12.68	67.5%	32.5%
1993	60.00	27.11	54.8%	45.2%
1994	76.00	39.60	47.9%	52.1%
1995	80.00	43.80	45.2%	54.8%
1996	100.00	51.40	48.6%	51.4%
1997	162.00	63.46	60.8%	39.2%
1998	140.00	66.12	52.8%	47.2%
1999	140.00	75.10	46.4%	53.6%
2000	180.00	70.87	60.6%	39.4%
2001	43.80	27.07	38.2%	61.8%
2002	69.20	22.53	67.4%	32.6%
2003	46.60	29.40	36.9%	63.1%
2004	94.00	68.14	27.5%	72.5%
2005	140.00	84.52	39.6%	60.4%
2006	116.00	51.45	55.6%	44.4%
2007	138.00	54.48	60.5%	39.5%
2008	110.88	75.64	31.8%	68.2%
2009	265.17	55.88	78.9%	21.1%
2010	213.64	46.83	78.1%	21.9%
2011	94.40	26.37	72.1%	27.9%
2012	189.37	37.63	80.1%	19.9%
TOT	**2,635.06**	**1,092.72**	**58.5%**	**41.5%**

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

As implied by the discussion above, Portugal was the leading EU privatizer during 2012, with eight sales raising €8.36 billion ($11.04 billion). Ireland came in second on the basis of the major asset sale—the June sale by the nationalized (by the U.K. government) Bank of Scotland of its Dublin-based **RBS Aviation Capital** to Japan's Sumitomo Mitsubishi Bank for €5.70 billion ($7.52 billion)[6] and the privatization of **Irish Life** which raised about €1.3 billion ($1.71 billion). The next five leading EU privatizers during 2012 were Italy, the United Kingdom, Poland and Germany. The traditional leading EU privatizer, France, placed a distant ninth with but two deals raising a mere €429 million ($566 million). While several countries—especially Spain, Greece, and Portugal--began the year with expansive divestment plans, the reality of unwelcoming stock markets and fiscal crises forced all these countries to scale back their plans and instead to react opportunistically when markets seemed to open for individual sales.

We now examine how EU governments split privatizations between public offers (SIPs) and private sales of state enterprises directly to private investors or operating companies during 2012, and also describe the industrial distribution of

[6] See Patrick Jenkins, "RBS nears end of non-core rundown," *Financial Times* (January 2, 2013).

EU divestments. As has been true for several years, the total amount raised through private sales (€20.46 billion; $27 billion) far exceeded that raised through public offerings (€8.04 billion; $10.63 billion). Regarding industries being divested, the ranking reversal that began in 2011 between Utilities and Finance, the two industries traditionally accounting for the largest fractions of EU privatizations, continued during 2012. The usual leading industry, Utilities, ranked second again last year, with the €6.38 billion ($8.44 billion) in sales representing only 22.4% of the EU total, compared with €11.45 billion ($15.11 billion) in disposals of financial companies, representing 40.2% of EU privatization totals. The Transportation industry ranked third, with most of the €4.66 billion ($6.15 billion) total being accounted for by December's sale of a 95% stake in Portugal's airport operating company **ANA** to the French construction company Vinci for €3.08 billion ($4.06 billion).[7]

Table 2 lists the 53 EU privatization transactions of 2012 that raised at least €10 million. As noted above, the two largest such deals were the aforementioned Bank of Scotland's sale of its Dublin-based **RBS Aviation Capital** to Japan's Sumitomo Mitsubishi Bank in June, which raised €5.70 billion ($7.52 billion), and the December sale of Portugal's airport operator **ANA** to Vinci for €3.08 billion ($4.06 billion). Porugal and Ireland were also involved in the third, fourth, and fifth largest EU privatization deals of 2012. These were the May sale by Italy's ENI of a 21.35% stake in **Energias de Portugal (EDP)** in an exchangeable bond offering that raised €2.66 billion ($3.52 billion); June's sale by the Portuguese government of a 40.34% stake in **Cimentos de Portugal (CIMPOR)** to Brazil's InterCement for €1.49 billion ($1.97 billion).[8]

The United Kingdom and Italy account for the 2012 EU privatizations holding size ranks six through nine. The sixth largest sale was the January sale by the British government of 100% of **Northern Rock** to Virgin Money for €1.22 billion ($1.62 billion), while the ninth largest EU deal was the October initial public offering (IPO) of a 30% stake in **Direct Line Insurance** by Britain's RBS, which raised €962 million ($1.27 billion) and gave investors a 7% first-day return. [9] Italy's Cassa Depositi e Prestiti (CDP) accounted for the seventh and eighth largest EU privatizations of 2012 with two seasoned equity offerings (SEOs) of small stakes in **ENI**; a 1.7% stake sale in September, raising €1.10 billion ($1.45 billion) and a 1.60% stake sale in October raising €1.01 billion ($1.30 billion).[10] The ongoing reform—perhaps privatization—of Italy's state controlled banks is discussed in the article by Alessandro Carpinella and Leonardo Tidone later in this Report.[11]

[7] See Peter Wise, "Vinci sees off rivals to buy ANA," *Financial Times* (December 27, 2012).
[8] See "Camargo Corrêa to increase Cimpor stake to 94.8%, *Business News Americas* (English June 22, 2012).
[9] These deals are described in "Virgin Money confirms Northern Rock purchase," *The Herald-Glasgow* (January 2, 2012) and "Alistair Gray, "Direct Line shares up over 7% on debut," *Financial Times* (October 11, 2012).
[10] The Cassa Depositi e Prestiti disposals are described in "CDP sells further 1.6% in Eni for EUR 1bn," *SeeNews* (October 10, 2012.
[11] See Alessandro Carpinella and Leonardo Tidone, "Italian Banks: State-Aid or a New Privatization Wave?" *Privatization Barometer Annual Report 2012* (this issue).

Table 2. EU Deals*, 2012

Date	Company Name	Nation	Sector	% for Sale	Value (€ mil)	Direct/ Indirect Sale**	Method of Sale
06/01/12	RBS Aviation Capital	Ireland	Finance & Real Estate	100.00	5,700.00	Indirect Sale	Private Placement
12/27/12	ANA	Portugal	Transportation	95.00	3,080.00	Direct Sale	Private Placement
05/11/12	Energias de Portugal SA	Portugal	Utilities	21.35	2,664.78	Direct Sale	Private Placement
06/19/12	CIMPOR Cimentos de Portugal	Portugal	Manufacturing	40.34	1,493.99	Indirect Sale	Private Placement
03/28/12	Irish Life PLC	Ireland	Finance & Real Estate	100.00	1,296.73	Direct Sale	Private Placement
01/01/12	Northern Rock PLC	United Kingdom	Finance & Real Estate	100.00	1,224.16	Direct Sale	Private Placement
09/13/12	ENI	Italy	Petroleum Industry	1.70	1,096.00	Indirect Sale	Market Follow-on
10/09/12	ENI	Italy	Petroleum Industry	1.60	1,010.00	Indirect Sale	Market Follow-on
10/11/12	Direct Line Insurance Group	United Kingdom	Finance & Real Estate	30.00	962.40	Indirect Sale	Market Follow-on
09/07/12	Deutsche Post AG	Germany	Services Industry	5.00	927.90	Indirect Sale	Market Follow-on
12/10/12	LBS Bayern	Germany	Finance & Real Estate	100.00	802.35	Direct Sale	Private Placement
07/18/12	PKO Bank Polski SA	Poland	Finance & Real Estate	7.84	764.77	Direct Sale	Market Follow-on
02/09/12	Centrica PLC	United Kingdom	Utilities	4.00	698.40	Indirect Sale	Market Follow-on
07/18/12	SNAM Rete Gas SpA	Italy	Utilities	5.00	612.46	Indirect Sale	Market Follow-on
02/23/12	PGE Polska Grupa Energetyczna	Poland	Utilities	7.01	606.41	Direct Sale	Market Follow-on
02/01/12	Redes Energeticas Nationais	Portugal	Utilities	40.00	592.00	Direct Sale	Private Placement
11/27/12	Galp Energias SGPS	Portugal	Utilities	n.a.	476.10	Direct Sale	Market Follow-on
03/01/12	AMADEUS IT HOLDING SA	Spain	Services Industry	7.50	473.32	Indirect Sale	Private Placement
03/21/12	TeliaSonera	Sweden	Telecommunications	2.05	451.23	Direct Sale	Market Follow-on
11/14/12	AMADEUS IT HOLDING SA	Spain	Services Industry	5.28	448.59	Indirect Sale	Private Placement
07/19/12	Tirrenia di Navigazione SpA	Italy	Transportation	100.00	414.16	Direct Sale	Private Placement
02/02/12	Terna	Italy	Utilities	5.10	280.53	Indirect Sale	Market Follow-on
06/11/12	France Telecom	France	Telecommunications	1.00	259.46	Direct Sale	Private Placement
05/23/12	Meca Scandinavia AB	Sweden	Trade Industry	100.00	219.03	Direct Sale	Private Placement
04/19/12	POLFA WARSZAWA SA	Poland	Services Industry	85.14	194.66	Direct Sale	Private Placement
12/27/12	Austerlitz II Office Building	France	Finance & Real Estate	100.00	169.50	Direct Sale	Private Placement
03/08/12	Property Portfolio, Stockholm	Sweden	Finance & Real Estate	100.00	165.52	Indirect Sale	Private Placement
10/19/12	ZE PAK	Poland	Utilities	n.a.	158.40	Direct Sale	Market Follow-on
10/18/12	Sponda	Finland	Finance & Real Estate	14.90	147.57	Direct Sale	Private Placement
12/27/12	Societa Esercizi Aeroportuali	Italy	Transportation	14.56	147.43	Indirect Sale	Private Placement
12/02/12	TRATTAMENTO RIFIUTI METROPOLITANI SPA	Italy	Utilities	80.00	126.00	Direct Sale	Private Placement
12/02/12	AMIAT SPA	Italy	Utilities	49.00	28.80	Direct Sale	Private Placement
08/07/12	NAMA - Chrome Portfolio	United Kingdom	Finance & Real Estate	100.00	119.86	Direct Sale	Private Placement
12/28/12	Apollo Srl	Italy	Utilities	100.00	102.69	Indirect Sale	Private Placement
03/30/12	Banco Portugues de Negocios SA	Portugal	Finance & Real Estate	100.00	52.26	Direct Sale	Private Placement
11/16/12	ZGH Boleslaw SA	Poland	Natural Resources	86.92	51.25	Direct Sale	Private Placement
12/24/12	SAVE SPA	Italy	Transportation	14.10	49.94	Direct Sale	Private Placement
03/26/12	Salzlandkliniken GmbH	Germany	Services Industry	100.00	48.59	Direct Sale	Private Placement
08/16/12	Zaklady Azotowe Pulawy SA	Poland	Manufacturing	10.30	48.15	Direct Sale	Private Placement
08/16/12	HL komm GmbH	Germany	Telecommunications	100.00	47.55	Direct Sale	Private Placement
11/05/12	Besiktningskluster 1 AB	Sweden	Transportation	100.00	40.66	Direct Sale	Private Placement
07/02/12	NVI-VACCIN PRODUCTION UNIT	Netherlands	Manufacturing	100.00	30.53	Direct Sale	Private Placement
07/18/12	KBW Konin w Kleczewie SA	Poland	Natural Resources	85.00	24.48	Direct Sale	Private Placement
02/20/12	Televorgu AS	Estonia	Telecommunications	100.00	24.43	Direct Sale	Private Placement
07/01/12	Albertslund Municipality- shopping centre	Denmark	Finance & Real Estate	100.00	23.19	Direct Sale	Private Placement
05/31/12	DEWI GmbH	Germany	Services Industry	50.80	19.39	Direct Sale	Private Placement
03/02/12	Perdata GmbH	Germany	Services Industry	100.00	17.94	Direct Sale	Private Placement
09/21/12	COIG SA	Poland	Services Industry	85.00	16.71	Direct Sale	Private Placement
07/18/12	KWB Adamow SA	Poland	Natural Resources	85.00	15.06	Direct Sale	Private Placement
12/11/12	Vasakronan-Properties,Uppsala	Sweden	Finance & Real Estate	100.00	13.47	Direct Sale	Private Placement
01/01/12	DONG Energy A/S-Masnedo CHP	Denmark	Utilities	100.00	13.24	Indirect sale	Private Placement
01/01/12	DONG Energy A/S-Maribo- Sakskobing CHP	Denmark	Utilities	100.00	12.67	Indirect sale	Private Placement
01/04/12	AZOTY - ADIPOL SA	Poland	Natural Resources	85.00	10.01	Direct Sale	Private Placement
Total 1H2012		**32 Transactions**		**16,542.09**			
Total 2H2012		**39 Transactions**		**11,966.92**			
Total 2012		**71 Transactions**		**28,509.01**			

* In this table we reported only deals greater than €10 million
** 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.
Source: *Privatization Barometer.*

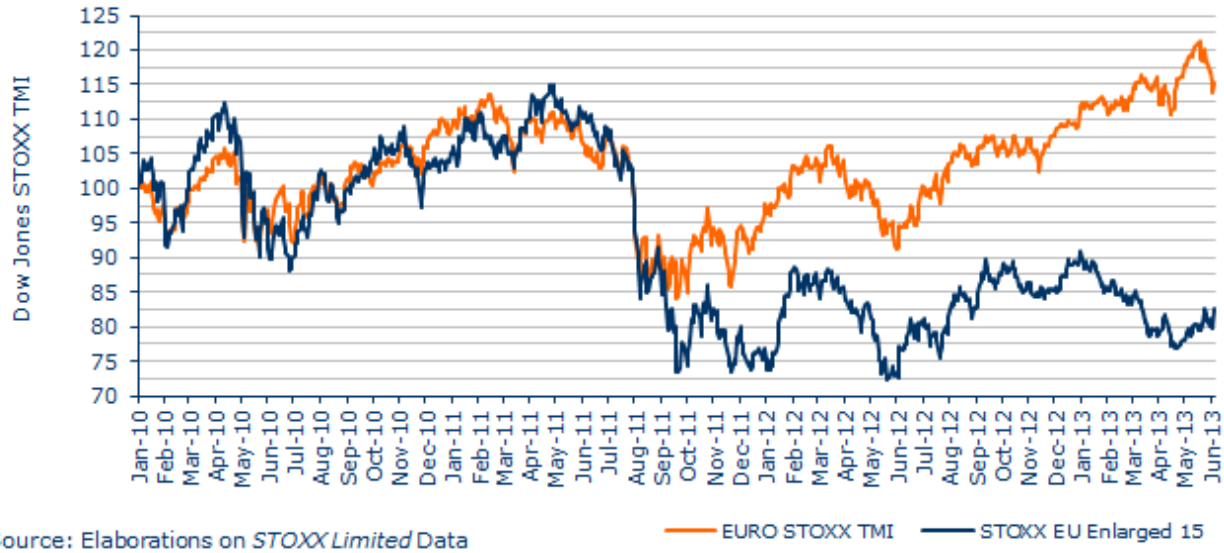
Germany accounted for the tenth and eleventh largest EU deals of 2012. The first was September's private placement by state holding company KfW of a 5% stake in **Deutsche Post** that raised €928 million ($1.22 billion), and the second occurred three months later, when **Bayern LB** sold off its property management arm GBW for €802 million ($1.06 billion).[12] These two deals accounted for almost 95% of Germany's 2012 total privatization revenues of €1.87 billion ($2.47 billion).

[12] The Deutsche Post and Bayern LB deals are described in, respectively, "KfW Bankengruppe launches placement of 5% shares in Deutsche Post with institutional investors," *SNL European Financials Daily* (September 10, 2012) and "BayernLB's unit GBW attracts many investors – report," *SeeNews Germany* (December 17, 2012).

The next four large (more than €500 million) EU privatizations of 2012 were all SEOs—two by Poland, and one each by Britain and Italy. The two Polish deals were July's sale of a 7.84% stake in **PKO Bank Polski**, which raised €765 million ($1.01 billion), and February's sale of 7.01% of **PGE Polska Grupa Energetyczna** that raised €606 million ($816 million).[13] Also in February, the Malaysian national oil company Petronas sold its entire stake in the UK's **Centrica plc** through an accelerated bookbuilt offering (ABO) that raised €698 million ($921 million).[14] Five months later, Italy's Eni sgain divested a small (5%) stake in a portfolio company, **SNAM Rete Gas**, in an SEO that raised €612 million ($808 million). [15] The final large EU deal of 2012 was the February auction of a 40% stake in Portugal's **Redes Energéticas Nationais** (REN) that raised a total of €592 million ($781 million). The winning bidder, State Grid Corporation of China, bought 25% of REN, while the second place bidder, Oman Oil, bought the other 15% on offer.[16]

Unlike previous years, there was no sharp distinction between the value of EU privatization transactions during the first versus the second half of 2012. Though a larger number of deals during the second half (39 versus 32) raised significantly less in total proceeds (€11.97 billion versus €16.54 billion), a comparable number and value of deals occurred in both semesters. As Figure 3 describes graphically, stock market valuations increased more or less steadily in Old Europe (measured by the Euro STOXX TMI) throughout 2012—and continued through June 2013—while stock markets in New Europe (measured by the STOXX EU Enlarged 15) remained depressed far below 2011 levels

Figure 3. Equity Markets in Europe, June 2013



Source: Elaborations on *STOXX Limited* Data

[13] These two Polish deals are described in Stefan Wagstyl, "PKO BP: the state sells a chunk," *Financial Times* (July 18, 2012) and Jan Cienski, "Privatisation: State takes strategic approach to sell-offs," *Financial Times* (May 22, 2012).
[14] See "Announces Petronas' exit from capital," *M&A Navigator* (February 10, 2012).
[15] See "Italy's Eni receives $752 mn from Snam stake sale," *Dion Global Solutions Limited* (July 19, 2012).
[16] See Peter Wise and Leslie Hook, "China's State Grid to take 25% stake in REN," *Financial Times* (February 2, 2012) and "Oman Buys into Portugal's REN," *International Oil Daily* (February 28, 2012). Several of the smaller deals in Table 2 that are not discussed in the text are detailed in "Eni Further Reduces Galp Stake," *International Oil Daily* (November 28, 2012) and "Eni completed the placement of 4% of Galp Energia shares and of euro 1,028 million bonds exchangeable into the Portuguese company's ordinary shares," *News Bites - Western Europe* (November 28, 2012); "Finland govt cuts stake in TeliaSonera," *DmEurope* (March 22, 2012); "Solidium gets (EURO) 1bn from combo TeliaSonera sale," *EuroWeek* (March 23, 2012); "Air France sells half of Amadeus stake for $622M," *The Deal Pipeline* (March 5, 2012); Jan Cienski, "Poland's sale of ZE PAK – good for the treasury, good for Solorz-Zak," *Financial Times* (September 26, 2012); and Jan Cienski, "No price pop for PAK," *Financial Times* (October 30, 2012).

throughout 2012 and 1H2013. Old Europe stock values recovered from their Fall 2011 lows somewhat during the first quarter of 2012, then swooned as the Greek economic and political crisis reached a crescendo during the summer, only to rise sharply and steadily thereafter as it became clear than the Eurozone would not actually disintegrate (at least not immediately).

Sales Outside of Europe during 2012

In sharp contrast with the EU, privatizations elsewhere in the world were ebullient during 2012, leading to the largest ever divergence in terms of total privatization revenues between the EU and the rest of the world. Whereas Europe raised a historically small $37.63 billion (€28.51 billion) last year, governments elsewhere raised an impressive $151.74 billion (€117.15 billion). As noted above, this makes the the fraction of privatization revenues raised by non-EU governments a record 80.1% of the worldwide total. Repeating its performance in 2009 and 2010, the United States lead all nations—this time with 7 deals totalling $53.13 billion (€41.05 billion). As noted in the introduction, these encompassed five SEOs, raising a total of $41.61 billion (€32.27 billion) that disposed of the federal government's entire remaining stake in **AIG**. China was the second leading privatizer in terms of the total value of privatizations (29 deals; $41.70 billion; €32.23 billion), followed by Brazil (1 sale; $14.40 billion; €11.00 billion), Portugal (8 deals; $11.04 billion; €8.36 billion), Japan (2 deals; $10.30 billion; €7.84 billion), Ireland (2 deals; $9.23 billion; €7.00 billion), Russian Federation (3 deals; $7.73 billion; €5.90 billion), and Italy (10 deals; $5.07 billion; €3.96 billion). Most of these national totals represent sharp increases from 2012.

Table 3 lists the 58 largest privatizations (those that raised at least $500 million) worldwide during 2012, excluding those executed in the European Union. These sales raised a total of $151.74 billion (€117.15 billion) for divesting governments, through secondary share sales, and for the state-owned companies themselves through primary share offerings. No fewer than 36 non-EU privatizations raised at least $1 billion during 2012 (plus eight in the EU), and 11 raised $5 billion or more. Ten of the twelve largest deals have been discussed before—these are the five **AIG** and the one **AIA** offerings, plus the **GM** share repurchase for the US; the auction of three **Brazilian airports** in February and the Chinese offerings of **Bank of Communications** and **Industrial Bank**. These ten offerings alone raised $80.24 billion (€61.71 billion), or 85% the global privatization total for all of 2011. The two large non-EU privatizations that have not been discussed already, ranking fourth and ninth, are from Japan and Russia. In September, the Japanese government re-floated **Japan Airlines** through an IPO which raised $8.47 billion (€6.46 billion) and gave initial investors a 3% first-day return.[17] That same month saw the Russian government execute a very successful SEO of 7.5% of **Sberbank** on the London Stock Exchange that raised $5.16 billion (€3.93 billion).[18]

[17] See Michiyo Nakamoto, "JAL offering priced at top of the range," *Financial Times* (September 10, 2012).

[18] The Sberbank offering and its aftermath are described in Stefan Wagstyl," Sberbank may help state asset sales," *Financial Times* (September 19, 2012); Courtney Weaver, "Privatisation: Sberbank sets example for further state sales," *Financial Times* (October 18, 2012); and Isabel Gorst, "Stock offer: German Gref oversaw the recent sale of shares in Sberbank, Russia's state savings bank," *Financial Times* (December 17, 2012).

Table 3. Details on Non-EU Global Privatization Transactions, 2012

Issue Date	Issuer/Seller	Nation	Industry	% for sale	Amount raised (US$ million)	Amount raised (€ million)	Private sale (PS) or public offer (PO)?	Method of Sale
09/10/12	AIG	United States	Finance	31.90	18,000.00	13,912.00	PO	U.S. Public
02/05/12	Sao Paulo, 2 other Airports	Brazil	Services		14,400.00	11,000.00	PS	Auction
03/15/12	Bank of Communications	China	Finance		8,919.00	6,823.00	PS	Private Sale
09/10/12	Japan Airlines Co Ltd	Japan	Transportation		8,474.00	6,455.00	PO	IPO
12/10/12	AIG	United States	Finance	16.00	7,610.00	5,782.00	PO	U.S. Public
03/06/12	AIA Group Ltd	Hong Kong	Finance		6,016.00	4,602.00	PO	Euro Public
03/08/12	AIG	United States	Finance	7.00	6,000.00	4,590.00	PO	U.S. Public
12/19/12	GM	United States	Transportation	12.70	5,500.00	4,179.00	PS	Repurchase
09/18/12	Sberbank Rossii	Russian Fed	Finance	7.50	5,155.00	3,927.00	PO	Euro Public
08/03/12	AIG	United States	Finance	6.00	5,000.00	4,070.00	PO	U.S. Public
05/06/12	AIG	United States	Finance		5,000.00	3,916.00	PO	U.S. Public
12/31/12	Industrial Bank Co Ltd	China	Finance		3,799.00	2,903.00	PS	China Private
06/14/12	Felda Global Ventures Hldg	Malaysia	Agriculture		3,117.00	2,467.00	PO	IPO
11/30/12	PICC	China	Finance		3,098.00	2,381.00	PO	IPO
11/30/12	PTT Exploration & Product	Thailand	Natural resources		3,008.00	2,313.00	PO	Thailand Public
06/06/12	China Natl Nuclear Power	China	Utilities		2,564.00	2,074.00	PO	IPO
02/29/12	Oil & Natural Gas Corp Ltd	India	Natural resources	5.00	2,531.00	1,986.00	PO	Euro Public
11/19/12	Turkiye Halk Bankasi	Turkey	Finance	24.00	2,511.00	1,964.00	PO	Turkey Public
07/12/12	IHH Healthcare Bhd	Malaysia	Healthcare		1,964.00	1,603.00	PO	IPO
11/19/12	Bogazici EDAS	Turkey	Utilities		1,960.00	1,489.00	PS	Auction
05/24/12	Qatar Telecom	Qatar	Telecommunic		1,886.00	1,526.00	PO	Rights Offer
03/09/12	Bank of Beijing Co Ltd	China	Finance		1,867.00	1,431.00	PS	China Private
12/10/12	Renesas Electronics Corp	Japan	Manufacturing		1,822.00	1,384.00	PS	Japan Private
04/19/12	Haitong Securities Co Ltd	China	Finance		1,679.00	1,283.00	PO	IPO
11/29/12	Freight One	Russian Fed	Transportation	25.00	1,600.00	1,230.00	PS	Private Sale
02/01/12	Bank of Nova Scotia	Canada	Finance		1,511.00	1,158.00	PO	Canada Public
03/12/12	China South Locomotive	China	Manufacturing		1,384.00	1,058.00	PO	China Public
04/03/12	Kunlun Energy Co Ltd	Hong Kong	Utilities		1,350.00	1,012.00	PO	China Public
09/07/12	China Pacific Insurance Grp	China	Finance	20.00	1,340.00	1,065.00	PS	China Private
07/30/12	Everbright Securities Co	China	Finance		1,286.00	1,047.00	PS	China Private
05/02/12	China Construction Bank	China	Finance		1,244.00	948.00	PS	China Private
05/02/12	Bank of China Ltd	China	Finance		1,242.00	939.00	PS	China Private
10/11/12	Krung Thai Bank PCL	Thailand	Finance		1,148.00	887.00	PO	Thailand Public
03/02/12	China CNR Corp Ltd	China	Manufacturing		1,097.00	861.00	PS	China Private
12/12/12	NMDC Ltd	India	Mining	10.00	1,073.00	815.00	PO	India Public
09/25/12	Singapore Telecommunicatn	Singapore	Telecommunic		1,042.00	811.00	PS	Private Sale
11/27/12	VSMPO-Avisma	Russian Fed	Natural resources		970.00	746.00	PS	Private Sale
07/06/12	Inner Mongolia Yitai Coal	China	Natural resources		902.00	712.00	PO	IPO-Hong Kong
10/11/12	Hunan TV & Broadcasting	China	Services		841.00	649.00	PS	Private Sale
11/04/12	Xinjiang Zhongtai Chemical	China	Manufacturing		805.00	621.00	PS	Private Sale
02/17/12	China Commun Construction	China	Engineering		794.00	606.00	PO	IPO
01/18/12	Sealand Securities Co Ltd	China	Finance		792.00	624.00	PS	Private Sale
06/18/12	Beiqi Foton Motor Co Ltd	China	Transportation		771.00	610.00	PS	Private Sale
11/07/12	Tongling Nonferrous Metals	China	Natural resources		749.00	578.00	PS	Private Sale
03/14/12	Inner Mongolia Mengdian	China	Utilities		735.00	551.00	PS	Private Sale
07/23/12	Sinochem International Corp	China	Manufacturing		652.24	529.00	PS	Private Sale
12/31/12	GD Power Dvlp Co Ltd	China	Engineering		642.04	487.00	PS	Private Sale
02/29/12	Sunshine Oilsands Ltd	Canada	Natural resources		578.58	451.00	PO	IPO
10/30/12	Offshore Oil Engineering Co	China	Engineering		560.87	433.00	PS	Private Sale
05/02/12	APA Group	Australia	Utilities		557.31	421.00	PS	Private Sale
12/12/12	Goodman Group	Australia	Services	6.90	547.85	416.00	PS	Private sale
10/10/12	KEPCO	South Korea	Utilities		546.57	422.00	PO	Korea Public
05/07/12	China XD Electric Co Ltd	China	Manufacturing	15.00	536.37	406.00	PS	Private Sale
09/07/12	China Construction Bank	China	Finance		530.56	421.00	PS	Private Sale
05/17/12	Xinxing Ductile Iron Pipes	China	Manufacturing		514.84	403.00	PS	Private Sale
10/08/12	QR National Ltd	Australia	Transportation		509.20	393.00	PS	Repurchase
06/25/12	CITIC Heavy Industries Co	China	Manufacturing		502.73	397.00	PO	IPO
12/17/12	China Machinery Engineerg	China	Manufacturing		500.30	379.00	PO	IPO

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times*).

There were no fewer than 29 large Chinese offerings that qualify as privatization transactions because these reduced the state's equity ownership either directly (by divesting shares previously owned) or, more frequently, by increasing the number of shares outstanding through primary share offerings (often rights issues or private placements) in which Chinese state entities did not purchase a proportionate stake. Besides the two aforementioned bank offerings, three of the next four largest Chinese deals (ranking 14th, 16th, and 23rd overall among non-

EU deals) of 2012 were primary-share IPOs. In November, the insurer **PICC** raised $3.10 billion (€2.38 billion) in an offering that employed 17 bookrunners (lead managers) and yielded initial investors a modest (by Chinese standards) 6.9% initial return.[19] Five months previously, **China National Nuclear Power**'s IPO raised $2.56 billion (€2.07 billion) and two months before that **Haitong Securities Company** raised $1.68 billion (€1.28 billion) in its IPO.[20] The remaining seven Chinese privatizations of 2012 that raised at least $1 billion were all in whole or in part (China South Locomotive) private placements of shares in the company, either primary offerings (often rights offers) by the company itself or secondary sales of shares owned by sovereign wealth funds or other existing investors. These were **Bank of Beijing** [March; $1.87 billion; €1.43 billion]; **China South Locomotive and Rolling Stock** [March; $1.38 billion; €1.06 billion]; **China Pacific Insurance Group** [September; $1.34 billion; €1.07 billion]; **Everbright Securities** [March; $1.29 billion; €1.05 billion]; **China Construction Bank** [May; $1.24 billion; €948 million]; **Bank of China** [May; $1.24 billion; €939 million]; and **China CNR Corp**—formerly China North Locomotive and Rolling Stock Corp [March; $1.10 billion; €861 million].[21] Finally, **Kunlun Energy**'s SEO [April; $1.35 billion; €1.01 billion] was a Hong Kong offering of a Chinese company.[22]

China was not the only Asian country to witness large privatization deals during 2012; Malaysia, Thailand, India, Japan, and Singapore all saw $1 billion-plus sales last year, mostly through public offerings. Malaysia had two of the four largest such deals, beginning with the June IPO of the palm oil producer **Felda Global Ventures**—which raised $3.12 billion (€2.47 billion) and gave initial investors a 20% first-day return—and then followed the next month by the IPO of **IHH Healthcare Bhd**, which raised $1.96 billion (€1.60 billion).[23] India and Thailand also executed two sizeable deals each during 2012. The largest of these, and the largest equity offering in Thailand's history occurred in November, when **PTT Exploartion and Production** executed a $3.01 billion (€2.31 billion) SEO. Four months later, **Krung Thai Bank** executed a primary SEO that raised $1.15 billion (€887 million).[24] The first of the two large Indian deals was the secondary offering, in March, of a 5% stake in India's **Oil and Natural Gas Company** (ONGC). This the first major sale under the government's new streamlined share issue process, which was priced at a 2.3% *premium* to the prior day's closing price. Unsurprisingly, the initial uptake of shares was very low—but a late surge in buying by Indian state-owned banks and operating companies allowed the offering to be fully subscribed and to raise Rs121.6 billion ($2.53 billion; €1.99 billion).[25] The second large Indian

[19] See Josh Noble and Paul J Davies, "PICC defies expectations with solid debut," *Financial Times* (December 7, 2012).
[20] See "China National Nuclear eyes on IPO," *China Economic Review* (June 7, 2012).
[21] These Chinese deals are described in "Bank of Beijing raises RMB 11.8 via private placement," *China Business Newswire* (March 29, 2012); "CSR issues 1.96 bln A-shares," *China Business Newswire* (March 19, 2012); "China Pacific Sells New Shares to Three Investors Including Singapore Government," *BestWire* (September 10, 2012); "Everbright Securities Company Limited Notice of Listing and Floating of Floating Shares with Sales Limit," Shanghai Stock Exchange (August 13, 2012); Lulu Chen,"Baosteel behind sale of CCB shares; Sell-down seen as benefiting from market rally and expected to fetch HK$4 billion," *South China Morning Post* (September 8, 2012); "Temasek sale jolts top China lenders," *South China Morning Post* (May 4, 2012).
[22] See Henny Sender, "Kunlun Energy secures anchor investors," *Financial Times* (April 3, 2012).
[23] The Felda Global and IHH Healthcare IPOs are detailed in Jeremy Grant, "Felda shares surge on first day of trading," *Financial Times* (June 28, 2012) and Jeremy Grant, "IHH gain defies market gloom," *Financial Times* (July 25, 2012), respectively.
[24] See Gwen Robinson, "PTT raises $3bn to fund overseas push," *Financial Times* (November 30, 2012).
[25] The February ONGC offering is described in "ONGC's slippery auction sale," *Hindustan Times* (March 7, 2012) and Neil Munshi, "Confusion reigns at ONGC share sale," *Financial Times* (March 1, 2012).

privatization was the December sale of a 10% stake in the iron ore producer **NMDC Ltd**, which raised $1.07 billion (€815 million). The remaining two large Asian deals of 2012 were the state-organized, but largely privately financed, rescue of the failing Japanese manufacturing company, **Renesas Electronics Corp**, through a $1.82 billion (€1.38 billion) private placement of shares in December and the September private sale of a stake in **Singapore Telecommunications** that raised $1.04 billion (€811 million) for the sovereign wealth fund Temasek.[26]

The final six large non-EU privatizations of 2012 include two sales each by Russia and Turkey, and solo offerings from Qatar and Canada. Both Turkish sales occurred in November. The first was the SEO of 24% of **Turkiye Halk Bankasi** that raised $2.51 billion (€1.96 billion), and the second was the auction of a controlling stake in the power distributor **Bogazici EDAS** that raised $1.96 billion (€1.49 billion).[27] Russia's second largest privatization (after the Sberbank SEO) was the November private sale of Russian Railways' residual 25% stake in its **Freight One** subsidiary to Independent Transport Company (NTK), controlled by the billionaire Vladimir Lisin, who had purchased the other 75% of Freight One the previous year.[28] The final two $1 billion-plus privatizations of 2012 were the $1.87 billion (€1.53 billion) rights offering of **Qatar Telecom** in May and the February SEO of **Bank of Nova Scotia** (Scotiabank), which raised $1.51 billion (€1.16 billion) for the company, thus diluting state ownership.[29]

Most of the 2012 privatizations that raised between $500 million and $1 billion were Chinese private placements, described above, but there were also six non-Chinese sales that deserve brief mention.[30] The largest was the November sale by Russian Technologies of a controlling stake in the world's largest platinum producer, **VSMPO-Avisma**, for $970 million (€746 million); RT retained a 25% plus one share blocking minority stake in Avisma after the sale.[31] The next

[26] These three sales are detailed in "NMDC gains 3% after strong response from share sale," *The Economic Times* (December 14, 2012), "Renesas confirms government-backed bailout," *The Deal Pipeline* (December 11, 2012), and Jeremy Grant, "Temasek raises $1bn from SingTel stake sale," *Financial Times* (September 26, 2012), respectively.

[27] These two Turkish deals are discussed in David O'Byrne, "Turkey raises $2.5bn from Halk Bank sale," *Financial Times* (November 19, 2012) and "Turkey privatisation plan boosted by sale," *Financial Times* (December 16, 2012).

[28] The 2012 offering is described in Isabel Gorst, "Russian Railways sells $1.6bn freight stake but bids to delay further disposals," *Financial Times* (November 29, 2012), while the previous year's transactions are detailed in Courtney Weaver, "Russia's richest man buys freight rail stake," *Financial Times* (October 28, 2011) and Esmerk, "Russia: Vladimir Lisin's companies buy 75% in Freight One," *Kommersant* (October 31, 2011).

[29] See "Qatar Telecom secures USD1.87b through rights issue," *MENA English* (May 29, 2012); Camilla Hall, "Qtel's rebranding: calling Dr Dre," *Financial Times* (February 26, 2013); and "Scotiabank share placement to boost CT1," *Banking Newslink* (February 3, 2012).

[30] For information on the smaller Chinese share offerings that are not discussed in the text, see "Hunan TV and Broadcast Intermediary to raise $845 million," *ChinaRealNews* (October 12, 2012); "Xinjiang Zhongtai Chemical Plans to Refinance CNY5bn," *Comtex News Network* (November 7, 2012); Robert Cookson "Unlikely but true: China coal group in successful IPO," *Financial Times* (July 6, 2012); "China's largest road/port builder sets price range for Shanghai IPO," *Shanghai Daily* (February 18, 2012); "Sealand Securities Plans to Finance Maximum CNY5bn," *Comtex News Network* (January 20, 2012); "Beiqi Foton Motor issues 700 mln shares via private placement," *China Business Newswire* (June 28, 2012); "Tongling Nonferrous to raise RMB 4.55 bln via placement," *China Knowledge Newswire* (November 8, 2012); "Inner Mongolia Mengdian Huaneng raises RMB 4.66 bln to acquire assets from parent," *China Business Newswire* (March 21, 2012); "Sinochem International to Refinance in Private Offering," *Comtex News Network* (July 27, 2012); "GD Power OKed to Sell additional A-shares," Comtex News Network (December 13, 2012); "GE purchases 15 percent stake in China's XD Electric for US$535m," *China Economic Review* (May 9, 2012); Ed Crooks, "GE forms China venture with XD Electric," *Financial Times* (May 7, 2012); "Xinxing Ductile Iron Pipe to raise RMB 3.87 bln via share sale," China Business Newswire (May 17, 2012); and Stefan Wagstyl, "Soaraway $500m China IPO cheers HK," *Financial Times* (December 21, 2012).

[31] See Stefan Wagstyl, "Russia: $970m titanium deal to ease debt at Russian Technologies," *Financial Times* (November 27, 2012).

largest was the February IPO, in Hong Kong, of Canada's **Sunshine Oilsands**, which raised $579 million (€451 million).[32] In October, the Korea Resolution and Finance Corp sold the stake in **Korea Electric Power Company** (KEPCO) it had acquired through rescue in 1999 in a $546 million (€422 million) SEO.[33] The final three mid-sized, non-Chinese deals of 2012 involved Australian companies. In May, Malaysia's Petronas sold its 17.5% stake in the gas line operator **APA Group** for $557 million (€421 million), the Chinese sovereign wealth fund CIC sold a 6.9% stake (retaining 9.9%) in the service provider **Goodman Group** for $548 million (€416 million), and the railway **QR National** repurchased shares worth $509 million (€393 million) from the Queensland state government.[34]

Failed and Canceled Privatizations during 2012 and Early 2013

In sharp contrast with the previous year, 2012 will doubtless be remembered as a great year for completed privatizations, rather than for the number and value of privatization sales that failed, were cancelled, or were withdrawn. Only seven large privatizations were canceled or withdrawn during 2012, though Korea suffered the indignity of being the failing vendor in four of these. The largest such collapse followed the third attempt since 2010 to sell the government's 57% stake, valued at up to $5 billion, in **Woori Financial Group**. Once again, the problem was less the minimum price demanded than the regulation that only financial institutions and local private equity funds are allowed to buy a controlling interest in Korean banks; non-financial (Chaebol) firms and foreign private equity groups are barred from acquiring more than a 10% stake.[35] The Korean government's requirement that at least two bidders participate in any divestment cost it a possible $1.10 billion sale of its stake in **Korea Aerospace Industries**; when Korean Airlines withdrew as a bidder in December, this left Hyundai Heavy Industries as the only bidder and the auction was halted. The final two failed Korean sales resulted from government inaction—rather than overly strict requirements. The IPO of **Korea Development Bank**, mooted for December and pegged to raise $1.70 billion, was delayed when Parliament failed to pass enabling legislation, and the sale of a concession to operate **Incheon International Airport** was postponed until after the presidential elections scheduled for early 2013 (and still not re-scheduled as of August 2013).[36]

Aerospace companies also figured prominently in two of 2012's other failed/canceled privatizations. The planned sale of Poland's 68% stake in **LOT Airlines** was halted in June, when Turkish Airlines dropped out of the bidding, and one month later the British government quietly dropped all plans to sell its 49% stake in the **National Air Traffic Service** (NATS), fearing a public

[32] See Robert Cookson, "Sunshine Oilsands HK listing raises $575m," *Financial Times* (February 24, 2012).
[33] The Kepco sale is described in "Kepco block sale comes after three year wait," *EuroWeek* (October 11, 2012).
[34] The APA, Goodman, and QR National deals are described in Perry Williams, "APA sees silver lining to Petronas exit," *Australian Financial Review* (May 3, 2012), "CIC sells 6.9% stake in Goodman," *China Daily* (December 13, 2012), and Song Jung-a and Neil Dennis, "Asian metal producers fall on China fears," *Financial Times* (October 8, 2012), respectively.
[35] The failed 2012 Woori sale attempt is described in "South Korea tries to sell Woori for fourth time" Financial Times (June 26, 2013) and Song Jung-a, "S Korea: KAI sale scuppered," *Financial Times* (December 17, 2012). Previous attempts are discussed in Kim Yon-se, "MBK sole preliminary bidder for Woori Finance stake," *The Korea Herald* (August 17, 2011) and Song Jung-A, "Woori sale collapses due to lack of bidders," *Financial Times* (August 19, 2011).
[36] The failed KAI, KDB, and Incheon Airport sales are all discussed in Song Jung-a, "S Korea: KAI sale scuppered," *Financial Times* (December 17, 2012). This same reporter earlier the planned IPO of KDB earlier in the year in Song Jung-a, "KDB: IPO at last?" *Financial Times* (May 15, 2012).

backlash.[37] The final mis-step of 2012 was the cancelled privatization of the **Kuwait Stock Exchange** in December due to legal obstacles, financial difficulties, and a poorly designed capital markets privatization law.[38]

The first half of 2013 saw four large and rather dramatic cancellations of deals that had either been executed the year before or were very far along in the sale process. The largest and most dramatic such cancellation occurred in February, when Turkish Prime Minister Recep Erdogan unilaterally rejected the completed $5.70 billion sale--to a consortium led by Turkey's Koc Holdings and UEM, a subsidiary of the Malaysian sovereign wealth fund Kahazanah--of concessions to operate **two Bosporus bridges and 1,750 km of existing Turkish roads** for 25 years. Erdogan asserted that the price offered was insufficient, and proposed that the bridges and roads be divested through a public offering. In March 2013, the Virginia Port Authority also rejected as insufficient the $1.1-1.3 billion (€870-1,020 million) bid from Denmark's AP Møller-Maersk to purchase the 40-year right to operate and improve the **Hampton Roads port facilities** and an inland railroad terminal that other state officials had embraced so enthusiastically the previous June. The bid had resulted from a quirk in Virginia state law allowing private companies to make unsolicited offers to acquire assets or operating rights to state-owned facilities.[39] Another bizarre example of a completed contract being revoked happened in February 2013, when US-based Vetro Energy failed to make a €170 million, 20% down payment on **Albpetrol**, the Albanian state oil company. This resulted in cancellation of what had always been a very controversial privatization from 2012.[40] The fourth major failed divestment of 1H2013 occurred, perhaps unsurprisingly, in Greece. The state privatization agency, Taiped, announced in June that Russia's Gazprom had pulled out of the bidding for **Depa**, the state-owned natural gas supplier.[41] Taiped had hoped to raise up to €600 million from the sale of Depa, and this failure capped a rather dismal period of failed and troubled Greek sales stretching back nearly two years.

Completed Sales in 1H2013

Since this author required such an extended period to complete the 2012 PB Annual Report, we can also describe privatizations that have been executed during the first half of 2013. There have been no fewer than 45 large ($500 million-plus) deals during 1H2013 that have raised almost $75 billion ($74.6 billion; €57.35 billion). This very large aggregate total, coupled with 2012's near-record volume and the number and value of planned sales announced during the past twelve months (discussed next section), clearly suggests that a major new privatization wave is building worldwide that could well last for several years.

[37] See Jan Cienski and Daniel Dombey, "Turkish Airlines drops bid for Lot," *Financial Times* (June 4, 2012) and Rose Jacobs and Andrew Parker, "UK air traffic control sell-off grounded," *Financial Times* (July 10, 2012) for discussions of the LOT and NATS sales attempts, respectively.

[38] See Camilla Hall, "Kuwait Stock Market Float Hits Legal Snag," *Financial Times* (December 17, 2012).

[39] The failed sale is described in Robert Wright, "Virginia governor mulls port privatisation," Financial Times (April 1, 2013), while the initial, euphoric response is detailed in Robert Wright, "Virginia eyes partial port privatisation," *Financial Times* (June 3, 2012) and "Virginia port may extend deadline for rival offers to APM Terminals' deal – report," *SeeNews North America* (July 10, 2012).

[40] The initial Albpetrol sales is described in *Phil Cain*, "Albania: €850m state oil company sale," *Financial Times* (November 26, 2012) and the 2013 failure is discussed in *Nicholas Watson*, "Albania cancels murky Albpetrol sale," *Financial Times* (February 13, 2013).

[41] See Kerin Hope, "Greece faces collapse of second privatisation," *Financial Times* (June 27, 2013).

Table 4. Privatization Proceeds: EU, non-EU, and Global, 2012 and 1H2013

2012 (Full Year)				1H2013 (January-June)			
Country	**Number of deals**	**Total value (US$ million)**	**Total value (€ million)**	**Country**	**Number of deals**	**Total value (US$ million)**	**Total value (€ million)**
United States	7	53,126	41,051	China	13	12,874	10,055
China	29	41,698	32,231	Greece	3	11,270	8,678
Brazil	1	14,400	11,000	Japan	1	7,753	5,931
Portugal	8	11,035	8,364	Brazil	1	5,740	4,359
Japan	2	10,296	7,839	Russian Fed	2	3,792	3,029
Ireland	2	9,231	6,997	Turkey	1	3,460	2,647
Russia	3	7,725	5,904	India	3	3,282	2,464
Italy	10	5,103	3,868	Singapore	2	3,252	2,512
Malaysia	2	5,081	4,070	United States	3	3,132	2,429
Turkey	2	4,471	3,453	Sweden	1	3,020	2,263
Thailand	2	4,156	3,200	France	4	3,001	2,264
United Kingdom	4	3,965	3,005	Nigeria	1	2,500	1,911
India	2	3,604	2,801	Ireland	1	1,740	1,320
Poland	15	2,515	1,895	Poland	1	1,674	1,270
Germany	11	2,466	1,869	United Kingdom	2	1,563	1,181
Canada	2	2,090	1,609	New Zealand	1	1,418	1,111
Qatar	1	1,886	1,526	Indonesia	1	1,304	998
Australia	3	1,614	1,230	Iraq	1	1,277	978
Spain	4	1,221	925	Belgium	1	1,074	805
Sweden	7	1,180	894	Germany	1	805	633
Singapore	1	1,042	811	Qatar	1	686	514
France	2	566	429				
Korea	1	547	422				
Finland	1	195	148				
Other EU (4)	7	153	116				
Total EU	**71**	**$37,630**	**€ 28,509**	**Total EU**	**14**	**$24,147**	**€ 18,414**
Total non-EU	**58**	**$151,735**	**€ 117,147**	**Total non-EU**	**31**	**$50,470**	**€ 38,938**
Total World	**129**	**$189,365**	**€ 145,656**	**Total World**	**45**	**$74,617**	**€ 57,352**

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times* and *Lexis/Nexis Academic*).

Given this rousing start to 2013, a comparison with last year's aggregate values is merited. Table 4 presents the total number and value of privatization totals, by country, for all of 2012 and for the first six months of 2013. EU countries and data are highlighted in blue, so right off we can note that the 14 EU privatization deals totaled $24.15 billion (€18.41 billion), or 32.4% of the US dollar total (32.1% of the euro total) for 1H2013, nearly twice the fraction accounted for during 2012. This somewhat mis-leading however, since one massive rights offering by Greece's **Piraeus Bank** (February; $9.82 billion; €7.57 billion), represented over 40% of the EU total and was alone sufficient to give Greece the number one ranking in Europe for 1H2013. The "troika" of supranational bodies (the EU, the European Central Bank, and the IMF) handling the financial bailout of Greece insisted that Bank of Piraeus execute such a rights issue--in which the Greek government did not subscribe—in order to regain managerial control over the bank's operations.[42]

While Greece was the leading EU privatizer of 1H2013, it only ranked second worldwide, and was the only EU country among the nine largest privatizers of this year's first half. China led all comers, with 13 deal raising $12.87 billion (€10.06 billion), while ranks three through eight were claimed by Japan (1 sale; $7.75 billion; €5.93 billion), Brazil (1 sale; $5.74 billion; €4.36 billion), Russia

[42] See Neil Dennis, "Spanish and Italian financial stocks hit by German ECB court case," *Financial Times* (June 11, 2013). Kerin Hope, "Top Greek banks set for private capital push," *Financial Times* (May 1, 2013).

(2 deals; $3.79 billion; €3.03 billion), Turkey (1 sale; $3.46 billion; €2.65 billion), India (3 deals; $3.28 billion; €2.46 billion), and Singapore (2 sales; $3.25 billion; €2.51 billion). The United States, which ranked number one in total privatization proceeds during 2012 (as well as 2009 and 2010), only ranked ninth during 1H2013, with 3 deals raising $3.13 billion (€2.43 billion).

Table 5 lists the 45 large privatizations worldwide during 1H2013, now including those executed in the European Union. No fewer than 20 of these deals raised at least $1 billion, and three raised $5 billion or more. The largest sale of 1H2013, the $9.82 billion (€7.57 billion) **Bank of Piraeus** rights offering, has already been discussed, but the second and third largest deals of the semester were also landmark public share offerings for their home countries of Japan and Brazil, respectively. In March, the Japanese government sold a one-sixth stake in **Japan Tobacco**, raising $7.75 billion (€5.93 billion).[43] One month later, Banco do Brasil executed the largest IPO thus far in 2013 with an equity carve-out of its insurance subsidiary, **BB Seguridade Participacoes**, raising $5.74 billion (€4.36 billion).[44]

The fourth and fifth largest privatizations of 1H2013 were both private sales. The first was March's auction of four Turkish regional electricity distributors, raising $3.46 billion (€2.65 billion), and this was followed two months later by the Russian central bank's private sale of a 14% stake (bringing total holdings to 61%) in **Bank VTB** to international institutional investors.[45] Even though three sovereign wealth funds purchased two-thirds of this offering, it counts as a privatization sale because the transaction reduced the Russian state's holding in VTB.

As noted above, China executed 13 privatizations during 1H2013, and three of these raised $1 billion or more. The largest Chinese privatization of this year's first semester—and the sixth largest overall—was the capital-raising February SEO of the national oil company **Sinopec Corp**, which was offered at a 10% discount to the current share price and raised $3.10 billion (€2.28 billion).[46] The other two large Chinese deals (ranking 11th and 20th overall) shared three things in common; both occurred in May, both were IPOs, and both went public in Hong Kong rather than Shanghai. The larger was the offering of **Sinopec Engineering**, raising $1.80 billion (€1.40 billion), and the smaller was **China Galaxy Securities**, which raised $1.07 billion (€832 million).[47]

[43] See Michiyo Nakamoto, "Japan to raise up to $10bn from tobacco share sale," *Financial Times* (February 25, 2013).
[44] See Joe Leahy, "Banco do Brasil's insurance arm stages IPO," *Financial Times* (April 26, 2013).
[45] For a discussion of the VTB offering, as well as an analysis of broader challenges facing the Russian privatization program, see Courtney Weaver, "Privatisation: Mixed messages as government seems divided over programme," *Financial Times* (June 17, 2013).
[46] See Ajay Makan, "Sinopec shares fall on equity offering plans," *Financial Times* (February 5, 2013).
[47] See Paul J Davies, "Chinese broker Galaxy enjoys strong debut," *Financial Times* (May 22, 2013) and Lydia Guo, "Galaxy Securities breaks Hong Kong's IPO drought, more to come," *Financial Times* (May 15, 2013).

Table 5. Details on Global Privatization Transactions, 1H2013

Issue Date	Issuer/Seller	Nation	Industry	% for sale	Amount raised (US$ million)	Amount raised (€ million)	Private sale (PS) or public offer (PO)?	Method of Sale
02/04/13	Bank of Piraeus	Greece	Finance		9,821.00	7,566.00	PO	Rights Issue
03/11/13	Japan Tobacco	Japan	Manufacturing	16.70	7,753.00	5,931.00	PO	Japan Public
04/25/13	BB Seguridade Participacoes	Brazil	Finance		5,740.00	4,359.00	PO	IPO
03/15/13	Regional Electric Distributors	Turkey	Utilities		3,460.00	2,647.00	PS	Auction
05/24/13	Bank VTB	Russian Fed	Finance	14.00	3,292.00	2,647.00	PS	Private Sale
02/04/13	Sinopec Corp	China	Petroleum		3,101.00	2,283.00	PO	China Public
06/19/13	Nordea Bank AB	Sweden	Finance	6.40	3,020.00	2,263.00	PO	Sweden Public
01/04/13	Electric Distributions Cos (15)	Nigeria	Utilities		2,500.00	1,911.00	PS	Auction
02/06/13	NTPC Ltd	India	Utilities	9.50	2,137.00	1,573.00	PO	India Public
02/27/13	Mapletree Greater China	Singapore	Finance		2,002.00	1,531.00	PO	IPO
05/16/13	Sinopec Engineering Group	China	Engineering		1,796.00	1,397.00	PO	IPO
02/19/13	Irish Life	Ireland	Finance		1,740.00	1,320.00	PS	Private Sale
06/06/13	General Motors Co	United States	Manufacturing		1,721.00	1,326.00	PO	U.S. Public
01/23/13	PKO Bank Polski SA	Poland	Finance	11.75	1,674.00	1,270.00	PO	Poland Public
05/08/13	Mighty River Power Ltd	New Zealand	Utilities		1,418.00	1,111.00	PO	IPO
03/22/13	Matahari Department Store	Indonesia	Retailing		1,304.00	998.00	PO	Indonesia Pub
02/02/13	Asiacell Telecommunication	Iraq	Telecommunic		1,277.00	978.00	PO	IPO
02/25/13	Global Logistic Properties	Singapore	Services		1,250.00	981.00	PO	Singapore Pub
06/20/13	Bpost NV	Belgium	Services		1,074.00	805.00	PO	IPO
05/15/13	China Galaxy Securities Co	China	Finance		1,070.00	832.00	PO	IPO
06/13/13	Aeroports de Paris	France	Transportation	9.49	983.00	737.00	PS	Private Sale
01/25/13	Inner Mongolia Baotou Steel	China	Manufacturing		965.00	965.00	PS	China Private
06/27/13	OPAP	Greece	Services	33.00	928.00	712.00	PS	Auction
04/26/13	EADS	France	Manufacturing	2.10	922.00	697.00	PO	France Public
05/26/13	City Bank of Florida	United States	Finance		883.00	691.00	PS	Private Sale
06/27/13	Intl Consolidated Airlines	United Kingdom	Transportation		875.00	655.00	PO	Acceleratd SEO
05/13/13	Soochow Securities Co Ltd	China	Finance		847.00	664.00	PS	China Private
04/23/13	AVIC Capital Co Ltd	China	Finance		809.00	619.00	PS	China Private
01/04/13	Inner Mongolia Yili Indl Grp	China	Food		809.00	640.00	PS	China Private
05/15/13	Commerzbank AG	Germany	Finance		805.00	633.00	PO	Euro Public
03/13/13	Direct Line Insurance Group	United Kingdom	Finance	16.00	688.00	526.00	PO	Euro Public
02/18/13	Qatar Insurance Co SAQ	Qatar	Finance		686.00	514.00	PO	Rights/Private
03/29/13	Top Energy Co	China	Utilities		645.00	483.00	PS	China Private
04/20/13	Huolinhe Opencut Coal	China	Mining		631.00	483.00	PS	China Private
04/11/13	China Estn Airlines Corp Ltd	China	Transportation		579.00	443.00	PS	China Private
01/31/13	Oil India Ltd	India	Petroleum	10.00	576.00	442.00	PO	Euro Public
04/11/13	Yunan Chihong Zinc	China	Mining		576.00	440.00	PO	Rights issue
03/27/13	Safran SA	France	Manufacturing		573.00	430.00	PO	France Public
01/18/13	IDBI Bank Ltd	India	Finance		569.00	449.00	PO	India Private
03/25/13	Samsonite International SA	United States	Manufacturing		528.00	412.00	PO	Euro Public
03/28/13	Sinopharm Group Co Ltd	China	Pharmaceutical		525.00	393.00	PO	HK Public
01/03/13	EADS	France	Manufacturing	1.50	523.00	400.00	PS	Repurchase
06/15/13	Xi'an Aero-Engine PLC	China	Manufacturing		521.00	413.00	PS	China Private
06/27/13	Desfa	Greece	Utilities		521.00	400.00	PS	Private Sale
02/15/13	Moscow Stock Exchange	Russian Fed	Finance		500.00	382.00	PO	IPO
Total EU	**14**				**$24,147**	**€ 18,414**		
Total non-EU	**31**				**$50,470**	**€ 38,938**		
Total World	**45**				**$74,617**	**€ 57,352**		

Sources: *Privatization Barometer, Securities Data Corporation (SDC)* New Issues and Mergers and Acquisitions files, and author's search of various news media (principally *Financial Times and Lexis/Nexis Academic*).

Besides China, Singapore was the only country to execute two $1 billion-plus privatizations during 1H2013, and both sales occurred in February. These were the IPO of property manager **Mapletree Greater China** ($2.00 billion €1.53 billion) and the divestment by the sovereign wealth fund GIC of its stake in **Global Logistic Properties**, which raised $1.25 billion (€981 million).[48] The seventh and eighth largest privatizations of the first semester were the Swedish government's June SEO of a 6.4% stake (bringing its holdings to 7%) in **Nordea Bank**, raising $3.02 billion (€2.26 billion), and the much-delayed sale in April of **15 Nigerian electricity generating and distribution companies** that raised

[48] The two Singaporean deals are discussed by the same reporter in Josh Noble, "Singapore prices biggest IPO in two years," *Financial Times* (February 26, 2013) and "Singapore prices biggest IPO in two years," *Financial Times* (February 26, 2013).

$2.50 billion (€1.91 billion).[49] The Indian government's February SEO of a 9.5% stake in the power company **NTPC Ltd** ($2.14 billion; €1.57 billion) was the ninth largest privatization of 1H2013, while Ireland's February sale of the government's controlling stake in the nationalized insurer **Irish Life** to Canada's Great West Life Company was the first semester's 12th largest deal. [50]

The only $1 billion-plus American privatization of 1H2013 was the June SEO of 50 million **General Motors** (GM) shares by the US federal government and the United Auto Workers union that netted the sellers $1.72 billion (€1.33 billion).[51] The semester's next largest deals (ranking 14th and 15th overall) were Poland's January SEO of 11.75% of **PKO Bank Polski**, raising $1.67 billion (€1.27 billion), and **Mighty River Power Ltd**'s May IPO—which raised $1.42 billion (€1.11 billion) and was the first major privatization by the center-right New Zealand government elected in 2011.[52] Both the New Zealand government's program and the Mighty River IPO are discussed in Phil Barry's article later in this report.[53] The March SEO of Indonesia's **Mahatari Department Store** ($1.30 billion; €998 million) was the 16th largest of 1H2013.[54]

The two remaining undiscussed $1 billion-plus privatizations of the first semester were both IPOs. The larger of the two, February's highly successful initial offering of **Asiacell Telecommunications** ($1.28 billion; €978 million), was remarkable for being Iraq's first large post-occupation public equity offering and for attracting several regional telecom operators as anchor investors.[55] This IPO also gave initial investors a 5% first day return. Finally, the Belgian government's June IPO of its postal operator **Bpost NV** was priced near the top of its indicative price range and raised $1.07 billion (€805 million).[56]

Comparing Privatizations and Nationalizations, 1988-1H2013

Despite the worldwide success of privatization, governments in recent years have actually acquired as many assets through stock purchases as they have sold through share issue privatizations and direct sales. Figure 3 details annual totals

[49] The Nordea sale is discussed in Richard Milne, "Sweden raises $3bn in Nordea stake sale," *Financial Times* (June 19, 2013), while the Nigerian electricity divestments are described in Tolu Ogunlesi, "Nigeria's dysfunctional state power plants set to go private," *Financial Times* (May 7, 2013).

[50] The NTPC and Irish Life deals are discussed, respectively, in Victor Mallet and Avantika Chilkoti, "India boosts reform with NTPC share sale," *Financial Times* (February 6, 2013) and Jamie Smyth, "Dublin sells Irish Life to Canadian insurer," *Financial Times* (February 19, 2013).

[51] See Martin Crutsinger, "US Treasury sets price for GM stock," *Associated Press* (June 6, 2013) and Melanie Hicken, "Taxpayers to make $1 billion from GM stock," *CNN Wire* (June 6, 2013).

[52] The PKO deal is described in Jan Cienski, "Poland: PKO drops on share sale," *Financial Times* (January 23, 2013), while the Mighty river IPO is discussed in David Pilling and Neil Hume, "NZ refuses to ease export conditions," *Financial Times* (August 28, 2012) and Michael Bennet, "IPOs fail to fire as gloom sets in," *The Australian* (June 25, 2013).

[53] See Phil Barry, "Partial Privatizations Underway in New Zealand," *Privatization Barometer Annual Report 2012* (this issue).

[54] See Paul J Davies, "Matahari share sale raises $1.3bn," *Financial Times* (March 22, 2013).

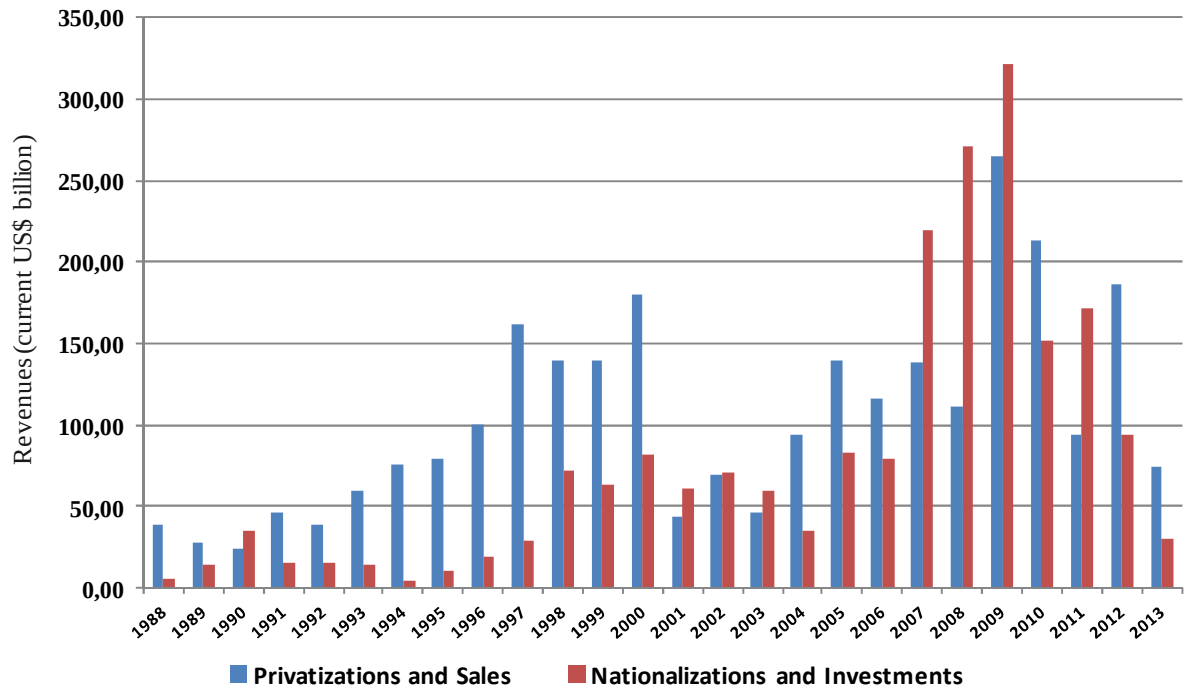
[55] See Simeon Kerr, "Iraq telecoms IPO: turning point?" *Financial Times* (January 30, 2013) and "Debt issuance by Middle Eastern lenders surges 40% in first half," *Financial Times* (July 17, 2013).

[56] See Michael Stothard and Anne-Sylvaine Chassany, "Bpost IPO bodes well for Royal Mail," *Financial Times* (June 30, 2013). For information on the smaller (less than $1 billion) deals in Table 5 that are not discussed in the text, see Scheherazade Daneshkhu, "France sells down stake in Aéroports de Paris for €738m," *Financial Times* (June 30, 2013); Jude Webber, "Latin banks flex their muscles as US and European lenders head home," *Financial Times* (May 27, 2013); Miles Johnson and Andrew Parker, "Bankia sells IAG stake as rescued bank continues divestments," *Financial Times* (June 27, 2013); Conor Sullivan, "Carmakers drive rises on growth signs," *Financial Times* (May 15, 2013); Alistair Gray, "RBS set to give up control of Direct Line," *Financial Times* (March 12, 2013); Avantika Chilkoti, "Oil India offer: a chance to buy?" *Financial Times* (February 1, 2013); Hugh Carnegy, "Inside Business: Dirigisme dies hard in France," *Financial Times* (May 2, 2013).

of government sales and investments during the past 25 years. The blue bars in Figure 3 are the annual totals of all privatization sales reported here in the Privatization Barometer Annual Report. As discussed earlier, privatization is defined as any financial transaction that reduces state ownership in a company, encompassing share issue privatizations (SIPs) where the government actually sells corporate stock that it owns, primary share offerings by the firm in which the state does not purchase a proportionate share of the newly issued stock (and thus its stake declines because the number of shares outstanding increases), and/or asset sales where the state sells some or all of its company ownership in a private sale.

The red bars in Figure 3 are purchases of corporate equity by the state itself, by state-owned enterprises (SOEs), and/or by state-owned investment companies--primarily sovereign wealth funds (SWFs). Annual values for sovereign wealth fund investments in corporate equity are obtained from Bortolotti, Fotak, and Megginson (2013), and the article by Christopher Balding later in this Report describes the investment allocations and returns of the major Chinese and Sinagporean sovereign wealth funds.[57] Other state purchases of corporate equity are obtained from the Securities Data Corporation (SDC) Mergers and Acquisitions file, where we screen stock purchases for government acquirers (Acquirer Ultimate Owner=Government). The 2012 nationalization total includes the $55 billion Rosneft/TNK-BP acquisition as a nationalization, since this semi-forced acquisition inreased Russian state ownership of its oil industry's assets. Perhaps surprisingly, SWF investments are a minority (25-45%, depending on the year) of total nationalizations almost all years; SOEs are the principal state investors most years.

Figure 3. Global Sales of State-Owned Assets and State Purchases of Private Stock, 1988-1H2013, US$ billions



[57] See Bernardo Bortolotti, Veljko Fotak, and William Megginson," The Sovereign Discount in Sovereign Wealth Fund Investments," Unpublished working paper. University of Oklahoma and Sovereign Investment Lab (August 2013), and Christopher Balding, "The Unberable Weight of Being a Chinese and Singaporean Sovereign Wealth Fund," *Privatization Barometer Annual Report 2012* (this issue).

From 1991-2000 governments privatized slightly over $1 trillion worth of assets and acquired less than a third of that amount ($327 billion). Over the next dozen years (2001-1H2013), however, governments sold $1.6 trillion in assets, but also purchased $1.6 trillion in equity. On balance, this suggests a rough global "equilibrium" is emerging, where one set of governments is actively privatizing large amounts of state-owned assets while another set of governments is just as actively acquiring private company equity through share purchases. The article by Omrane Guedhami later in this Report describes the characteristics of government acquisitions over 1981-April 2013.[58]

Planned Sales in Late-2013 and Beyond

We conclude this survey of privatization trends and major deals by describing sales that seem likely to be completed in the second half of 2013 or the next few years, beginning with delayed national divestment programs that several European governments plan to renew or accelerate as political and financial developments allow. Most conspicuously, the newly-elected conservative Greek government reaffirmed, in June 2012, plans to raise at least €19 billion ($25 billion), and perhaps as much as €42 billion ($55 billion), from the sale of state assets before the end of 2015.[59] As noted above, the Greek privatization agency was successful with two fairly small divestments over the next year (**Desfa** and **OPAP**), but failed to sell the larger **Defa**. The broader effort to sell real estate assets and the national power company remains a goal—but perhaps an elusive one. The newly-elected Italian announced vague plans in June 2013 to divest up to €10 billion worth of non-core assets, including the export credit and risk guarantee agency **SAFE**, the service company **Simest**, and the engineering group **Fintecna**.[60] Ireland has announced plans to raise up to €3 billion by selling off its 25% stake in **Aer Lingus** and the gas company **Bord Gais**—but has thus far shied away from any plans to privatize **ESB Group**, the Electricity Supply Board, due to strong union opposition.[61] Elsewhere in Europe, the national governments of Spain, Portugal, Romania, Ukraine, Sweden, and Slovenia have all articulated multi-year, multi-billion-dollar divestment plans that range from merely incremental to truly ambitious.

As discussed in detail in Philip Barry's article later in this Report, New Zealand in November 2011 passed legislation authorizing the partial privatization of five major state companies, and planning to raise $5.6 billion (€4.1 billion). Court challenges delayed this program for over a year, but in May 2013 the government finally was able to execute an IPO of **Mighty River Power**; other sales seem certain to follow in 2H2013 and 2014. In contrast to New Zealand's initiation of a major privatization program, the United States and Poland are in the odd positions of having nearly completed major divestment programs initiated after the Financial Crisis ended in 2009, but the US still has valuable stakes in **General Motors**, **Citigroup**, and a few other companies that will likely be divested piecemeal over the next two years.

Several countries plan to divest state-owned aviation and aerospace assets during the rest of 2013 and 2014. Spain, Brazil, Korea, Poland, and Japan all hope to

[58] See Omrane Guedhami, "Characteristics of Government Acquisitions over Time: International Evidence and Crisis Effect," *Privatization Barometer Annual Report 2012* (this issue).
[59] See Peter Spiegel and Alex Barker, "Greek accounting cannot hide the urgency for growth," *Financial Times* (February 21, 2012) and Kerin Hope, "Athens to speed up privatisation," *Financial Times* (July 3, 2012).
[60] See Guy Dinmore, "Italy sells off state assets to reduce debt," *Financial Times* (June 15, 2012).
[61] See Jamie Smyth, "Dublin to sell up to €3bn in state assets," *Financial Times* (February 22, 2012) and "Ireland ripe for M&A surge, says report," *Financial Times* (February 25, 2013).

fully or partially privatize major international airports. If Spain can sell a minority stake in **Aena**, its airport operator, as planned by the end of 2013 this will be the first large successful divestment of the Rajoy government.[62] The Brazilian government hopes to reprise the financial windfall it enjoyed with the 2012 sale of concessions to operate the Sao Paolo and three other airports when it auctions a similar concession to operate **Galeão Airport**, Rio's main international access point.[63] The Polish government will continue its attempt to divest its stake in LOT, and the Japanese (city) government hopes to raise $7-15 billion by fully privatizing the **Osaka Airport** by 2015.[64] Korea plans to divest the **Incheon Airport** in the near future. Additionally, the Korean government hopes to revive the sale **Korea Aerospace Industries** that collapsed in December 2012. Besides aerospace, Korea is hoping that its fourth attempt to sell a 57% stake in **Woori Financial Group** will ultimately succeed and raise as much s $3.9 billion.[65]

The Middle East also seems likely to see at least two significant privatizations during 2H2013-2014. Though rather modest by global standards, the new Tunisian governments plans to sell off the **equity and property holdings of former president Ben Ali** and his entourage that were seized after Ben Ali was overthrown in 2011, raising up to $750 million.[66] The two other key "Arab Spring" states of Libya and Egypt have articulated similar plans, but only in nebulous forms that seem destined to remain hostage to political eruptions. The Qatari government, however, has firm plans to offer its citizens--already the richest in the world based on per-capita GDP of almost $100,000 annually—a chance to co-invest with the Qatari sovereign wealth fund by floating a $3 billion IPO of **Doha Global Investment** Company. Qatar Holdings will transfer $3 billion into Doha Global; this coupled with the proceeds of the IPO will be managed by the country's sovereign wealth fund.[67]

Besides the individual sales and modest privatization programs described above that will be executed incrementally over the next two years, four national governments—Russia, India, Japan and the United Kingdom--have articulated divestment plans that range from ambitious to truly colossal. In June 2012, the Russian government announced that it planned to raise Rb 300 billion ($9.31 billion; €7.39 billion) through privatizations by the end of 2012, and also reiterated its determination to raise some Rb 1,030 billion ($32 billion; €25 billion) through divestments by 2016. Over the next year, Russia raised $11.52 billion (€9.93 billion) by selling stakes in **Bank VTB**, **Sberbank**, **Freight One**, **VSMPO-Avisma**, and other companies, and in most of these cases the government retains still more stock that can be sold during 2H2013-2015. The government has also announced plans to sell off its diamond monopoly, **Alrosa**, the state shipping company, **Sovcomoflot**, the rail container group, **Transcontainer**, and perhaps more of the stock it holds in **Russian Railways**.[68]

[62] See Miles Johnson, "Carlyle looks to lift Spain's Applus," *Financial Times* (July 9, 2013).
[63] See Joe Leahy, "Rio's dismal airport to get a facelift," *Financial Times* (December 21, 2012).
[64] The challenges involved in selling LOT are discussed in "Lagging Privatization of LOT Undermines Airline's Value," *Polish News Bulletin* (October 23, 2012), while the proposed sale of Osaka Airport is described in Michiyo Nakamoto, "Osaka airports open gate to privatisation," *Financial Times* (December 4, 2012).
[65] Plans for the Incheon Airport and KAI sales are presented in Song Jung-a, "S Korea: KAI sale scuppered," *Financial Times* (December 17, 2012), while the "hope springs eternal" plans for Woori are described in "South Korea tries to sell Woori for fourth time," *Financial Times* (June 26, 2013).
[66] See Borzou Daragahi, "Tunisia plans sale of Ben Ali assets," *Financial Times* (August 30, 2012).
[67] See "Qatar to float $12bn investment firm," *The Peninsula* (February 20, 2013).
[68] See Isabel Gorst, "Russian Railways sells $1.6bn freight stake but bids to delay further disposals," *Financial Times* (November 29, 2012).

On balance, however, one must conclude that Russia's privatization program has thus far fallen well short of its stated goals, due mostly to political infighting among top policy-makers, and unless the political issues are successfully resolved there seems little prospect of the state selling off a controlling interest in **Rosneft**, **Gazprom**, or any of the other massive state enterprises that dominate Russia's economy.

Political infighting also seems likely to reduce the Indian privatization program below both the fiscal needs of the government and the state's potential realizable value—but this program is still likely to be quite large. The government has proposed selling an additional 10% stake in **Indian Oil** during 2H2013 or 1H2014, hoping to raise Rs 6,800 crore (about $1.45 billion), as well as another 10% stake in **Coal India** (raising up to $4.29 billion), and nearly 11% of the **Steel Authority of India** (SAIL, bringing its stake to 75%) for about $600 million. All told, the Indian government said in late June 2013 that it hoped to raise up to Rs. 400 billion ($6.61 billion) from share sales alone during fiscal year 2013-14.[69]

Japan's privatization "program" has long been characterized by a relatively small number of immensely large sales, spaced irregularly over time, and this seems likely to continue. After successful, and very large, divestments of **Japan Airlines** ($8.47 billion; €6.46 billion) in 2012 and **Japan Tobacco** ($7.75 billion; €5.93 billion) in March 2013, the government has renewed its plans for what could become the largest single privatization in history. This is the oft-mooted, oft-canceled sale of a two-thirds stake in **Japan Post** beginning in 2015, which could raise up to $87 billion based on current market comparables.[70] Japan's government might also follow through on plans first mooted in September 2011 to divest stakes in the oil company **Inpex** and the exploration and development company **Japex**, together valued at ¥566 billion ($7.41 billion; €5.38 billion).[71]

We conclude this discussion by describing what may be the most intriguing, and also one of the largest, privatization programs being proposed by any national government today: that of the United Kingdom, which coined the term "privatization" three decades ago and popularized this as a core economic policy during the Thatcher years. Britain's coalition government is considering multiple privatization sales, most imminently divestment of **Royal Mail**, which became feasible after the company's huge unfunded pension liabilities were nationalized in 2011, and the sale of the UK's 33% stake in the uranium enrichment company **Urenco**, which became feasible when the Dutch government dropped its veto regarding sale of the company to private buyers. Each of these sales could raise up to £3 billion ($4.54 billion; €3.51 billion).[72] The government successfully

[69] The Coal India and SAIL sales plans, as well as the Indian government's more general divestment program objectives, are described in "FM vows to push Coal India share sale as meeting with unions looms," *Financial Express* (June 14, 2013), "Coal India tanks 5 pc as govt intends to push for Rs 20,000 crore share sale," *The Economic Times* (March 19, 2013), Mitul Thakkar, "Govt pushes ahead with Rs 20,000-crore Coal India share sale," *The Economic Times* (March 19, 2013), and "Govt plans 10% stake sale in Indian Oil via share offer: Media Reports," *Dion Global Solutions Limited* (June 7, 2013).

[70] See "Japan Post – fear is the spur," *Financial Times* (October 26, 2012).

[71] The article by Michiyo Nakamoto, "Japan Tobacco sale planned for reconstruction," *Financial Times* (June 7, 2012) describes the government's planned sales of Japex and Inpex.

[72] See Brian Groom, "Will Britons buy into Royal Mail?" *Financial Times* (April 10, 2012), Lucy Tobin, "A 4£bn Sell-Off Waiting to be Delivered,' *The Independent* [London] (November 14, 2012), Hannah Kuchler and Michael Stothard, "Royal Mail privatisation plans to be unveiled this week," *Financial Times* (July 8, 2013), and Ben Marlow, "Dutch clear the way for nuclear sale; Bidders line up for Urenco, which could put 4£bn in chancellor's coffers," *The Sunday Times* [London] (March 17, 2013).

divested its holdings in **Northern Rock** in January 2012 through a sale to Virgin Money, and then in summer 2013 began making serious noises about selling off its Crisis-induced shareholdings in **Royal Bank of Scotland** (81%) and **Lloyds TSB** (41%). The sale of Lloyds would probably occur first, since it is far healthier than RBS, but both divestments have languished because in each case the share prices have remained far below the implied rescue price—so any sale at current levels would force the government to realize a capital loss.[73] Still, the political imperative to remove the banks from state control, coupled with the immense sum of money that could be raised by successful sales of either or both companies, seems certain to lead Britain to sell one or both banks before the next general election, which must be held no later than 2015.

Conclusions

To summarize, the total value of global privatizations during 2012 rose sharply from the previous year's level to become the third largest sum ever, and this pace has largely continued during 1H2013. Additionally, governments have announced plans to divest over $100 billion (€75 billion) annually for at least the next two years, so the immediate future looks very bright. Longer term, the continuing fiscal challenges facing both western and emerging market countries suggests that privatization programs will remain a central issue for global finance and economics for many years to come.

[73] The possible RBS and Lloyds sell-offs are discussed in Iain Dey, "RBS lines up £5bn share sell-off; Board prepares taxpayer bank for privatisation next year—promising pre-election boost for coalition," *The Sunday Times* [London] (February 24, 2013); Jill Treanor, "'Chastening' year for RBS—rounded off by £607m in bonuses: Royal Bank of Scotland posts annual loss of more than £5bn, as bank's boss tells the City that privatisation is getting closer" The Guardian [London] (March 1, 2013); and George Parker, Patrick Jenkins, and Claire Jones, "Osborne looks at 'bad bank' for RBS toxic loans," *Financial Times* (June 19, 2013).

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Italian Banks: State-Aid or a New Privatization Wave?

A brief overview on the Italian banking system going through downturn. The recent economic downturn had a severe impact on the Italian banking system. Two main pillars of this system have been struck particularly hard by the financial crisis: the liquidity of the interbank-system as well as the reputation of the banking sector.

The uncoordinated mix of economic policies adopted to help the sector get through the downturn have "infected" public debt, causing several distortive effects. Most importantly banks whose credit policies have been more liberal and less accurate were leveled with banks which have been historically prudent, but which invested a significant fraction of their liquidity in public debt. Along with this, a new wave of righteous public indignation rose up against the role played by banks, which were often seen as co-responsible for the financial crisis, and this public response led to additional distortive effects such as adoption of price/commission control, the slowing down of a new price/risk relation adjustment, and generally making bankers feel less responsible for the results of their mandates. Moreover, IFSR "International financial reporting standards" imparted a pro-cyclical contribution to the effects of the downturn by giving often different accounting treatments to principal balance sheet assets.

Hit by this wave, the banking system has put in place backward-looking strategies aimed at overcoming the downturn as quickly as possible rather than trying to anticipate what was on the horizon, thus causing the loss of almost two years in starting reforms needed to compete on a European level. Strategic planning was largely suspended between 2008 and 2010, being replaced by contingency plans aimed to give quick and, in the short term, almost sufficient solutions to overcome day by day obstacles rather than taking a proper view on where the ship was heading.

At the first easing of this financial storm, banks returned to thinking about their future, again trying to find their strategic view, accepting, as a matter of fact, a *"new normal"* view and expectation for the future. An analysis of 25 business plans[1] developed between 2010 and 2012 shows banking expectations shifted toward a zero-growth macroeconomic environment, high volatility of stock markets, a widening spread between countries' risk, atrophy of the inter-bank liquidity system, and rising counterparty credit risk not balanced by a review in pricing along with a substantial inflexibility of cost structures. In other words, having dropped the illusion of a quick and dirty battle, generals gave orders about digging trenches, expecting a long and stressful war of attrition.

[1] Source KPMG Corporate Finance analysis on official banking Business Plans.

The aim of the Italian banking sector during the crisis was not to pursue organic growth, but instead to try to reduce the profitability gap with its European competitors. By the end of 2011, ROE (return on equity) was equal to only 2.6%, but this dropped to a mere 0.4% by the end of 2012 (source Bank of Italy). The 2011 value was mainly due to impairment losses on *goodwill* (resulting from recent concentration trends) and the disastrous 2012 result was caused by credit provisioning for bad loans.

Profitability improvement is perceived as the only way to meet new capital requirements promoted by the EBA (European Banking Authority) in its stress testing activity. An analysis of recent business plan strategies provides hints about the emerging value creation paradigm. This assumes maintaining steady credit activity coupled with a halt in distribution shops opening, often shifting directly towards selected shutdowns. Principal drivers can be summarized in a reduction in cost of risk (- 16 bps), increase of productivity (+32% of funds administrated per employee), a reduction in costs (-16%), a recover in margins (+8%) and a general capital strengthening (+2%)..

These objectives can be achieved only by facing main four problems of the banking sector, inherited from the wide transformation of the sector of the early nineties which gave birth to the New Banking Law and to the Foundations. These are low credit quality, excessively expensive distribution models, high labour costs, and an ownership structure in need of further privatization. Begin with credit quality: in Italy around 70% of banking loans are granted to clients versus an average of *circa* 50% in Europe. The elasticity of GDP variation mirrored in credit quality is thus higher in Italy than in the rest of Europe, causing the Italian banking system to experience a higher sensibility to trends in the real economy. Over last five years gross non-performing loans tripled, increasing from € 42 billion as of 2008 to € 125 billion as of the end of 2012 (source Bank of Italy). Banks are reacting to this rise through restrictive credit policies aimed at intercepting anomalies, setting higher collection standards and, in the end, heading toward a slow deleveraging of high risk asset classes. The profitability of the banking sector will thus be affected in the long run because of less effective pricing policies and difficult non-performing loan disposals due to a widening gap between bid and ask prices, which became very common after Lehman's bankruptcy.

In terms of distribution models, only in recent years the Italian banking sector has closed the gap between its number branches per 100,000 inhabitants and European standards. This led, on the one hand, to an incisive distribution model but on the other to an ineffective one in terms of costs. Moreover, with regard to the new online banking trends and the shift towards a client service model, major investments are needed to renew branch layouts, improve technology, allow expected reorganizations, and to shut down and/or dispose of branches wherever possible. The paradigm involves lowering the cost of production and distribution, aiming at a new cost to *serve* model.

Regarding the labour issue, there are now 350,000 employees in the Italian banking sector (plus 50,000 more in banking-related sectors), mostly composed of highly skilled and trained employees with highly remunerated contracts. Continuing branch shutdowns, a slowing turnover towards young and less expensive employees due to the widening of the pre-pension activity, adoption of new and less labour intensive technology, along with the collapse of the value added per employee (due to sector downturn) will probably lead to a massive worker layoffs. As Ignazio Visco, Governor of the Bank of Italy, reported in his

final consideration about the banking sector, "current labour cost is not suitable with growth perspectives of the Italian banking system".

The last challenge to be faced by the banking sector is the Gordian knot of the ownership structure, where banking Foundations play a particular role and where, we believe, there will be a new privatization wave. Stepping back, four different ownership types pivot the banking sector:

1. banking Foundations, which used to sustain banks with capital increases, have almost exhausted their liquidity and are no longer able to face new efforts;

2. stock market investors (retail and institutional), looking for acceptable yields which are hardly guaranteed by banks;

3. investors with a medium term outlook, looking for a comprehensive role in a given economic sector (varying from sovereign wealth funds to entrepreneurial groups);

4. lastly, client-shareholders of popular and cooperative banks willing to subscribe to rights issues of their banks, on one hand directly contributing to the growth of their territory and, on the other, gaining better economic conditions from their bank.

Banking Foundations and ownership structure, still sustainable or awaiting a new privatization trend?

Overall assets of the 88 banking Foundations decreased between the end of 2010 and the end 2011 by € 7 billion (-12%); total assets equaled €52.8 billion as of the end of 2011 compared to total assets of approximately €59.5 billion at year-end 2010 (source Associazione di Fondazioni e di Casse di Risparmio S.p.A.). Most of this decline (around 60%) resulted from a reduction in the value of their participation in proprietary banks (along with low levels of dividend payouts) and, for the remaining 40%, to the decline in financial asset values. Notwithstanding this severe impact on total assets, the banking Foundations continued to sustain their territory and the stakeholders community by providing more than one billion euros of philanthropy to arts and cultural activities (31%), voluntary and philanthropic activities, (18%) and scientific and technological research (14.3%).

Yet the role of the banking Foundations within the ownership and support of proprietary banks has still to be redefined. By the end of 2011, 14 banking Foundations out of 88 (16%) still held an absolute majority stake in proprietary banks, 56 (64%) banking Foundations held a minority stake while only 18 (20%) were completely untied from the original proprietary banks. In such financial downturn context, along with a requested role of welfare support as a substitute for restrictive government policies, the banking Foundations will face new difficulties supporting the capital strengthening policies of proprietary banks.

Popular and cooperative banks showed, compared to savings banks, more strength in facing financial downturn, given the capability to strengthen their capital thanks to their spread shareholder base: by the end of 2012, core tier 1 ratio of cooperative banks increased by 10 bps to 14,1%, while popular bank showed an increase equal to 30 bps to 8,8% (Bank of Italy annual report). From an industrial point of view, the comparison between recent strategic plans

redacted by popular and cooperative banks with the ones of savings banks do not show any tangible differences.

The role of Foundations in the near future along with a new expected privatization wave.

In our view, over the next few years there will probably be a repositioning of banking Foundations depending on their size and the role they play in the related community. On one hand, we believe that large banking Foundations will still play the role of primary investor, granting stability to the (listed) proprietary bank, as a consequence of past privatization strategies. On the other hand, small and medium size banking Foundations will not reasonably be able to sustain any new capital increase of their proprietary banks, given the low dividend payouts, and thus will not play a primary role in the capital strengthening promoted by the EBA and Central Banks. This will probably lead the small and medium size Foundations to open the share capital of proprietary banks up to the maximum allowed 49% stake, at least in the short/medium term.

This new wave of expected privatization will involve, in our view, a selected panel of institutional investors and entrepreneurial groups along with retail customers belonging to the related territory. In fact, the commercial strength of the branches of proprietary banks will help to place capital increases with their customers, who should be more willing to buy shares of the bank of their territory than any other international financial instrument. Popular and cooperative banks showed, compared to savings banks, more strength in facing the financial downturn, given their capability to strengthen their capital thanks to their widespread shareholder bases. By the end of 2012, the core tier 1 capital ratio of cooperative banks increased by 10 bps to 14.1%, while popular banks showed an increase of 30 bps to 8.8% (Bank of Italy annual report). From an industrial point of view, comparisons between recent strategic plans presented by popular and cooperative banks with those of savings banks do not show any tangible differences.

A view of the overall Italian situation

The sovereign debt crisis has forced Italy, as it has other countries, to focus on privatization policies. On the other side, as expected, the crisis hit planned privatization offerings very hard. In Europe, during 2010, 100 privatization transactions were recorded and raised €35 billion. In 2011, the number of transactions decreased to 50 which raised €19.5 billion. In 2012, privatization revenues rebound to €28.2 billion collected through 71 deals.

In Italy, only a few transactions were carried out by the central government in recent years. The latest were the disposals of Sace S.p.A. (the Italian export credit agency), Fintecna S.p.A. (specialized in the management of liquidation activities and the related privatization) and Simest S.p.A. (promoting foreign investment by Italian companies), whose shares were purchased by Cassa Depositi e Prestiti from the Ministry of Economic Development and the Ministry of Economic and Finance. It is worth noting that these transactions cannot be considered “real” privatizations, as the assets have been shifted from one public entity to another, rather than to private investors (Cassa Depositi e Prestiti is a joint-stock company under public control, with the Italian government holding 70% of its capital and a broad group of bank foundations holding the remaining 30%). On the hand, Italian local governments have disposed of shares held in several companies since 2011, also due to changes in regulations. In recent years, in fact, various reforms have produced several changes to the regulations governing how local governments can hold equity shares, fostering the

enhancement of public properties and an effective public asset management, shifting governments' role from "entrepreneur" to "regulator and controller" and triggering new paths for privatization. And this trend is going to keep on growing.

As we have already affirmed with reference to small and medium size banking Foundations, this wave of expected privatizations will involve primarily investors belonging to the related territory (entrepreneurs, foundations, local banks, etc.) who are willing to invest in local economic development. Moreover, rising awareness of the volume and value of public assets owned by central and local governments will foster the definition and implementation of effective privatization strategies. In fact, during the last decade the Ministry of Economy and Finance has begun seriously mapping the whole of its assets, bridging what might be called "public balance sheet gap". During the first half of the 2000s, the Ministry started to estimate the size and fair value of assets held by central and local governments using accounting standards comparable with those used by companies (IAS), and in 2010 started an IT-based census of all properties owned by public administrations.

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Characteristics of Government Acquisitions Over Time: International Evidence and Crisis Effect

Despite the existing record of worldwide substantial and successful privatizations over more than two decades (1980s and '90s), governments continue to be influential owners around the world. In particular, the recent global financial crisis, with the ensuing government bailouts, has led to an unprecedented increase in acquisitions by governments and state-owned entities in the private and public sectors and across a spectrum of industries. For example, the United States government, through its $700 billion Troubled Asset Relief Program (TARP), recently acquired assets and equity in several troubled firms, including General Motors Corporation (60%), American International Group (79.9%), Citigroup Inc. (36%), and Fannie Mae and Freddie Mac (79.9%). In 2008, as part of the £500 billion ($850 billion) bank rescue package, the U.K. government acquired controlling stakes in Royal Bank of Scotland (60%) and HBOS-Lloyds TSB (40%). In Germany, the government acquired a 25%-plus-one-share stake in Commerzbank AG, the second-largest German Bank after Deutsche Bank AG, in exchange for a rescue package of €18.2 billion in 2009. However, not all governments' acquisitions are crisis-related. In 2012, after the Fukushima disaster, the Japanese government acquired a majority stake (50.11%) - with an option to increase it to 88.69% - in Tokyo Electric Power Company, Incorporated (TEPCO) in exchange for a capital injection of 1 trillion yen ($12.5 billion). Several other governments injected taxpayers' funds into troubled firms in exchange for substantial ownership stakes.

In the following sections, we provide a global assessment of levels and trends of governments' investments over the period 1981-2013 (April), across countries and industries, with a particular focus on the period surrounding the global financial crisis. We also shed light on the characteristics of governments' targets. This assessment will help delineate the extent of the recent (partial) nationalization tendency worldwide, and eventually the prospects for future privatizations. We conclude with a summary and suggested areas for future research.

An Overview of Global Governments' Acquisition Activity

Using SDC Platinum Mergers and Acquisitions database, we retrieve all acquisition transactions of non-government entities by government entities (i.e., the acquirer or acquirer's ultimate parent is flagged with a government status) over the period 1981 to 2013 (April). We identify 5,569 such completed deals, with a total value of $681,534 million. Among the 5,569 transactions, 2,771 report the value of the deal. Figure 1 shows the evolution of the total number of completed deals, and the total value and number of deals for which the transaction value information is reported. The figure clearly reveals a trend, with governments' investment activities increasing since 1981, both in terms of

number of transactions and value. Three notable peaks are observed in 1998, 2008, and 2009. The year 1998, which represents the Asian financial crisis, witnessed a sharp increase in the total value of government investments relative to previous years, amounting to $33,627 million for 82 transactions. Although the number of deals continues to increase between 1999 and 2007, the yearly value is lower than that of 1998, ranging between $5,748 million and $27,868 million. The second peak relates to the 2008-2009 global financial crisis, accounting for approximately 17.6% of total deals and 46.5% of total value over the period 1981-2013. In 2008, the total number of transactions is 407 at a total value of $153,091 million, while the record-setting 2009 reveals 575 transactions worth $163,471 million in total. The 2008 and 2009 transaction values (total of $316,562 million from 982 transactions) represent an increase by approximately 355% and 386% over 1998. Although there is a sharp decline in governments' acquisitions after 2009 (by 68.1% in 2010 and 75.5% in 2011 relative to deals value in 2009), the proceeds and number of transactions in each year from 2010 to 2012 exceed those recorded in previous years, including 1998. In a nutshell, these figures point to a greater governments' intervention during economic turmoil potentially as a tool for economic stabilization.

Figure 1. The Distribution of Government Investments 1981-2013

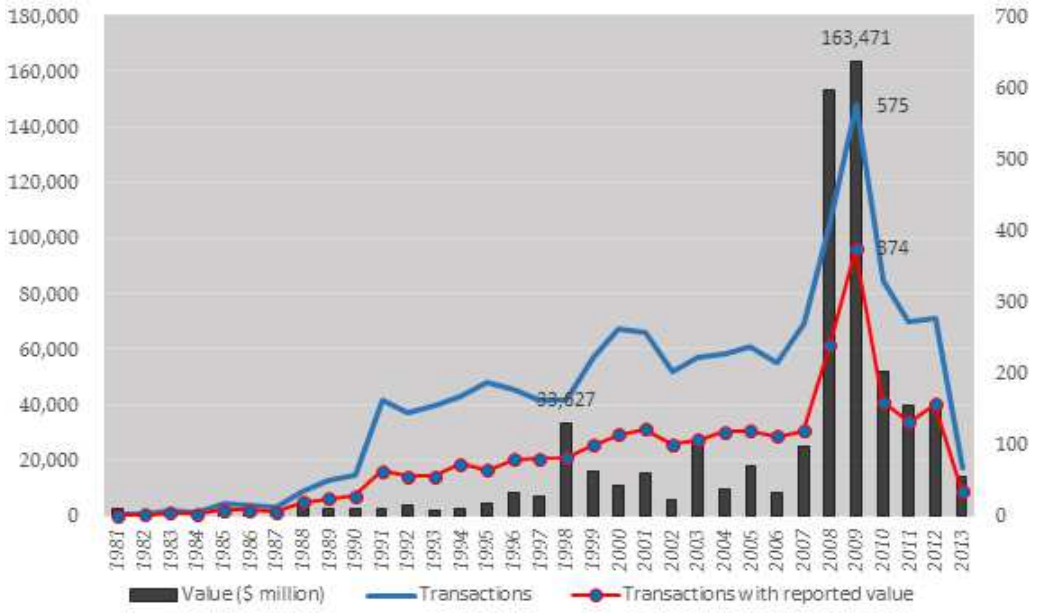
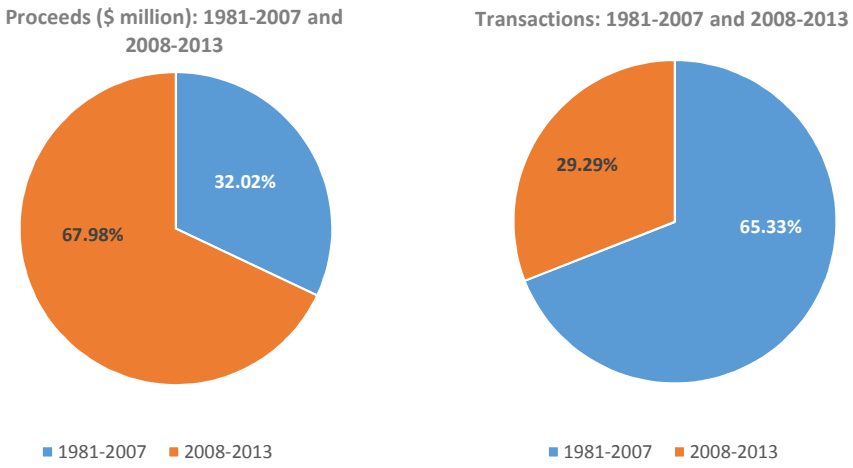


Figure 2 compares the number of deals and value for the periods 1981-2007 and 2008-2013. The 27-year period (1981 to 2007) represents only one-third of the total value of all transactions, while the five-and-half year period (2008-2013) represents two-third of the value of all transactions. However, in terms of number of deals there are twice as many transactions in the former period than in the latter one. These numbers suggest that the average transaction value is substantially higher in the post-crisis period, reflecting the tendency of governments to support big players in the economy.

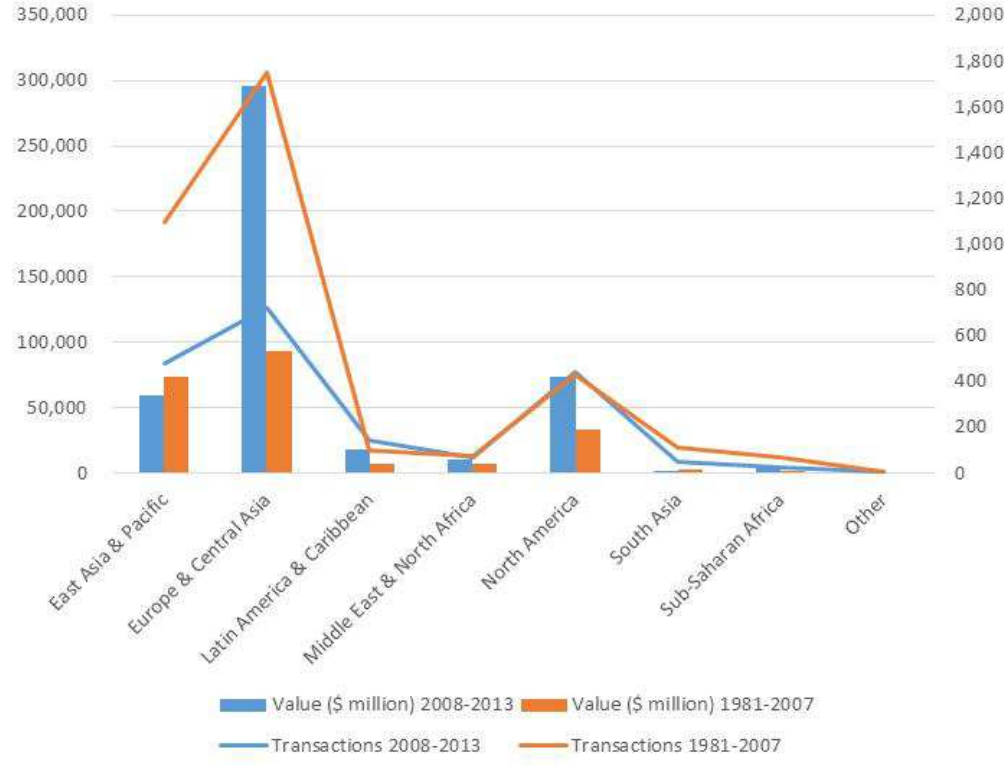
Figure 2. Number of Transactions and Value: 1981-2007 and 2008-2013



Deals by Geographic Region, Income Level, and Industry

…by geographic region. Figure 3 compares the distribution of government investments by region over the periods 1981-2007 (before the global financial crisis) and 2008-2013 (after the crisis).

Figure 3. The Distribution of Government Investments by Region: 1981-2007 versus 2008-2013



We distinguish 7 regions as categorized by the World Bank: East Asia and the Pacific, South Asia, Europe and Central Asia, North America, Middle East and North Africa, Latin America and Caribbean, and Sub-Saharan Africa. In both periods, Europe and Central Asia attracted most of government investments in terms of number of deals and value ($92,989 million before crisis; $295,941

million after crisis), followed by East Asia and the Pacific ($73,281 million before crisis; $59,503 million after crisis), and North America ($33,105 million before crisis; $73,525 million after crisis).
In addition, we note that the value of governments' investments in Europe and Central Asia and North America are substantially higher in the post-crisis period relative to the pre-crisis period, reflecting the adverse effects of the recent financial crisis for these regions. In contrast, East Asia and the Pacific shows less government investment during the post-crisis period ($59,503 million) compared to the pre-crisis period ($73,281 million), which mainly reflects the adverse effect of the 1997-1998 Asian financial crisis. Overall, financial crises drive the bulk of government investments to bailout troubled firms in times of economic distress.

Figures 4 and 5 provide the average deal value by region and across selected countries over the periods 1981-2007 and 2008-2013. Across all regions and countries, the average deal value is higher in the post-crisis period relative to the pre-crisis period; for example, six times higher in Europe and Central Asia. In addition, Europe and Central Asia shows the highest average deal value ($1,108 million) over the post-crisis period, followed by Middle East and North Africa ($334 million), Latin America and Caribbean ($324 million), and North America ($195 million). These figures suggest that governments from Latin America and Caribbean and Sub-Saharan Africa have fewer transactions, but of relatively higher value. Across all countries, the average deal value is $422 million over the period post-crisis period. As shown in Figure 5, the highest average value per deal is observed in the Netherlands ($5,207 million), followed by the U.K. ($3,717 million), Belgium ($2,574 million), and Germany ($1,812 million).

Figure 4. Top 15 Countries by Deal Value: 1981-2007 versus 2008-2013

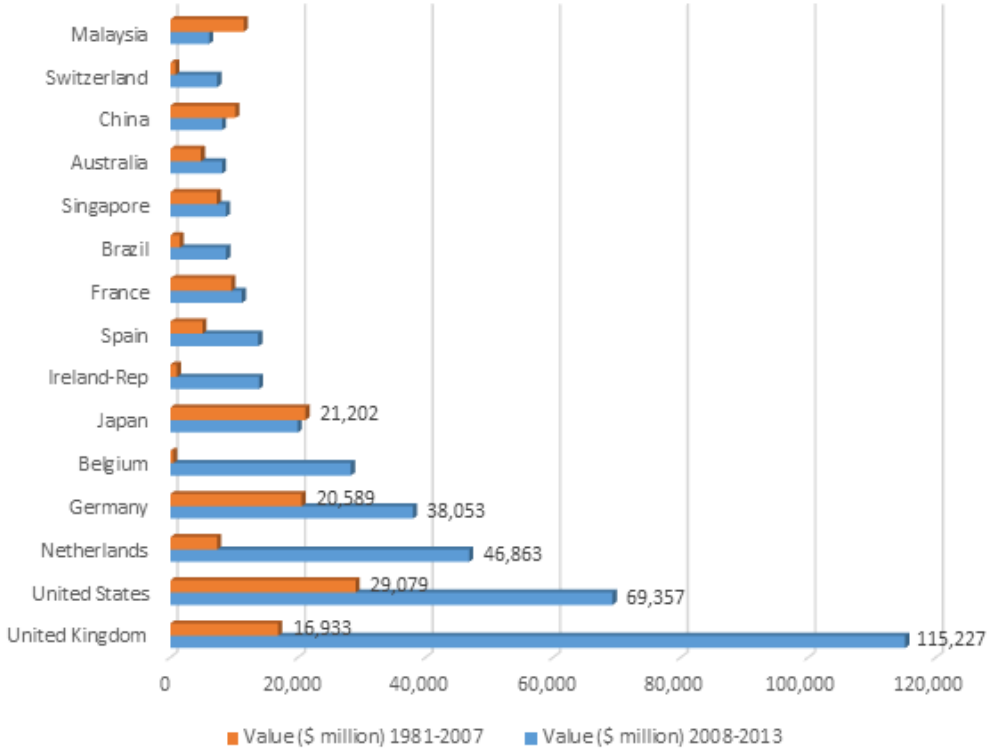


Figure 5. The Average Ownership Stake Sought by the Top 15 Government Acquirers: 1981-2007 versus 2008-2013

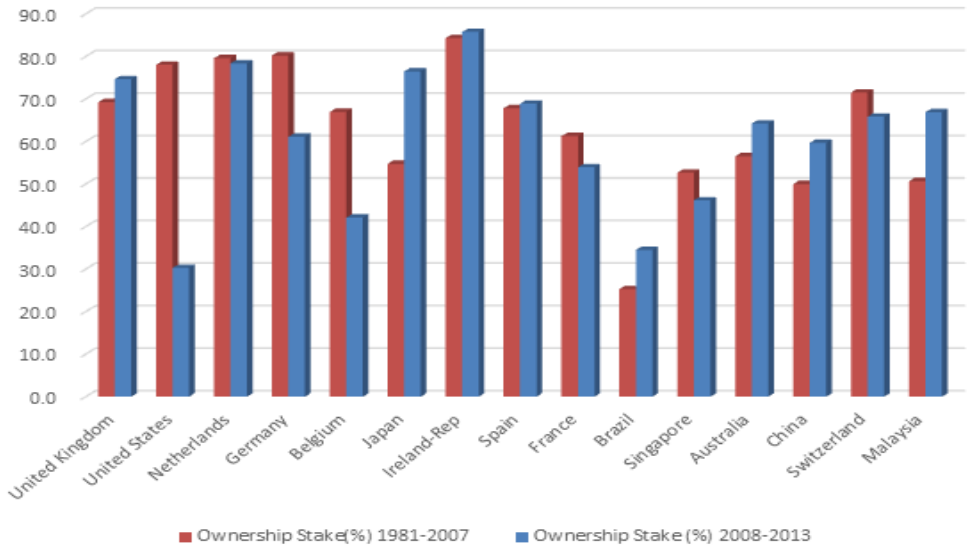
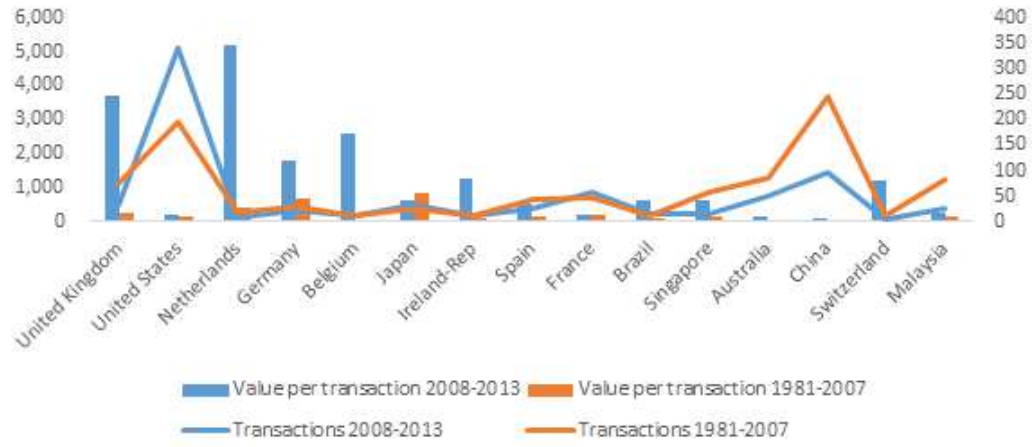


Figure 6 shows the top 15 active governments by total transaction value over the period 2008-2013. Except for Singapore, Japan, and Malaysia, governments tend to be more active acquirers after the crisis compared to before the crisis. For example, the post-crisis value of government investments in the U.K. is approximately 93 times that of the pre-crisis period, reflecting the U.K. extensive bailout program through the purchase of large equity stakes as shown in Figure 7. This multiple is 104 for Belgium (which experienced a major banking crisis in 2008-2009), 26 for Luxembourg, and 17 for Ireland and the Netherlands. Interestingly, we find that of the 15 most active government acquirers, 7 are from Europe: the U.K., Netherlands, Germany, Belgium, Ireland, France, and Luxembourg. For instance, over the post-crisis, the U.K. shows the highest value of government investments at $100,663 million for 36 transactions. These transactions include the acquisition of a 57.9% stake in Royal Bank of Scotland Group for a total value of $26,062 million, followed by a 58% stake in HBOS PLC for a total value of $14,799 million. The second most active acquirer during the recent period is the U.S., executing nearly 415 transactions worth $51,520 million. The Dutch government invested $23,137 million in Fortis Bank Netherlands (Holdings) to acquire a 100% stake in 2008, and $13,407 (€10 billion) in ING Group in return for a 33% stake in 2008. In Germany, the government's largest reported investment is in Bayern LB at $12,893 million for a 45.8% stake in 2010, followed by the investment in Deutsche Telekom at $11,440 million for a 24.5% stake. The oil-rich Gulf countries of United Arab Emirates and Qatar are other major players, especially in cross-border deals through Sovereign Wealth Funds (SWFs). In 2008, Abu Dhabi Investment Authority, the world's second largest SWF, acquired 4.9% in Citigroup (United States) at $7,500 million. Qatar Investment Authority spent $9.5 billion in Volkswagen AG (Germany) to acquire a 15% stake in 2009. Figure 7 displays the average ownership stake sought by the top 15 most active government acquirers. Reinforcing the bailout-for-control programs, the figure suggests a substantial post-crisis average equity stake of 57%, with the highest value in Ireland (93%), followed by the U.K. (79%), and Japan and the Netherlands (73%).

Figure 6. The Average Deal Value by Region: 1981-2007 versus 2008-2013

Figure 7. The Average Deal Value by Country: 1981-2007 versus 2008-2013



…by income level. Figure 8 describes the distribution of government investments by income level over the periods 1981-2007 and 2008-2013. Not surprisingly, the OECD countries account for the bulk of governments' investment activities in terms of number of transactions (64% of total transactions in 1981-2007; 61% in 2008-2013) and value (70% of total value in 1981-2007; 85% in 2008-2013). In terms of average transaction size shown in Figure 9, high-income countries (and non-OECD) exhibit the highest values at $522 million for OECD and $458 million for non-OECD, compared to less than $200 million for upper-middle-income countries and less than $100 million for lower-middle-income countries over the period 2008-2013.

Figure 8. The Distribution of Government Investment by Income Level: 1981-2007 versus 2008-2013

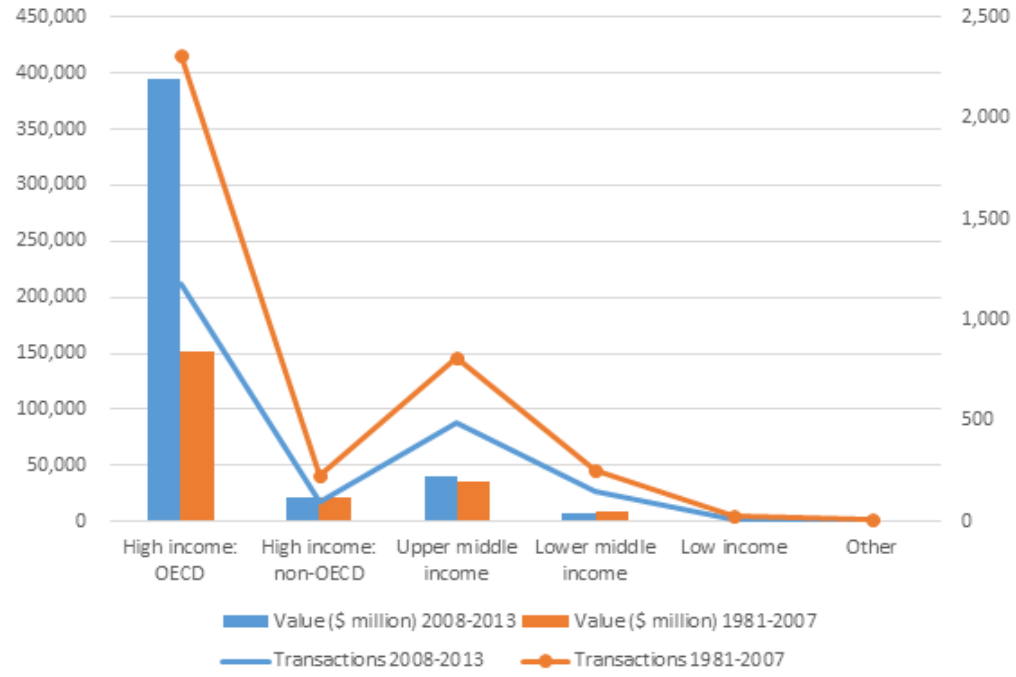
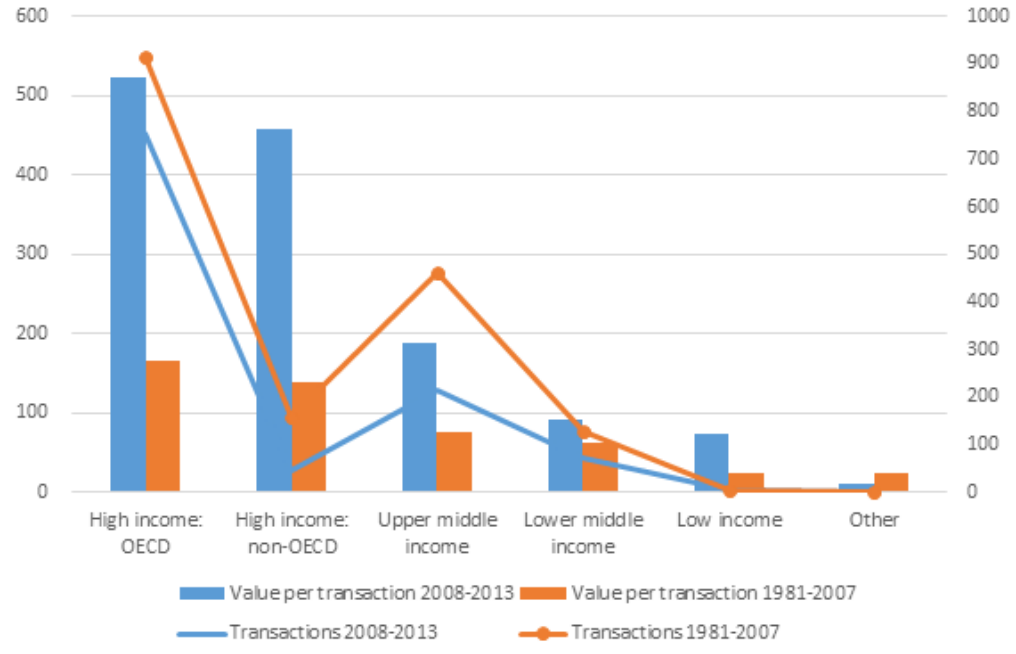


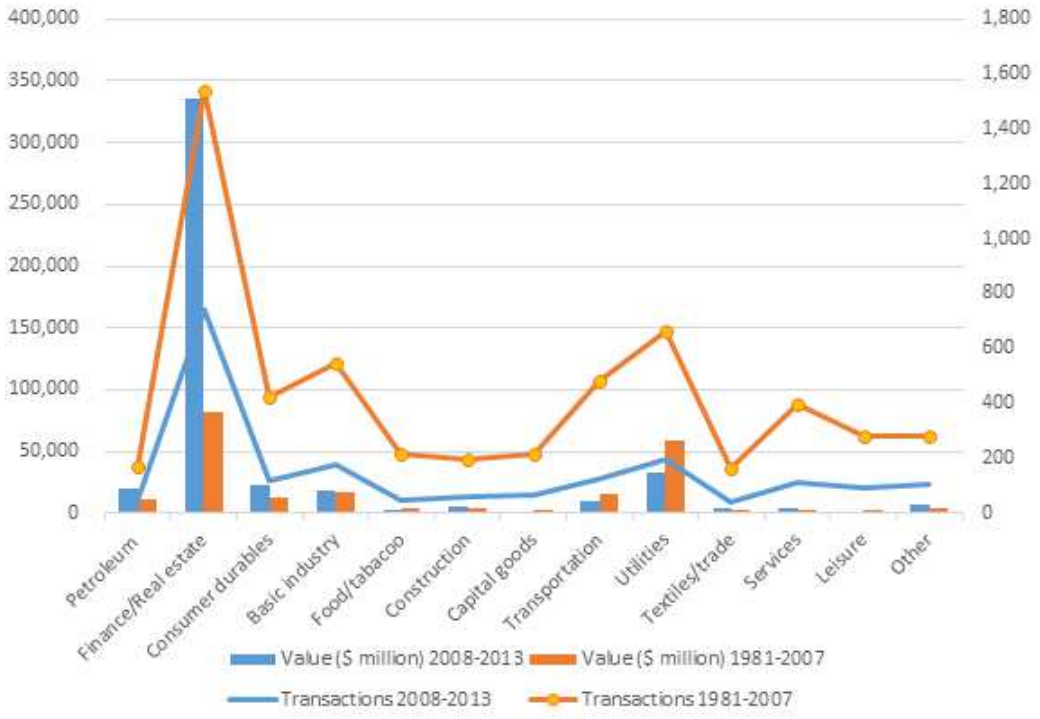
Figure 9. The Average Deal Value by Income Level: 1981-2007 versus 2008-2013



…by industry. Figure 10 shows the distribution of government deals by industry over the periods 1981-2007 and 2008-2013. It is evident that finance/real estate and (to a much less extent) utilities sectors drive the bulk of governments' investment activities. Finance/real estate accounts for 38% of all transactions for the period 2008-2013 and 72% of total value (more than 4 times

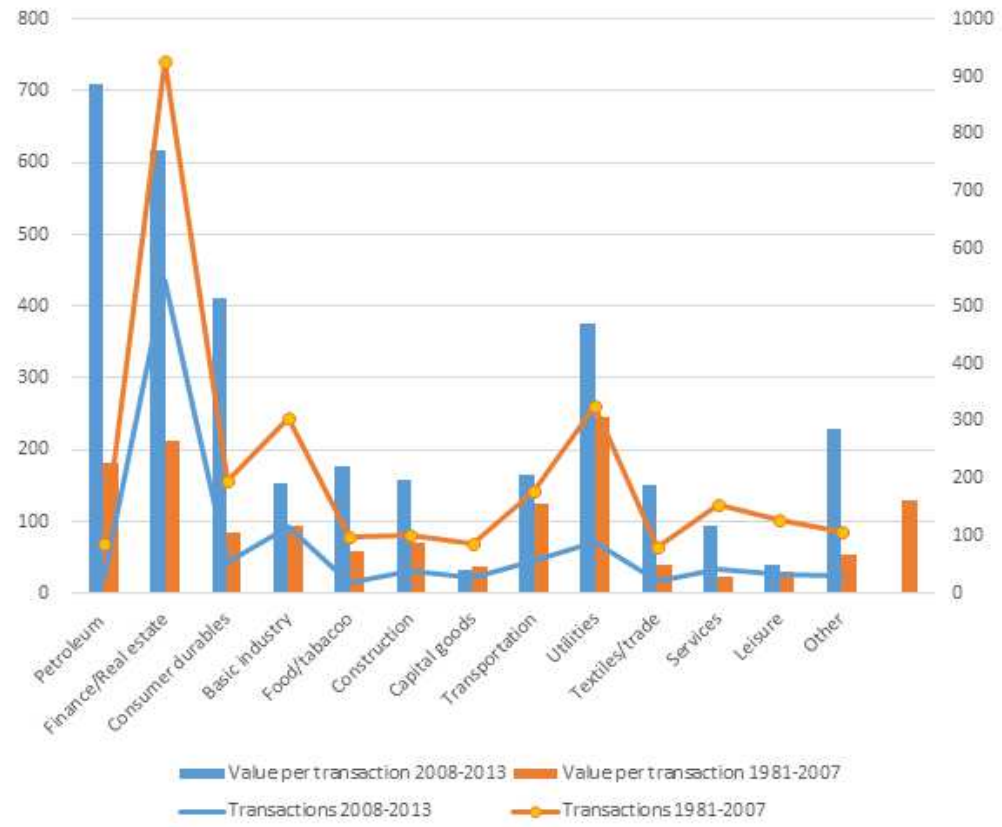
the value in 1981-2007). This is consistent with crisis-driven bailout programs primarily targeting large banks and financial institutions to stabilize the sector and restore market confidence. The British Government's 2008 investment in the Royal Bank of Scotland Group is one of the most important transactions.

Figure 10. The Distribution of Government Investment by Industry: 1981-2007 versus 2008-2013



In terms of size per transaction, Figure 11 indicates that petroleum has the highest value ($709 million), followed by finance/real estate ($616 million), consumer durables ($412 million), and utilities ($375 million). In addition, consumer durables and petroleum show the most dramatic increase in terms of average deal size in the 2008-2013 period relative to the earlier period (379% and 292%, respectively). Notable deals include MOL Magyar Olaj es Gazipari from Hungary ($2,693 million in 2011); Devon Energy Corp-Oil & Gas in 2008 for $2,200 million; and Volkswagen AG in 2009 for $9,569 million.

Figure 11. The Average Deal Value by Industry: 1981-2007 versus 2008-2013



The Role of Sovereign Wealth Funds

Of the 5,569 completed deals by government-owned entities, SWFs are involved in 374 transactions as acquirers for a total value of $98,805 million representing 14.5% of total proceeds. Figure 12 compares the value of investments made by SWFs and other government entities. Clearly SWFs' investments have substantially increased in the post-crisis period and represent one-fifth of that of other government entities. SWFs completed 131 transactions (with reported value) for $23,490 million in 1981-2007 and 82 transactions (with reported value) at $75,314 million in 2008-2013. Over the 2008-2013 period, the leading investment players are SWFs originating from emerging markets, which draw their revenues either from natural resources or foreign exchange surplus. For example, Qatar Investment Authority dominates with 52 transactions worldwide at $30,613 million, followed by Singapore's Temasek Holdings with 31 transactions at $7,772 million, and Malaysia's Khazanah Nasional Bhd with 25 transactions at $4,136 million. The Abu Dhabi Investment Authority is involved in 9 transactions at $7,645 million. Figure 13 shows the average deal value for SWFs and non-SWFs. The figure shows that SWFs execute larger transactions; the average transaction value is $918.47 million, which is 2.5 times that of non-SWFs. These transactions reflect the need for these funds to seek cross-border diversification opportunities.

Figure 12. Investments by SWFs and other Government Entities: 1981-2007 versus 2008-2013

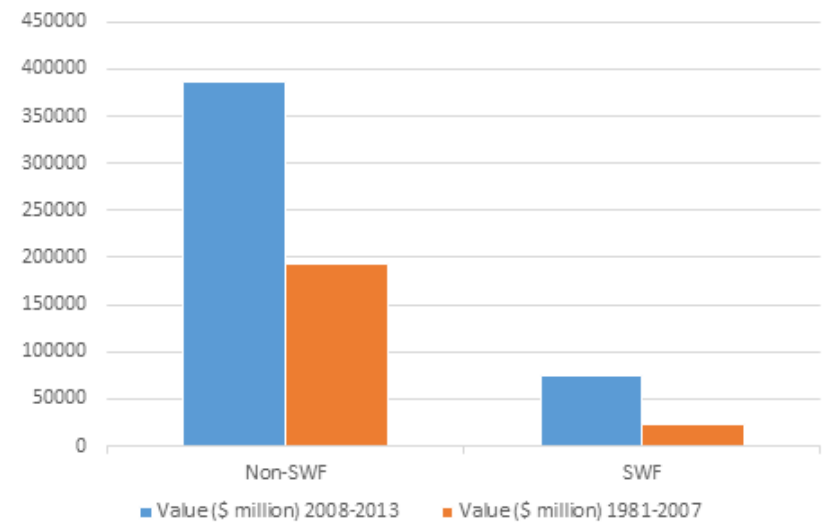
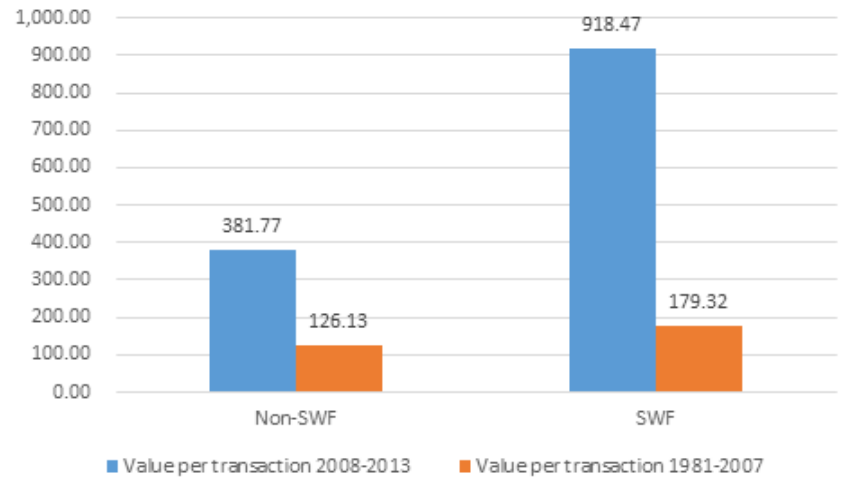


Figure 13. The Average Deal Value for SWFs and other Government Entities: 1981-2007 versus 2008-2013



Domestic versus Cross-border Investments

As shown in Figure 14, the value of cross-border government investments is approximately one-third that of domestic investments. Not surprisingly, SWFs are driving more cross-border transactions, representing 49% of total cross-border transactions for a value of $81,627 million. For example, Qatar Investment Authority invested $9.5 billion in Volkswagen AG (Germany) acquiring a 15% share in 2009. Abu Dhabi Investment Authority spent $7,500 million on Citigroup (United States) acquiring a 4.9% share in 2008. Hong Kong Monetary Authority invested $4,689 million in HSBC (United Kingdom) acquiring an 8.9% share in 1998. Temasek Holdings acquired a 10.7% share in Merrill Lynch for $4,400 million in 2008. In terms of average deal size, Figure 15 suggests that cross-border transactions are slightly larger than domestic transactions over the period 2008-2013 ($467.12 million versus $409.77 million).

Figure 14. Domestic and Cross-border Investments: 1981-2007 versus 2008-2013

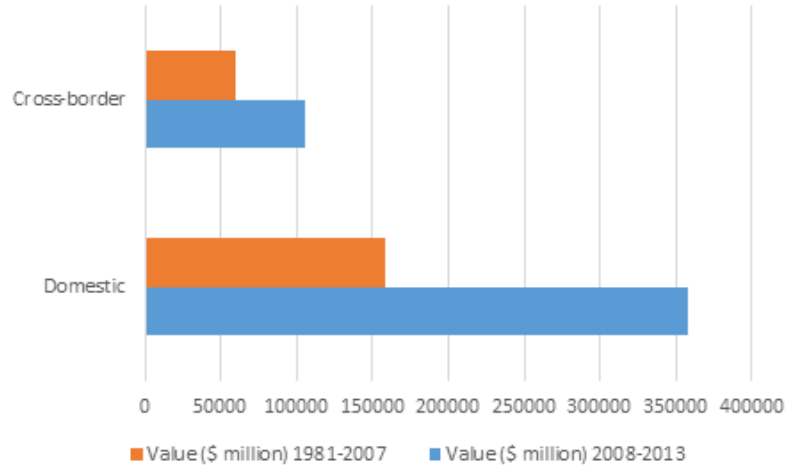
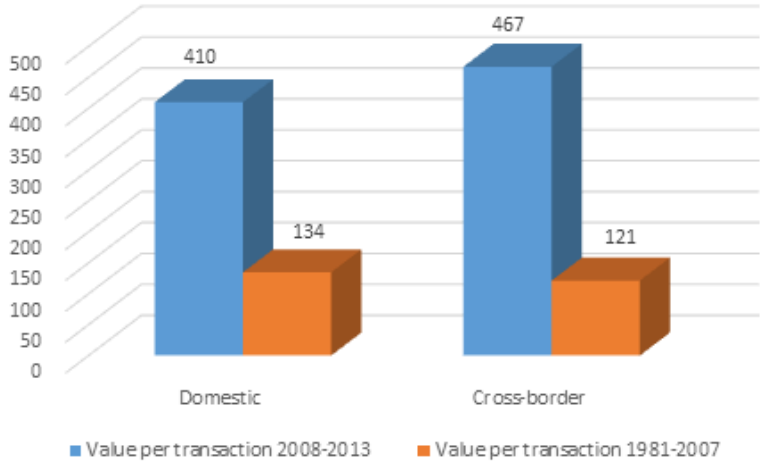


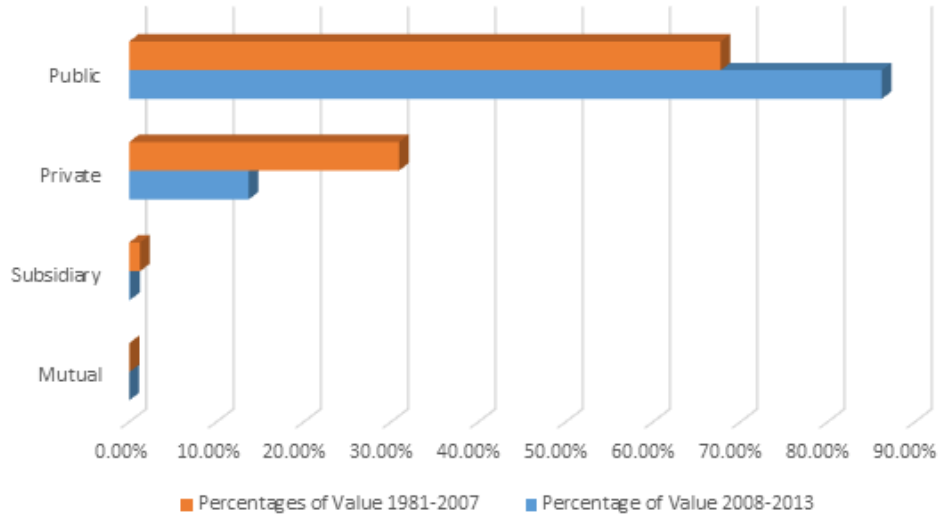
Figure 15. The Average Deal Value for Domestic and Cross-border Investments: 1981-2007 versus 2008-2013



The Characteristics of Government Targets

As indicated in the overview section, governments around the world executed 5,569 deals over the period 1981-2013. These deals involved 2,258 publicly listed firms and 3,215 private firms. Figure 16 describes the distribution of government investments by target ownership type. Publicly listed firms received the bulk of governments' investments, with 86% of total transaction value in 2008-2013 versus 68% in 1981-2007. The corresponding figures for private firms are 14% and 31%. These numbers suggest that governments tend to invest more in publicly listed firms to boost investor confidence in depressed stock markets, largely shaken by the crisis.

Figure 16. The Distribution of Government Investments by Target Ownership Type: 1981-2007 versus 2008-2013



In Table 1 we focus on the sample of publicly listed targets and compare their characteristics in terms of size, profitability, leverage, investment, and efficiency when the acquirer is a government versus a publicly listed firm. We examine a sample of 492 governments' targets and 9,609 public firms' targets with available financial information. The main insight that emerges from this analysis is that compared to public firms' targets, governments' targets are significantly larger, are less profitable and efficient, have lower investments and higher leverage.

Table 1. The Characteristics of Governments' Targets and Public Firms' Targets

	Governments' Targets		Public Firms' Targets		
	N	Mean (Median)	N	Mean (Median)	*t*-stat (z-stat)
Total Assets (in $ million)	492	101236.41 (1129.4)	9,609	5080.9 (152.23)	**19.36 (17.49)**
ROA (Net Income/Total Assets)	490	-0.02 (0.01)	9,365	-0.29 (0.02)	0.60 **(-3.88)**
Leverage (Long-term Liability/Total Assets)	199	0.22 (0.17)	6,796	0.19 (0.10)	0.67 (**4.56**)
Investment (Capital Expenditure/Total Assets)	459	0.03 (0.00)	7,956	0.06 (0.02)	**-5.48 (-12.38)**
Efficiency (Sales/Total Assets)	470	0.35 (0.08)	8,672	1.19 (0.79)	**-2.00 (-19.27)**

Conclusion

In summary, the recent global financial crisis has led to a remarkable surge in governments' investment activities in the private and public sectors. Facing the most severe financial crisis since the Great Depression, governments around the world rushed to deploy taxpayers' funds to bail out troubled businesses, especially domestic, publicly traded firms, in return for substantial ownership stakes. By doing so, governments have reversed the trend towards privatization observed over the last three decades. Not surprisingly, the bulk of these investments was by OECD governments and the financial sector was the largest beneficiary. The evidence also shows the growing role of SWFs after the crisis, who account for few but very large transactions. In addition, the observed global trend of increasing governments' investment over the 2010-2013 suggests that not all governments' acquisitions are crisis-related.

Against this backdrop, several questions and challenges emerge. Given overwhelming evidence of inefficiencies associated with significant government ownership and the need to relieve the budgets of troubled governments, privatization will inevitably regain momentum and intensity over the years to come. In fact, several governments attempted privatization offerings in recent years. However, as stated in the 2011 PB Report, the year 2011 witnessed an exceptionally large number of failed, withdrawn, and cancelled privatization sales. The questions are then when and how can governments conduct successful privatization offerings? To answer these questions it is important to examine whether government ownership has led to better-performing and governed firms. Were government investments the right response to the crisis? Although it can be valuable during crisis periods, recent research suggests that government ownership is associated with a higher cost of capital and weak corporate governance outside crises (Borisova et al., 2012 a,b). Whether government ownership during the crisis period has led to better post-crisis operating and stock market performance remain open questions. Future research should focus on the channels through which government ownership has affected the performance of targeted firms, which include investment, financing, and operating policies.

Government investments might have saved jobs in certain sectors of the economy but have they led to higher subsequent economic growth? To be sure, government investments have propped up weak firms that market forces would have driven out of business-too big to fail. Fogel et al. (2008) show that big businesses' turnover is positively related to faster per capita GDP, productivity, and capital growth consistent with the theory of creative destruction (Schumpeter, 1942). These authors conclude that what is good for General Motors might not necessarily be good for America. By promoting big business stability, government investments might simply slow economic growth. Further research on the micro and macroeconomic impacts of government acquisitions, especially during financial crises, is decisively needed.

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The Unbearable Weight of Being A Chinese or Singaporean Sovereign Wealth Fund

Chinese and Singaporean sovereign wealth funds (SWF) stand alone in the world. The only major SWF's not built upon monetized national resource wealth such as oil, China and Singapore instead extract wealth from their citizenry to create the accumulated public holdings. Commodity dependent economies created SWF's to solve explicit economic and financial problems such as reducing inflationary pressures and preserving monetized natural resource wealth. China and Singapore create SWF's as political solutions to self-created economic problems. Consequently, the explicit political nature of their creation leads to an implied political purpose for their usage which we witness in practice. Research on the importance of political appointees to manage or direct the sovereign wealth fund confirms their importance in driving a political investment strategy (Bernstein et al. 2013).

The political nature of Chinese and Singaporean SWF's manifests itself in three specific ways. First, Chinese and Singaporean SWF's dominate domestic industry and markets to a degree unseen with other funds. Generally considered international investors, few consider the importance of these funds on domestic markets and industries. Most funds specifically prohibit or limit domestic investments or industrial involvement. Chinese and Singaporean funds control enormous portions of domestic industry and markets. Second, Chinese and Singaporean funds provide and receive explicit and implicit bailouts from the state and related firms, a practice currently generally unseen in other major sovereign wealth funds. Whether bailing out ailing state owned firms or portfolio companies receiving state aid to prop up profits, Chinese and Singaporean sovereign wealth funds enjoy enormous benefit as an investor for their service as convenient slush fund provided to the state. Third, Chinese and Singaporean sovereign wealth funds are the most politically motivated investors of all major funds. Whether exercising state power to lobby for approval of a funds acquisition or purchasing holdings in sectors deemed strategic by the government, Chinese and Singaporean funds push the envelope of what constitutes state interference in international investments and capital markets.

Commodity dependent countries with large sovereign wealth funds merely monetize existing national wealth into financial assets with no net change after transaction costs. China and Singapore, lacking the bounty of nature, need to extract capital from their citizenry to create their sovereign wealth funds. China accomplished this by fixing its currency at an artificially low exchange rate that required it to sterilize surplus flows by printing yuan to purchase dollars. This resulted in the accumulation of more than $3.3 trillion USD in foreign exchange reserves by the People's Bank of China (PBOC). Singapore took two more indirect routes to extract the required capital. First, the government of Singapore has run nearly 30 straight years of operational surpluses. According to the

government, these surpluses have been invested with one of the two Singaporean sovereign wealth funds. Second, the Singaporean government created a mandatory pension scheme where both wage earners and their employers contributed a total of 35% of their earnings to a savings plan with a guaranteed rate of return. The government guarantees however, only a paltry 2.5% providing the sovereign wealth funds and their portfolio companies with a guarantee of a significant amount of low cost capital. In each case, governments were using extractive measures to fund public investment vehicles.

The extractive nature of Chinese and Singaporean sovereign wealth funds has played a significant role in the explosion of public debt in each country. In the Singaporean case, the government in partnership with their two sovereign wealth funds borrows capital from the pension scheme which has resulted in an explosion of public debt despite near constant operational surpluses over the past 30 years. Singapore has become one of the most heavily indebted countries in the world with a debt to GDP ratio expected reach 110% in 2013 [1]. Singapore can only maintain such debt levels by suppressing the level it pays out to pensioners guaranteeing 2.5%. While Chinese debt is officially quite low, the reality is quite different. Rather than endowing the newly created China Investment Corporation (CIC) with $200 billion USD, it created a government backed 10 and 15 year bonds yielding approximately 4.5% which the CIC used to purchase currency from the PBOC. This single offering equaled approximately 4.5% of Chinese GDP in 2008. In addition to extracting investment capital from its citizens, China and Singapore utilize higher risk strategies than other funds seeking to preserve capital.

Singapore and Chinese SWF's differ from other funds in three primary ways. First, they dominate domestic industry and capital market to an unparalleled degree relative to other funds. Within China, the CIC via its domestic focused subsidiary Central Huijin Investment owns majority shares of the four major state owned banks, development banks, and securities and investment firms. Given the dominant market share enjoyed by these state owned banks, this is equivalent to the CIC owning the financial services industry for all of China. Even unrelated public or private firms must use CIC controlled banks to raise capital, invest, or go public. There is probably no one firm globally that so thoroughly permeates and dominates a domestic market as the CIC through its domestic banking holdings, which it has noted that it exercises great control and scrutiny over. Singapore through its SWF Temasek Holdings, dominates Singaporean industry and capital markets. One estimate had Temasek controlling nearly 25% of the entire Singaporean stock market with Temasek itself conservatively saying it is responsible for approximately 10% of GDP.[2] However, even this understates its influence. Temasek owns the dominant domestic financial institution, real estate, telecommunications, sea port, airport, and direct or indirect stakes in most every company of any importance in Singapore. China and Singapore are unique in the level of control and influence they exercise over their domestic markets compared to other sovereign wealth funds.

Second, Chinese and Singaporean SWF's are used to protect domestic companies including implicit and explicit bail outs. Beyond dominating local

[1]Data on Singaporean public finance and economics taken from the International Monetary Fund World Economic Outlook, International Financial Statistics, and Statistics Singapore.
[2]Temasek Press Release dated August 16, 2011 entitled "Statement of Clarification –Temasek's share of Singapore Economy Possibly Aroun 10%", Stephen Forshaw Managing Director of Corporate Affairs.

financial markets, they provide and receive implicit and explicit bailouts and backstop capital to privileged companies seeking to avoid collapse. In late 2012 when Olam International, an agricultural giant based in Singapore, was hit by financial mismanagement charges by noted short seller Muddy Waters, Temasek stepped into prevent a firm wide collapse due to loan covenant violations. Temasek, concerned about the impact of one of its portfolio companies collapsing, provided significant access to capital to sustain Olam which later made significant changes to it practices and investments cited by Muddy Waters. In another case, the Singapore government gifted the listed public transportation entity SMRT Corporation, a Temasek portfolio company, approximately $1 billion SGD in buses despite reporting net income of $120 million SGD. A few months after receiving the buses in the spring of 2013, SMRT reported that its business model was unsustainable and would need a significant review and additional revenues.[3] Chinese companies linked to CIC through Central Huijin have engaged in similar behavior. After the lending binge of Chinese state owned banks in 2009 when lending tripled in one year, they required capital injections despite reporting record profits. The major banks conducted secondary offering where CIC acted as the dominant subscriber so as to avoid any dilution in control and provide public funds needed to recapitalize the dominant financial institutions of China. The United States Federal Reserve was concerned enough about Chinese state banks, owned by CIC, receiving subsidized capital from CIC that it blocked loans to US affiliates. This limited selection of examples demonstrates that Singaporean and Chinese sovereign wealth funds both receive and dispense financial capital for the political purpose or protecting well connected firms despite their claims of market based investment strategies.

Third, investment decisions, especially in China, fuse with state interest rather than market analysis. The primary concern in 2008 after SWF's entered the public consciousness was their potential ability to merge financial and political strength to influence foreign policy or capital markets. At the time, there was little evidence to support such assertions and for most sovereign wealth funds, China and Singapore excepted, this continues to hold true.[4] Singapore, with Temasek Holdings managed by the wife of the prime minister, has never hesitated to use state influence in support of its investments. In one notable instance, after the United States Treasury Department blacklisted a Chinese joint venture partner of Singapore Airlines and Temasek for selling precision weaponry to Iran, effectively shutting down their nascent air cargo transport business, the Singaporean government exercised significant diplomatic influence to secure the release of the JV from the Treasury list (Balding 2012). In a recent takeover battle spread over 2012 and 2013, major Temasek holding banking conglomerate DBS Group sought a majority stake in Bank Danamon Indonesia. Recognizing the political implications for both Indonesian and Singaporean banking, the Bank Indonesia approved a 40% stake by the DBS Group contingent upon Singapore opening up its banking sector to Indonesian entrants. There has been no significant response by either DBS, Temasek, Singaporean government authorities, or regulators to the Indonesian central bank requirements to approve the share purchase.[5] Given that the Government

[3] "SMRT Report Q4 Net Loss of S$11.9m" on Channel News Asia on April 30, 2013 accessed at http://www.channelnewsasia.com/news/business/singapore/smrt-reports-q4-net-loss-of-s-11-9m/659224.html.

[4] This is should not be interpreted to mean that no other sovereign wealth funds are political. For instance, the Qatari sovereign wealth fund has engaged in a shopping spree of flagship holdings in real estate, retail, and luxury goods makers. This appears designed to increase Qatari recognition and importance along with other activities such as hosting the World Cup in 2022.

[5] "DBS-Danamon Deal Hinges on Singapore's Invite to Indonesian Banks", Reuters May 22, 2013.

Investment Corporation of Singapore chairman of the board is the Singaporean Prime Minister Lee Hsien Loong and the Executive Director and Chief Executive Officer of Temasek Holdings is his wife Ho Ching, the government rather obviously controls the investment decisions of its sovereign wealth funds. While Singaporean funds have not made significant new investments in the past few years that would indicate a new found investment politicization, they have a well-documented history of combining the state levers of power with financial capital domestically and internationally.

Conversely, China founded the CIC declaring its market based investment principles. However, as the CIC and State Administration of Foreign Exchange (SAFE) ramped up their international holdings from their cash management focus, both the rhetoric and principles of investment evolved. In 2010 a CIC executive vice president admitted that "China factors" played a role in investment analysis.[6] Then after the Communist Party 5 year plan declared the importance of financial capital, technology, energy, and natural resources it seemed more than coincidental the CIC and SAFE concentrated their investments in financial services, technology, energy, and natural resources. According to calculations of direct CIC and SAFE investments since 2010, more than 83% have been in energy, financial services, metals, and technology.[7] This includes such notable investments as holdings in European oil giants Total and BP, financial firms like Morgan Stanley and Blackrock, and mining interests in the Brazilian company Vale and Canadian miner Teck Resources. If the scope is expanded to include investments made through firms owned by the "political arm" of CIC, Central Huijin Investment, or the firms they finance, the amount of investment in politically targeted sectors is astounding. 71.5% of all recorded outward Chinese investment in the past five years has been in the energy, metals, financial services, and technology. In 2012, Chinese outward foreign direct investment in energy and metals financed by banks owned by the CIC and with foreign exchange use approved by SAFE, comprised 59% of all outward FDI. Notable CIC investments in recent history include investments in Canadian oil sands, French satellite company Eutelsat and GDF Suez and Russian gold mining giant Polyus. As the dominant domestic nature of the CIC and SAFE as primary financial services owner and regulator, focusing on their international investments while ignoring other state owned enterprises can provide a misleading picture of the entire picture as most outward investment by Chinese firms remains state originated. While confirmed CIC and SAFE investment since inception remains relatively insignificant, total Chinese outward investment has grown from $43 billion USD in 2007 to $127 billion USD in 2012. Given that this investment is either financed by CIC owned banks or approved by and using foreign exchange from SAFE, this provides a clear indication of the degree of politicization of Chinese investment. In other words, even if CIC and SAFE are not listed as the investment holders, they play a dominant role in facilitating and approving any outward investment.

Chinese and Singaporean sovereign wealth funds are political creations for political purposes. Unlike commodity dependent funds formed to manage structural surpluses, these funds were designed to merge political power with investment capital. This important distinction leads to the importance of domestic investment, protection of domestic companies and industries, and a

[6] "CIC Take A Cautious Approach to 2010 Investments," Wall Street Journal (March 5, 2010), available at online.wsj.com/article/SB10001424052748703502804575101273905336364.html.
[7] Data on outward Chinese investment was obtained from the Heritage Foundation China Global Investment Tracker accessible at http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map.

politicized investment analysis process. Chinese investment patterns in 2011 and 2012 reveal that even when the listed investor is no CIC or SAFE, their role in facilitating and directing outward investment in industries targeted by the Communist Party in the five year plan. Singapore funds which do not appear to have altered their investment patterns in recent history, have been used for domestic purposes propping up firms verging on collapse or being used as a negotiating tool for countries eager to gain access to the Singaporean market. The uniqueness of Singaporean and Chinese sovereign wealth funds should be recognized across a variety of metrics and how this impacts their behavior rather than being grouped with other commodity reliant funds focused on traditional international portfolio investment.

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Partial Privatizations Underway in New Zealand

Over 440,000 New Zealanders pre-registered their interest in owning a stake in Mighty River Power Ltd (MRP), the first electricity generator-retailer up for sale in the New Zealand government's partial privatization program. The MRP shares were expected to list at a price between $2.35 and $2.80 and on 8 May 2013 a listing price of $2.50 was announced, raising $1.7 billion for the New Zealand government.[1] The government retained a 51% stake in the company and apportioned 26.9% to domestic retail investors, 8.6% to New Zealand institutional investors and the remaining 13.5% to overseas funds. The government was hoping to raise between $1.6 billion and $1.9 billion through the partial privatisation and the float has fallen towards the bottom end of this range.

The shares in MRP opened at $2.73: a 23 cent or 9.2% premium on the listing price. The shares ended up closing the day at $2.62, 4.8% above the listing price but soon fell below the listing price and have remained below to date.

MRP's listing on the New Zealand and Australian exchanges (NZX and ASX) is the start of the current New Zealand government's controversial plan to sell down its stake in four state-owned enterprises (SOEs) and Air New Zealand (a publicly listed but majority government-owned airline). The partial privatisations were a major issue during the last election and they are now underway despite significant opposition. MRP is the first of three electricity companies up for partial sale, along with Meridian Energy and Genesis Energy. The partial sell down of the government's holdings in New Zealand's major coal company, Solid Energy, and the national airline, Air New Zealand, were originally expected to follow soon after.

The sales process has faced a number of obstacles, including challenges in the courts by Maori freshwater rights claimants (New Zealand's electricity system is predominantly hydro-electric); financial turmoil for Solid Energy that has seen it placed on commercial life support; doubts around the future of the country's largest electricity user, the Tiwai Point aluminium smelter; and proposals from the opposition Labour and Green parties to re-regulate the electricity market.

Both the smelter closure threat and the Labour-Greens proposals were widely judged to have deterred some retail and institutional investor demand for MRP shares, with the proposal to recreate a central buyer model for New Zealand electricity production requiring the Government to issue a supplementary disclosure to the MRP offer document. Of the 440,000 pre-registered applicants only 113,000 ended up buying shares.

[1] All dollar figures in this article are New Zealand dollars. NZ$1 was worth US$0.80 on 9 August 2013.

The disputes between government and Maori groups date back to the original signing of the Treaty of Waitangi in 1840 between representatives of the British Crown and many chiefs of the indigenous Maori of New Zealand. The Treaty of Waitangi was a relatively simple, although controversial, document that has been the subject of numerous legal disputes in recent decades.

The New Zealand Maori Council and the Waikato River and Dams Claim Trust opposed the government's asset sales on the basis that if the Crown owned anything less than a 100% stake in the energy companies, its ability to provide Treaty settlement redress in future disagreements on water rights would be limited. The Maori groups claimed that if the government was hampered in its ability to resolve water disputes then this would be inconsistent with its responsibilities under the Treaty of Waitangi.

The Crown maintained throughout the whole process that water rights would be recognised and the Supreme Court ruled unanimously in favour of the Crown. The Supreme Court found that the assumption implicit in the Maori claimants' case that the government is somehow unconstrained in its dealings with a 100% State-owned enterprise is a mistaken one. Legislation is in place that distances SOEs from government interference so the degree of control the government has over a fully state-owned electricity generator compared to a partially-owned one may not be all that different. Further, the Crown has various options and resources with which redress can be made and the Court ruled that the government would not be materially impacted in terms of its ability to resolve a Treaty breach as a result of the partial sell downs.

The overall SOE sales process took a further hit when Solid Energy's CEO resigned amid announcements the company was struggling to cope with its $389 million debt. Since then hundreds of jobs at the company have been cut and the company is under review. Although Solid Energy is still operating, its future is uncertain at this point.

A further set-back to the electricity generator-retailer sales process came from the opposition (the Labour Party and the Green Party) announcing, almost immediately after the MRP shares became officially available for purchase, a plan for a fundamental restructuring of the electricity market. On 15 April 2013 the MRP Share Offer period opened to the New Zealand public. Later that same week the opposition announced plans to introduce a single wholesale electricity purchasing authority and to consider structurally separating the electricity industry into retail and generation companies. Details of how the plan would work in practice are still hazy but the idea seems to be that there would be a single state-owned buyer of electricity generation, with wholesale prices determined by the historical cost of generation.

The impact of the announcement on the two already-listed generator-retailers, Contact Energy and TrustPower was immediate, with hundreds of millions of dollars of value knocked off their respective market capitalisation. The announcement almost certainly had a similar negative impact on the value of the three taxpayer-owned generator-retailers.

The protracted political debate, the vehement opposition from some members of the public, the Treaty disputes and the announcements made by Labour and the Greens all highlighted how difficult the government's task has been in engaging in these partial sales.

Nevertheless, the sale of the other two state-owned electricity generator-retailers is set to go ahead, depending on market conditions at the time. A major uncertainty has been removed with the government agreeing to pay a subsidy of $30m to the aluminium smelter owners, British-Australian multinational Rio Tinto and Japan's Sumitomo Chemical, in return for a commitment to keep the plant open until at least January 2017.

Advisors have been appointed for the sale of up to 49% of Meridian - the Joint Lead Managers are Deutsche Bank, Goldman Sachs and Macquarie Capital - and the public listing is scheduled for later this year. As the largest of the gentailers, a sale of 49% of Meridian could generate as much as $3 billion for the government, making it one of the largest IPOs in the world to date this year.

Probably the biggest challenge facing the Meridian IPO will be generating sufficient retail demand. The issue is expected to be New Zealand's largest ever share market listing and the government's aim is that around 70 to 80% of the issued shares go to New Zealanders (so that, with the government's 51% remaining shareholding, the company is "85 to 90% New Zealand owned").

Achieving the desired retail demand has not been made any easier by the performance of the MRP shares which have, except for brief periods, consistently traded below their issue price. To encourage retail investors, the government has announced the Meridian shares will be sold as instalment receipts, with investors asked to pay 60 per cent of the price upfront and the remaining 40 per cent in 18 months' time. Holders of the instalment receipts will receive the full dividends for the shares, thus boosting the initial yield on their investment. Unlike the MRP deal, however, there will be no loyalty bonus scheme. The Meridian IPO is scheduled for November 2013.

The sale of up to 49% of Genesis Energy is scheduled to follow Meridian, with First NZ Capital and UBS appointed to assist with preparations for a Genesis IPO. The sale of Air NZ may occur sometime this year but the fate of Solid Energy will depend on the success of its current restructuring and negotiations with its bankers.

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