The PB
Report 2013/2014

A Publication of the Privatization Barometer
www.privatizationbarometer.net

Riding the wave

Privatization programs have raised $1.1 trillion worldwide since 2009

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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 fourth joint issue of PB Report represents the long term strategic partnership between FEEM and KPMG Advisory S.p.A.

Introduction

A major new global privatization wave is forming. During the three-year period January 2012-November 2014, governments around the world directly or indirectly divested assets worth more than one-half trillion dollars ($544 billion); since January 2009, the global privatization total exceeds $1.1 trillion, far more than any comparable period since Margaret Thatcher launched the modern era of privatization in 1979. Furthermore, there is evidence that this global wave may even be gathering force, as several important countries - China, Australia, Turkey, Greece, Portugal, Italy, and the nation that started it all, Great Britain - are either launching major new divestment programs (worth A$100 billion in Australia's case) or have hit full stride with programs launched earlier this decade. This Report describes global privatizations during 2013 and the first 11 months of 2014, with emphasis on those in the European Union; it also presents three articles contributed by outside experts that highlight specific national and industrial programs.

As the name implies, my article "Privatization Trends and Major Deals of 2013 and 2014" presents overall proceeds totals for deals worldwide and in the EU during 2013 and the first eleven months of 2014, and also describes the most important individual sales. The aggregate global value of privatizations during 2013, $193.7 billion (€146.2 billion), is the third highest ever—but is probably the highest annual level of "true privatizations" that are not weighted heavily towards buying back share stakes purchased by governments to bail-out failing firms during the 2008-09 global financial crisis. The global total for 2014 (through November) of $163.2 billion (€116.9 billion) implies that the full-year 2014 total will make this the fourth highest year on record. China easily led all countries during 2013 and 2014, with aggregate privatization deals worth more than $40 billion (€29 billion) both years, whereas the leading country of 2009-10 and 2012, the United States, ranked a distant eleventh in 2013 and seventh in 2014. Perhaps surprisingly, even though share issue privatizations (SIPs) accounted for over 80% of the 2013-14 divestment totals, there were only eight very large ($5 billion-plus) SIPs over this entire period (four each year); the bulk of total proceeds both years came from "mid-size" sales in the $1-3 billion range.

In the first contributed article, Jacopo Signorile, Federico Colia e Laura Ruggeri provide a fascinating analysis of passenger-port privatizations in the EU and MENA regions. They show that cruise passenger numbers have increased four-fold since 1994, reaching 20.9 million passengers in 2012, with a large fraction of this industry being concentrated in the

Mediterranean basin. These authors describe the solid growth in port divestments and contracting out that regional governments have achieved, but also point to the many challenges that stand in the way of port privatization achieving its full long-term potential.

Narjess Boubakri describes the economic role of the State in the economies of the Gulf Cooperation Council (GCC) region—and shows that it is pervasive in almost all these countries. Governments and the investment vehicles they sponsor hold stakes in more than one-third of all countries in the region, with market presence ranging from below 20% in Oman to as high as 45% in Bahrain. Unsurprisingly, state ownership also varies widely by industry—ranging from majority private ownership of service businesses to absolute domination of the petroleum sector in every country. She documents that reform and especially privatization efforts in the region have been slow and halting, but that there is great scope for improvement should a vigorous privatization program be effectively launched.

In the third contributed article, Bo Li, Zhe Shen, and Qian Sun assess whether China's massive share issue privatization program of the past quarter-century has significantly improved the financial and operating performance of (usually partially) divested firms. They show that state-owned enterprises (SOEs) produced about 80% of China's GDP in 1978, but that by 2013 the SOE share of GDP had fallen to less than 25%. The authors both survey existing empirical research analyzing China's divestment program and perform their own statistical analyses using the recently compiled National Bureau of Statistics (NBS) database of all large Chinese companies. They conclude that China's privatization program has indeed significantly improved the performance of divested firms, in both statistical and economic terms.

Finally, Peter Mihalyi strikes a rather cautionary note against privatization triumphalism with his analysis of the re-nationalization program that Hungarian Prime Minister Viktor Orbán has pursued since 2010 in what had theretofore been a "poster child" of successful privatization. The author shows that the Orbán government has pursued a mostly ad hoc program of undoing some of the most controversial prior sales, particularly those of utility companies, and has essentially banned any new sales. Nonetheless, the volume of all re-nationalizations has to date been much smaller than the value of privatization deals implemented during the late 1990s.

All in all, privatization as a core national economic policy appears to be in rude good health. Indeed, the privatization wave seems to be both spreading and deepening around the world.

Bill Megginson
December 3, 2014

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Privatization Trends and Major Deals in 2013 and 2014

Abstract

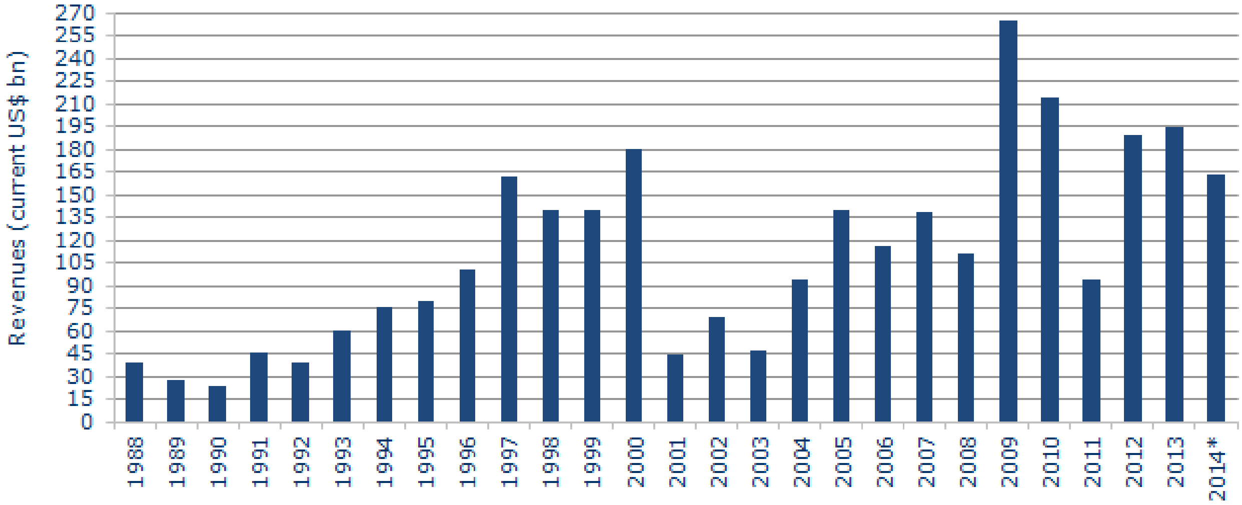
This article details major privatization deals executed during 2013 and the first eleven months of 2014 and surveys trends shaping the privatization landscape worldwide. We document several important facts, including the following: (1) Governments raised $193.7 billion (€146.2 billion) through privatization sales worldwide during 2013, higher than the $189.4 billion (€145.7 billion) total for 2012 and the third largest total on record; (2) The global value of privatizations through November 2014, $163.2 billion (€116.9 billion) implies that the full-year 2014 total will make this the fourth or fifth highest year on record - and the acceleration of large deals during 4Q2014 suggests an acceleration in worldwide divestments in 2015 and beyond; (3) Share issue privatizations (SIPs) accounted for over three-fourths (77.0%) of the 2013 total, and nearly 90% (89.5%) of the 2014 total, while auctions, targeted stake sales, share repurchases and asset sales accounted for the rest; (4) China was, by far, the leading privatizing country during both 2013 and 2014, raising over $40 billion (about €30 billion) both years - almost two and a half times the next leading country during 2013 [UK, $ 16.3 billion (€12.2 billion)] and over three times the second leading country in 2014 [Hong Kong, $12.5 billion (€9.4 billion)]; (5) The $67.4 billion (€50.1 billion) and $59.7 billion (€43.64 billion) raised by EU governments during, respectively, 2013 and the first eleven months of 2014 represented 34.8% and 36.6% of the respective global annual totals, almost twice the 19.9% of the worldwide total EU governments accounted for during 2012 and much closer to the long-run average EU share of 44.6%; (6) There were a significant number of failed, withdrawn, and cancelled privatization sales during 2013 and 2014 (through November), but these represented a much lower proportion of attempted sales than was the case in earlier years - especially 2011, when over one-fourth of all privatizations attempted were withdrawn or cancelled; and (7) The large number (128) and value [$50.8 billion (€39.6 billion)] of privatizations executed during the five-month period July-November 2014, coupled with several massive planned sale announcements, suggests that a major new global privatization wave is in process, and may be accelerating.

Global Trends in Privatization, 2012-14

The years 2012-14 (through November 2014) may well go down in history as the beginning period of an enormous privatization wave that may well last for many years. These years yielded, respectively, the fourth, third, and fifth highest total privatization revenues 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. In other words, the years 2012-14 probably represented the three highest annual levels of "true privatizations" ever. Figure 1 presents yearly worldwide privatization revenues, in US billions, over the period 1988 through November 2014.

Since this author required such an extended period to complete the 2013 PB Annual Report, we can also describe privatizations that have been executed during the first eleven months of 2014. Worldwide, governments raised $193.7 billion (€146.2 billion) through privatization sales worldwide during 2013 and $163.2 billion (€116.9 billion) of the first eleven months 2014. The 2013 total was more than double 2011's anemic value [$94.4 billion (€68.2 billion)], and significantly higher than 2012's much stronger $189.4 billion (€145.7 billion). Annualizing the global privatization total through November 2014 implies a full-year 2014 value roughly equal to 2012's level. Intriguingly, however, neither 2013 nor 2014 saw a large number of immense privatization sales; whereas no fewer than twelve transactions raised $5.0 billion or more during 2012, only four deals in 2013 and 2014 yielded that much. On the other hand, 40 deals during 2013 and 33 sales during January-November 2014 were worth between $1.0 billion and $5.0 billion, compared to 32 such deals during 2012.

Figure 1. Worldwide Revenues from Privatizations 1988 - 2014*



*Estimate as of 30/11/2014. Source: *Privatization Barometer*

The single largest share issue privatization (SIP), and the largest of all privatization deals during 2013, was February's massive rights offering by Greece's **Piraeus Bank** ($9.82 billion; €7.12 billion). 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. The second and third largest deals of 2013 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). 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).

The EU also claimed the title of executing the largest privatization during 2014 (at least thus far), with the March secondary market offering of a 6% stake in **Lloyds Banking Group** by the United Kingdom, which raised $6.95 billion (€5.00 billion). Only six months earlier (September 2013), the British government launched the re-privatization of Lloyds - which it had rescued during the global financial crisis - with a $5.11 billion (€3.83 billion) secondary offering, also of a 6% stake. The second, third, fourth and fifth largest privatizations of 2014 were also share-issue privatizations (SIPs). The largest of these was the Hong Kong offering of shares in the Chinese company **CITIC Pacific Ltd**, which raised $6.87 billion (€5.13 billion) in August with a primary share offering. The next largest deal was the March private placement by China's **BOE Technology Group**, which raised $6.0 billion (€4.31 billion) in new capital. Without question, however, the most interesting large privatizations of 2014 were huge secondary SIPs during November. The larger of these was the pure secondary offering of 25% of Saudi Arabia's **National Commercial Bank** - which was executed by the government itself (without an underwriter), at a zero discount, was massively over-subscribed, and raised $6.00 billion (€4.30 billion). Shortly after NCB closed, the Australian government launched the initial public offering of its entire stake in **Medibank Private**, which met similarly enthusiastic domestic demand and raised $4.80 billion (€3.85 billion).

China was the leading privatizing country during both 2013 and 2014 - in both cases by huge margins. Chinese companies executed 115 SIPs and private sales (28 worth $500 million or more) raising $41.31 billion (€31.30 billion) during 2013, and raised $40.64 billion (€29.80 billion) through 124 sales (22 worth at least $500 million) during January-November 2014. As is often the case, the bulk of China's privatization proceeds came from public and private-placement offerings of newly-issued (primary) shares 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 largest Chinese SIP of 2013 - but only the 12th largest globally - 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). The largest Chinese deal of 2014, and the second largest overall after the March 2014 Lloyd's Banking Group offering, was the CITIC Pacific offering discussed above.

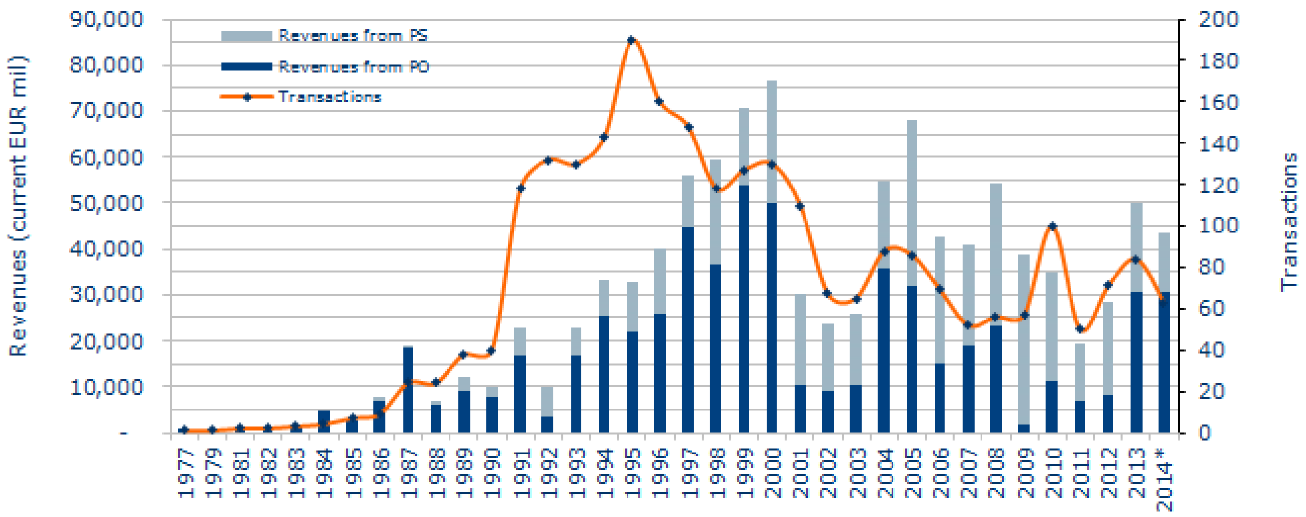
The second largest privatizer of 2013, the United Kingdom, raised $16.27 billion (€12.2 billion) through twelve sales, the largest of which was the September secondary offering of 6% of Lloyd's Bankig Group which, as described above, raised $5.11 billion (€3.83 billion). 2013's third ranked privatizer, Turkey raised $12.40 billion (€9.50 billion) through a series of asset sales and auctions - only two of which we were able to identify separately. Greece ranked fourth thanks to the largest of all privatization deals during 2013 (Bank of Piraeus) with total privatization revenues of $11.19 billion (€8.13 billion). India was the fifth largest privatizing state of 2013, with no fewer than 49 deals raising $10.69 billion (€8.04 billion), and was followed by Russia [26 deals raising $10.54 billion (€8.06 billion)]; Australia [9 deals raising $9.73 billion (€7.48 billion)]; Japan [3 deals raising $8.04 billion (€7.15 billion)]; Sweden [9 deals raising $7.48 billion (€5.61 billion)]; and Brazil [12 deals raising $6.79 billion (€5.16 billion)]. The United States - which was the leading privatizing country of 2012, as well as 2009 and 2010 - raised a mere $6.41 billion (€4.90 billion) through 10 sales during 2013; the largest of these was the June SEO of 50 million **General Motors** (GM) shares by the US federal government and the United Auto Workers union that netted $1.72 billion (€1.33 billion).

The second largest privatizer of 2014, after China, was Hong kong - which of course really increases China's overall dominance since many of these sales were HK offerings by mainland-based state companies, including the aforeentioned August primary offering of CITIC Pacific Ltd shares. The second largest Hong Kong deal, however, was truly "domestic"; the January mixed primary and secondary share offering of **HK Electric Investments Ltd**, which raised $3.11 billion. The next five largest privatizers of January-November 2014, after China and Hong Kong, were the United Kingdom (11 deals; $11.65 billion; €8.45 billion); Greece (4 deals; $11.48 billion; €8.31 billion); Australia (17 deals; $10.30 billion; €7.86 billion); Turkey (multiple auctions; $10.0 billion; €7.33 billion); and United States which ranked seventh worlwide during 2014, with 6 deals raising $7.48 billion (€5.56 billion).

Privatization Deals in the European Union during 2013 and 2014

Figure 2 describes the evolution of total privatization revenues (in current € millions) and transactions in the enlarged European Union over the entire privatization era 1977-2014 (as of November). This clearly illustrates that the number of EU privatizations peaked in the mid-1990s, before beginning a long but mostly steady decline though 2012, and then bouncing back sharply during 2013 and 2014. Sale revenues peaked during the Bubble Era of 1998-2000, with €206 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 almost monotonically from 2008 to 2012, falling to only €28.5 billion ($37.6 billion) in 2012. The EU total then rose sharply to a five-year peak of €50.13billion ($67.41 billion) in 2013 and €43.62 billion ($59.66 billion) during the first eleven months of 2014.

Figure 2. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2014



*Estimate as of 30/11/2014. Source: *Privatization Barometer*

Continuing a trend that has been emerging for several years, the 27 countries of the European Union accounted for a minority of the total number and value of privatization deals worldwide during 2013 and 2014. Table 1 presents the total proceeds, in US$ billions, raised by European Union and non-EU countries between 1988 and 2014 (through November). This shows the fraction of privatization revenues raised by EU governments represented 34.8% and 36.6% of the worldwide totals during 2013 and 2014, respectively. This is lower than the long-run average EU share of about 44.6%, and far lower than the 68.2% share of total global divestments that the EU accounted for as recently as 2008, but is up substantially from the all-time low of 19.9% recorded in 2012. The recent upturn in EU privatizations indicates that several governments have finally launched serious divestment programs. Interestingly, Chinese buyers (often state-owned enterprises and investment funds) have emerged as major buyers of the power, transportation, banking, and real estate assets being divested by Spain, Italy and, especially, Portugal and Greece.

Table 1. Privatization Revenues. Worldwide and European Union, US$ billions, 1988-2014*

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%
2013	193.72	67.41	65.2%	34.8%
2014*	163.17	59.66	63.4%	36.6%
TOT	**2,991.94**	**1,219.79**	**55.4%**	**44.6%**

**estimate as of 30/11/2014*

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*).

Details of EU Privatization Deals during 2013

Table 2 details the largest privatization sales (those yielding at least €100 million) during 2013. The United Kingdom was easily the leading EU privatizer of 2013, with 12 sales yielding €12.2 billion ($16.28 billion). The largest UK deal of 2013 was the aforementioned September €3.83 billion ($5.11 billion) secondary offering of a 6% stake in **Lloyd's Banking Group**, which marked the first significant partial re-privatization of a British bank rescued during the 2008-09 global financial crisis. The second largest British sale of 2013 was the April sale of 100% of **Ally Financial's European operations** to General Motors Financial Company for €3.05 billion ($3.98 billion); ironically, Ally Financial was split off from General Motors during the latter's rescue from bankruptcy by the US and Canadian governments in 2009, so GM's repurchase of these operations represents a full-circle turn. However, by far the most intriguing and controversial British rivatization of 2013 was the long-awaited - and massively over-subscribed - initial public offering of a 30% stake in **Royal Mail**, which raised €2.38 billion ($3.25 billion) and rose more than 52% above its offer price of 330p during the first day of trading. The Government was roundly criticized for under-pricing Royal Mail so much, seemingly leaving over €1 billion "on the table", but within a year the stock price had returned to the original offering price. The fourth and fifth largest UK sales of 2013 were the September secondary offering by Royal Bank of Scotland (RBS) of a 20% stake in **Direct Line Insurance Group** plc, which raised €687 million ($916 million) and the June secondary offering of **International Consolidated Airlines** (the successor-owner of British Airways and Iberia) that raised €655 million ($862 billion). The final large 2013 British sale was actually the first sale by RBS, in March, of a 16% stake in **Direct Line Insurance**, that raised €499 million ($688 million) in a secondary market offering.

Table 2. EU Deals*, 2013

Date	Company Name	Nation	Sector	% for Sale	Value (€ mil)	Direct/ Indirect Sale**	Method of Sale
02/04/13	Bank of Piraeus	Greece	Finance & Real Estate	n.a.	7,121.31	Direct Sale	Market Follow-on
09/17/13	Lloyds Banking Group PLC	United Kingdom	Finance & Real Estate	6.00	3,826.57	Direct Sale	Market Follow-on
11/13/13	BNP Paribas Fortis SA/NV	Belgium	Finance & Real Estate	25.00	3,179.45	Direct Sale	Private Placement
04/02/13	Ally Financial Inc-European	United Kingdom	Finance & Real Estate	100.00	3,045.47	Direct Sale	Private Placement
09/17/13	ANA Aeroportos de Portugal	Portugal	Transportation	100.00	2,955.33	Direct Sale	Private Placement
10/10/13	Royal Mail Plc	United Kingdom	Transportation	30.00	2,379.56	Direct Sale	IPO
05/27/13	GBW AG	Germany	Finance & Real Estate	91.93	2,315.41	Indirect Sale	Private Placement
06/19/13	Nordea Bank AB	Sweden	Finance & Real Estate	6.40	2,189.83	Direct Sale	Market Follow-on
09/25/13	Nordea Bank AB	Sweden	Finance & Real Estate	7.00	2,189.83	Indirect Sale	Market Follow-on
11/29/13	DONG Energy A/S	Denmark	Petroleum Industry	n.a.	1,410.99	Direct Sale	Market Follow-on
07/18/13	Irish Life Group Ltd	Ireland	Finance & Real Estate	100.00	1,300.73	Direct Sale	Private Placement
01/23/13	PKO Bank Polski SA	Poland	Finance & Real Estate	11.75	1,213.84	Direct Sale	Market Follow-on
12/18/13	NCG Banco SA	Spain	Finance & Real Estate	88.33	994.78	Direct Sale	Private Placement
09/25/13	Mapfre SA	Spain	Finance & Real Estate	12.00	991.07	Indirect Sale	Market Follow-on
11/14/13	Safran	France	Manufacturing	4.70	937.00	Direct Sale	Market Follow-on
06/20/13	Bpost NV	Belgium	Transportation	23.50	778.77	Direct Sale	Market Follow-on
06/13/13	Aeroports de Paris	France	Transportation	9.49	712.78	Direct Sale	Private Placement
09/20/13	Direct Line Insurance Grp PLC	United Kingdom	Finance & Real Estate	20.00	686.53	Indirect Sale	Accel Book-built
04/26/13	European Aeronautic Defense & Space Co (EADS)	France	Manufacturing	2.10	668.55	Direct Sale	Market Follow-on
06/27/13	Intl Consolidated Airlines	United Kingdom	Transportation	n.a.	655.00	Direct Sale	Market Follow-on
10/11/13	Greek Organisation Of Football (OPAP)	Greece	Services Industry	33.00	631.22	Direct Sale	Private Placement
05/15/13	Commerzbank AG	Germany	Finance & Real Estate	n.a.	583.71	Indirect Sale	Market Follow-on
12/05/13	CTT-Correios de Portugal SA	Portugal	Transportation	n.a.	520.68	Direct Sale	IPO
12/03/13	Energa SA	Poland	Utilities	48.48	509.55	Direct Sale	IPO
03/13/13	Direct Line Insurance Group	United Kingdom	Finance & Real Estate	16.00	498.68	Direct Sale	Market Follow-on
06/27/13	Kraftgarden AB	Sweden	Utilities	25.67	484.49	Indirect Sale	Private Placement
03/27/13	Safran	France	Manufacturing	3.12	448.50	Direct Sale	Market Follow-on
04/17/13	European Aeronautic Defense & Space Co (EADS)	France	Manufacturing	1.56	379.23	Direct Sale	Private Placement
06/27/13	Desfa	Greece	Utilities	n.a.	377.78	Direct Sale	Private Placement
06/30/13	Aeroports de Paris SA	France	Transportation	4.81	373.30	Indirect Sale	Private Placement
07/18/13	"London City," a financial district in London	United Kingdom	Finance & Real Estate	100.00	369.88	Direct Sale	Private Placement
07/01/13	Aeroports de Paris SA	France	Transportation	4.69	364.70	Indirect Sale	Private Placement
09/05/13	TeliaSonera AB	Sweden	Tlc	1.60	358.44	Direct Sale	Market Follow-on
04/04/13	European Aeronautic Defense & Space Co (EADS)	Spain	Manufacturing	1.15	356.41	Direct Sale	Market Follow-on
10/23/13	PKP Cargo SA	Poland	Utilities	50.00	347.97	Direct Sale	IPO
02/14/13	EDP	Portugal	Utilities	4.14	344.98	Direct Sale	Market Follow-on
01/18/13	Zaklady Azotowe Pulawy SA	Poland	Manufacturing	73.41	268.81	Direct Sale	Private Placement
11/27/13	Veolia Environnement SA	France	Utilities	n.a.	263.95	Indirect Sale	Market Follow-on
04/05/13	Talvivaaran Kaivososakeyhtio	Finland	Natural Resources	n.a.	259.65	Indirect Sale	Market Follow-on
07/18/13	Plasma Resources UK Ltd	United Kingdom	Manufacturing	80.00	253.95	Direct Sale	Private Placement
10/08/13	Arrow Global Group Plc	United Kingdom	Finance & Real Estate	n.a.	225.12	Direct Sale	IPO
10/24/13	Portugal Telecom SA	Portugal	Tlc	6.11	194.95	Direct Sale	Market Follow-on
08/09/13	Ivima-Apartments(3000)	Spain	Finance & Real Estate	100.00	194.49	Direct Sale	Private Placement
11/06/13	Tessenderlo Chemie NV	Belgium	Manufacturing	27.52	185.24	Indirect Sale	Private Placement
02/15/13	Hemso Fastigheter-Properties(1	Sweden	Finance & Real Estate	100.00	173.84	Direct Sale	Private Placement
04/18/13	Azoty Tarnow	Poland	Manufacturing	12.10	151.73	Direct Sale	Private Placement
03/25/13	Samsonite International SA	United Kingdom	Manufacturing	5.29	141.31	Indirect Sale	Private Placement
01/15/13	Deutsche Lufthansa AG	Germany	Transportation	n.a.	127.19	Direct Sale	Market Follow-on
11/06/13	Bolsas y Mercados Espanoles	Spain	Finance & Real Estate	5.34	122.32	Direct Sale	Market Follow-on
07/24/13	Madrid City Council-Housing	Spain	Finance & Real Estate	100.00	120.13	Direct Sale	Private Placement
07/31/13	Vectura Consulting AB	Sweden	Services Industry	100.00	104.02	Direct Sale	Private Placement
Total 1H2013		**41 Transactions**		**24,052.09**			
Total 2H2013		**43 Transactions**		**26,075.55**			
Total 2013		**84 Transactions**		**50,127.64**			

* In this table we reported only deals greater than €100 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, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

Table 3 presents the ranking of EU countries by total value of privatizations during 2013 and the first eleven months of 2014. Amazingly enough, Greece was the EU's second largest privatizer of 2013, with 4 deals yielding €8.13 billion ($11.19 billion), mostly due to the aforementioned €7.12 billion ($9.82 billion) Bank of Piraeus capital-raising in February and the successful (after multiple failed attempts) sale by auction of the state's 33% stake in the gambling monopoly **OPAP** to the Cyprus-based consortium Emma Delta for €631 million ($862 million).

The third largest privatizing EU state of 2013 was Sweden, with nine deals raising €5.61 billion ($7.48 billion). The most significant individual Swedish deals involved the center-right government's disposals of its remaining 13.4% stake in **Nordea Bank** in two successful secondary share offerings. The first sale, in June, was of a 6.4% stake that raised €2.19 billion ($2.92 billion), while the final 7% stake was sold three months later for a virtually identical amount. €2.19 billion ($2.93 billion). The only other large deal from the two countries was the June disposal of a 25.67% stake in the real estate group **Kraftgarden AB** by DONG Energy to three Finnish energy companies for €484 million ($645 million).

Table 3. Ranking EU Countries by Total Privatization Revenues, 2013 and 2014*

2013 Country	# Deals	Value (€ mil)	Value ($ mil)	2014* Country	# Deals	Value (€ mil)	Value ($ mil)
United Kingdom	12	12,199	16,277	United Kingdom	11	8,452	11,650
Greece	4	8,133	11,190	Greece	4	8,314	11,482
Sweden	9	5,612	7,480	Spain	5	5,272	7,189
France	10	4,204	5,664	Italy	4	4,984	6,711
Belgium	4	4,185	5,543	France	13	4,206	5,729
Portugal	6	4,060	5,445	Finland	4	3,830	5,290
Germany	5	3,030	4,074	Netherlands	2	1,627	2,204
Spain	11	2,865	3,861	Portugal	3	1,534	2,075
Poland	13	2,677	3,648	Denmark	1	1,466	2,007
Denmark	2	1,492	2,008	Cyprus	1	1,083	1,469
Ireland	1	1,301	1,738	Poland	7	825	1,097
6 other countries	7	369	488	6 other countries	8	2,024	2,757
Total EU 2013	**84**	**50,128**	**67,414**	**Total EU 2014***	**63**	**43,618**	**59,659**

*estimate as of 30/11/2014
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

France ranked fourth among EU privatizing states during 2013, raising €4.20 billion ($5.66 billion) through ten deals. France's largest deal of 2013 was the November disposal of a 4.7% stake in **Safran** in an accelerated bookbuilt offering that raised €937 million ($1.22 billion). The French state was also involved in the April disposal of a 2.1% stakes in the **European Aeronautic Defense and Space Company (EADS)** that raised a total of €669 million ($922 million). Only days before, the French media group Lagardere and the German carmaker Daimler Benz sold large EADS blocks, partly on the open market and partly directly to EADS - as the government also did. Other large French and Portuguese deals include the June sale of a 9.49% stake in **Aeroports de Paris** to Credit Agricole (4.8%) and Vinci (4.7%) for €713 million ($949 million).

The fifth most important EU privatizer of 2013 was Belgium, which raised €4.19 billion ($5.54 billion) in four deals. The bulk of this total was accounted for by the November sale of the Belgian state's 25% stake in **BNP Paribas Fortis** SA, acquired as part of the bank's rescue during the global financial crisis, to France's BNP for €3.18 billion ($4.29 billion). This sale yielded the Belgian government a €900 million capital gain on its rescue investment. 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 (€778.8 million).

EU privatizing governments ranking six through eleven for total proceeds during 2013 are Portugal [6 deals worth €4.06 billion ($5.45 billion)]; Germany [5 deals worth €3.03 billion ($4.07 billion)]; Spain [11 deals worth €2.87 billion ($3.86 billion)]; Poland [13 deals worth €2.68 billion ($3.65 billion)]; Denmark [2 deals worth €1.49 billion ($2.01 billion)]; and Ireland [1 deal worth €1.30 billion ($1.74 billion)]. The most important deal by any of these countries was the April sale of Portugal's 100% stake in **ANA Aeroportos de Portugal** to France's Vinci construction company (95% of shares) and to ANA's employees (5% of shares) for €2.96 billion ($3.95 billion). The other large Portuguese deal of 2013 was the December IPO of **CTT-Correios de Portugal** SA that raised €521 million ($716 million). The second largest 2013 deal in these countries was the May sale by state-owned Bayern LB of its 92% stake in the real estate firm **GBW AB** to an investor syndicate for €2.32 billion ($3.09 billion), and the third largest was Denmark's secondary offering of a stake in **DONG Energy A/S** in November that raised €1.41 billion ($1.74 billion). The fifth, sixth, and seventh largest deals from these countries were Ireland's February sale of the government's controlling stake in the nationalized insurer **Irish Life** to Canada's Great West Life Company for €1.30 billion ($1.65 billion); Poland's January secondary offering of 11.75% of **PKO Bank Polski**, which raised €1.21 billion ($1.67 billion); and Spain's sale by auction of its 88.33% stake - acquired through rescue in 2011 - in **NCG Banco** to Venezuela's Banesco Grupo Financiero Internacional for €995 million ($1.38 billion). The last three large 2013 deals from these countries were Spain's secondary offering of a 12% stake in **Mapfre SA** during September that raised €991 million ($1.32 billion); Germany's May secondary offering of **Commerzbank AG**, which raised €584 million ($806 million); and December's IPO of a 48.48% stake in Poland's **Energa SA** that raised €510 million ($701 million).

Details of EU Privatization Deals during 2014 (through November)

Table 4 lists the 42 EU privatization transactions of 2014 that raised at least €100 million. The United Kingdom was once again far the largest EU privatizer during the first eleven months of 2014, with 11 sales yielding €8.45 billion ($11.65 billion). The largest UK (and EU) privatization of 2014 was the aforementioned March secondary of a 6% stake in **Lloyd's Banking Group** that raised €5.00 billion ($6.95 billion). The next two largest British deals were the February sale by the partially-natonalized Royal Bank of Scotland of another stake (28%) in **Direct Line Insurance** that riased €1.36 billion ($1.86 billion) and the June secondary market sale of **Markit Ltd** for €949 million ($1.28 billion). Other signifant UK deals of 2014 include two secondary offerings of stakes in the **London Stock Exchange Group** - in July, raising €329 million ($446 million), and in September, raising €215 million ($280 million) - and the July secondary offering of **VTTI Energy Partners** for €271 million ($368 million).

Table 4. EU Deals*, 2014**

Date	Company Name	Nation	Sector	Value (€ mil)	Value ($ mil)	Type of Sale	Method of Sale
03/26/14	Lloyds Banking Group PLC	United Kingdom	Finance & Real Estate	4,996.40	6,954.21	SEO	Secondary offer
04/15/14	Eurobank	Greece	Finance & Real Estate	2,864.00	3,954.00	SEO	Capital-raising
03/24/14	Fortum-Electricity Dist Bus	Finland	Utilities	2,567.43	3,573.00	AS	Asset sale
05/15/14	National Bank of Greece	Greece	Finance & Real Estate	2,500.00	3,428.00	SEO	Primary offer
07/15/14	CDP Reti	Italy	Utilities	2,160.00	2,856.00	AS	Asset sale
06/04/14	Repsol SA	Spain	Petroleum Industry	2,104.10	2,845.26	SEO	Secondary offer
02/15/14	Eni/ENEL	Italy	Petroleum Industry/Utilities	2,000.00	2,738.00	AS	Asset sale
05/14/14	PSA Peugeot Citroen SA	France	Manufacturing	1,953.50	2,678.90	SEO	Primary offer
03/15/14	Piraeus Bank	Greece	Finance & Real Estate	1,750.00	2,430.00	Rights	Capital-raising
07/01/14	NN Group NV	Netherlands	Finance & Real Estate	1,552.20	2,106.70	IPO	Primary offer
04/10/14	Iberdrola SA	Spain	Utilities	1,536.20	2,121.12	SEO	Secondary offer
06/25/14	GDF Suez SA	France	Utilities	1,525.60	2,063.11	SEO	Secondary offer
02/20/14	DONG Energy A/S	Denmark	Petroleum Industry	1,466.42	2,007.00	SEO	Private placement
02/27/14	Direct Line Insurance Grp PLC	United Kingdom	Finance & Real Estate	1,356.50	1,857.21	SEO	Secondary offer
02/28/14	Bankia SA	Spain	Finance & Real Estate	1,315.00	1,800.33	IPO	Capital-raising
03/15/14	Alpha Bank	Greece	Finance & Real Estate	1,200.00	1,670.00	Rights	Capital-raising
07/28/14	Bank of Cyprus PCL	Cyprus	Finance & Real Estate	1,082.50	1,469.40	SEO	Private placement
05/15/14	Caixa-Insurance Businesses	Portugal	Finance & Real Estate	1,033.87	1,418.00	AS	Asset sale
06/18/14	Markit Ltd	United Kingdom	Finance & Real Estate	948.80	1,283.34	IPO	Secondary offer
06/30/14	Bord Gais Energy-Wind Project	Ireland	Utilities	708.68	959.00	AS	Asset sale
07/08/14	Assicurazioni Generali SpA	Italy	Finance & Real Estate	468.90	636.50	SEO	Secondary offer
02/25/14	Sampo Oyj	Finland	Petroleum Industry	451.80	618.64	SEO	Secondary offer
01/15/14	Airbus Group NV	France	Manufacturing	451.60	614.44	SEO	Secondary offer
06/27/14	Electrica SA	Romania	Utilities	448.20	606.11	PS	Private placement
06/09/14	Citycon Oyj	Finland	Finance & Real Estate	406.00	549.00	SEO	Primary offer
07/02/14	Citycon Oyj	Finland	Finance & Real Estate	404.50	549.00	SEO	Primary offer
03/19/14	Hemfosa Fastigheter AB	Sweden	Finance & Real Estate	359.90	501.29	IPO	Mixed prim/secdy
06/30/14	Fincantieri SpA	Italy	Manufacturing	355.50	480.69	IPO	Primary offer
09/05/14	CTT-Correios de Portugal SA	Portugal	Services Industry	342.70	443.83	PS	Private placement
07/02/14	PGE Polska Grupa Energetyczna	Poland	Utilities	337.00	436.45	SEO	Secondary offer
07/10/14	London Stock Exchange Grp PLC	United Kingdom	Finance & Real Estate	328.70	446.13	SEO	Secondary offer
07/31/14	VTTI Energy Partners LP	United Kingdom	Utilities	270.80	367.50	IPO	Secondary offer
09/05/14	London Stock Exchange Grp PLC	United Kingdom	Finance & Real Estate	215.43	280.28	SEO	Secondary offer
05/30/14	Ciech SA	Poland	Manufacturing	201.04	276.00	SEO	Private placement
06/24/14	FACC AG	Austria	Manufacturing	194.90	263.64	IPO	Mixed prim/secdy
01/17/14	NH Hoteles SA	Spain	Services Industry	191.00	259.81	SEO	Secondary offer
06/13/14	Redes Energeticas Nacionais	Portugal	Utilities	157.80	213.20	PS	Private placement
06/17/14	SNGN Romgaz SA	Romania	Utilities	146.90	198.63	PS	Private placement
06/18/14	PKP Cargo SA	Poland	Transportation	142.20	192.33	SEO	Secondary offer
09/09/14	Amadeus IT Holding SA	Spain	Services Industry	125.30	162.17	SEO	Secondary offer
05/02/14	Royal Bank of Scotland Group	United Kingdom	Finance & Real Estate	123.00	168.67	SEO	Secondary offer
03/19/14	Arrow Global Group Plc	United Kingdom	Finance & Real Estate	113.98	158.64	SEO	Secondary offer
Total 2014**		**63 Transactions**		**43,617.95**	**59,658.87**		

* In this table we reported only deals greater than €100 million.
** The total value is an estimate as of 30/11/2014.
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

Greece was again the second largest EU privatizer of January-November 2014, based on four capital-raising share offerings by fully or partially-nationalized Greek banks that cumulatively raised €8.31 billion ($11.48 billion). The two largest of these were the April share sale by **Eurobank** that raised €2.86 billion ($3.95 billion) and the May sale by **National Bank of Greece** that raised €2.50 billion ($3.43 billion). The two smaller deals were both rights issues launched during March - by **Piraeus Bank** and **Alpha Bank** - that raised €1.75 billion ($2.43 billion) and €1.20 billion ($1.67 billion), respectively.

The third and fourth largest privatizing EU states of 2014 (through November) were Spain and Italy, which raised €5.27 billion ($7.19 billion) in five deals and

€4.98 billion ($6.71 billion) in four deals, respectively. The largest deal from either country, and the fifth largest EU sale of 2014, was the July sale of a 35% stake in Italy's **CDP Reti** electrical grid operator to China State Grid for €2.16 billion ($2.86 billion), while the second largest deal was the secondary offering of a 9.2% stake in Spain's **Repsol** that raised for €2.10 billion ($2.85 billion). Italy disposed of 2% stakes in **Eni** and **ENEL** in asset sales during February, raising a combined total of for €2.00 billion ($2.74 billion). The next two largest 2014 deals from these countries were both Spanish - April's secondary market sale of a stake in **Iberdrola**, raising for €5.27 billion ($7.19 billion), and February's secondary market offering of a 7.5% stake in **Bankia**, which was rescued in 2011. The final two material disposals from these countries were both Italian: July's secondary market offering thorugh Fondo Strategico Italiano of 1.91% share of **Assicuazioni Generali SA**, which raised €469 million ($636 million) and the June IPO and primary share offering of the shipbuilder **Fincantieri SpA** that raised €356 million ($481 million).

France ranked fifth among EU privatizing states during the first eleven months of 2014, raising €4.21 billion ($5.73 billion) through 13 deals. France's largest deal of 2014 was the May primary (capital-raising) offering of a 14% stake in **PSA Peugeot Citroen SA** that raised €1.95 billion ($2.68 billion). The second largest French sale was secondary market disposal of a 3.1% stake in **GDF Suez SA** that raised a total of €1.53 billion ($2.06 billion). The other large French deal was the January secondary market sale of a stake in **Airbus Group NV** for €452 million ($614 million).

Finland and the Netherlands were the sixth and seventh larest EU privatizers of 2014 (through November) with, respectively, four deals worth €3.83 billion ($5.29 billion) and two deals that raised €1.63 billion ($2.20 billion). The most important deal by either country - and the EU's third largest deal of 2014 - was Finland's March asset sale of its 100% stake in the **Fortum-Electricity distribution business** to Suomi Power Networks Oy, owned by a consortium of Finnish and international investors for €2.57 billion ($3.57 billion). Four months later, the Netherlands executed its one large 2014 deal with an IPO of the 26% stake in **NN Group NV** the government acquired when it rescued ING during the financial crisis, raising €1.55 billion ($2.11 billion). There were three other Finnish offerings during the first eleven months of 2014: the February secondary offering of Sampo Oyj, that arised €452 million ($619 miillion) and two primary share sales by Citycon Oyj that raised €406 million ($549 million) and €405 million ($549 million) during June and July, respectively.

EU privatizing governments ranking eight through twelve for total proceeds during the first eleven months of 2014 Portugal [3 deals worth €1.53 billion ($2.08 billion)]; Denmark [1 deal worth €1.47 billion ($2.01 billion)]; Cyprus [1 deal worth €1.08 billion ($1.47 billion)]; Poland [7 deals worth €825 million ($1.10 billion)]; and Ireland [1 deal worth €709 million ($959 million)]. The three largest deals from this group of countries were the February private placement of a 26% stake in Denmark's DONG Energy A/S, raising €1.47 billion ($2.01 billion); the July capital-raising private placement and open offering of Bank of Cyprus, raising €1.08 billion ($1.47 billion); and the May private placement of 80% of Portugal's Caixa insurance business that raised €1.03 billion ($1.42 billion). The final largest sale by these countries during January-November 2014 was Ireland's June sale of its entire 100% stake in the Bord Gais Energy-Wind project for €709 million ($959 million).

Sales Outside of Europe during 2013 and 2014

Table 5 presents the ranking of non-EU countries by total value of privatizations during 2013 and the first eleven months of 2014. Governments outside of Europe raised an impressive $126.30 billion (€96.03 billion) during 2013 and $103.51 billion (€73.27 billion) during 2014. As noted above, China was by far the world's leading privatizer in both years - raising $41.31 billion (€31.30 billion) through 115 deals in 2013 and $40.64 billion (€29.80 billion) through 124 deals in 2014 (through November). If Hong Kong's 2014 second place ranking in privatization, 13 deals worth $12.51 billion (€9.28 billion), is also included then Greater China's pre-eminence among global privatizers becomes even more apparent. The second leading privatizer of 2013, remarkably, was the United Kingdom (discussed above), while Greece ranked fourth globally.

Turkey was the top non-EU privatizing nations during 2013, after China, with reported total proceeds of $12.40 billion (€9.50 billion). We only identify four specific deals that raised far less than this, so we present the officially reported totals for both 2013 and the first two-thirds of 2014 [$10.00 billion (€7.86 billion)], with the caveat that this is an aggregate rather than a summation of individually identified sales. After China and Turkey, the next ten leading non-EU privatizers of 2013 were India [49 deals worth $10.69 billion (€8.04 billion)]; Russia [26 deals worth $10.54 billion (€8.06 billion)]; Australia [9 deals worth $9.73 billion (€7.48 billion)]; Japan [3 deals worth $8.04 billion (€7.15 billion)]; Brazil [12 deals worth $6.79 billion (€5.16 billion)]; the United States, which led the world in 2009-10 and 2012 [10 deals worth $6.42 billion (€4.90 billion)]; Singapore [10 deals worth $3.23 billion (€4.36 billion)]; Malaysia [11 deals worth $3.72 billion (€3.10 billion)]; New Zealand [3 deals worth $3.27 billion (€2.49 billion)]; and South Korea [14 deals worth $2.75 billion (€2.07 billion)].

Table 5. Ranking Non-EU Countries by Total Privatization Revenues, 2013 and 2014*

2013 Country	# Deals	Value (€ mil)	Value ($ mil)	2014* Country	# Deals	Value (€ mil)	Value ($ mil)
China	115	31,301	41,308	China	124	29,799	40,640
Turkey	4+	9,496	12,400	Hong Kong	13	9,275	12,514
India	49	8,037	10,689	Australia	17	7,857	10,304
Russian Fed	26	8,057	10,543	Turkey	4+	7,332	10,000
Australia	9	7,479	9,731	United States	6	5,557	7,478
Japan	3	7,152	8,044	Russian Fed	17	4,751	6,474
Brazil	12	5,159	6,793	Saudi Arabia	3	4,909	6,125
United States	10	4,897	6,415	India	18	2,843	3,893
Singapore	10	3,238	4,636	Japan	3	2,705	3,525
Malaysia	11	3,097	3,715	South Korea	7	1,509	2,004
New Zealand	3	2,486	3,267	Malaysia	8	1,335	1,821
South Korea	14	2,071	2,748	Canada	8	1,096	1,459
Nigeria	1	1,911	2,500	New Zealand	2	629	871
Hong Kong	13	1,802	2,378	13 others	25	1,902	2,602
Indonesia	1	998	1,304				
Iraq	1	978	1,277				
Philippines	3	859	1,125				
12 others	37	1,760	2,329				
Total Non-EU 2013	**322**	**96,032**	**126,301**	**Total Non-EU 2014***	**255**	**73,269**	**103,512**
Total World 2013	**406**	**146,160**	**193,715**	**Total World 2014***	**318**	**116,886**	**163,171**

*estimate as of 30/11/2014
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

After China and Hong Kong, the next two leading non-EU privatizers of the first eleven months of 2014 were Australia, with reported total proceeds of $10.30 billion (€7.86 billion) from 17 deals, and Turkey - with the aforementioned official tally of $10.00 billion (€7.86 billion). The next nine leading non-EU privatizers of 2014 were the United States [6 deals worth $7.48 billion (€5.56 billion)]; Russia [17 deals worth $6.47 billion (€4.75 billion)]; Saudi Arabia [3 deals worth $6.13 billion (€4.91 billion)]; India [18 deals worth $3.89 billion (€2.84 billion)]; Japan [3 deals worth $3.53 billion (€2.71 billion)]; South Korea [7 deals worth $2.00 billion (€1.51 billion)]; Malaysia [8 deals worth $1.82 billion (€1.34 billion)]; Canada [8 deals worth $1.46 billion (€1.10 billion)]; and New Zealand [2 deals worth $871 million (€629 million)].

Details of Individual Sales outside Europe in 2013

Table 6 lists the 67 non-EU privatization transactions of 2013 that raised at least $500 million. There are an additional 255 smaller sales that raised less than $500 million each. The two largest non-EU deals were 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). 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).

The third, fourth and fifth largest non-EU privatizations of 2013 were all private sales. The first was April's asset sale - actually sale of a lease concession - of rights to operate Australia's **Port Botany and Port Kembla**, which yielded $5.02 billion (€3.83 billion) to the New South Wales state government. March's auction of four Turkish **regional electricity distributors** raised $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. 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 no fewer than 124 privatizations during 2013, and eight of these raised $1 billion or more. The largest Chinese privatization of this year's first semester - and the sixth largest non-EU sale 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). The next two largest Chinese deals of 2013 (ranking 7th and 9th overall) were both December capital-raising IPOs: **China Everbright Bank** raised $3.00 billion (€2.18 billion) and **China Cinda Asset Management Company** (the former state-owned "bad bank") raised $2.46 billion (€1.79 billion). Two other large Chinese deals - the country's fourth and eighth largest deals of 2013 - 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). The remaining three $1 billion-plus Chinese deals of 2013 were also primary share offerings; September's IPO of **China Huishan Dairy Holdings** raised $1.30 billion (€977 million); January's seasoned offering of **Gansu Jiu Steel Group Hongxing** raised a nearly identical $1.30 billion (€971 million); and November's IPO of **Huishang Bank Corp** yielded $1.19 billion (€882 million) in new capital.

The seventh and ninth largest non-EU privatizations were both asset sale/auctions of key infrastructure assets, beginning in April with the much-delayed sale of **15 Nigerian electricity generating and distribution companies** that raised $2.50 billion (€1.91 billion). This was followed one month later by Australia's sale of rights to operate the **Sydney Desalination Plant** for $2.27 billion (€1.77 billion). This sale was widely criticized ex post, since the plant has never actually operated commercially because of currently plentiful potable water supplies.

India executed three $1 billion-plus privatizations during 2013. The Indian government's February secondary offering of a 9.5% stake in the power company **NTPC Ltd** ($2.14 billion; €1.57 billion) was the year's tenth largest non-EU privatization. The other two deals were both primary stock offerings: December's share sale by Power Grid Corporation of India raised $1.13 billion (€822 million), while the January capital-raising by Axis Bank yielded $1.03 billion (€772 million).

Singapore witnessed two $1 billion-plus privatizations during 2013, 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). The United States also saw two $1 billion-plus American privatizations during 2013, the larger of which 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). The second US deal was the June private placement by the federal government shares of a 10% stake in **Ally Financial**, which raised $1.30 billion (€964 million). This reduced the government's holdings in Ally to 64%.

Russia accounted for three large privatizations during 2013, all during the second half. The largest was the complicated October sale by VTB Bank of its 50% stake in **Tele2 Russia** to a group of local tycoons for $1.70 billion (€1.26 billion) in total value [$1.20 billion in cash, plus assumption of $500 million of debt]. October also saw the third large Russian deal--the IPO of the diamond monopoly **AK Alrosa** that raised $1.70 billion (€1.26 billion)—and this was followed two months later by a $1.51 billion (€1.09 billion) primary offering in the utility **RusGidro**.

The next largest deals of 2013 were the opening sales of New Zealand's landmark privatization program by the center-right government elected in 2011. **Mighty River Power Ltd**'s May IPO—which raised $1.42 billion (€1.11 billion)--came first, and was followed five months later by the even larger IPO of Meridian Energy Ltd which raised $1.54 billion (€1.14 billion).

The March SEO of Indonesia's **Mahatari Department Store** ($1.30 billion; €998 million) was the 20th largest non-EU deal of 2013. The year's two remaining undiscussed $1 billion-plus privatizations were February's highly successful initial offering of **Asiacell Telecommunications** ($1.28 billion; €978 million) and May's primary share offering for **Malaysian Airline Sytem** that raised $1.42 billion (€1.11 billion) for the troubled carrier. Asiacell's IPO was remarkable for being Iraq's first large post-occupation public equity offering and for attracting several regional telecom operators as anchor investors. This IPO also gave initial investors a 5% first day return.

Table 6. Non-EU Deals*, 2013

Date	Company Name	Nation	Sector	Value (€ mil)	Value ($ mil)	Type of Sale	Method of Sale
03/11/13	Japan Tobacco	Japan	Manufacturing	5,931.00	7,753.00	SEO	Secondary offer
04/25/13	BB Seguridade Participacoes	Brazil	Finance	4,359.00	5,740.00	IPO	Secondary offer
04/15/13	Botany Port, Port Kembla	Australia	Transportation	3,830.00	5,019.00	AS	Asset sale
03/15/13	Regional Electric Distributors	Turkey	Utilities	2,647.00	3,460.00	AS	Asset sale
05/24/13	Bank VTB	Russian Fed	Finance	2,647.00	3,272.00	SEO	Primary offer
02/04/13	Sinopec Corp	China	Petroleum	2,283.00	3,101.00	SEO	Primary offer
12/13/13	China Everbright Bank Co Ltd	China	Finance	2,180.00	2,998.75	IPO	Primary offer
04/13/13	Electric Distributions Cos (15)	Nigeria	Utilities	1,911.00	2,500.00	AS	Asset sale
12/05/13	China Cinda Asset Mgmt Co Ltd	China	Finance	1,785.00	2,455.81	IPO	Primary offer
05/15/13	Sydney Desalination Plant	Australia	Utilities	1,769.00	2,274.00	AS	Asset sale
02/06/13	NTPC Ltd	India	Utilities	1,573.00	2,137.00	SEO	Secondary offer
02/27/13	Mapletree Greater China	Singapore	Finance	1,531.00	2,002.00	IPO	Primary offer
05/16/13	Sinopec Engineering Group	China	Engineering	1,397.00	1,796.00	IPO	Primary offer
06/06/13	General Motors Co	United States	Manufacturing	1,326.00	1,721.00	SEO	Secondary offer
10/15/13	Tele2 Russia	Russia	Tlc	1,260.00	1,700.00	AS	Asset sale
10/23/13	Meridian Energy Ltd	New Zealand	Utilities	1,144.00	1,543.31	IPO	Secondary offer
12/02/13	RusGidro	Russian Fed	Utilities	1,094.00	1,505.48	SEO	Primary offer
05/08/13	Mighty River Power Ltd	New Zealand	Utilities	1,111.00	1,418.00	IPO	Secondary offer
09/19/13	China Huishan Dairy Hldgs Co L	China	Manufacturing	977.00	1,304.30	IPO	Primary offer
03/22/13	Matahari Department Store	Indonesia	Retailing	998.00	1,304.00	No	Secondary offer
11/15/13	Ally Financial	United States	Finance	964.00	1,300.00	PP	Secondary offer
01/23/13	Gansu Jiu Steel Grp Hongxing	China	Manufacturing	971.00	1,295.98	SEO	Primary offer
10/28/13	AK Alrosa	Russian Fed	Manufacturing	962.00	1,295.52	IPO	Secondary offer
02/02/13	Asiacell Telecommunication	Iraq	Tlc	978.00	1,277.00	IPO	Secondary offer
02/25/13	Global Logistic Properties	Singapore	Transportation	981.00	1,250.00	SEO	Secondary offer
11/06/13	Huishang Bank Corp Ltd	China	Finance	882.00	1,189.84	IPO	Primary offer
12/10/13	Power Grid Corp of India Ltd	India	Utilities	822.00	1,131.36	SEO	Primary offer
05/15/13	China Galaxy Securities Co	China	Finance	832.00	1,070.00	IPO	Mixed prim/sec
05/08/13	Malaysian Airline System Bhd	Malaysia	Transportation	807.00	1,038.08	SEO	Primary offer
01/29/13	Axis Bank Ltd	India	Finance	772.00	1,030.03	SEO	Primary offer
08/15/13	Kangal Thermal Plant	Turkey	Utilities	743.00	985.00	AS	Asset sale
01/25/13	Inner Mongolia Baotou Steel	China	Manufacturing	965.00	965.00	SEO	Primary offer
05/08/13	Quintiles Transnational	United States	Pharmaceutical	737.00	947.37	IPO	Mixed prim/sec
05/26/13	City Bank of Florida	United States	Finance	691.00	883.00	SEO	Secondary offer
12/17/13	Hunan TV & Broadcast	China	Services	634.00	872.59	SEO	Primary offer
02/12/13	Kuban'energo	Russian Fed	Utilities	653.00	871.75	SEO	Primary offer
05/13/13	Soochow Securities Co Ltd	China	Finance	664.00	847.00	PP	Private placemt
03/16/13	Aurizon Holdings Ltd	Australia	Transportation	642.00	838.97	SEO	Secondary offer
04/23/13	AVIC Capital Co Ltd	China	Finance	619.00	809.00	PS	Private placemt
01/04/13	Inner Mongolia Yili Indl Grp	China	Manufacturing	640.00	809.00	SEO	Primary offer
09/27/13	Sino-Ocean Land Holdings Ltd	China	Real Estate	606.00	808.51	SEO	Primary offer
04/17/13	LT Group Inc	Philippines	Manufacturing	609.00	796.12	SEO	Primary offer
04/28/13	COFCO Tunhe Co Ltd	China	Manufacturing	591.00	773.92	SEO	Primary offer
10/18/13	UMW Oil & Gas Corp Bhd	Malaysia	Petroleum	554.00	747.83	IPO	Primary offer
02/18/13	Qatar Insurance Co SAQ	Qatar	Finance	514.00	686.00	PP	Rights issue
10/22/13	KOGAS	South Korea	Utilities	497.00	670.62	SEO	Secondary offer
03/29/13	Top Energy Co	China	Manufacturing	483.00	645.00	SEO	Primary offer
04/20/13	Huolinhe Opencut Coal	China	Mining	483.00	631.00	SEO	Primary offer
10/01/13	Westports Holdings Bhd	Malaysia	Logistics	466.00	629.02	IPO	Secondary offer
11/26/13	Sinochem International Corp	China	Manufacturing	455.00	613.38	SEO	Primary offer
11/25/13	Hong Kong Parkview Group Ltd	Hong Kong	Real Estate	444.00	598.58	SEO	Primary offer
04/11/13	China Estn Airlines Corp Ltd	China	Transportation	443.00	579.00	SEO	Primary offer
04/11/13	Yunan Chihong Zinc	China	Mining	440.00	576.00	SEO	Primary offer
01/31/13	Oil India Ltd	India	Petroleum	442.00	576.00	SEO	Secondary offer
09/27/13	Offshore Oil Engineering Co	China	Engineering	428.00	572.09	SEO	Primary offer
01/18/13	IDBI Bank Ltd	India	Finance	449.00	569.00	SEO	Secondary offer
12/05/13	Qinhuangdao Port Co Ltd	China	Transportation	408.00	561.90	IPO	Mixed prim/sec
11/27/13	BIMB Holdings Bhd	Malaysia	Finance	416.00	561.64	SEO	Primary offer
03/18/13	State Bank of India	India	Finance	425.00	555.59	SEO	Primary offer
10/30/13	Bank of Chongqing Co Ltd	China	Finance	406.00	547.53	IPO	Mixed prim/sec
12/12/13	AES Corp	United States	Utilities	391.00	538.00	SEO	Secondary offer
11/22/13	Sealand Securities Co Ltd	China	Finance	396.00	534.28	SEO	Primary offer
05/09/13	Apollo Global Management LLC	United States	Finance	411.00	527.78	SEO	Primary offer
11/19/13	Xinxing Ductile Iron Pipes Co	China	Manufacturing	389.00	525.24	SEO	Primary offer
03/28/13	Sinopharm Group Co Ltd	China	Manufacturing	393.00	525.00	SEO	Primary offer
06/15/13	Xi'an Aero-Engine PLC	China	Manufacturing	413.00	521.00	PP	Primary offer
02/15/13	Moscow Stock Exchange	Russia	Finance	382.00	500.00	IPO	Secondary offer
Total 1H2013		**156 Transactions**		**63,198**	**82,155**		
Total 2H2013		**166 Transactions**		**32,834**	**44,146**		
Total 2013		**322 Transactions**		**96,032**	**126,301**		

* In this table we reported only deals greater than $500 million.
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

Details of Individual Sales outside Europe in 2014 (through November)

Table 7 lists the 46 non-EU privatization transactions of the first eleven months of 2014 that raised at least $500 million. These and 209 smaller sales raised almost $103.51 billion (€73.27 billion), while eighteen offers raised at least $1 billion. The five largest non-EU privatization of 2014 were all discussed in the introduction, and so will only be briefly reprised here. These were the $6.87 billion (€5.13 billion) August recapitalization and primary share offering of China's **CITIC Pacific Ltd**, that was executed in Hong Kong and so counts towards the HK total; the $6.00 billion (€4.82 billion) November IPO of a 25% stake in Saudi Arabia's **National Commercial Bank**; March's $6.00 billion (€4.31 billion) private placement of China's **BOE Technology Group**; the $4.80 billion (€3.85 billion) secondary market IPO of Australia's **Medibank Private** in November; and January's primary share IPO of **HK Electrical Investments Ltd** that raised $3.11 billion (€2.29 billion).

The sixth largest non-EU privatization of 2014 (through November) was the mixed primary and secondary share IPO of 59% of Japan Display Inc that raised $3.08 billion (€2.38 billion) in March. This was the only large Japanese deal of 2014, though as we will discuss in the section below the country is teeing up several large-to-enormous privatizations in coming years.

Three $1 billion-plus privatizations were executed in the United States during the first eleven months of 2014. The largest of these was September's sale of a 25% stake in **Citizens Financial Group** owned by Royal Bank of Scotland that yielded $3.01 billion (€2.32 billion) to the partly-nationalized British bank. April saw the secondary market IPO of **Ally Financial** (the 2013 sale was a private placement), wherein the US government sold 20% of the company's shares for $2.38 billion (€1.72 billion) and dropping its retained holdings from 37% to 17%. Finally, **IMS Health Holdings** raised $1.30 billion (€942 million) through a primary share IPO in April.

Turkey executed several auctions of infrastructure and other companies during January-November 2014 that raised a reported $10.0 billion (€7.33 billion), though as was the case for 2013 we only identified four sales totaling much less than this. The only large Turkish privatization we could identify was the July auction of a concession to operate the national betting company **Milli Piyango** that was won by the Turkish consortium Net Sans-Hitay, which paid $2.76 billion (€2.03 billion).

Russia witnessed two large privatizations during 2014 (through November), the larger of which was the May primary offering of shares in the aerospace company **OAO Ilyushin**, which raised $2.59 billion (€1.89 billion). Three months earlier, there was a secondary share IPO of the food retailer **Lenta Ltd** that raised $952 million (€696 million).

Australia's new center-right government headed by Tony Abbott, elected in September 2013, lost little time in announcing a sweeping privatization program designed to raise up to A$100 billion for re-investment in the country's infrastructure. As already discussed, the most important expression of this program thus far was November 2014's IPO of Medibank Private, but this was preceded by two other large deals—the April primary share offering of the transportation company **Transurban Group**, which raised $2.54 billion (€1.84 billion), and the February asset sale of **Macquarie Generation** to AGL Energy by the News South Wales state government that raised $1.35 billion (€988 million).

The 16th largest non-EU privatization of the first eleven months of 2014 was India's only large sale this year: January's disappointing capital-raising offering of a 7.8% stake in the **State Bank of India**. Although this sale raised a non-trivial $1.28 billion (€943 million), this was only three-quarters of what the government had hoped to raise, and represented the financial sawn song for India's Congress party government—which was swept from office by Narendra Modi's BJP party during the summer.

Table 7. Non-EU Deals*, 2014**

Date	Company Name	Nation	Sector	Value (€ mil)	Value ($ mil)	Type of Sale	Method of Sale
08/25/14	CITIC Pacific Ltd	Hong Kong	Finance	5,133.60	6,874.12	SEO	Primary offer
03/25/14	BOE Technology Group Co Ltd	China	Services	4,308.00	6,000.00	SEO	Primary offer
11/06/14	National Commercial Bank (NCB)	Saudi Arabia	Finance	4,300.00	6,000.00	IPO	Secondary offer
11/06/14	Medibank Private	Australia	Insurance	3,850.00	4,800.00	IPO	Secondary offer
01/22/14	HK Electric Investments Ltd	Hong Kong	Finance	2,286.10	3,109.87	IPO	Primary offer
03/10/14	Japan Display Inc	Japan	Manufacturing	2,381.50	3,084.13	IPO	Mixed prim/sec
09/23/14	Citizens Financial Group Inc	United States	Finance	2,324.30	3,010.00	IPO	Secondary offer
07/15/14	Milli Piyango	Turkey	Services	2,034.00	2,760.00	AS	Asset sale
05/30/14	OAO IL	Russian Fed	Manufacturing	1,886.40	2,587.01	SEO	Primary offer
04/24/14	Transurban Group	Australia	Transportation	1,838.60	2,538.42	SEO	Primary offer
04/09/14	Ally Financial Inc	United States	Finance	1,720.20	2,375.00	IPO	Secondary offer
05/22/14	China Merchants Securities Co	China	Finance	1,304.00	1,788.22	SEO	Primary offer
01/21/14	China Shipbuilding Ind Co Ltd	China	Manufacturing	1,030.30	1,401.58	SEO	Primary offer
02/15/14	Macquarie Generation	Australia	Utilities	988.00	1,353.00	AS	Asset sale
04/03/14	IMS Health Holdings Inc	United States	Services	941.60	1,300.00	IPO	Mixed prim/sec
01/30/14	State Bank of India	India	Finance	943.80	1,283.86	SEO	Capital raising
05/16/14	China CNR Corp Ltd	China	Transportation	885.70	1,214.58	IPO	Primary offer
03/25/14	Harbin Bank Co Ltd	China	Finance	812.30	1,130.48	IPO	Capital raising
09/15/14	Ji lin Ji En Nickel Industry	China	Mining	754.40	976.96	SEO	Primary offer
02/28/14	Lenta Ltd	Russian Fed	Retailing	695.60	952.38	IPO	Secondary offer
03/21/14	Axis Bank Ltd	India	Finance	654.80	911.40	SEO	Secondary offer
06/17/14	Tsinghua Tongfang Co Ltd	China	Manufacturing	653.30	883.35	SEO	Primary offer
05/16/14	Sichuan Chengfei Integration	China	Manufacturing	619.80	850.00	SEO	Primary offer
07/30/14	Soochow Securities Co Ltd	China	Finance	612.60	831.40	SEO	Primary offer
03/12/14	AVIC Capital Co Ltd	China	Finance	584.60	813.70	SEO	Primary offer
10/24/14	KEPCO	South Korea	Utilities	633.10	809.00	SEO	Primary offer
10/16/14	Entra ASA	Norway	Real Estate	624.90	799.00	IPO	Mixed prim/sec
10/06/14	ASZ	Russian Fed	Manufacturing	609.20	798.70	SEO	Primary offer
03/12/14	Quintiles Transnational	United States	Pharmaceutical	560.40	780.00	SEO	Secondary offer
07/03/14	Luye Pharma Group Ltd	China	Pharmaceutical	562.60	763.60	IPO	Mixed prim/sec
01/07/14	China Oilfield Services Ltd	China	Services	557.90	758.90	SEO	Primary offer
09/25/14	Tongling Nonferrous Metals Grp	China	Manufacturing	564.50	732.30	SEO	Primary offer
02/20/14	Southwest Securities Co Ltd	China	Finance	517.50	708.50	SEO	Primary offer
09/02/14	Crescent Point Energy Corp	Canada	Petroleum	530.30	686.70	SEO	Primary offer
04/04/14	NPO Saturn	Russian Fed	Manufacturing	492.20	679.60	SEO	Primary offer
02/27/14	Oil Search Ltd	Australia	Petroleum	486.70	666.40	SEO	Primary offer
01/15/14	Shaanxi Coal Industry Co Ltd	China	Mining	486.30	661.60	IPO	Primary offer
03/28/14	Genesis Energy Ltd	New Zealand	Utilities	472.50	657.60	IPO	Secondary offer
03/01/14	Beijing San Yuan Foods Co Ltd	China	Manufacturing	467.70	651.00	SEO	Primary offer
08/13/14	Songliao Automobile Co Ltd	China	Manufacturing	479.10	641.60	SEO	Primary offer
08/15/14	Beijing Urban Constr Invest	China	Finance	473.80	634.50	SEO	Primary offer
07/14/14	Huadian Power International	China	Utilities	395.30	536.50	SEO	Primary offer
09/05/14	Beijing Zhongchuang Telecom	China	Tlc	409.20	529.90	SEO	Primary offer
04/13/14	Oman Telecommunications Co	Oman	Tlc	383.50	529.50	IPO	Primary offer
06/05/14	Xi'an Aero-Engine PLC	China	Manufacturing	377.10	510.00	SEO	Primary offer
09/24/14	Bank of Ningbo Co Ltd	China	Finance	389.30	504.20	SEO	Primary offer
Total 2014**		**255 Transactions**		**73,269**	**103,512**		

* In this table we reported only deals greater than $500 million.
** The total value is an estimate as of 30/11/2014.
Source: *Privatization Barometer, Securities Data Corporation (SDC) New Issues and Mergers and Acquisitions database and author's search of various news media (principally Financial Times).*

The last four large ($1 billion+) privatizations of January-November 2014 were all primary share offerings by three Chinese companies and one bank. The company offerings were May's $1.79 billion (€1.30 billion) seasoned share sale by **China Merchant Securities**; January's $1.40 billion (€1.03 billion) seasoned offering by **China Shipbuilding Industries**; and May's IPO of **China CNR Corp Ltd** (formerly Central National Railways), that raised $1.21 billion (€886 million). Finally, **Harbin Bank** raised $1.13 billion (€812 million) in new capital with its March IPO.

Failed and Canceled Privatizations during 2013 and 2014

In sharp contrast with 2011, 2013 and 2014 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.

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. 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. 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. 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.

Second half of 2013 saw three significant deals canceled. In August, Korean President Park Geun-hye canceled the planned divestment of **Korea Development Bank**, so that KDB could continue performing the market intervention/credit allocation role the bank had taken on aggressively after the global financial crisis. Two deals fell through in December, one in Spain and the other in Japan. The Spanish case was the failure of the government to successfully auction **Catalunya Bank**, in contrast to its successful sale of **NCG Banesco** to Venezuela's Banesco Grupo Financiero Internacional for €995 million ($1.38 billion), described above. The Japanese case was much stranger, and involved the prefectural government of Osaka over-turning, by a vote of 54 of 104 legislators, the results of an auction that had awarded Japanese railway assets in the region to the US private equity group Lone Star, whose $760 million bid easily topped the Japanese bidder, Nankai Electric Railway.

Even though 2014 was a very good year for successful privatizations, there were also a rather large number of deals that were delayed, canceled, or failed outright. The British government suffered this indignity twice, first in July when it dropped plans to privatize Land Registry following conflicts between Tory and Liberal Democrat members f the governing coalition, and again in December when the Dutch and German governments vetoed the long-planned sale sale of the UK's 33% stake in the uranium enrichment company **Urenco**. Ironically, this sale had only become feasible when the Dutch government earlier dropped its veto regarding sale of the company to private buyers. A full privatization of Urenco could raise up to €10 billion ($12.5 billion).

The largest failed privatization of 2014 was the collapse of the planned IPO of a 28% stake in the Spanish airports operator **Aena** in November that resulted from the governmemt's decision to allow PWC to continue as the firm's auditor, rather than hold a separate bid for the auditing mandate. The €8 billion ($13 billion) offering had already been priced by the issue's underwriters, and so delay was hugely embarassing (and costly) for the government. Equally embarassing, though perhaps more widely anticipated, was the decision by Italy's new Prime Minister Matteo Renzi in the wake of the poor June market debut for Financantieri (see above) to delay planned sales of stakes in the air traffic controller **Enav**, the export agency **SACE** and, most importantly, 40% of **Poste Italiane**. The postal sale was expected to net the government around €4 billion ($5 billion).

Central and Southers Europe also saw their share of delayed and/or canceled privatizations during the first eleven months of 2014. A planned auction of rights to operate the port in the Turkish province of Koaceli failed in January, when no bidder stepped up to meet the minimum starting price of $516 million. Five months later. Local opposition torpedoed a $1 billion (€736 million) bid by Russia's Rosneft for a controlling stake in Kyrgyzstan's main international airport. Then in July, the newly elected Slovenian government of Miro Cerar postponed plans to privatize Telekom Slovenije and the Ljubljana airport. One month previously, the outgoing prime minister had frozen a privatization program taegeting 15 companies—even though two had already been sold.

The final three significant failed/delayed/canceled divestments of 2014 occurred in the United States, India, and Pakistan. In March 2014, the largest municipally-owned electric utility in the U.S. **Philadelphia Gas Works**, was sold through auction (with 33 bidders!) to UIL Holdings for an unexpectedly high $1.86 billion (€1.33 billion). All that was required to complete the sale was approval by the Philadelphia City Council before July 14, but this date passed without an approving vote and the deal remains in limbo today. The two aborted sales from Pakistan and India both occurred in November, beginning with the new Indian government of Narendra Modi delaying (yet again) sale of another tranche of **Steel Authority of India** (SAIL) shares due to vehement trade union opposition. A much worse fate befell the newly re-elected Pakistani government of Nawaz Sharif, which had already organized set a minimum price for the international sale of a 7.5% stake in **Oil and Gas Development Ltd** (OGDCL), also due to trade union opposition. Besides raising around $800 million (€995 million) for the cash-strapped government a successful offering would have marked Pakistan's return to international capital markets.

Planned Sales in 2015 and Beyond

We conclude this survey of privatization trends and major deals by describing sales that seem likely to be completed during 2015 or later years. Five national programs - Australia, Turkey, Greece, India and Pakistan - stand out due to either aggregate size, scope, or both. A sixth national program, Russia’s, still has ambitious goals, but these seem highly unlikely to some to fruition as that country plunges into recession following the late-November 2014 plunge in oil prices and the accumulating force of western sanctions.

As noted above, Australia has announced plans to raise up to A$100 billion [$85 billion; €64 billion] through sales of existing infrastructure and financial assets over the next few years, and to recycle these proceeds into new infrastructure investments. The Abbott government has made clear in its many pronouncements that Chinese buyers are quite welcome to participate in these sales. The New South Wales state government plans to raise an additional A$20 billion [[$85 billion; €64 billion] by privatizing “poles and wires” (electricity distribution networks); similarly to the national government. NSW also plans to recycle the proceeds of these sales into new infrastructure investments.

Turkey continues to pursue an aggressive, multi-year privatization program focused on divesting its electricity, port, and gaming assets. The country raised a record $12.4 billion (€9.7 billion) during 2013, plus an additional $10 billion (€7.6 billion) during the first three quarters of 2014, by divesting mostly electricity generation plants and the country’s national gambling company Milli Piyango (see above). The 2013 record will likely fall in 2015 since the planned sales of **Spor Toto** and **Horse Racing Authority** are themselves expected to raise $10 billion (€7.5 billion). Also planned are additional sales of stakes in **Turksat’s cable TV network**, 49% of the public stake in **Turkish Electricty Distribution Company**, the **Haydarpasa project** in Istanbul, and the **Eti mine works** and boric acid facilities.

The conservative Greek government elected in 2012 will push on with its surprisingly successful divestment program that has seen the government raise €9.5 billion ($12.6 illion) over the past three years through sales of various state assets. Chinese state and private buyers have accounted for 45% of these proceeds, and seem likely to continue being the marginal investor for Greek (and, as discussed below, Italian and Portuguese) infrastructure and financial industry privatizations. Specific assets slated for divestment include the **Athens International Airport**, the remaing 67% of the **Port of Piraeus** still in state hands, and a concession to build and operate a new 800 million **airport on Crete**, Greece’s most popular tourist destination.

There are many things in life that can be taken for granted: the sun will rise each day, we all grow older, and each fiscal year the government of India will announce an ambitious target for privatization sales—and end up actually raising only a fraction of this. The new government of Narendra Modi is hoping to break thus cycle, and succeed where the previous Congress government largely failed by actually divesting sizeable stakes in several of the nation’s “crown jewels” and raising as much as $10 billion (€7.5 billion). Perhaps wisely, the government is beginning slowly, with a planned December 2014 of a 5% stake in the energy company **ONGC** that could be worth $2.9 billion (€2.2 billion). If this is successful, plans call for additional stake sales of the electric power group **NHPC** and a 10% stake in the huge but troubled coal monopoly, **Coal India**, which alone could raise $3.8 billion (€2.85 billion). Other sacred cows could then follow.

Pakistan has a rather chequered history with privatizations, but the Sharif government appears determined to try again—beginning with a relaunch of the

OGDCL sale that was aborted in November 2014. Following that, the government hopes to raise up to $2 billion through an international share offering in **Pakistan International Airlines** by March 2015 and up to $1.2 billion (€900 million) by diesting its residual stake in **Habib Bank**, also by the end of 1Q2015. If these deals are successful, sales of at least nine electricity companies and six generating companies could follow during 2015 or 2016.

Russia--always Russia--has grand plans for continuing its long-term divestment program, though as noted these plans are in serious jeapordy as the evonomy and the rouble both seem in free fall. In February 2014, Russian Prime Minister Dmitry Medvedev announced plans to raise Rbs 200 billion (worth $5.7 billion at the time, but worth only $3.8 billion in late 2014) by 2016 through sales of **Rostelecom** and the state shipping company, **Sovcomoflot**,as well as stakes in **United Grain Company** and **Novoroossiyk Commercial Port**. During 2013 and 2014, 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 2015, if markets allow sales to be executed at reasonable prices. The government has also announced plans to sell off, the rail container group, **Transcontainer**, and perhaps more of the stock it holds in **Russian Railways**. On balance, however, one must conclude that Russia's privatization program has (like India) usually fallen well short of its stated goals, due mostly to political infighting among top policy-makers, and unless the political issues—and the looming recession--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.

Several eurozone countries--including Italy, Portugal, Cyprus, and Ireland—have significant though not massive divestment plans for 2015 and 2016. The sales being contemlated are frequently for assets nationalized through bailouts during the financial crises of 2008-09 or 2012. As noted in the delayed/failed deal discussions above, Italy's Renzi government merely postponed several large divestments, and did not cancel these outright. Besides stakes in **Enav**, **SACE** and **Poste Italiane**, the government ight try to sell some or all of its residual 4% stakes in **Eni** and **ENEL**, its 13% stake in the semiconductor manufacturer **ST Microelectronics**, train station operator **Grandi Stazioni**, and its indirect holdings (throuugh CDP) in **Snam** and **Terna**, respectively the national oil and gas and electricity grids. Portugal plans to sell all or part of the gas and energy provider **Galp**, the railway freight service provider **CP Cargo**, the **CTT** postal service, the state airline **TAP**, parts of the water utility **Aguas de Portugal**, and the country's largest bank, **Caixa Geral de Depositos**. Cyprus has passed legislation authorizing sale of three utilities by 2018, which could raise up to €1.4 billion ($1.75 billion): the electricity authority **EAC**; the telecoms provider **CYta**, and **Cyprus Port Authority**, which manages the ports of Larnaca and Limassol. Ireland has announced plans to raise up to €3 billion by selling off its 25% stake in **Aer Lingus**, the state forestry body **Coillte**, 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.

The major European eurozone outlier, the United Kingdom, also plan to push forward with significant divestment programs launched during 2013-14, though Briatin's continuation as a privatizer hinges on whether the center-right Conservative-Liberal democrat government wins reelction in the May 2015 general election. The government still holds a 25% stake in **Lloyds Banking**

Group and 81% of **Royal Bank of Scotland** (RBS), both of which it would dearly likely to sell at a price at or above that paid for their rescues during the fiancial crisis of 2008-09. A returning Tory-Liberal Democratic coalition government would also try to privatize the **East Coast Main Line** rail linking London, Leeds, and Edinburgh—but the shadow Labour transport minister has ruled this out if Labour wins the election. Either side that wins would be likely to eventually choose to sell more of the state's remaining 70% stake in **Royal Mail**, though memories of the October 2013 IPO are too raw and recent for this to become an immediate priority.

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. The national government successfully executed 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, and additional stakes in these companies could well be offered in 2015 or 2016. However, in October 2014, the government of Shizo Abe announced a renewed plan for what could become one of the largest single privatizations in history. This is the oft-mooted, oft-canceled sale of a two-thirds stake in **Japan Post** in three tranches beginning in March 2015, which could raise up to $37 billion based on current market comparables. Japan's government might at long last 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). Finally, the Japanese (city) government hopes to raise $7-15 billion by fully privatizing the **Osaka Airport** in 2015.

In contrast to the initiations of major privatization program detailed above, 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.

Two other fairly small, but nonetheless interesting planned national divestment programs deserve explicit mention before we conclude with a discussion of industry-specific planned sales. In July 2014, the newly-elected Serbian Prime Minister, Aleksandar Vucic, unveiled plans for the mass sale or liquidation of loss-making SOEs. 584 of the companies included in this plan are already registered with the privatization agency, and **Telekom Srbija**, Belgrade's **Nikola Tesla Airport**, and a major insurer among the firms most likely to be successfully divested. Also in July 2014, but on the other side of the world, the Vietnamese government announced yet another privatization plan—termed "equitisation" for local consumption—that will begin with sale of a 3.5% (!!) stake in **Vietnam Airlines** that would value the company at $1.5 billion (€5.38 billion). Whether this will be any more successful than previous attempts to divest the airline (when a strategic buyer once offered twice this value for a controlling stake) and more than 430 other SOEs remains unclear. Whereas the government claims to be willing to tolerate up to 49% private ownership in "equitized" firms, foreign strategic holdings will probably remain capped at 20-25%, severely reducing potential demand.

Several countries plan to divest state-owned aviation and aerospace assets during 2015. As noted above, Greece, Japan, and Serbia all hope to fully or partially privatize major international airports, while Portugal, Japan, Ireland, and Vietnam all plan to divest some or all of their national airline. In addition, Spain hopes to re-launch the sale of 28% of **Aena**, its airport operator, for €8 billion ($13 billion), and Korea plans to divest the **Incheon Airport** in the near future. 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. Additional planned airline and aerospace company sale include Poland's ongoing (but heretofore unsuccessful) attempt to divest its stake in **LOT**, while the Korean government hopes to revive the sale **Korea Aerospace Industries** that collapsed in December 2012.

Sales of financial assets and companies should also prove popular during 2015. Besides the divestments already discussed above, at least four countries are planning multi-billion dollar privatizations soon. 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. The Netherlands is planning a 2015 IPO of up to 40% of **ABN Amro**, which it rescued with a €30 billion capital injection in 2009, that might raise up to €6 billion ($7.25 billion). Finally, the previous center-right Swedish government announced plans to sell the state's holdings in mortgage lender **SBAB**, though it is unclear whether the center-left government elected in September 2014 will follow through.

We conclude this discussion by describing three significant planned sales in 2015: two in oil and gas sector and one telecom divestment. Easily the largest of these is the announced plan by China's **Sinopec** to sell up to 30% of the company's holdings in its string of petrol stations (a cash-cow business), that could yield up to $20 billion (€15 billion) that could be channeled into Sinopec's other investment programs. The Preuvian government also plans to sell up to 49% of its holdings in **PetroPeru** on the local stock market, in order to clear the way for the company itself to raise up to $3.5 billion in private apital for its ambitious exploration and production program and to upgrade its refineries to better handle the heavy crude oil it is now producing. Finally, the government of Chad is re-launching the attempt to sell 80% of **Société des Telecommunications du Tchad** (Sotel-Tchad). The previous attempt collapsed in 2010, during the country's civil war.

Conclusions

To summarize, the total value of global privatizations during 2013 rose significantly from the previous year's level to become the third largest sum ever, and this pace continued during the first eleven months of 2014. Additionally, governments have announced major divestment plans that are likely to continue 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.

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KPMG Advisory Spa

Port terminal privatizations, long term strategies versus urgent needs

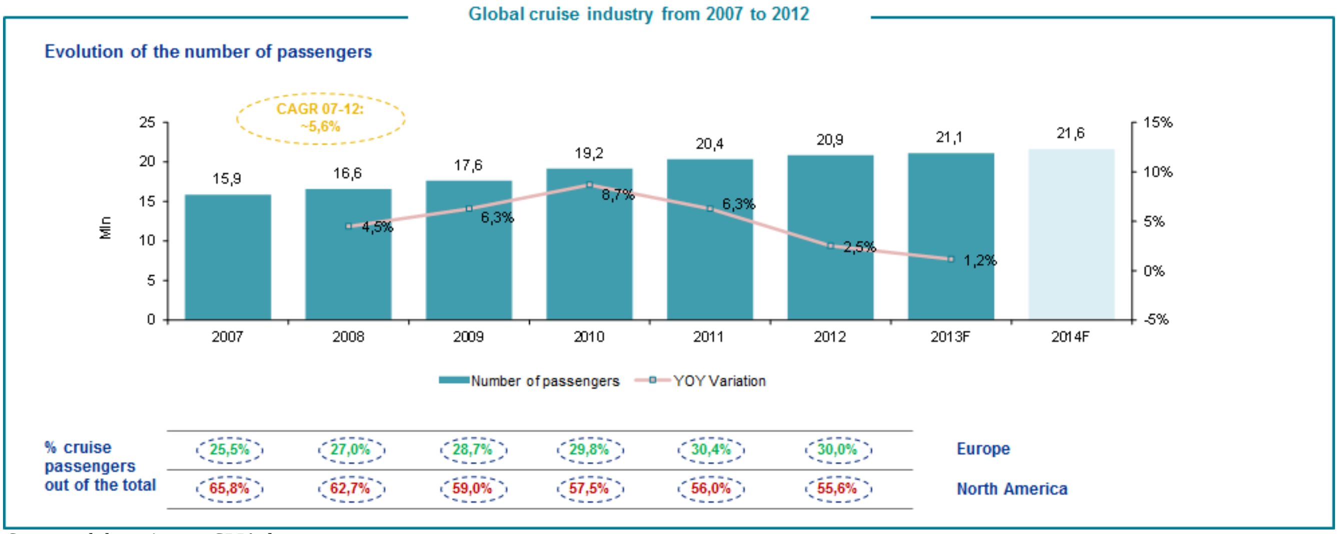
Passenger terminal management and cruise industry "snapshot"

The passenger port terminal management industry showed constant demand growth over the last 20 years worldwide, with cruise passenger numbers increasing fourfold, reaching 20 million passengers in 2012.
During the last five years, the average growth rate has been around 5%, with European market share moving from 25% to more than 30%, balanced by an equal decrease in Northern American market share.

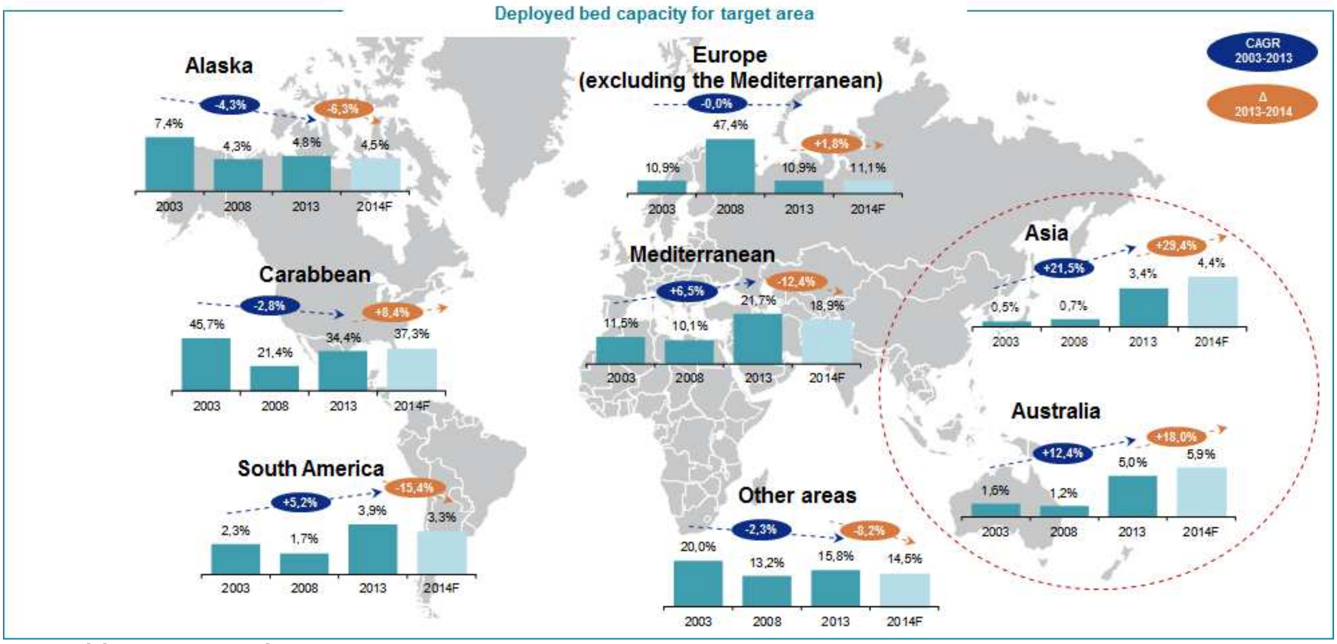
Over the past two years (2012-2014) an inversion of the previously described trend has taken place: the European market, mainly the Mediterranean segment, has seen its upward trend (in terms of growth rate) slow down, losing ground against developing and emerging countries and markets such as the Asiatic and Australian ones.

Source: elaboration on CLIA data

The industrial competitive environment is affected by exogenous variables for port terminal managers: mainly demographical trends, but also gross domestic product evolutions. These two factors, with their country specific aspects, could be sufficient to determine whether a given port will be successful or not, because of the strong direct relationship with average consumer expenditure. After all, a cruise is still a product partially perceived as a "luxury experience", and overall a tourist service, that is affected by "willingness to pay" dynamics and constraints



Source: elaboration on CLIA data



Source: elaboration on CLIA data

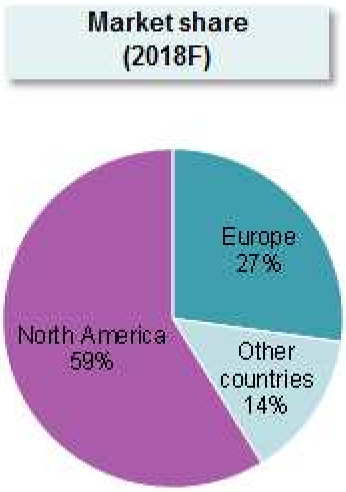
This recent market trend generates a number of issues for the main shareholders of port terminal management firms. These are usually state-owned port authorities - especially in the EU and EMEA - and these public bodies exert strong influence as majority shareholders.

Because of the public nature of its majority shareholder, port terminals have encountered significant difficulties in addressing decreasing growth rates and, in turn, declining profitability. Public shareholders often find it difficult to implement corrective actions aimed at:

- Improving efficiency;
- Revamping or investing in infrastructure (terminals, fingers, dredging, etc);
- Promoting and managing agreements with main carriers to become “home port” and increase tourism’s indirect benefits;
- Generally supporting, protecting, and increasing their actual market share.

As in every mature industry, what is happening in the European cruise industry is a partial transition to price competition, with customers becoming more price sensitive and carriers trying to differentiate. But companies often are forced to compete on low prices, and ports rates are one of the main cost elements about which they are concerned.

Price competition could exclude strongly "differentiated" countries, intended as a "unique" experience by customers. Many countries aspire for this status, but to gain and keep such a position there must be investment in infrastructure, strong transportation and logistical integration on the backside of ports, and a constant marketing effort.



Source: elaboration on CLIA and Cruise market watch data

Due to enduring financial crises, EU countries and their Port Authorities are often incapable of supporting this transition process to become stronger competitors in the cruise industry. Public shareholders might be more willing to proceed with privatizations of the service, keeping the public ownership of the port infrastructure through a concession arrangement, but enhancing investment perspectives through private involvement.

Infrastructure management is one of the main issues to be taken into account in an industry where elasticity of demand is hugely important. This is due to the fact that the four main carrier groups in the world account for more than 80% of passengers and around 75% of revenues.[1]

Source: elaboration on CLIA and Cruise market watch data

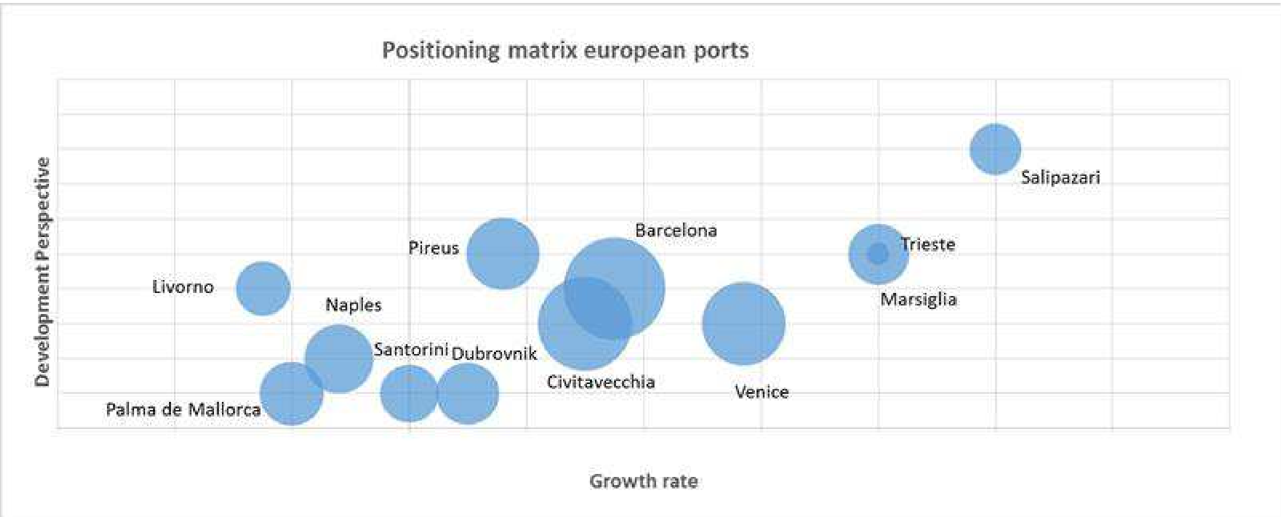
[1] *Elaboration on cruise market watch data and other public data*

Focus on EMEA: Two "blocks", emerging countries vs "Old Europe"

Europe and the Middle East and Africa (EMEA) regions are not expanding overall, so in this context we can try to identify different clusters of Ports:

1. Champions defending their "title": As Barcelona (Europe's biggest) and other big ports (Civitavecchia, Venice) should avoid "neighbors' competition" by increasing service levels and keeping long term relationships with the main carriers;
2. Mid-sizers: For example, European ports with just under 1 million passengers, with no short-term growth prospects, but with economic stability granted by stable streams of passengers (including Palma de Mallorca, Dubrovnik, and Santorini);
3. Small players with high potential: Ports that have still not reached their full potential capacity, but that are now confronting a strategic evolution issue about their growth, like "now or never";
4. Fast growing "Hares": Ports with growth rates double the EU average because of country peculiarities (as, for example, Istanbul Salazari) or new routes tracking.

European Ports by cluster



Source: elaboration on CLIA data

In this complex framework, port privatizations could be an opportunity to face both public budget constraints and make industrial improvements. A successful privatization could represent an effective long term industrial policy action under certain specific conditions, that could be shortly summarized as: (i) a long-term industrial perspective, meaning a concession length of at least 15 years; (ii) a growing tourist sector, a background as a major tourist destination, or with major tourist transit routes and itineraries; (iii) an attractiveness for the main worldwide carriers or with existing carriers (home port), and integration with the commercial industry.

The core point, with amplified effects on industrial country background and entrepreneurial structure, is that privatization initiatives should be planned and implemented with a strategic long term view. There should also be a strong industrial driver (mainly a competitive strategy and context), even if the divestment is being driven only by an emergency approach related to urgent needs of public finance rather than spending changes. The absence of a long term industrial perspective is a complementary risk factor also for the economic results of the privatization.

In port service management, the trade-off between industrial development and maximizing public finance revenues could be more risky than usual, as its effects could affect not only the business as "strictly" intended, but have unintended impacts on other businesses and industries. These relationships are often estimated by econometric analyses.[2]

Accordingly, the design of such initiatives should be informed by a strategic long term view, which is often neglected in favor of urgent fiscal needs subject to spending review initiatives. It is possible to balance spending review and public finance aims without being careless of the industrial perspective? This paper will try identify common transaction elements to help answer this question.

We will analyze most relevant recent transactions in the EMEA port industry with specific reference to passenger terminals. The relevance of this case study relies on its peculiarity as passenger terminals have always been on the margins of private operators' intervention in European Ports, and just recently they have been identified as a relevant driver for landside entrepreneurial development. Passenger terminals are now being reconsidered under a new approach by private investors, in line with market trends.

Emerging country privatizations "enhancing growth": the Turkey case.

Emerging countries are relevant players in the EMEA market, both on the "sell side" with important privatizations in terms of volume of passengers and economic size of the deals, and also on the "buy side" as headquarters of several main buyers (Dogus Marina Group, Global Ports Holding, etc…) in the terminal management market.

The most relevant case study is in Turkey, where the Salipazari Istanbul cruise port terminal privatization took place in 2013. The deal took place in an economic context where GDP had been growing fast in Turkey, cruise passengers arriving in Turkish ports had increased of around 20% in the last 10 years, and the number of cruise ships had risen by around 8%.

Istanbul Salipazari is one of the top European ports. With around 500,000 passengers, it is the sole cruise port of Istanbul, and has achieved a growth rate of more than 10% in the last 5 years. It has become the second cruise port in Turkey (after Kusadasi), with a strong touristic background. By articulating the positive conditions related to the Salipazari port privatization, we have to highlight also that the structure of the deal includes a 30 years concession and, by the time of privatization, three (Carnival, Royal Caribbean, MSC) of the four main carriers already have itineraries that include Salipazari.

Salipazari's privatization also includes investment in infrastructure (mainly for quays) and for the restoration of historical buildings linked to the just approved Zoning Plan. As explicitly said by representatives of Privatization Administration, "*It is targeted to make İstanbul Salıpazarı Cruise Port one of the most important destinations by improving the services to international*

[2] As for example in the input-output models generally used with regards to ports and airports

standards and to increase the number of tourists visiting our country and to increase the contribution of the Port to tourism incomes."

The Port was owned by the public sector through Turkiye Denizcilik Isletmeleri A.S. (owned 100% by Turkis Privatization Administration) when the privatization planning started in 2010. It was concluded in 2013, with submission of the highest bid (at the contemporaneous exchange rate, more than € 500 million) by Dogus Marina Holding that finally consummated the agreement to transfer operating rights in February 2014, after a long-lasting period to receive all the necessaries administrative authorities' permissions.

Istanbul Salipazari Cruise Port - *Status* @ 2013.02	
	2012
Land area	100.280 m2
Construction area	131.821 m2
Long quay	1.115
Karakoy quay	*515*
Salipazari quay	*600*
Buildings	9
Karakoy quay	*5*
Salipazari quay	*4*
Number of cruise ships visiting the Port (@ 9 M 2012)	294
Number of passengers visiting the Port (@ 9 M 2012)	451.327

Source: Republic of Turkey Prime Ministry Privatization Administration, "Privatization of Istanbul Salipazari Cruise Port - A brief Overview", February 2013

The Salipazari Port privatization was an internal market transaction, as were several of the deals concluded in last five years in Turkey. But Turkish investors can also take part in international deals when they identify business opportunities, as seen in the cross border acquisition of K&G Mediterranea Marina Management in Greece by Dogus Marina Group.

Turkey is becoming one of the main "buyers", with a few conglomerate transportation and logistical players being involved in around 30% of recent port transactions, including one of the most recent and relevant. This is the disposal of a 20% stake by Creuers del Port de Barcelona, that was purchased by Global Ports Holding, which already had a 23% stake.

Regarding the Turkish privatization program, the Government has set up a specific department called "Privatization Administration" that reports directly to the Prime Minister. This department has concluded around 40 deals with foreign investors, including the disposal of other two major ports (Kusadasi in 2003, and Mersin in 2007).

Turkey's Privatization Administration has begun privatizating its portfolio (that includes a lot of public assets) by applying several alternative methods, including: (i) direct sales (including public offerings, block sales, and sales to employees, investment funds, securities investment partnerships, etc..); (ii) leases; (iii) grants of operational rights (as applied to Salipazari Port); (iv) establishment of property rights (other than ownership); (v) profit sharing models and other PPP approaches.

The port privatizations cluster related to fast growing emerging markets could also include the purchase of the Port of Algiers and of Djen Djen. These are mainly commercial ports, with low cruise passengers' incidence, but have many common elements with the Salipazari deals. The similarities can be summarized as follows: (i) long term concessions (30 years); (ii) a corporation as the buyer (DP World, from Dubai); (iii) relevant investment plans to develop new assets of the Port to increase traffic; (iv) a position that allows competition on the Mediterranean market; and (v) deals regarding sale of control stakes to private investors, with a continuous involvement of the public sector.

Overview of the transaction played by Turkish bidders

Date	Target Company	County of the Target Company	Bidder Company	County of the Bidder Company	Deal Description	% stakes	Privatization
30/12/2013	Creuers del Port de Barcelona, S.A.	Spain	Global Ports Holding	Turkey	Global Ports Holding, a 100% subsidiary of Global Investment Holdings, initially acquired 23% of Creuers del Port de Barcelona, S.A. (Creuers) through Barcelona Port Investments in partnership w ith Royal Caribbean Cruises Ltd., one the w orld's leading cruise operators. In December 2013, Global Ports Holding acquired an additional 20% of Creuers del Port de Barcelona, thus increased its stake to 43%. Creuers is the leading international cruise terminal operator in Europe and offers the international expertise and connection netw ork w ith the key cruise line players.	20%	X
16/05/2013	Istanbul Salipazari Kruvaziyer Limani / Istanbul Salipazari Cruise Port (Galataport)	Turkey	Dogus Holding A.S.	Turkey	Dogus Holding AS, the Turkey based holding company engaged in diversified businesses, has w on a privatization auction to acquire Istanbul Salipazari Kruvaziyer Limani / Istanbul Salipazari Cruise Port (Galataport), the Turkey based commercial port, for a consideration of USD 702m. Galataport is one of the largest ports in Turkey w ith 420 ships and 627,897 passengers usage in 2011.	n.a.	✓
31/12/2012	K&G Mediterranean Marinas Management S.A.	Greece	Dogus Marinas Group	Turkey	Dogus Marinas Group, the Turkey based company engaged in marina developments and management, consultancy services in marina projects and also a subsidiary of Dogus Holding A.S, the Turkey based conglomerate engaged in financial services, automotive, construction, media, tourism, real estate and energy sectors, has acquired 51% stake in K&G Mediterranean Marinas Management, the Greece based company engaged in marina developments, management and consultancy services in marina projects, from Kiriacoulis Mediterranean Cruises Shipping S.A., the Greece based company engaged in professional sea tourism w ith yachts, marinas management and real estate and constructions, for an undisclosed consideration.	51%	X
29/07/2010	Ortadoğu Antalya Port Management	Turkey	Global Liman Isletmeleri A.S.	Turkey	Global Liman Isletmeleri, the Turkey based port management company and a subsidiary of Global Yatirim Holding AS, the listed Turkey based diversified investment holding company active in infrastructure, energy and financial services sectors, has agreed to acquire the remaining 60% stake in Middle East Antalya Port Management Inc, the Turkey based company holding management rights of Antalya Port, from Celebi Holding AS, the Turkey based holding company active in civil aviation, tourism, transportation and fast food sectors, and Antmarin AS, the Turkey based port manager, for a consideration of EUR 47m.	60%	X
30/06/2008	Bodrum Liman Isletmeleri	Turkey	Global Investment Holdings	Turkey	Global Yatirim Holding AS, the listed Turkey based investment holding company w ith interests in infrastructure, energy and financial services sectors, has acquired a 60% stake in Bodrum Yolcu Limani, the Turkish operator of passenger terminals, from ERS Insaat Sanayi ve Ticaret AS, the Turkey based investment holding company having interests in infrastructure sector, for total consideration of YTL 10m (EUR 5.85m).	60%	X

Source: elaboration on information providers' data

"Old Europe" port privatizations: Greece and Italy.

Old, "traditional" Europe is in a completely different situation from the emerging countries in the EMEA region, which have as their main goal development of passenger traffic and the tourist industry. European, and mainly Mediterranean countries instead have to face troubled public finance situations and simultaneously address declining cruise market growth.

In this context, we can analyze the experience of two "poster countries" of the recent financial crisis, Greece and Italy. Greece is in a real emergency, and Italy has announced, more than once, privatization programs and incentives to strengthen debt reduction policies and to reduce the public role in entrepreneurial service management.

Greece in 2009 closed the disposal of the management rights of a part of the port of Piraeus. This was acquired by Cosco Pacific, a Chinese conglomerate, that was awarded a 35 years concession. Nowadays the Greek Government, through the Hellenic Republic Asset Development Fund (HRADF), has adopted new procedures aimed at privatizing other ports.

The portfolio of HRADF contains twelve (12) ports[3], namely the ports of Piraeus (OLP), Thessaloniki (OLTh), Volos, Rafina, Igoumenitsa, Patras, Alexandroupoli, Iraklio, Elefsina, Lavrio, Corfu and Kavala. HRADF owns 74% of OLP and OLTH shares (listed on the Athens Stock Exchange) and 100% of the share capital of the rest of the above mentioned ports. Due to the recent reform of related legislation, Greece can now proceed with further disposals.[4]

Currently, several expression of interests have been submitted for the tender processes for the sale of 67% of the shares of the "Thessaloniki Port Authority" and for the sale of 67% of the shares of the "Piraeus Port Authority". Greece has put on the table these so called “family jewels” to maximize the positive effects on public finance, and has also partially reformed its legislative framework to enhance the sale process. The main way the Greek Government is trying to keep a strong link among industrial and commercial development of the landside and the tourist business is by structuring the sale as a long term concession and negotiation of specific industrial development projects. The disposal of Piraeus port is expected to be concluded by the end of 2014, or in early 2015.

Italy has a different background for port privatizations. Port Authorities are formally independent from the central State, as public entities with their own juridical personalities, and PA are (among other tasks), entrusted with commitment and control functions of port services. Despite their independence, PAs are expected to consider central government concerns on spending reviews (including reduction of PA numbers and other relevant elements). In this context, even respecting the economical (balance sheet) independence of PAs, privatizations of these state-owned firms is a goal.[5]

Italy has experienced in the recent past a “standard” privatization through a tender process for a majority stake in Trieste Terminal Passeggeri (2010). In 2013, Royal Caribbean became a 30% shareholder of La Spezia Cruise Facility (LSCF), along with a consortium of local entrepreneurs that won public tender for passenger terminal concession in 2005 in that year’s port management privatization process.

Trieste Terminal Passeggeri (TTP) is not a ‘big size’ deal but has relevant industrial elements to be tracked and noted, including: (i) disposal of 60% of stakes – a majority stake, but not giving extraordinary shareholders assembly control (67%); (ii) selection of an important carrier as part of the awarded consortium (Costa Crociere) and a local industrial partner (Giuliana Bunkeraggi); (iii) a long term concession (2032) related to investment and business plans. Trieste Terminal Passeggeri, in terms of passengers could be intended as a “start up” initiative, with around 130,000 passengers in 2013, but represents an important opportunity for a carrier intending to develop it as its Home Port (in this case Costa). Old, “traditional” Europe is in a completely different situation from the emerging countries in the EMEA region, which have as their main goal development of passenger traffic and the tourist industry.

[3] in the form of Societe Anonyme.
[4] In 2012, the obligatory possession of 51% of the OLP share capital by the Greek State, which was provided by the legislation previously in force, was abolished through the legislative act dated 7.9.2012 and law 4092/2012.
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[8] As defined in law 84/1994 article 23 point 5.

Trieste Terminal Passeggeri (TTP) is not a 'big size' deal but has relevant industrial elements to be tracked and noted, including: (i) disposal of 60% of stakes – a majority stake, but not giving extraordinary shareholders assembly control (67%); (ii) selection of an important carrier as part of the awarded consortium (Costa Crociere) and a local industrial partner (Giuliana Bunkeraggi); (iii) a long term concession (2032) related to investment and business plans. Trieste Terminal Passeggeri, in terms of passengers could be intended as a "start up" initiative, with around 130,000 passengers in 2013, but represents an important opportunity for a carrier intending to develop it as its Home Port (in this case Costa).

La Spezia was a concession of service, not a privatization as usually intended with the sale of a firm's stake, but the "second stage of the deal" (Royal Caribbean's entrance) can be compared with Trieste because it was based on the same competitive strategy in the cruise market, with potential growth depending mainly on the policies of the shareholding carrier (Royal Caribbean).

Trieste and La Spezia, even in an adverse economic climate, have been two deals modelled on the basis of designing and implementing a port development in terms of traffic, and not exclusively related to public finance constraints. But from their privatization dates until now La Spezia and Trieste have had different evolutions. La Spezia experienced fast growth recently, from less than 50,000 in 2012 to more than 200,000 by the end of 2013, continuing growth in 2014, and expectations of around 500,000 per year in the future. That shows the effect of the entry of one of the main worldwide carriers in the shareholding structure, but the effect was not reached with the initial privatization through concession.

TTP is experiencing an alternate evolution of passenger traffic, without reaching the supposed growth, even if a relevant carrier becomes part of the consortium selected by public tender. This is because the carrier must depend upon commercial development that has been problematic in the Italian market recently. To complete and re-launch the strategic initiative not yet fully realized by the private consortium managing TTP, the PA of Trieste is setting up a second stage of privatization that envisages the disposal of the remaining 40% public stakes with a tender procedure to be put in place by the end of 2014.

Can a successful port privatization reach both public budget and industrial development objectives?

Passenger terminal management has a significant role in improving the overall commercial port management potential. The private player's role in port terminal management is increasing fast, not only through service concessions but increasingly thanks to privatizations of public firms , and the trend of enhancing private management is confirmed in 2014.

Privatizations could allow governments to pursue multiple objectives, including both public budget balance sheet restoration and industry and landside development in terms of industrial and touristic traffic. As reported for other industries, the public finance crisis period has had the indirect effect of stimulating privatizations. Privatizations strategy should be strictly linked to the competitive strategy of the Port, and privatizations could be effective on both the industrial and financial sides, or could be ineffective on both.

What emerges clearly from a comparison of different countries' strategies and context is:

- Privatization strategy: a port privatization strategy, and the following business plan, should be evaluated on the basis of competition context in the region; carriers' plans and routes and nearby ports' development are determinant issues to be considered;
- Public finance effects: ports are important assets, and national public finances (see Turkey and Greece) could benefit from the disposal of the service. But these effects could be limited if not strongly linked to a long-term industrial perspective because economic flows are direct function of the length of service management.

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In order to have direct effects on central government debt reduction, port privatizations need a centrally managed process to yield significant results, possibly through extraordinary law initiatives and tools (e.g. Turkish and Greek state dedicated entities). In this case, positive outcomes are strongly related to the "size does matter" rule.

Private is better? This used to be the main question underlying privatization choices. Although there isn't an absolute answer, it has to be acknowledged that managing a port in adverse economic situations might require the private features of efficiency and strong competitive skills.[9]

- *Development success is guaranteed by private management?* No, of course, but private management could activate financial resources to be invested in terminal infrastructure necessary to support carriers' strategies. These center on growing the dimensions of cruise ships, and transportation integration with local tourist backgrounds. The public sector is not yet able to provide full funding to investment needs. Implementing a business plan and business strategy takes time, so effective industrial privatizations, even if relevant effects could be reached in the short term, should focus on a medium or long term horizon.
- *Does the regulatory framework affect results?* Yes, a complex regulation could directly affect deals effectiveness and structure, determining articulate and long lasting procedures, enhancing desert auctions risk and correlated risk of missing related public finance objectives;
- Policy-makers should always aim for regulatory "improvement," usually meaning simplification of procedures (big deals could take more than a year, including multiple administrative levels of controls) and extension of concession length directly linked to investments levels.
- *Time is a relevant issue?* This depends on the alternatives on the supply side, as in this period there are a significant number of ports to be put on the market, and on the differentiation features of ports and their potential

[9] *"I think privately managed companies can be more efficient and more aggressive in the market. We want to exploit Greece's geographical position. The goal, however, is not just to raise money, it is to attract more business investment."* Minister of Shipping and the Aegean in Greek Government, public interviews on Piraeus privatization.

uniqueness, which could reduce the competitive effects of over-supply. As often reported, the recent crisis period has accentuated sale pressures, but this could be affected by low price realizations that could prove challenging for long term involvement.

Final remarks

Reforms have opened port terminal operations in a variety of global markets where terminal operators have been able to secure concessions, undertake acquisitions or be involved in shareholding. Since the large majority of port infrastructure remains public, the level of PPP activity has increased jointly with global trade and economic liberalization. The emergence of a wide array of global terminal operators coming from different backgrounds (e.g. port operations, financial, maritime shipping) has led to a differentiation in entry mode choices since each has its own strategy and objectives. Overall, the entry strategies of international terminal operators have been very aggressive in most markets, reflecting the appeal of terminal facilities as revenue generators and prime assets.

Firm-specific factors underline notable differences between global terminal operators coming from a port operations or maritime shipping background, which prefer direct PPPs, and financial actors which prefer indirect PPPs. Financial operators thus clearly prefer acquisitions, either for single or multiple terminals. External factors underline that the market openness of the host country is associated with the building of new direct PPPs, since the national and transactional environment is conducive to the direct involvement of the firm in terminal building and expansion projects.

Alternatively, the level of market concentration of terminal operators in the host country is pushing towards indirect PPPs, since a new entrant is challenged by the market power of the established operator.
The present work aims at providing a structured assessment of the drivers behind the privatization entry modes: supported by empirical outcomes it provides a better understanding of the strategic decisions of firms entering privatization transactions arrangements. Such insights are also of practical relevance to public authorities, market players and other stakeholders involved in PPP arrangements in the port industry.

Public authorities are typically seeking guidance on how to attract investors in the most effective way, while the investing terminal operators can benefit from the research outcomes when evaluating their own and competitors' entry strategies in port regions around the world. Finally, empirical evidence underlines some other managerial implications, both supporting practitioners in conceptualizing *ex-ante* the determinants which could affect the strategy formulation process and the success of the selected entry mode, and providing a managerial tool for shaping and understanding competitors' strategies.

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The role of the State and SWFs in the GCC Economies

In recent years the rise of state capitalism has brought to the forefront the role of the state in the economy. In the Gulf Cooperation Council (GCC that comprises Saudi Arabia, Kuwait, Oman, Bahrain, Qatar, and the United Arab Emirates), the state is considered as a typical allocation state rather than a productive state (Martin Hvidt, 2013)[1]: indeed, the state's main role is to distribute and allocate in the economy the large windfalls from oil and gas exports. Such a state is not pressured to tax the local economy in order to finance its activities, as a typical productive state would do.

The natural resource endowments in the oil-rich GCC countries have decisively impacted the level of state ownership there. Hoever, the oil industry is not the only sector characterized by state dominance. State ownership in fact encompasses nearly all other productive activities such as real estate, telecommunication, construction, manufacturing, electricity, transport, agribusiness, education, and health services.

Governments and government-owned entities play an extraordinary role as investors in the region. Governments and the investment vehicles they sponsor hold stakes in more than one-third of all companies in the region, with market presence ranging from below 20% in Oman to as high as 45% in Bahrain. In terms of market value held by public authorities, shareholdings range from 13% in Kuwait to 35% in Saudi Arabia, and average 29%.

Despite the fact that GCC state owned enterprises (SOEs) are generally considered to be dynamic, profitable and rapidly growing, more economic diversification in the region has been called for. For this to happen, it is argued that there should be less involvement of the State in the economy and more contribution by the private sector, with significant efficiency gains expected to be achieved through privatization. In particular, more involvement by the private sector is expected to create a productive base with more employment opportunities: "under the current allocation state model, only a relatively small part of the local population is involved in economic activities" (Hvindt, 2013). Additionally, to attract FDI flows and foreign know-how that are typically targeted towards private firms, the private sector in GCC needs to more developed and play a larger role in the economy.

In this debate on economic diversification of GCC, a notable player other than SOEs is GCC Sovereign Wealth Funds (SWFs). These funds are presented in the local press as tools that primarily invest the oil and

[1] Economic Diversification in GCC Countries: Past Record and Future Trends,MARTIN HVIDT, Deutshbank 2013

natural resources windfalls to provide for future generations: There is now more than one SWF per country in the GCC region, the largest (in the region and the world) being the Abu Dhabi Investment Authority, which alone held assets worth US$ 627 billion in 2011. Taken together, GCC SWFs manage today an asset base worth US$1,659 billion. In this note, we aim to describe the privatization agenda and record in GCC and the role played by SWFs in the economic landscape of the region.

Privatization in GCC: A Snapshot

Privatization in the GCC has been on the political agenda for more than 15 years. We note in this regard that privatization of selected public institutions, including telecommunications, water and energy supplies, banking and insurance, seems to be gaining increased momentum. For instance, several privatization initiatives are observed in Bahrain through the Supreme Privatization Council, in Abu Dhabi through privatization of utilities, and Kuwait with its energy sector privatizations. Oman has even put in place a regulation that provides the government with the possibility to keep a “golden share” in privatized entities. In Kuwait, the telecom sector which is the largest source of revenue after the state’s oil sector, has been partially privatized, with the government maintaining significant minority interests in all three companies: Mobile Telecommunications Company (known as Zain), National Telecommunications Company (known as Wataniya), and VIVA. In Saudi Arabia, in 2007, privatization contracts for a number of port facilities were completed, including the general cargo and the bulk grain terminals at King Fahd Industrial Port, and the container terminal and cargo berths at Jubail Commercial Port. Currently, privatization plans for Saudi Arabian Airlines are being finalized.

Nevertheless, to date, the overall progress remains quite slow. Reform efforts in most of the GCC countries are limited to opening up the power sector for private investment in generation, transmission and distribution.

The privatization process is primarily hindered by the lack of pre-conditions to the reform that are slow to materialize. For instance, a successful privatization program requires a functioning stock market, a legislative infrastructure, sophisticated financial services and a functioning legal framework, among other things. One case in point is the continuously delayed privatization of Kuwait Airways which was announced in 2008, and is yet to be achieved, due to the fact that by law, the firm has first to be transformed into a shareholding company. The new law that allows such a transformation has been through two rounds of deliberations at the National Assembly in 2012 and 2013, and was only ratified in January 2014.

Another illustration pertains to the situation on the stocks markets: The limited capacity of absorption of local stock markets and their lack of liquidity tends to undermine privatization transactions through stock issues. Some countries have undertaken the task to reform their securities laws to facilitate reform, including the UAE and Saudi Arabia, resulting in a 40% increase in the total amount raised by IPOs in GCC markets between 2006 and 2007, right before the crisis. However, building investors’ confidence in the stock markets or in privatization transactions remains challenging. Indeed, since the banking crisis of 2008, GCC stock markets indices have fallen significantly: by one fifth in Oman; one third in Bahrain, Kuwait, and Abu Dhabi; as much as 50% in Saudi Arabia, and two thirds in Dubai. Stock markets also reacted negatively to the debt problems of SOEs in Dubai and Saudi Arabia during the crisis.

Another obstacle to privatization is the selection of potential SOEs for privatization. For instance, certain government functions and social services, which represent the traditional target of privatization polices, are politically and socially entrenched. SOEs are used as vehicles to distribute wealth to nationals who receive salaries unmatched by the private sector. This situation is particular to the GCC societies where traditional forms of government, characterized by patron-client relationships, coexist side by side with modern forms of public administration (Mansour, 2008).[2] In these societies there is no clear borderline between private and government ownership. It thus becomes difficult to target government owned companies or jobs in the sake of efficiency gains when these are primarily occupied by nationals.

The Role of GCC SWFs

SWFs typically function somewhere in between a mutual fund (risk-averse passive investor) and a private equity firm (higher risk-tolerance investor) [Boston consulting, 2012]. More specifically, SWFs cover a large spectrum of investment strategies, from a more classical passive asset management approach--with few, selected active investments--like Abu Dhabi Investment Authority (ADIA) to an active management of companies in the portfolio like Singapore's SWF Temasek.3 The GCC SWFs have been established as (i) stabilization tools (to reduce the vulnerability of the economy to excess volatility in revenues), (ii) future generation savings funds, and (iii) as government investment funds whose objectives are to finance economic development and diversification.

According to an article in Khaleej Times (March 15, 2013), and based on a report by Moody’s rating services, GCC SWFs account for 32.6 per cent of the global SWF assets which are valued at $5.2 trillion They also account for 110% of the region’s GDP. In the latest 2012 ranking of the top SWFs around the world, the Abu Dhabi Investment Authority tops the list at $627 billion, followed by Norway’s Government Pension Fund–Global ($611 billion) and China’s SAFE Investment Company ($568 billion). Many of the world’s largest SWFs are financed via oil revenue, such as in the case of the Abu Dhabi Investment Authority and Norway’s Government Pension Fund–Global.

The collective assets of GCC SWFs have surged in 2013 to an all-time high of around $1.7 trillion from around $700 billion at the end of 2007. In all, GCC countries’ SWFs assets now largely exceed the central governments liabilities, putting even less pressure to embark on privatization. Even in those countries with government debt, the massive SWFs are able to mitigate the situation.

Sovereign investors in the Middle East are now, after the financial crisis of 2007-08, increasingly seeking alternative investments like private equity and hedge funds (which account for 9% of the investments). The remaining 91% of the SWFs’ money is invested in traditional asset classes. The investments in alternatives have increased by an average of 69% in 2013 (Figure 1: source:

[2] Mansour, A., 2008, The Impact of Privatization on the United Arab Emirates Federal Public Sector, International Public Management Review, vol 9, issue 2.
[3] Mobilizing the potential of GCC Sovereign Wealth Funds for Mediterranean Partner Countries, European Investment Bank, 2012, Boston consulting group report, 22 p

Invesco Middle East Report, 2013, reported in the Wall Street Journal of Sept 30, 2013)[4].

Since the financial crisis, SWFs in the GCC have been under pressure to invest domestically. As a result, sovereign development funds – those which have domestic economic development objectives – were willing to take a lower return compared to their target of 11.6% if an investment also filled a social development need.

The Road Ahead

To diversify their economies, GCC countries have embarked on an economic reform process that aims at encouraging private sector involvement while trying to reduce that of the state. Legal reforms pertaining to securities markets have been actively implemented, several regulatory and administrative barriers have been eliminated to foster non–oil industries, but the role of the State in the economy remains significant. Given the welfare role of the state, the windfalls from oil and gas exports, and the accumulated assets in SWFs, privatization is not considered as a necessity nor regarded as a reform, but rather as a mere restructuring of some specific firms at some point in time.

[4] WSJ, "Shifting Focus for Middle East Sovereign Funds, Report Says", September 30 2013.

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Does China's Share Issue Privatization (SIP) Program Improve Firm Performance?

China announced its initiative for further privatization in the third plenum of the 18th Communist Party Congress, which was held in November 2013. The government has decided to continue reducing the role of state-owned enterprises (SOEs), promoting a mixed economy. SOEs produced about 80% of China's GDP back in 1978 when the economic reform started, but now the SOE share of GDP has declined to less than 25%. Most large SOEs have been partially privatized although the government is still the controlling shareholder.

The main purpose for the privatization is to revitalize SOEs and improve their profitability. However, most empirical studies do not find supporting evidence that Chinese privatizations, especially those implemented through share-issuing privatization (SIP), have improved the profitability of privatized firms. This is puzzling as it is inconsistent with theoretical predictions and empirical evidence documented elsewhere. It is also difficult to explain why the Chinese government keeps privatizing its large SOEs in this way if SIPs do not help to improve firm profitability.

Megginson and Netter (2001) survey 38 empirical studies which focus on the effect of privatization in the 1980s and 1990s. They conclude that privatization is associated with performance improvements. More recently, Estrin, Hanousek, Kocenda, and Svejnar(2009) evaluate the privatization experience in the transition economies over the past twenty years. They conclude that the effect of privatization is mostly positive in Central Europe although such positive effect becomes less and less pronounced over time.

China's SIP experience presents a different picture. Using a sample of 634 early SIPs over the 1994-1998 period, Sun and Tong (2003) find that the success of SIP in China is limited. Although the SIP boosts absolute earnings and real sales, it does not improve profitability in terms of return on sales (ROS). In addition, the market-to-book (MTB) ratio does not improve up to five years after the SIP. Jiang, Yue, and Zhao (2009) focus on a more recent sample of 149 SIP firms over the 1998-2003 period and find similar evidence that performance improvement due to SIP is limited. They find that sales revenue and EBIT increase significantly after a SIP, but there is a significant decline in average ROS from 18.5% for the three-year period before SIP to 9% for the three-year period afterwards.

Why is China's SIP experience not as successful as others elsewhere? A few possible reasons have been put forward to explain this unusual result. First, the nature of partial privatization may be the cause for the lack of significant improvement of profitability ratio for SIP firms. For most SIP firms, the government is still the controlling shareholder. Some argue such partial privatization is “nothing but logo”. However, the evidence found by Gupta (2005) shows even a mere average 8% privatization in India helps to improve the profitability of SIP firms significantly. Second, all SIP (in fact, all IPO) firms in China went through a restructuring process before listing which offers a good opportunity for firms to manage their earnings upward for the IPO (financial packaging). Since the inflated earnings cannot last for long, a decline in profitability after listing should be observed. Aharony, Lee, and Wong (2000) examine 83 SOE firms that issue B-shares in domestic stock exchanges or H-shares in the Hong Kong Stock Exchange and do find evidence of significant “financial packaging” by Chinese SOEs slated for public listing. However, earnings management for IPO is not unique for China. Teoh, Welch, and Wong (1998) find similar evidence for US firms. Third, using a sample of US IPOs issued over the 1975-1984 period, Ritter (1991) reports evidence that IPO stocks underperform relative to their matching firms from the first day of trading to their three-year anniversaries. This finding has been confirmed by subsequent studies using data outside the US, including China. It seems there is a negative long-term listing effect on firm performance.

The above arguments suggest that either there is no significant positive privatization effect in China or the positive privatization effect is overwhelmed by the negative listing effect, including the financial packaging effect. Due to data availability, previous studies mostly compare SIP firm performance with their own past results, and thus cannot distinguish the privatization effect from the above-mentioned confounding effects. This should not affect the conclusion arrived in the existing literature that privatization improves profitability in most countries as the confounding effects would only be biased against finding a positive privatization effect. However, in the case of China, no solid conclusion can be made without disentangling the privatization effect from these confounding effects. Using a recently available database compiled by China’s National Bureau of Statistics (NBS) and a difference-in-differences-in-differences (DDD) methodology, we try to tease out the pure privatization effect and see if it generates a positive impact on profitability for SIP firms.

The NBS Database includes financial and non-financial information for 430 thousand industrial (mainly manufacturing) firms with annual sales greater than 500 million RMB (about 81 million USD) over the 1998-2009 period. Among them, about 77 thousand are SOEs and the rest are private firms, collectives, and foreign firms. Following previous authors, we compare the 3-year median average profitability rate before and after the listing to gauge the performance change. First, we identify 225 SIP firms that went public during the period 2001-2006 and also construct a control sample of 225 SOEs that did not go through privatization during the same period. The control sample firms are matched to the SIP firms based on industry, sales, and profitability three years before the SIP. We compute the profitability rate changes (differences) for these two sample firms before and after the listing, and take the difference again between the change in profitability of SIP firms and the change in profitability of the matched SOEs (difference-in-differences or DD). This gives “the SIP effect”. Second, we identify 225 private firms went through an IPO during 2001-2006 and 225 private firms that stayed unlisted for the same period. In addition, these firms are also matched to the SIP firms by industry, listing year, sales, and profitability. The DD estimation of the two private firm samples gives the pure listing effect as there is no privatization involved. Finally, we use DDD to get the “pure privatization effect”, by subtracting the listing effect from the SIP effect.

Table. This table shows the DDD in median profitability measures. Wilcoxon Z-statistics are reported in the parentheses to examine if the various differences are statistically significant. ***, **, and * denote the significance at the 1%, 5% and 10% level, respectively.

Improvement = 3-year after the SIP – 3-year before the SIP	**ΔROA**	**ΔROE**	**ΔROS**	**Δ(EBIT/Sales)**
SIP firms	-0.045	-0.127	-0.044	-0.059
	(-12.167)***	(-12.682)***	(-10.321)***	(-10.371)***
Comparable SOEs	-0.027	-0.063	-0.034	-0.035
	(-6.858)***	(-7.062)***	(-8.025)***	(-7.404)***
DD1 = ΔSIPs –ΔSOEs	-0.018	-0.063	-0.010	-0.023
	(-5.213)***	(-7.966)***	(-1.814)*	(-2.710)***
Private IPOs firms	-0.055	-0.160	-0.056	-0.073
	(-12.727)***	(-13.005)***	(-11.622)***	(-11.448)***
Comparable private firms	-0.030	-0.036	-0.026	-0.030
	(-4.442)***	(-4.480)***	(-5.995)***	(-5.233)***
DD2 = ΔIPOs –ΔPrivate	-0.025	-0.124	-0.030	-0.043
	(-5.258)***	(-8.530)***	(-5.705)***	(-6.474)***
DDD = DD1 – DD2	0.015	0.039	0.031	0.029
	-1.604	(2.849)***	(2.969)***	(2.958)***

Our DDD analysis results are shown in the table. Consistent with prior authors, we find the profitability change for SIP firms is negative and statistically significant across profitability measures. ROA, ROE, ROS, and EBIT/Sales all drop after SIP. While the profitability measures for comparable SOEs also drop during the same period, they drop much less. Hence, the SIP effect on profitability is significantly negative as indicated by DD1. If we stopped here, we would conclude that SIP decreases the profitability as do previous authors. However, when further examining the profitability changes for private IPO firms and their comparable peers staying unlisted, we find that the profitability of IPO firms also drop much more than that of unlisted private firms as indicated by DD2. As pointed out earlier, these IPOs have nothing to do with privatization. Therefore, DD2 is a measure for the pure listing effect. By subtracting the listing effect from the SIP effect, we can estimate the pure privatization effect. That is the DDD. As shown in the table, it is positive and statistically significant for all four profitability measures, implying that privatization improves rather than reduces firm performance after its SIP.

The results shown in the table are robust across a few alternative matching criteria set for control groups. Therefore, we conclude that the privatization effect on profitability is actually positive in China. However, it is overshadowed by the large negative listing effect so that a negative SIP effect is observed. However, with more rigorous listing regulations and auditing system in place, which will more effectively curb earnings management, and with the new government privatization initiative, we expect the listing effect will be less negative and the privatization effect more positive. Combined, these steps should lead to a positive overall SIP effect in China in the future.

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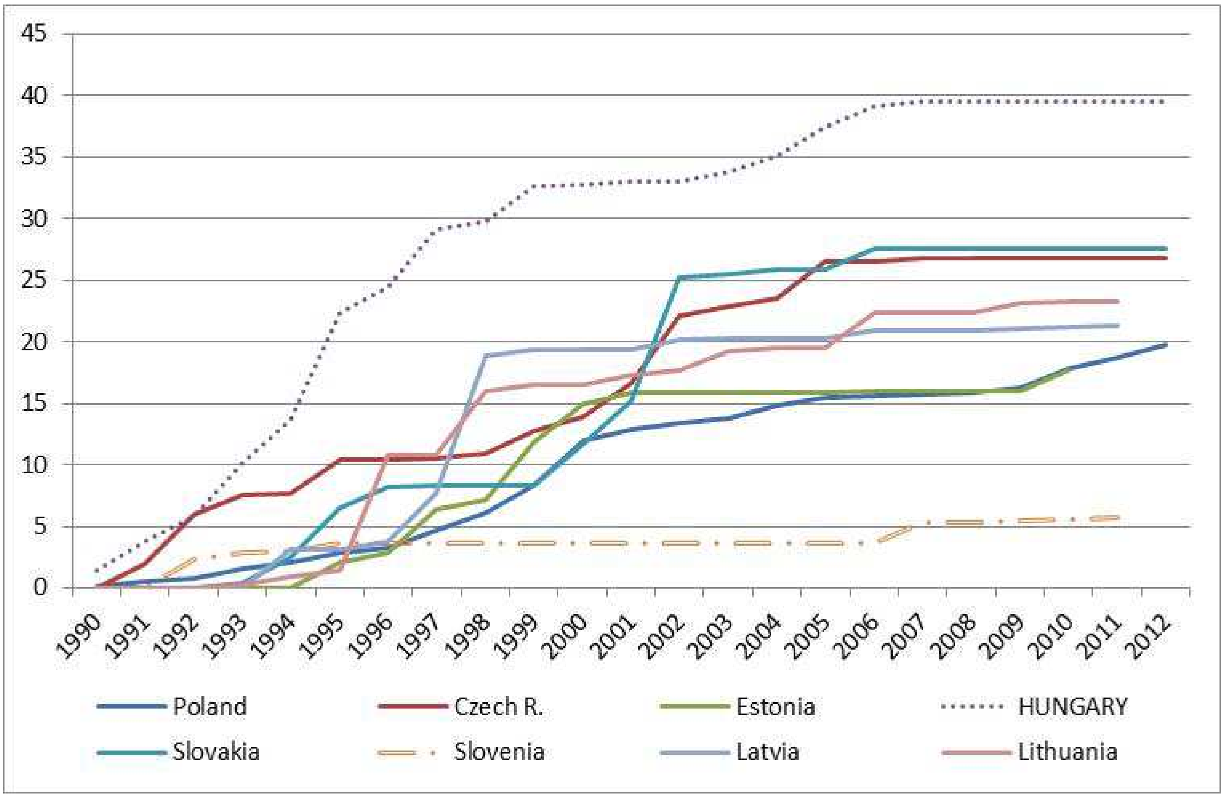
Re-nationalization in post-communist Hungary, 2010 – 2013

In 1990, Hungary became a Parliamentary democracy, in which private property was enshrined in the constitution and strong institutions upheld a sophisticated network of checks and balances. The country was, for approximately a decade, the pioneer of the post-communist transformation process.[1] Compared to the annual GDP, the privatization revenues were much higher than elsewhere (Figure 1).

Figure 1: The cumulative size of privatization revenues in some Central and Eastern European countries (as a % of GDP), 1990 - 2012



Source: *OECD, based on World Bank Privatization Database 1990-2008, World Development Indicators, IMF Article IV reports and CESIFO DICE database.*

This policy brought a record amount of private FDI into the country and secured an early accession to NATO and the European Union in 1999 and 2004, respectively. To the great surprise of the outside world, the elections in 2010 brought a complete reversal in the transformation process in general, and in the privatizations drive in particular. Hungary embarked upon a re-nationalizations

[1] See e.g. Mihalyi (1992, 1993, 2000/2001 and 2010).

campaign, which is likely to continue since the government was re-elected in April 2014.

In the 1990-2010 period, occasional re-nationalizations did happen in Hungary, like in many other countries. Most of the time, the reason was trivial. In the hands of a new owner, be it a foreign or a Hungarian investor, the former SOE converged towards bankruptcy, but for some reason, the authorities wanted to rescue it. There were various forms of bail out, and one option was the restoration of state ownership. In the majority of the cases, these transactions were followed by a quick re-sale, or reprivatization.[2] In other cases, the planned re-sale never materialized. This happened – for example – with the M1/M15 motorways which were developed in a Public-Private Partnership (PPP) framework between 1994-1998. These motorways are still in state hands. By contrast, the M5 motorway, also built as a PPP, was resold after re-nationalization practically to the same Austrian investor (Strabag). The common feature of these parallel stories – both the foreign and the Hungarian examples before 2010 – was that they were never amalgamated into a coherent, anti-capitalist narrative.

By contrast, the post-2010 nationalization drive of Prime Minister Viktor Orbán was presented to the public as a cognizant correction of the allegedly "mistaken" privatization policies of six (!) previous Hungarian governments. Two assertions have been repeatedly made by him: (i) utility companies should not have been privatized at all, because they are natural monopolies; (ii) the national interest requires that the share of Hungarian owners should rise and that of the foreign multinationals should go down in other strategic sectors like banking and media as well. This note will present the most salient transactions and will offer the author's opinion on the most likely cause of the re-nationalization. In closing, it will be shown that in quantitative terms, the volume of all re-nationalization transactions were (so far) much smaller when compared to the privatization deals implemented in the second half of the 1990s.

Centralization and direct state control.

The re-nationalization campaign was only one element of Mr. Orbán's autocratic, one-person rule. Right after the 2010 election, he initiated a new constitution, which was quickly adopted. The term "private ownership" was removed from the text. This new Basic Law (as it is officially called) took away a lot of discretionary power and property from the municipalities and shifted them to the central government (e.g. schools, in-patient healthcare facilities, fire brigades, museums and archives).[3] Among the several hundred laws passed by Parliament between 2010 and 2013, many were designed to limit the free conduct of businesses. The most important prohibitions and limitations were as follows:

1. The so-called cafeteria system: meal tickets and holiday tickets used for paying tourism services.
2. Possession and use of passenger cars with foreign license plate.
3. Construction of new shopping malls for 2 ½ years.
4. Mobile payment systems (e.g. car parking).

[2] The history of MALÉV, the Hungarian airline, is a good illustration. This firm was partially privatised in 1992, but later it was renationalised two times (1997, 2010), but, finally, it went into liquidation in 2013. The new terminals of Budapest Airport were renationalised in 2001, but then they were resold for a much larger sum of money in 2005.

[3] For a detailed analysis of the first two years in English language, see Kornai (2011, 2012).

5. In waste collection companies, private ownership was maximized at 49%.
6. The market for company liquidation service was closed; there is no possibility to enter during the next four years.
7. Pharmacies must be majority owned by a pharmacist.
8. Selling tobacco product to the public is a state monopoly, subject to the concession law.
9. The operation of gambling machines in catering units were first banned, and then the concession licenses were redistributed to new firms.
10. The operation of DNA forensic laboratories was declared a state monopoly.
11. The involvement of private engineering firms in the design of EU-financed state investment projects was forbidden.
12. Higher entry conditions were introduced for private schools teaching foreign languages.

Regulatory taking.
At first glance, these re-nationalizations look suicidal, especially if and when foreign owners were affected. After all, Hungary is not only a UN and EU member, but she is bound by bilateral investment treaties (BITs) some of which preceded the 1989 regime change. However, after a closer inspection, we can see that what happened was "regulatory taking" in the language of Anglo-Saxon jurisprudence (Table 1). This is a policy with which the government regulates the use of a property to such a degree that the regulation effectively amounts to an exercise of the government's eminent domain power[4] without actually divesting the property's owner of title to the property. In everyday parlance, this is indirect coercion, as a result of which most owners find it more advantageous for themselves to sell their property to the state rather than to absorb the losses arising from the new regulatory rules.

The fiscal implications.
Intuitively, one would think that state money used for buying equity would – *ceteris paribus* – directly increase the government's fiscal deficit which was above 3% Maastricht ceiling anyway for most of the time since 1990. But this is not the case. According to the Eurostat rules, the fiscal balance is reported on accrual basis (rather than cash basis). Thus, today, the costs of nationalization do not appear as a negative item, just as it happened during the heydays of privatization, when privatization revenues did not increase budgetary revenues. Furthermore it is important to note that the reported HUF figures of the re-nationalization transactions in Table 1, are somewhat misleading due to the rapid inflation of the Hungarian currency. If the privatization deals of the 1990s and the recent re-nationalization deals are calculated as a % of GDP (Figure 2), it is clearly visible that the sums involved in renationalization are lot smaller than the privatization revenues were.

[4] In many countries, the reference to the state's eminent domain power is simply called "public interest". In line with new Constitution, the Constitution Court rejected each and every complaint pertaining to the renationalization procedure (e.g. cooperative banks, tobacco shops) with a direct reference to the „public interest" which now trumps the principle of „private ownership".

Table 1. A selected list of Hungarian re-nationalization transactions, 2010 – 2013

	Undermining profitability				Targeted legal actions				
Name of the company, nature of the transaction (year)	**Mandatory cost-increases**	**Mandatory price freeze or cut**	**Punitive taxes**	**Switch from free market to state monopoly**	**Limitation of shareholders' rights through legislation**	**Criminal charges**	**Populist blame game (targeted or general)**	**Size of the re-nationalization transaction**	**Price paid by the government**
20 private pension funds (2010/2011)				95% success			"The pension funds lost the people's shirt in the casino."	HUF 3000 bn (≈ 10% of GDP)	0
22.1% of the shares of Mol from Russian Surgutneftegaz (2011)			×		×				HUF 500 bn
100% of E.ON wholesale natural gas trading company and storage facilities (2013)		×	×	×	×		"Hungarian energy prices are the highest in the EU"	HUF 281 bn	
MOL gas storage facility (2013)		×	×	×	×			HUF 140 bn	
49% FŐGÁZ – the gas distribution company of Budapest (2013)	×	×	×					HUF 41 bn (closing was postponed)	
100% Bakony power generating company (2011)		×	×					HUF 3-5 bn	
25% of Budapest Water Works (2012)	×	×	×			×	"It was too profitable for the foreign owners."	HUF 14 bn	
38.5% of shares of the (central) Cooperative bank from the German DZ Bank (2013)			×		×				HUF 5 bn
100% of 128 cooperative banks (2013)			×		×		"These banks were poorly managed."	HUF 800 bn deposit	0
100% of MAL bauxite-alumina company from Hungarian private owners (2013)			×			×	"Managers' criminal negligence."	..	0
100% of Water works in Pécs from the French company SUEZ (2012)		×	×			×	"Improper privatization/concession contract."		HUF 3 bn
100% of Pro – M Zrt., a mobile telecommunication company from Deutsche Telekom (2012)			×	×			"A matter of national security."	HUF 20 bn	
83% of shares Rába Holding, an automotive manufacturing company, listed on Budapest Stock Exchange (2011)							"A matter of national security."	HUF 6.3 bn	
Three bankrupt meet-processing companies (2013)							"The protection of jobs."	HUF 5.3 bn	
100% of FTC football club from a Scottish private investor (2011/2012)						×	"Saving a prestigious, but bankrupt sport club."	HUF 5 bn	
Cca. 5 000 tobacco shops - 2013				×	×		"The protection of minors from smoking"	0	

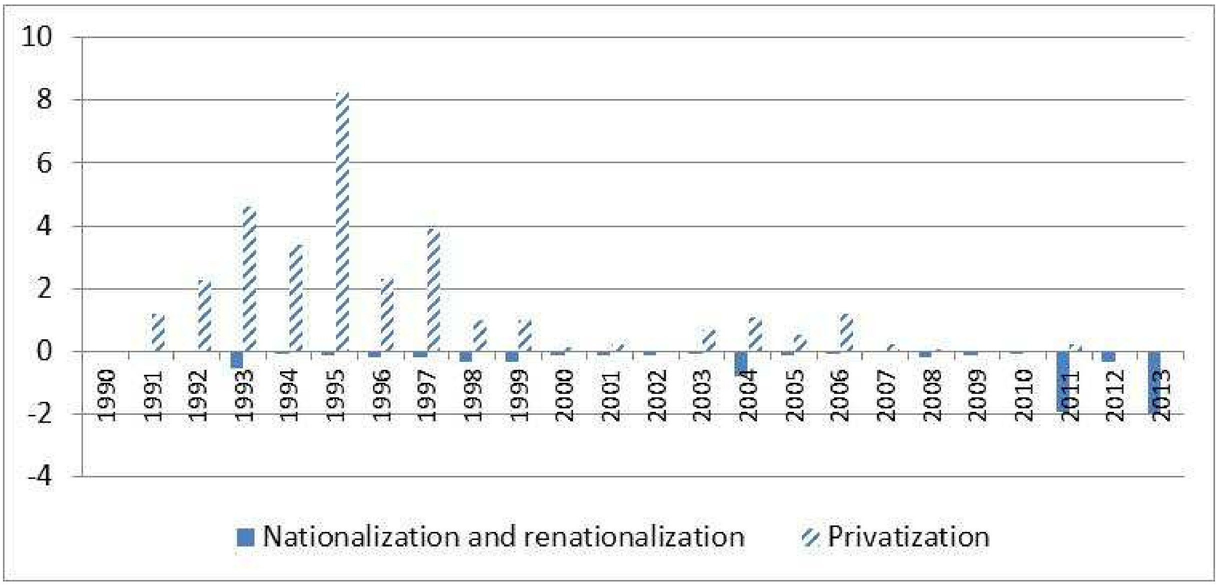
* *Source:* Author's compilations. Note: Average exchange rate between 2010-2013: 300 HUF ≈ 1 €.

Transitory nationalization?

If we accept the official statements at face value, in most cases, at least outside of the utility sector, the state does not intend to own the acquired companies for long. Rather, it wants to change the ownership structure of a particular business sector: in plain language, to take away from some, in order to give to others.[5] Some of these deals have already materialized – such as the chain of cooperative banks – but most of the firms are still in a state of limbo.

[5] In the view of many respected and influential analysts, this is the main driver of Mr. Orbán – the canalization of assets to his own cronies with mafia-type methods [See Magyar (2014)]. In my view, however, the motives of Orbán are far more multi-faceted and the mafia analogy is misdirected.

Figure 2: The macro-balance of privatization and re-nationalization, 1990 – 2013 (as % of GDP)



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