The PB Report 2007

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Reporting on privatization in the enlarged Europe

THE WEBSITE ON PRIVATIZATION IN EUROPE

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Contents

DATA VIEW

1977- 2007

Privatization in Europe 6

2007

EU SIPs, 2007 7

Equity Markets in Europe, 2007 8

EU Revenues, 2007 9

EU Revenues, 1H 2007 10

EU Revenues, 2H2007 10

EU Revenues by Sectors, 2007 11

EU Deals, 2007 16

Chinese SIPs, 2H2007 20

What's going on

Announced Deals 51-53

EXECUTIVE SUMMARY 3

TRENDS 6

Bernardo Bortolotti and William L. Megginson

Privatization Trends in 2007

DEALS 13

William L. Megginson

Major Deals of 2007: A Tale of Two Semesters

ARTICLES 22

Stephen L Jen

Sovereign Wealth Funds – A Game Changer 22

Erik Dansbo and Oscar Wallner

Sweden's Privatization Program 29

Andrea Goldstein and Céline Kauffmann

Private sector and the water challenge in developing countries 34

Timothy Frye and Ekaterina Zhuravskaya

Support for Revising Privatization in the Postcommunist World 38

WHAT'S GOING ON? 44

Selected News

From PB News / DowJones Newswire

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Executive Director:
W.L. Megginson

Scientific Advisor:
B. Bortolotti

Researchers:
L. Farinola
V. Milella
L. Pellizzola

c/o Fondazione Eni Enrico Mattei - FEEM
Corso Magenta 63, 20123 Milano - Italy
tel +39 | 02 | 5203.6951
fax +39 | 02 | 5203.6946
e-mail: info@privatizationbarometer.net

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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 at monitoring the most recent trends, at analyzing aggregate data on revenues and transactions, and at providing updated statistics at the country and sector level.

The report highlights the most important privatization deals of the year, focusing on the European Union but monitoring also the process around the rest of world and 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.

Executive Summary

The year 2007 can be characterized quite simply in regards to privatization worldwide: Europe fading, China surging, Russia resting, and India becalmed. The year just passed marked the first time that significantly more total proceeds were raised by a single non-EU country, China, than by the 27 countries of the expanded European Union combined. In fact, China raised more through large share issue privatizations alone during 2007 (€41.93 billion, $60.80 billion) than did all 26 members of the European Union through all public and private sales combined (€39.99 billion, $53.94 billion). Russia was very active during the first half of 2007--with three sales yielding total proceeds of €13.56 billion ($19.66 billion)-- but sat out the second half entirely, while other regions of the world saw little privatization activity. In spite of ongoing rapid economic growth, the political equilibrium that has blocked major economic reforms in India since the 2004 elections continued to do so during 2007.

During the first half of 2007, three major players—the European Union, Russia, and China—privatized comparable total amounts each (€26.78 billion, €13.56 billion, and €13.04 billion, respectively). During the second half of 2007, however, the story was all about China, which not only privatized more during that six month period second half (€29.79 billion, $43.2 billion) than did the rest of the world combined (€15.71 billion, $22.78 billion), but also sold three of the four largest share issue privatizations of 2007 (Russia's Sberbank offering was the largest). Drilling further, the 2007 China story was overwhelmingly a tale of the central government executing large A-share IPOs of state-owned firms on the Shanghai and Shenzhen Stock Exchanges, rather than in Hong Kong or New York, as had been the practice previously. All told, Chinese companies sold over $100 billion worth of stock during 2007, and the major share of this total was accounted for by A-share IPOs of state enterprises sold on the two mainland exchanges.

It was always likely that 2007 would see a slowdown in global privatizations after the two previous, near-record yearly totals. Furthermore, the slowdown was expected to be particularly sharp in Western Europe, for two reasons. First, there were few untouched industries left to sell and those EU state enterprises which remained fully or partially in state hands were the most problematic politically and financially. Second, political stalemates in the key countries of Germany, France, and Italy made any additional sales of even small stakes in partially privatized companies highly controversial. In actual fact, EU

sales during the first half of 2007 were only slightly off the previous years' pace, but European privatizations declined precipitously in both number and value during the second half. In fact, the newly elected Sarkozy government in France was the only European government to execute a single transaction larger than €1.62 billion ($2.23 billion) during 2H2007. While the three German sales of this period did raise a total of €3.56 billion ($2.23 billion), only France's full year privatization total of €14.68 billion ($20.19 billion) was on par with immediately preceding years.

Apart from France and (to a lesser degree) Germany, previously important EU privatizers largely sat out 2007. Finland, Spain Greece, and Britain all sold at least €1 billion in state assets during 2007, but in all these cases the sales occurred early in the year and were episodic rather than programmatic. Another major player of earlier periods, Italy, began 2007 with promise by launching a concerted effort to sell off the state's remaining 49.9% stake in the national airline, Alitalia, which was (and still is) losing over €1 million every business day. After a promising start, however, the state-run sale process collapsed, after which the government gave the company itself the responsibility to find a merger partner. The much anticipated Swedish privatization program never really took off during 2007. The new center-right government was unable to articulate a clear privatization strategy and there was but one, early, success—the March sale of an 8% stake in TeliaSonera which raised €2.05 billion ($2.77 billion). After that, the program stalled completely, as described in this issue's article by Erik Dansbo and Oscar Wallner.

There were almost no large privatizations in New Europe during 2007. Only eight divestitures took place throughout the region during 1H2007, and the first half's largest sale raised a mere €127 million. There was only one sale during 2H2007, though this partial privatization of Slovenia's largest commercial bank raised €309 million ($455 million) and was well received. At first glance, this lack of enthusiasm for privatization among Europe's newest members is troubling. However, the article in this issue by Timothy Frye and Katia Zhuravskaya, which examines the results of surveys of Eastern European citizens' attitudes towards privatization, shows overwhelming support for private ownership of former state owned enterprises. Many of New Europe's citizens are dissatisfied with the methods by which firms were divested, and a sizeable minority would demand financial payments from owners who bought state assets too "cheaply", but only a small fraction of the public would support permanent renationalization.

Several factors contributed to the sharp fall-off in privatization activity in Europe and, indeed, the rest of the world outside of China during the second half of 2007. Most importantly, western financial systems were thrown into crisis by the virtual collapse of the subprime mortgage loan market in the United States, which dramatically reduced almost all investors' appetites for risk. Second, troubles in global credit markets led to a very sharp decline in merger activity and a near collapse in what had

been a very strong market for private equity fund-raising and investment. This in turn eliminated private equity funds as potential privatization investors, thus forcing governments to turn away from what had earlier emerged as a promising source of private sector demand for state assets. The decline in stock market values and in risk tolerance among traditional investors that occurred during 2H2007 was partly offset by the emergence of sovereign wealth funds (SWF) as major international investors. As the article by Stephen Jen in this issue makes clear, sovereign wealth funds--which are investment funds that are fully owned by sovereign governments and that invest internationally mostly in dollars--now control over $2.5 trillion of investable capital. Although SWFs did not figure prominently in any major privatizations during 2007, their rapidly increasing size implies that these funds will play an increasingly important role as purchasers of privatized assets for many years to come.

It currently appears that 2008 will play out much the same way as did the second half of 2007. China will continue to dominate all other individual countries as a seller of stock in state owned enterprises, most of these privatizations will be A-Share offerings of newly issued primary shares on domestic stock exchanges, and these will continue to be enthusiastically received by domestic and international investors. In total, Chinese companies may well again raise almost $100 billion over the course of 2008. Russia is also likely to resume an active privatization program, and will likely place as the second largest national divestor of state assets. The prospects for European privatizations during 2008 are less clear-cut. No major EU country has a significant program underway, so any sales executed by France, Germany, Italy, Spain, or Britain will be opportunistic. Sweden may finally get its program off the ground during 2008, though the signs now are not especially promising, while Slovenia will privatize its telecom provider in early 2008. In total, we expect to see European governments raise about €40 billion ($59.2 billion) over the course of will seems likely to be a very interesting year.

Bernardo Bortolotti [§] and William L. Megginson [†]

[§] University of Turin and FEEM [†] University of Oklahoma

Privatization Trends in 2007

Global Trends in Privatization, 2007

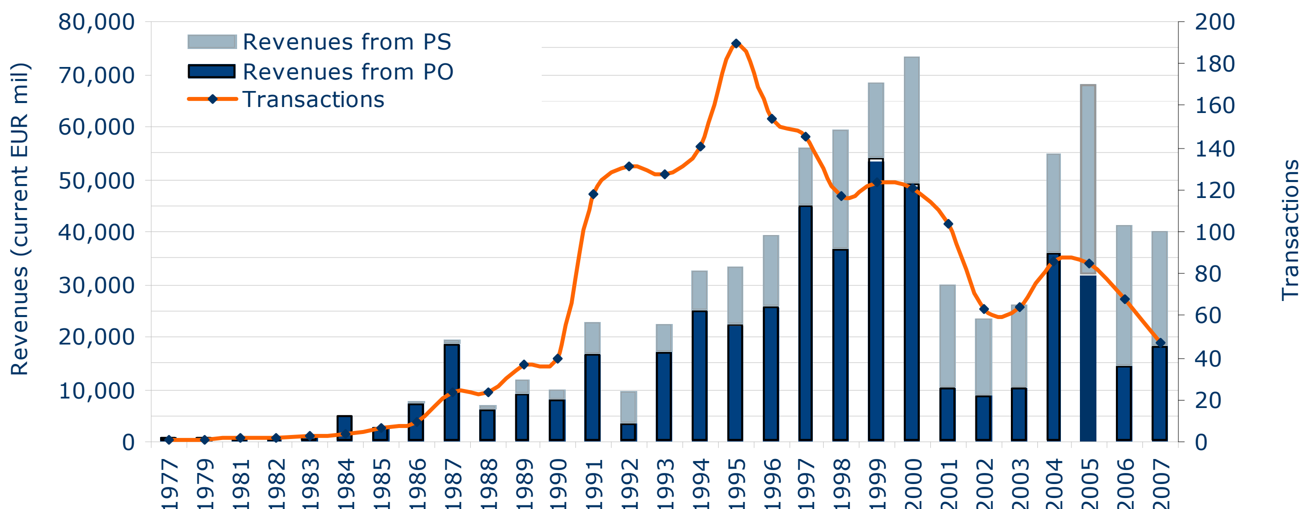
2007: a turning point in the history of privatization?

The year 2007 marked what may in retrospect prove to be a turning point in the history of privatization in that this year witnessed significantly more total proceeds being raised by a single non-EU country than by the 27 countries of the expanded European Union combined. As detailed in Figure 1, which puts the EU's 2007 privatization total in historical context, total European privatization proceeds of €39.99 billion, ($53.94 billion) fell to a four-year low. In fact, China raised more through large share issue privatizations alone during 2007 (€41.93 billion, $60.80 billion) than did all 27 members of the European Union through all public and private sales combined. In fact, three Russian sales during the first half of 2007 yielded more total proceeds (€13.56 billion, $19.66 billion) than did all of the EU's sales during 2H2007 (€13.21 billion, $19.18 billion), and the largest EU privatizer of 2007, France, raised less for the entire year than China did during the months of October and November. Apart from France, no other EU country was actively privatizing throughout the year.

EU, Russia and China are the three major players during 1H2007

In addition to being a transitional year regarding the relative importance of European governments as privatizers, 2007 was also a story of two very different six-month periods. During 1H2007, there were three major players—the European Union, Russia, and China—that privatized comparable total amounts each (€26.78 billion, €13.56 billion, and €13.04 billion, respectively). Russia led all nations in terms of total privatization values during the first half of 2007 with its €13.56 billion ($ billion) total from two SIPs and one private sale, while China led all countries in the total value of share issue privatization during 1H2007. However, the European Union collectively sold the largest total amount of state

Figure 1. Privatization in the Enlarged Europe: Total Revenues and Transactions 1977 - 2007



Source: *Privatization Barometer.*

While during the 2nd half of the year the story is all about China

assets during 2007's first semester. Figure 2 details EU share issue privatizations during 2007. During the second half of 2007, the story was all about China. Not only did China privatize more during the second half (€29.79 billion, $43.2 billion) than did the rest of the world combined (€15.71 billion, $22.78 billion), but the four largest share issue privatizations of 2H2007 were all Chinese A-share initial public offerings sold on the Shanghai or Shenzhen Stock Exchanges. China also executed the second and third largest SIPs during the 2007's second half—the November **PetroChina** IPO, which yielded €6.14 billion ($8.90 billion) and the October IPO of **China Shenhua Energy**, which raised €6.07 billion ($8.80 billion). The largest SIP of 2007 was Russia's €6.52 billion ($8.80 billion) domestic offering of **Sberbank,** in February.

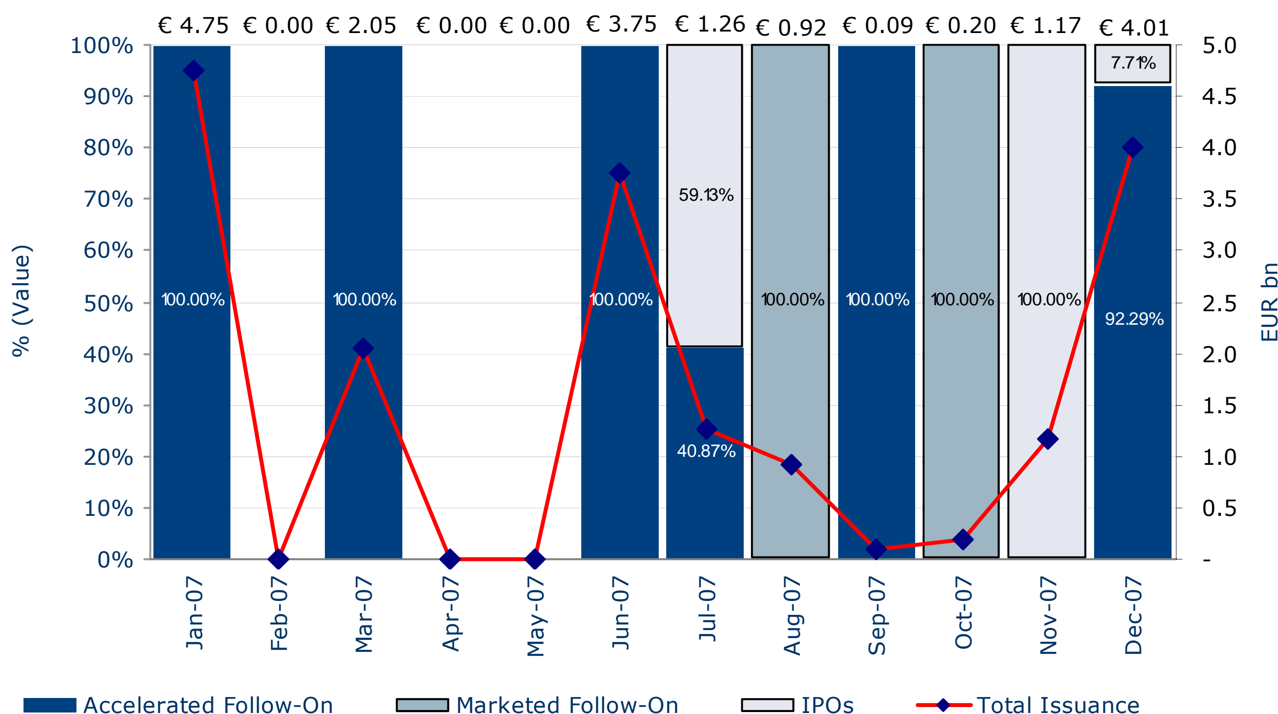
The recent troubles in the US credit market spilled over on the western financial systems...

Several factors contributed to the sharp fall-off in privatization activity outside of China during the second half of 2007. Most prominently, western financial systems were thrown into crisis by the virtual collapse of the subprime mortgage loan market in the United States, which prompted banks and investors everywhere to question the value of structured investment vehicles (SIVs) and all other non-transparent financial assets. This American malaise soon infected the financial systems of Europe and, to a lesser extent, Asia and brought about a very sharp contraction in lending by international commercial and investment banks. Most importantly, this unfolding crisis dramatically reduced almost all investors' appetites for risk. Troubles in the credit markets quickly spilled over into equity markets and the second half of 2007 witnessed a major decline in the total number and value of mergers worldwide, as well as a near collapse in what had been a red-hot private equity market.

...and dramatically reduced almost all investors' appetites for risk

Indeed, the pace of merger activity worldwide during 2H2007 dropped almost in half from the pace of the first semester, and the fraction of total buyouts accounted for by private equity funds dropped from roughly a third of total M&A activity to less than ten percent. Although global stock market index values remained buoyant for most of the year, and the Dow Jones Industrial Average hit

Figure 2. Share Issue Privatization in the Enlarged Europe, 2007



Source: *Privatization Barometer.*

an all-time peak in October, markets began dropping around the world during the closing months of the year. Figure 3 shows that European stock markets were robust for most of 2007, but then sank towards year-end.

On the other hand, this crisis contributed to the emergence of an important new type of investor: the Sovereign Wealth Funds...

The decline in stock market values and in risk tolerance among traditional investors that occurred during 2H2007 was partly offset by the emergence of an intriguing and important new type of investor—sovereign wealth funds. These are investment funds that are fully owned by sovereign governments, that invest internationally mostly in dollars, and that are not committed to paying specific pension liabilities. As the article by Stephen Jen in this issue makes clear, sovereign wealth funds (SWF) now control over $2.5 trillion of investable capital and this will likely rise to $12 trillion within seven years. SWFs gained international prominence during 2H2007 with a series of very savvy investments in western banks which were announcing multi-billion dollar losses while simultaneously announcing similar-sized capital infusions from SWFs. These funds seem certain to play an increasingly important role as purchasers of privatized assets for many years to come.

EU governments display a schizophrenic and opportunistic attitude towards privatization during 2007

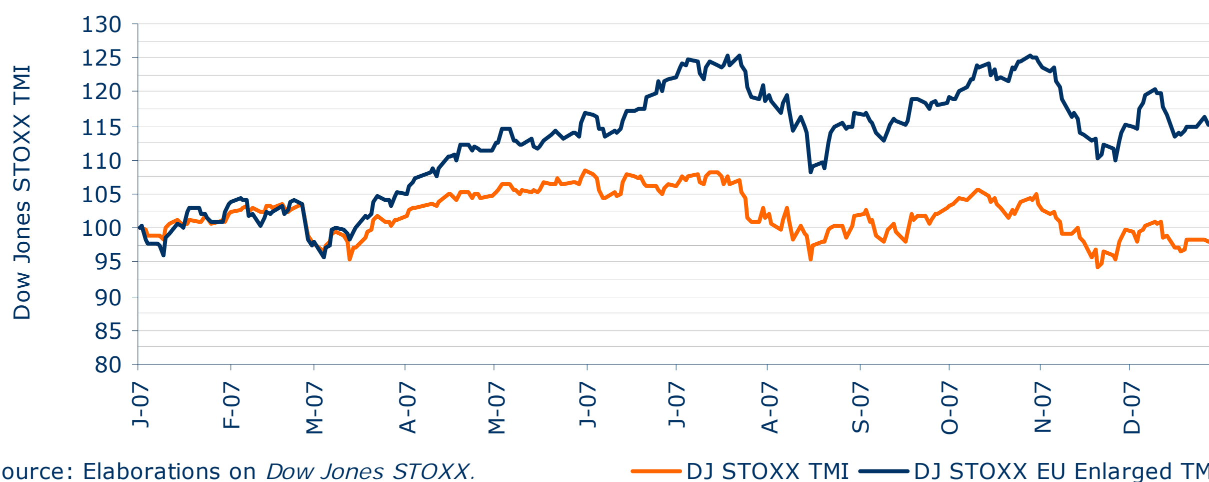
Privatization Trends in the European Union, 2007

As noted above, European governments displayed an almost schizophrenic attitude towards privatizing state assets during 2007. During the first half of the year, several governments executed sales at a steady if unremarkable pace. France, Finland, the United Kingdom, Sweden, and Germany all sold assets worth more than €3 billion ($4.35 billion), and there were five privatizations during 1H2007 that raised at least €2 billion. During the second half of 2007, only France and Germany raised more than €3 billion, and only France was truly active for the entire year. Its full year total of €14.68 billion ($20.19 billion) was almost equal to the totals of the next three EU countries combined (Germany, Finland and the United Kingdom).

...in France, the rationale is basically maximizing revenues

The French privatization program during 2007 showed the same opportunistic streak that has characterized it for the past several years. Rather than pursuing a consistent, planned policy of sequenced sales, the government instead sold significant blocs of shares in state enterprises whenever it needed ready cash and markets were receptive. The largest sale by any EU government during 2007 occurred in January, when the French government raised €6.99 billion ($9.44 billion) with the private sale of its 35% stake in **Caisse Nationale de Caisses d'Epargne** (CDC). Five months later, the new Sarkozy government raised €2.65

Figure 3. Equity Markets in EU25, 2007



Source: Elaborations on *Dow Jones STOXX.*

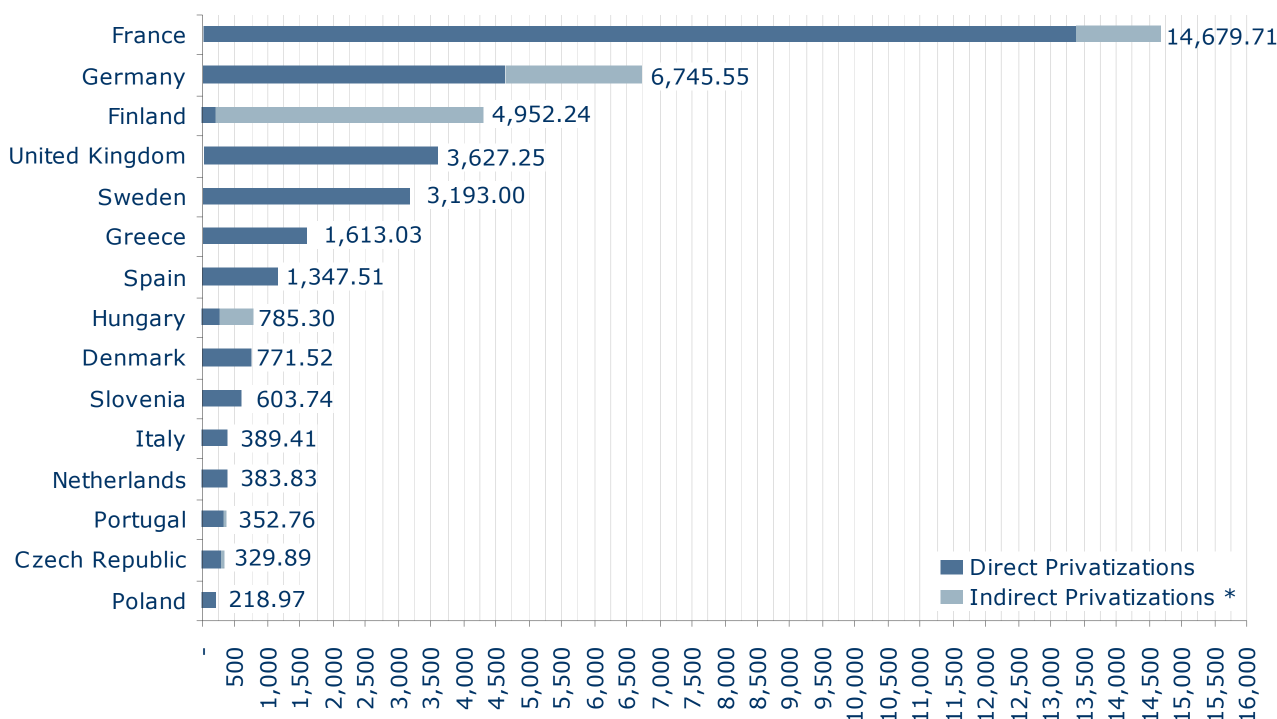
billion ($3.84 billion) with an accelerated offering of a 5% stake in **France Telecom**, and then closed the year with another accelerated offering of a 2.5% bloc of shares in **Electricité de France** that raised €3.70 billion ($5.37 billion). No other EU sale raised more than €1.62 billion during 2H2007. Figures 4, 5, and 6 graphically present the distribution of privatization revenues among EU countries for, respectively, the full year of 2007 and for the first and second halves. The figures also reveal that 79.5% (by value) of 2007 EU transactions were direct sales by national governments and 20.5% were indirect sales by state-owned holding companies, and these percentages were very similar during the first and second halves of 2007.

The Swedish government experiences false starts in its attempts to privatize state assets

The much anticipated Swedish privatization program never really took off during 2007. After coming to power on an economic reform platform in late 2006, the new center-right government was unable to articulate a clear privatization strategy throughout 2007. There was one early success, when the state raised €2.05 billion ($2.77 billion) by selling an 8% stake in **TeliaSonera** through an accelerated offering in March, but the program then stalled. The acting head of the privatization program resigned following a scandal at the executive's former employer and no replacement has yet been found. The article by Erik Dansbo and Oscar Wallner in this issue describes the challenges and false starts experienced by the Swedish government in its attempts to privatize state assets.

Other important privatizers of earlier periods largely sat out 2007. Finland, Greece, Spain and Britain all sold at least €1 billion in state assets during 2007, but in all these cases the sales occurred early in the year and were episodic rather than programmatic. Another major player of earlier periods, Italy, began 2007 with promise by launching a concerted effort to sell off the state's remaining

Figure 4. Distribution of Privatization Revenues by Country, 2007



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

Source: *Privatization Barometer.*

...and Italy is still stuck in the privatization of the flag carrier Alitalia

49.9% stake in the national airline, **Alitalia**, which was (and still is) losing over €1 million every business day. The government began the process by listing a series of requirements that a buyer would have to meet—which included maintaining the company's employment levels and route structures, maintaining airport hubs in both Rome and Milan, and preserving the "Italian character" of the firm's ownership. Even though these requirements were widely criticized as excessive and unrealistic, no fewer than ten interested parties submitted bids in the first sale round, which closed in March. The government then selected five bidders to move forward to more in-depth negotiations, but it soon became clear that the listed requirements were indeed problematic. One by one, the potential bidders began dropping out of the race until the final bidder's withdrawal in July brought the entire state-run auction process to a halt. The government then gave

Figure 5. Distribution of Privatization Revenues by Country, 1H2007

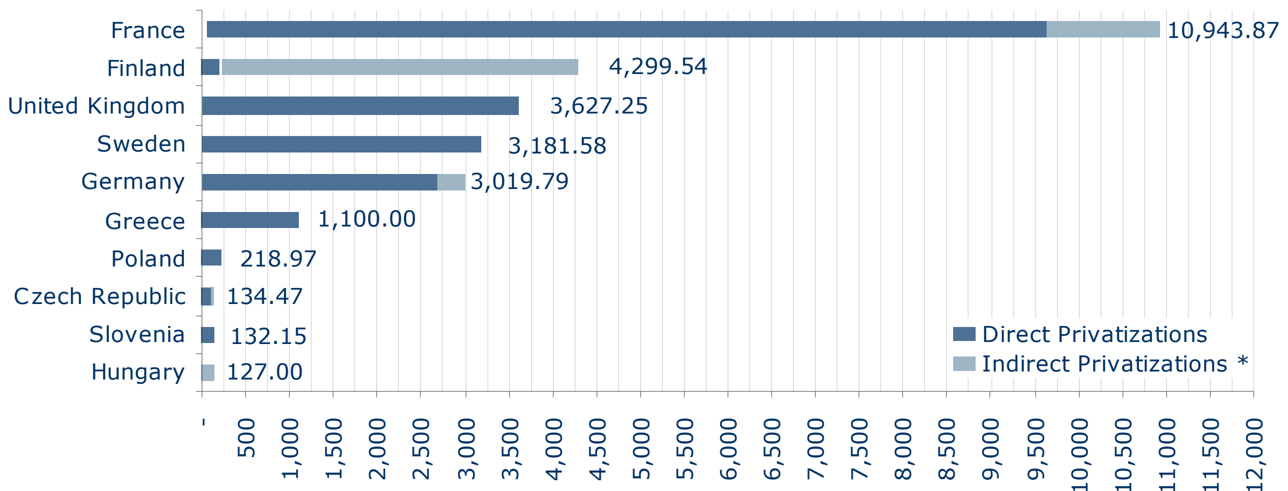
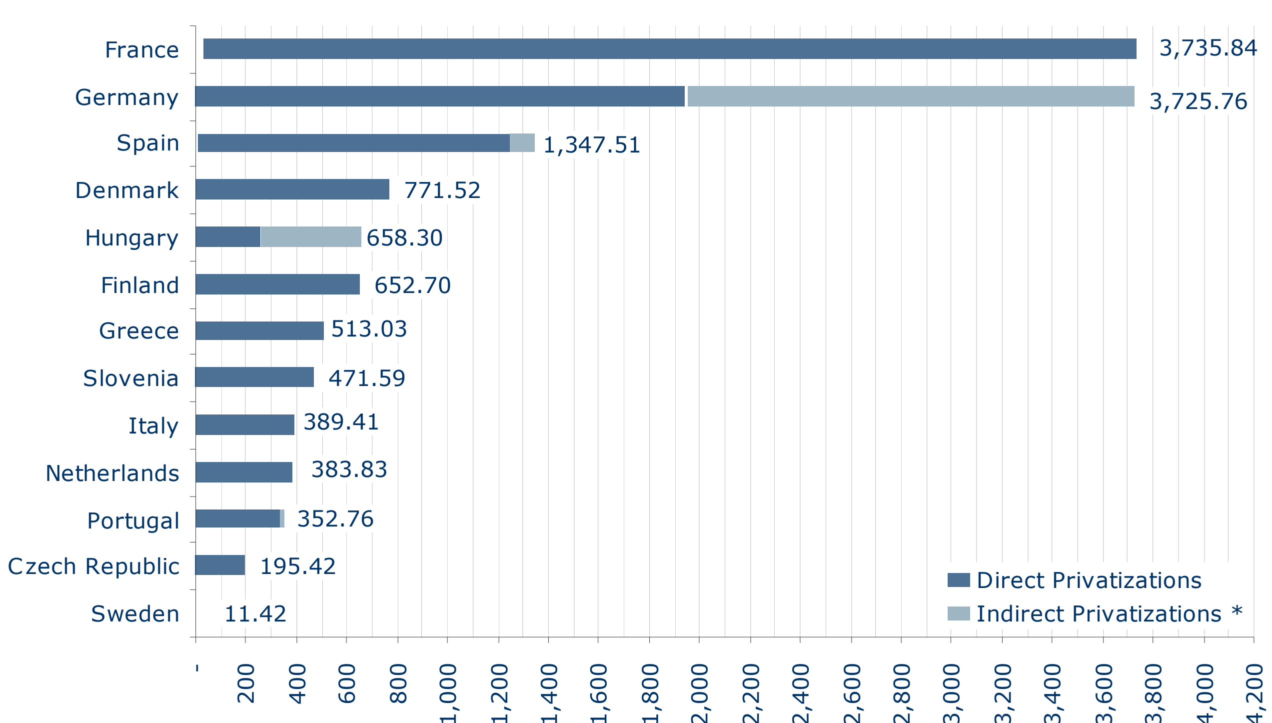


Figure 6. Distribution of Privatization Revenues by Country, 2H2007



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

Source: *Privatization Barometer*

the company itself the responsibility to find a merger partner and to negotiate terms, without preconditions. By November, two interested parties had emerged and one month later Alitalia selected (with government approval) Air France KLM as the sole bidder with which to enter negotiations for a final sale. These negotiations remain ongoing and incomplete as of early February 2008.

Industrial Characteristics of European Privatizations during 2007

EU total privatization revenues are basically concentrated in three sectors...

Finance, 41%

As in most previous years, three industries (finance, utilities and telecommunications) accounted for over 80% of the €39.99 billion ($53.94 billion) value of EU privatizations during 2007. As depicted in Figure 7, sales of financial sector firms accounted for 41% of the value of all sales for the full year, and for 50% of privatization proceeds during the first half. The 1H2007 total was swelled by three large private sales--of Caisse Nationale de Caisses d'Espargne by France, of **Sampo Bank** by Finland, and of **Centrum Kompaniet i Stockholm AB** by Sweden--that collectively raised €12.01 billion ($16.21 billion). Financial privatizations accounted for 22% of total proceeds during 2H2007, and again this was accounted for by one large private sale, Deutsche Bahn's September sale of its real estate subsidiary, **Aurelis Real Estate Gmbh & Company**, for €1.62 billion ($2.35 billion).

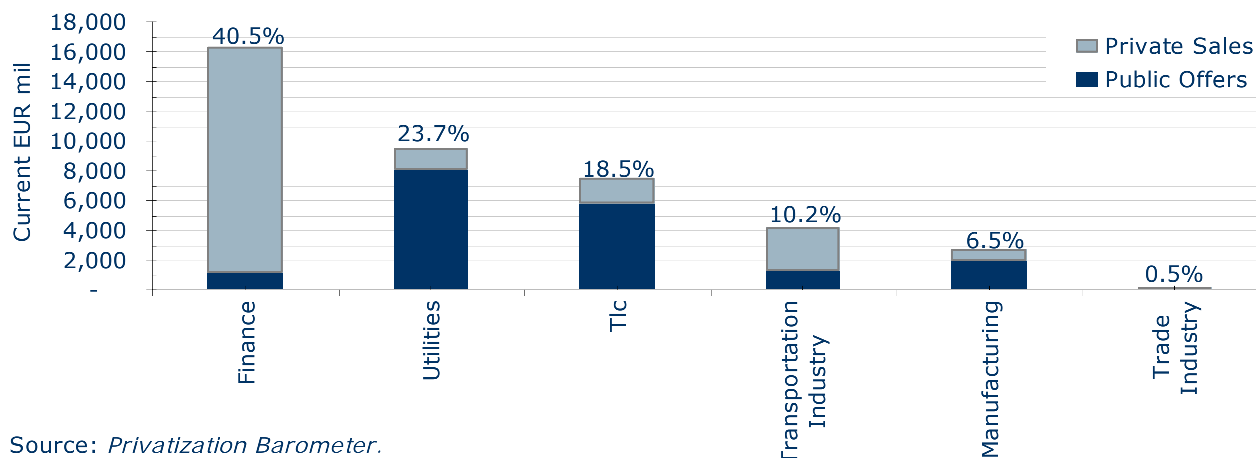
Utilities, 21%

Sales of utilities accounted for 24% of total EU privatization proceeds during 2007, and here there was a real difference between patterns observed in the first and second halves of the year. During 1H2007, the €3.54 billion ($4.78 billion) public offering of the British government's 25% stake in **British Energy** alone accounted for 13% of that semester's total. Utility sales represented a far larger fraction, 45%, of total proceeds during 2H2007, with the French government's €3.70 billion ($5.37 billion) public offering of a 2.5% stake in **Electricité de France** being the semester's largest single EU privatization. Another noteworthy transaction in the utilities sector was the sale of the remaining 2.95% stake of Spanish Government's Sociedad Estatal de Partecipaciones Industiales SA (SEPI) in **ENDESA**. The deal generated more than €1.25 billion.

and Tlc, 19%

Telecoms privatizations accounted for 19% of all proceeds for the full year 2007, but these sales occurred exclusively during 1H2007, when they accounted for 28% of all revenues. The June public offering of 5.0% of **France Telecom**, that raised €2.65 billion ($3.58 billion), and the March public offering of an 8.0% stake in Sweden's **TeliaSonera** that raised €2.05 billion ($4.78 billion), were the standout telecom sales of the first six months of 2007.

Figure 7. Distribution of Privatization Revenues by Sector, 2007



Source: *Privatization Barometer.*

Besides finance, utilities and telecoms, transportation was the only industry that figured prominently in the EU privatization sweepstakes during 2007. There were actually a large number of transactions (11), but because most of these were relatively small and the €4.26 billion ($5.88 billion) in total proceeds represents only 10% of the total value of EU transactions for the year. Only two, relatively small, sales occurred during 1H2007, and the €3.72 billion raised through transportation sales during 2H2007 represented 27% of the second half's total proceeds. The signature transportation sale of this period was the November IPO of the German port operator Hamburger Hafen und Logistik AG, which raised €1.17 billion ($1.70 billion).

Trends to Watch in 2008

What's going on around the world?

As the year 2008 unfolds, a number of important privatization trends seem to be taking shape. The most important trend, by far, is the continuing stream of A-share Chinese SIPs being issued on the Shanghai and Shenzhen Stock Exchanges by the Chinese central and regional governments. The only threat to China's continued predominance of worldwide privatizations is the possible fallout from America's incipient economic recession. If this recession proves to be worse than feared, or if American election year politics yields significant "China bashing" legislation or protectionist measures, this could lead to sharp stock market falls around the world—including China.

The second important trend we expect to see play out in 2008 is a resumption of Russia's privatization program. In particular, United Energy Systems is likely to launch a major capital-raising program of share sales, principally aimed at western investors. Further capital-raising issues by Russia energy, telecom and manufacturing companies will probably also occur. On the other hand, the other two BRIC countries (Brazil and India) seem unlikely to launch any major privatizations this year.

Given the successful IPO of Dubai World Ports in November 2007, which was targeted at local investors, there are likely to be several large share issue privatizations by Persian Gulf states. This region is awash with cash from high-priced oil sales, and enterprises in the region appear poised to both raise cash and widen ownership of their stock among global investors. Turkey may also reinvigorate its dormant privatization program as that country's economy continues growing strongly and the recently re-elected Erdogan government refocuses on its reform agenda.

The prospects for European privatizations during 2008 are less clear-cut than for China, Russia, and the Middle East. No major EU country has a significant program underway, so any sales executed by France, Germany, Italy, Spain, or Britain will be opportunistic. Sweden may finally get its program off the ground during 2008, though the signs now are not especially promising, while Slovenia will privatize its telecom provider in early 2008.

Will US strike back?

Finally, perhaps the most intriguing large privatization of 2008 might come from a very unusual source: the United States. During October 2007, California governor Arnold Schwarzenegger announced plans to "privatize" the state-run lottery, which had to date raised far less for state coffers through ticket sales than had been expected. Investment banks responded enthusiastically to this plan and, if approved by the state's legislature, such a sale might well raise up to €26 billion ($37 billion), enough to cover the unfunded cost of the governor's ambitious universal health care plan.

William L. Megginson

University of Oklahoma

Major Deals of 2007: A Tale of Two Semesters

Yearly global privatization revenues approach €100bn once again

The global privatization hit parade rolled onwards during 2007, with total proceeds of €99.6 billion ($144.4 billion) again approaching €100 billion, split fairly evenly between €54.1 billion in the first half and €45.5 billion in the second half of the year. However, the second half of 2007 differed fundamentally from all prior periods in that one non-European country clearly dominated the rankings of privatizing governments. The total value of China's large share issue privatizations during 2H2007, €29.8 billion ($43.2 billion), was not only the largest privatization total of any single country this period it was half-again larger than the rest of the world's combined total of €15.7 billion ($22.8 billion)! During the January-June 2007 period we observed a reverse trend, with the total value of EU transactions (€26.35 billion, $34.75 billion) exceeding China's privatization revenues.

Russia stands out during the first half of the year

During 1H2007, the honor of topping the world's privatization league tables belonged to the Russian government, which raised no less than €13.56 billion ($18.30 billion) from a mere three sales. These included the largest transaction of 2007, the February domestic offering of **Sberbank** shares, which raised €6.52 billion ($8.80 billion). The scenario was different in the second part of the year whene, for once, China had the world privatization stage outside of Europe pretty much to itself, since other recently active privatizing countries such as Russia, India, Turkey and South Africa were quiescent.

China gain momentum in the second semester

It almost seemed as though the world watched in silent awe during 2H2007 as the stream of Chinese share issue privatizations issued forth unabated, with cash-hungry issuing firms selling stock to investors with an insatiable appetite for all things Oriental. During 1H2007, China again raised more from SIPs (€12.14 billion, $17.6 billion) than did all EU governments combined (€9.82 billion, $14.24 billion) but this value increased significantly during 2H2007, with the seven largest Chinese SIPs generating revenues of €25.59 billion ($37.1 billion). With but two exceptions, each of the seven largest SIPs rose by over 50 percent in price on their first day of trading. A-share (Renminbi-denominated) offerings on the Shanghai and Shenzhen Stock Exchanges raised almost $70 billion during 2007, which for the first time exceeded the totals raised in New York or London. Add in the more than $30 billion raised by mainland companies in Hong Kong, and Chinese firms raised nearly $100 billion during 2007—mostly through privatizations of state-owned companies. Private companies, such as Alibaba.com, raised an additional $8 billion in New York and Singapore.

Sales in the European Union during 1H2007

The usual pattern in EU

There were ten large privatization sales, raising at least $500 million, in the European Union during 1H2007, and these continued three patterns that have emerged in recent years. First, private sales accounted for half of these ten deals,

Private placements, accelerated transactions and indirect privatizations

including the two largest, and for 58% of the €24.93 billion ($33.34 billion) proceeds. All told, eighteen of the 23 transactions executed in the European Union during 1H2007 were private sales, and these accounted for 60 percent of the total value raised. The second key continuing trend is that a majority (in this case all five) of SIPs were sold using accelerated underwriting techniques, wherein the government auctions off a block of shares to investment banks, which then place the shares directly with institutional investors. Accelerated transactions can be completed within 48 hours (often overnight), and have proven wildly popular with all types of stock sellers, including privatizing governments, because ATs allow issuers to sell shares quickly, at high prices, and with surprisingly little market impact. Thirdly, two of the ten largest sales (including the second largest) were indirect privatizations by state-owned enterprises rather than by the government itself. In contrast to previous semesters, however, private equity investors did not figure prominently in any of the ten largest EU privatizations of 1H2007.

... while private equity funds eclipse

The largest EU privatization during 1H2007 represented two of the above-mentioned trends. In January 2007, Caisse des Depots et Consignations (CDC), the French state's banking arm, completed the direct sale of its 35% holdings in the capital of **Caisse Nationale des Caisses d'Epargne** (CNCE), the central institution of French savings bank group Caisses d'Epargne, by selling the shares back to CNCE. Though CDC and CNCE had been partners in French banking for a century and a half, the sale was relatively non-controversial, in part because it raised no less than €6.99 billion ($9.44 billion) for the French state. The January transaction was merely the completion of this deal, since €5.5 of the €7.0 billion total price had been paid in late 2006.

France is leading the EU county ranking during the first half of the year

The French government executed two other large privatizations during 1H2007, again cementing its position as the EU's pre-eminent divestor of state assets. In what was widely perceived as an early signal of the new Sarkozy government's economic policy, the state sold an additional 5% of its holdings in **France Telecom** through an accelerated bookbuilt offering at the end of June that raised €2.65 billion ($3.58 billion). While the French state did well by this sale, the investment banks that bought the shares did not; they were only able to place 40% of the block with institutional investors during the first day, and by the end of the first week about a quarter of the shares remained unsold. This sale reduced the state's holdings in France Telecom to 27.5%. The third French divestment of 1H2007 was an indirect privatization, by France Telecom, of its holdings in **Orange Netherlands** to Deutsche Telekom in early June. This asset sale raised €1.30 billion ($1.76 billion), and propelled Deutsche Telekom into second place in the Dutch cellular phone market.

The second largest EU privatization of 1H2007 was the private sale of Finland's **Sampo Bank** to Denmark's Danske Bank for €3.88 billion ($1.76 billion) in January. Sampo started life as the state-owned Postipankki, which in 1998 merged with Finland's Export Credit Service (Suomen Ventiluotto). Sampo Bank itself was formed in 2004 after an investment company and then an insurance firm were added to the group. Danske Bank funded its purchase of Sampo in part through a €1.90 billion ($2.57 billion) share offering, executed in November 2006.

Important deals involve also Finland

Sweden accounted for one of Europe's final two large privatizations executed through private sale during 1H2007, while Germany accounted for the other. May saw the direct privatization of 100% of **Centrum Kompaniet I Stockholm AB** by the Swedish government, in a deal that raised €1.13 billion ($1.53

billion), while the German government sold its entire stake in Hessen-Property Portfolio for €760 million ($1.03 billion) in January.

The United Kingdom

Although the two largest EU privatizations of 1H2007 were private sales, the third, fourth, fifth, seventh and ninth largest sales were all SIPs executed through accelerated underwritings. The largest of these was in many ways the most interesting and historically distinctive. This was the January disposal by Britain's Nuclear Liabilities Fund Limited (NLF) of 450 million of the shares it held in **British Energy**, which raised €3.54 billion ($4.78 billion). This stake was equal to 28% of the nuclear plant operator's total capital, and the sale dropped the Treasury's stake to 36%. The government had effectively renationalized British Energy in 2002 to rescue it from insolvency, but its subsequent operating and stock price performance had been remarkably positive. The market's reaction to the NLF disposal was also positive, with British Energy's shares rising by 2 percent on the news.

The second largest SIP of 1H2007 was the aforementioned sale of a 5% stake in France Telecom at the end of June. The third largest SIP, the March sale of an 8% stake in **TeliaSonera** through an accelerated underwriting, was also the first major privatization transaction by Sweden's new Center-Right government. This sale raised €2.05 billion ($2.77 billion) for the government, but was greeted with disappointment by investors—who took the sale as a sign that the government had been unable to find an attractive trade buyer for its entire TeliaSonera stake. Announcement of the sale caused the stock price to fall by 6 percent. After the SIP, the Swedish government retained 37.3% of TeliaSonera, while the Finnish government held 13.7%.

...Germany

The January SIP of an 11.11% stake in **Beiersdorf AG** by the Land (regional government) of Hamburg, which raised €1.21 billion ($2.77 billion), had an ironic twist. The Land had acquired this stake in 2003 in order to keep the maker of Nivea beauty cream from being acquired by America's Procter and Gamble Company. With the Americans safely dispatched and the company performing well, the Land disposed of its holdings through an accelerated underwriting, which resulted in a small (1 percent) drop in Beiersdorf's stock price when it was announced.

and Greece

In what seemed to presage rising capital market privatization activity in Europe during the second half of 2007, the first semester closed with a surprising sale by the Greek government of a 10.7 percent stake in **Hellenic Telecom** (OTE), which raised €1.10 billion ($1.49 billion). The government had been trying to find a trade buyer for OTE, so the SIP via an accelerated underwriting was received as news that this had failed but that OTE might be open for a takeover—so the stock rose by 6.5 percent on the news. The sale reduced the Greek government's stake to 28.0%.

Sales in the European Union during 2H2007

France is again on the top during the second semester...

While there were far fewer major privatization deals in the European Union than in China during 2H2007, and the average size of European sales was much smaller, there were a dozen sales that raised at least €300 million that are worth discussing. By far the largest EU privatization of 2H2007 was the French government's offering of a 2.50% stake in **Electricité de France** in early December that raised €3,700 million ($5,454 million). This sale was structured as an accelerated bookbuilt offering aimed exclusively at institutional investors, and the proceeds were earmarked for capital investments in France's

increasingly aged university facilities. By sequestering the proceeds for use in education, the new Sarkozy government deflected opposition to selling shares in EdF and since the offering only reduced the state's holding to 84.8%, well above the 70% legal minimum, this appears to be a financing strategy that the government can return to as needed in the future.

...and Germany follows

Three out of five largest EU privatizations of 2H2007 came from Germany. Two of these were private sales while the third was an IPO. The state-owned rail operator, Deutsche Bahn, lead off in September when the company sold its

Table 1. Deals, 2007

Date	Company Name	Nation	Sector	% for Sale	Value (€ mil)	Direct/ Indirect Sale*	Method of Sale
01/30/07	Caisse Nationale de Caisses d'Epargne (CNCE)	France	Finance & Real Estate Industry	35.00	6,993.87	Direct	PS
01/02/07	Sampo Bank	Finland	Finance & Real Estate Industry	100.00	3,880.94	Indirect	PS
12/04/07	Electricité de France	France	Utilities	2.50	3,700.00	Direct	AT
01/06/07	British Energy	United Kingdom	Utilities	28.00	3,537.68	Direct	AT
06/26/07	France Telecom	France	Telecommunications	5.00	2,650.00	Direct	AT
03/05/07	TeliaSonera	Sweden	Telecommunications	8.00	2,048.46	Direct	AT
09/09/07	Aurelis Real Estate GmbH & Co (Deutsche Bahn)	Germany	Finance & Real Estate Industry	100.00	1,617.46	Indirect	PS
06/07/07	Orange Netherlands	France	Telecommunications	100.00	1,300.00	Indirect	PS
09/28/07	ENDESA	Spain	Utilities	2.95	1,253.00	Direct	PS
01/17/07	Beiersdorf AG	Germany	Manufacturing	11.11	1,212.87	Direct	AT
11/02/07	Hamburger Hafen und Logistik AG	Germany	Transportation Industry	27.50	1,169.14	Direct	IPO
05/10/07	Centrum Kompaniet i Stockholm AB	Sweden	Finance & Real Estate Industry	100.00	1,133.12	Direct	PS
06/28/07	OTE (Hellenic Telecom Organization)	Greece	Telecommunications	10.70	1,100.00	Direct	AT
08/23/07	Scandlines AG	Germany	Transportation Industry	50.00	771.52	Direct	PS
08/23/07	Scandlines AG	Denmark	Transportation Industry	50.00	771.52	Direct	PS
01/11/07	Hessen-Property Portfolio	Germany	Finance & Real Estate Industry	100.00	759.84	Direct	PS
08/29/07	Kemira Oyj	Finland	Manufacturing	33.00	652.70	Direct	PO
07/10/07	Postal Savings Bank	Greece	Finance & Real Estate Industry	20.00	513.03	Direct	AT
06/12/07	Gewerbesiedlungs-Gesellschaft mbH	Germany	Finance & Real Estate Industry	100.00	408.75	Direct	PS
11/27/07	MAV Cargo Zrt (MAV Zrt)	Hungary	Transportation Industry	100.00	395.99	Indirect	PS
10/12/07	Connexxion Holding NV	Netherlands	Transportation Industry	66.67	383.83	Direct	PS
07/12/07	Enia	Italy	Utilities	38.14	363.58	Direct	IPO
07/09/07	REN	Portugal	Utilities	22.27	352.76	D & I	IPO
03/21/07	Fraport AG	Germany	Transportation Industry	6.56	322.35	Direct	PS
06/06/07	Ya.com	Germany	Telecommunications	100.00	315.97	Indirect	PS
12/10/07	Nova Kreditna Banka Maribor - NKBM	Slovenia	Finance & Real Estate Industry	49.00	309.15	Direct	IPO
08/30/07	FHB Bank Rt	Hungary	Finance & Real Estate Industry	50.00	262.31	Direct	PO
04/27/07	Outokumpu Technology	Finland	Manufacturing	12.00	218.29	Indirect	PS
05/24/07	Kemira Grow How	Finland	Manufacturing	30.05	200.31	Direct	PS
10/15/07	CEZ AS	Czech Republic	Utilities	0.77	195.42	Direct	PO
10/14/07	Berlin-Hannoversche Hyp. AG (Landesbank Berlin AG)	Germany	Finance & Real Estate Industry	100.00	167.64	Indirect	PS
10/10/07	Istrabenz	Slovenia	Trade Industry	28.22	162.45	Direct	PS
04/27/07	Malev	Hungary	Transportation Industry	99.95	127.00	Direct	PS
01/04/07	Aero Vodochody as	Czech Republic	Manufacturing	100.00	106.37	Direct	PS
01/03/07	Slovenska Industrija Jekla - SIJ	Slovenia	Finance & Real Estate Industry	55.35	105.06	Direct	PS
09/20/07	Red Electrica de Espana SA (EDP)	Spain	Utilities	2.00	94.51	Indirect	AT
01/05/07	Exeter & Devon International Airport Ltd	United Kingdom	Transportation Industry	100.00	89.57	Direct	PS
05/31/07	Pfleiderer Prospan SA	Poland	Manufacturing	43.15	84.52	Direct	PS
03/16/07	Polskie Zaklady Lotnicze - PZL Mielec	Poland	Manufacturing	100.00	60.11	Direct	PS
02/03/07	CMC Zawiercie SA	Poland	Manufacturing	26.80	45.70	Direct	PS
09/28/07	Semmaris	France	Trade Industry	33.34	35.84	Direct	PS
01/16/07	Zaklady Azotowe Pulawy	Poland	Manufacturing	9.66	28.64	Direct	PS
04/18/07	Komercni uverova pojistovna (EGAP)	Czech Republic	Finance & Real Estate Industry	66.00	28.10	Indirect	PS
04/23/07	Banka Koper	Slovenia	Finance & Real Estate Industry	8.30	27.09	Direct	PS
07/26/07	Societa Aeroporto Toscano Galileo Galilei - SAT SpA	Italy	Transportation Industry	21.05	25.83	Direct	IPO
07/05/07	SweMaint AB	Sweden	Transportation Industry	100.00	9.41	Direct	PS
07/04/07	Stockholms Hamnentreprenad	Sweden	Transportation Industry	100.00	2.00	Direct	PS
Total 1H2007		**25 Transactions**			**26,784.62**		
Total 2H2007		**21 Transactions**			**13,209.10**		
Total 2007		**46 Transactions**			**39,993.71**		

* 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.
Method of Sale: AT (Accelerated Transaction); IPO (Initial Public Offerings); PO (Public Offering); PS (Private Sale).

property unit **Aurelis Real Estate Gmbh** for €1,617 million ($2,232 million) to a consortium including German construction company Hochtief and Redwood Grove International LP, an investment adviser to real estate private equity funds. Two months later, the state of Hamburg executed an offering of shares in **Hamburger Hafen und Logistik**, one of three major ports operators scheduled for sale over the next few months. The IPO raised €1,169 million ($1,693 million) and shares rose nearly 15% on the first day of trading. Roughly 90% of the offering represented a secondary share offering by the state and the other 10% came from newly issued company shares. The final German privatization was an unusual private sale where both the German and Danish governments divested their equal stakes in ferry operator **Scandlines** for a combined total of €1,543 million ($2,095 millions), or €772 million each. The buyer was a consortium including the financial investors Allianz Capital Partners and 3i Group PLC, which ended up with 40% stakes each, and the industrial partner Deutsche Seereederei, which owns the remaining 20% and will operate Scandlines. The consortium guaranteed all jobs at Scandlines through 2010, and announced plans to list the company through an IPO at an unspecified future date. Spain also distinguished between the EU countries during the 2H2007 with the sale of the 2.95% stake in **Endesa.** Spain's state-owned industrial holding company SEPI agreed to tender its remaining stake in the company after the launch of the joint takeover bid made by Spain's Acciona SA and Italy's Enel SpA.

Other noteworthy transactions are concentrated in a handful of Old Europe countries...

There were five other noteworthy privatizations in Old Europe during 2H2007. The second week of July saw three nearly simultaneous share issue privatizations. First, the Greek government sold a 20% stake in **Postal Savings Bank** through an accelerated bookbuilding that raised €513 million ($701 million). Next up was the IPO of a 38% stake in the Italian electric utility company, **Enia**, that raised €384 million ($501 million). Finally, the Portuguese government sold a 22.3% stake in the national power grid **Redes Energéticas Nacionas (REN)**, raising €353 million ($481 million) in an IPO that was more than 80 times subscribed. Six weeks later, Finland sold 33% of **Kemira Oyj** in a seasoned equity offering that raised €653 million ($890 million), and in October the Dutch government sold a two-thirds stake in the national bus company **Connexxion Holding NV** to a consortium consisting of the French company Transdev SA (68% owned by the French state bank Caisse des Despots) and the Dutch Municipalities bank BNG. This sale netted the Dutch government €384 million ($544 million).

...while New Europe activity is particularly sluggish

Only one country in New Europe executed a major privatization during 2H2007. After largely sitting out earlier privatization waves, the Slovenian government finally sold off a 40% stake in **Nova Kreditna Banka Maribor (NKBM)** for €309 million ($455 million). The offering was heavily over-subscribed and the shares closed up 37% on the first day of trading.

Sales outside of Europe during 1H2007

Share Issue Privatizations rule outside EU...

As noted in the introduction, two countries had a leading role in 2007: Russia in the first semester and China during the second half of the year. Although, for once, China did not raise the most proceeds from privatization sales during 1H2007, we cannot leave out some noteworthy Chinese transactions. These two countries accounted for eight of the nine largest transactions during the first part of the year, and all but one of these was a SIP. There is another important, and financially intriguing, difference between today's increasingly non-Western privatization scene and that of the late-1990s. Whereas SIPs have traditionally

been pure secondary offerings of existing shares held by divesting governments, all seven of the Chinese and Russian SIPs were pure primary offers that raised capital for the issuing firms, and only reduced government ownership indirectly by increasing the number of shares outstanding. Turkey's **Halkbank** offering—which was sold principally to international institutional investors—was the only pure secondary non-EU SIP, and this was widely viewed as the first step in the Turkish government's plan to completely divest its ownership in this bank, which was founded in 1938. Investor response to the offer was quite positive, with the share price rising 11.3 percent during the first day's trading.

Russia is heavily privatizing the banking sector...

The two largest non-EU privatizations of 1H2007 were both executed by Russian state-owned enterprises. Russia's largest savings bank, **Sberbank**, raised €6.52 billion ($8.80 billion) in a February domestic rights offering which was that nation's second largest share issue ever (behind the 2006 Rosneft IPO that raised €8.00 billion). Though successful, Sberbank managers were actually hoping to sell as much as €8.9 billion in new stock, and the shares were offered at a 4 percent discount to the market price before the offering—yet the offering price was still set at $3,398 (€2,517) per share! The Russian Central Bank, which controlled the bank with a 63.7% pre-offer ownership stake, subscribed to 34% of the offer and thus retained voting control afterwards. Three months after Sberbank, Russia's second largest bank, **Vneshtorgbank** (VTB), executed an IPO of global depositary receipts in London and ordinary shares in Moscow that raised €5.93 billion ($8.00 billion). The shares closed 5.6 percent above the offering price on the first day of trading. The final large Russian privatization of 1H2007 was the June asset sale of part of the power generator OGK-5 by the parent company, **United Energy Systems** (UES), to Italy's Enel for €1.11 billion ($1.50 billion). Russia is selling off up to $100 billion worth of its power sector in order to raise the capital needed to restructure UES. Control of the sector, however, will remain firmly in Russian hands.

...and partly energy

The last five large privatizations of 1H2007 were all Chinese SIPs. Four of these were executed by financial institutions, and four of the five were IPOs of A-shares on the Shanghai Stock Exchange that followed earlier H-share IPOs in Hong Kong. The fifth (Aluminum Corporation of China, or Chalco) was a true IPO of shares on both the Hong Kong and Shanghai markets. All were primary offerings that were massively over-subscribed, leading to first day returns between 38.4 percent (Ping An Insurance) and 180 percent (Chalco).

The Chinese IPO hit parade begins in January...

The Chinese IPO hit parade began in January with the sale of 1 billion Renmimbi-denominated A-shares in the mid-sized lender, **Industrial Bank**, that raised €1.52 billion ($2.05 billion), and generated a first day return of 38.8 percent. This offering attracted a record 1.16 trillion yuan (€111 billion, $150 billion) in total subscriptions. Next up, in February, was a €3.70 billion ($5.0 billion) offering by **Ping An Insurance** company, China's second largest insurer. This sale was equivalent to 15.66% of Ping An's expanded share capital, and yielded a very attractive paper profit for HSBC on the 16.7% stake it purchased only the year before. The third and fourth offerings were launched in April. First came the **Aluminum Corporation of China** (Chalco) with a mixed A- and H-share offering that raised €748 million ($1.01 billion). After the new shares more than tripled during the first day's trading—and closed up 180 percent—Chalco had a market capitalization almost equal to that of Alcoa, the world's aluminum company and a firm several times larger than Chalco. April closed with the largest Chinese SIP of 1H2007, the **China Citic Bank** €4.37 billion ($5.90 billion) offering of new shares. These new shares closed the first day of trading at a 96 percent premium to the offering price—and at a level 102

percent more expensive than Citic's H shares trading in Hong Kong. The final large Chinese offering of 1H2007 was the €2.44 billion ($3.30 billion) **Bank of Communications** IPO, launched in May. This offering yielded a 71 percent first day return to purchasers of shares, and was another very profitable investment for HSBC, which purchased a 19% stake in 2006.

Going the Chinese way

Sales outside of Europe during 2H2007

As noted earlier, China topped the privatization league tables during 2H2007. The two largest Chinese SIPs of 2H2007—indeed of 2007—occurred within a month of each other. In early October, **China Shenhua Energy Group** executed an A-Share IPO in Shanghai that raised $8,800 million (€6,069 million) in an offering that was more than 30 times subscribed, attracting a record $354 billion in total subscriptions. China Shenhua had only recently been created, through an attempt by the central government to consolidate the more than 25,000 coal producers into a more streamlined energy industry, and the proceeds of this offering were slated to support further expansion and acquisitions. Interestingly, while the total number of subscriptions set a record, share orders were placed by owners of only 1.4 million of China's roughly 100 million registered individual account holders, suggesting that much of the record demand came from Chinese institutional investors (especially state-owned firms), rather than individuals. China Shenhua shares nearly doubled (87% initial return) on their first day of trading.

The largest Chinese SIP followed four weeks later. In early Novemeber, **PetroChina** sold a 2.2% stake of its expanded capital in a frenzied A-share IPO that raised $8,900 million (€6,138 million), and saw the A-share price nearly triple during the first day's trading. The shares finally closed up 163%, at a price that gave PetroChina an implied market capitalization of more than $1 trillion--more than twice the $488 billion capitalization of its nearest rival, ExxonMobil, and marking a milestone in global financial history. Alas, this valuation proved short-lived, as PetroChina's share price fell by 37% over the next two months. Another discordant note, apparent at the time of PetroChina's A-share IPO, was that the company's ADR price in New York declined by 10% on valuation fears on the same day that the A-share priced rose by 163%, and the Shanghai price was 50% higher than the H-share price in Hong Kong.

The third largest Chinese SIP of 2H2007 (and of 2007) was also a record-setter at the time. When **China Construction Bank** became the third of China's Big-Four state-owned banks to execute an IPO in late September, it was the largest A-Share offering to date, raising $7,700 million (€5,310 million). It also received the highest level of total subscriptions yet received, $300 billion, and the 40 times subscription level was a record for large Chinese share offerings. This offering capped a remarkable period of rehabilitation and expansion for Chinese state banks, which had needed a massive government bailout and recapitalization a mere three years earlier. CCB's successful offering was also very good news for Bank of America, which in 2005 had paid $3 billion for an 8.5% equity stake and an option to increase this to 19.9%. After CCB's Shanghai IPO, Bank of America was sitting on a potential gain of more than $30 billion—and promptly announced plans to record a gain of $16 billion.

Capping an extraordinary year for China's stock markets, the month of December saw the fourth, fifth, sixth *and* seventh largest SIPs of 2H2007. The month started with the $3,000 million (€2,069 million) A-share IPO of **China Railway Group [A]**, and ended two weeks later with the $4,100 million (€2,828

million) Shanghai market IPO of **China Pacific Insurance Company**. The intervening weeks saw the H-share IPO of **China Railway Group [H]**, which raised $2,500 million (€1,724 million) in Hong Kong, and the A-share IPO of **China Shipping Container Lines (CSCL)**, which raised $2,100 million (€1,448 million) in Shanghai. All four of these offerings were significantly underpriced, yielding initial returns of between 27% and 75%. The contrasting market reactions to these offerings in Hong Kong and Shanghai is illuminating. The China Railway Group offer in Shanghai raised significantly more ($3 billion versus $2.5 billion) than did the Hong Kong offer less than one week later, and the initial return in Shanghai was more than twice that in Hong Kong (56% versus 27%). Additionally, while CSCL's A-shares rose by 75% on the first day of trading, the company's H-shares fell by 15% and at the end of the day the company's Shanghai-listed shares sold at a 100% premium to its Hong Kong-listed shares.

China's eighth, eleventh, and twelfth largest SIPs of 2H2007 were all A-share IPOs of regional or city banks. There were two simultaneous offerings in mid-July. **Bank of Nanjing** raised $889 million (€613 million) by selling a 37% block of new shares in Shanghai, while **Bank of Ningbo** raised $534 million (€368 million) with an 18% share offering on the Shenzhen Stock Exchange. Both issues were enthusiastically received, with opening day price rises of 72% and 141%, respectively, and the closing share prices yielded price-to-earnings ratios of 47 for Nanjing and 65 for Ningbo, based on projected 2007 profits. Two month later, **Bank of Beijing** executed a $2,000 million (€1,379 million) A-share IPO in Shanghai that rose in price by 81% the first day. This offering also attracted subscriptions totaling $246 billion, which was briefly a record (until China Construction Bank's IPO one week later).

The final two large Chinese SIPs of 2H2007 were similar in many ways. Both were H-share IPOs executed in Hong Kong, both went public within days of each other in mid-November, both were massively over-subscribed, yet both declined sharply in price on their first day of share trading. **Sinotrans Shipping** raised $1,470 million (€1,014 million) in an offering that was 251 times subscribed, while **Sinotruk** raised $1,200 million (€828 million) and attracted total subscriptions 300 times larger than the shares on offer. Despite this,

Table 2. Chinese Share Issue Privatizations, 2H2007

Date	Company Name	Amount raised (US$ millions)	Type of Offer	Market	Initial return %
11/06/07	Petro China	8,900	A-Share IPO	Shanghai	163%
10/09/07	China Shenhua Energy	8,800	A-Share IPO	Shanghai	87
09/26/07	China Construction Bank	7,700	A-Share IPO	Shanghai	32
12/19/07	China Pacific Insurance	4,100	A-Share IPO	Shanghai	61
12/04/07	China Railway Group	3,000	A-Share IPO	Shanghai	56
12/08/07	China Railway Group	2,500	H-Share IPO	Hong Kong	27
12/13/07	China Shipping Container Lines	2,100	A-Share IPO	Shanghai	75
09/22/07	Bank of Beijing	2,000	A-Share IPO	Shanghai	81
11/23/07	Sinotrans Shipping	1,470	H-Share IPO	Hong Kong	-13
11/29/07	Sinotruk	1,200	H-Share IPO	Hong Kong	-16
07/19/07	Bank of Nanjing	889	A-Share IPO	Shenzhen	72
07/19/07	Bank of Ningbo	534	A-Share IPO	Shenzhen	141
	Total	**$43,193**			

Source: *Privatization Barometer.*

Sinotrans fell by 13% on the first trading day, while Sinotruk dropped by 15.7%. These were the worst opening-day price declines of any large Chinese IPO of 2007, and were far worse than the 25% average initial returns earned by investors in the 60 H-share IPOs executed in Hong Kong during 2007 - not to mention the average 185% initial return posted by the 118 A-share IPOs on the Shanghai or Shenzhen markets.

Outside China and Europe...

Outside of China and Europe, only two significant privatizations were executed by national governments during 2H2007, and both occurred in November. First, the government of Kenya sold off a 51% stake in **Kenya Telecom** in an auction that attracted three major bidders. France Telecom emerged as the winner after offering $390 million (€269 million), and with this sale broke up the existing duopoly of the Kenyan mobile telephone market. Two weeks after the Telekom Kenya sale, **Dubai Ports World** raised $5,000 million (€3,448 million) by selling a 23% block of newly created shares in an enthusiastically received IPO, which turned out to be the Middle East's largest. The Dubai government, which controlled the ports operator, insisted that the shares be offered on the struggling Dubai International Financial Exchange, rather than on a Western market, and the offering was more than twelve times subscribed. The shares closed up almost 11% in the first day's trading.

Stephen L Jen

Morgan Stanley

Sovereign Wealth Funds – A Game Changer

SWFs: a new and powerful category of investors...

Summary and conclusions

Sovereign Wealth Funds (SWFs) form the newest and one of the most powerful categories of investors. Not only are they already large in size (with more than US$2.8 trillion under management, they are already larger than hedge funds, which have US$1.7 trillion under management), they will likely surpass the world's total holdings of official foreign reserves within the next five years,[1] and grow to around US$12 trillion by 2015.[2] Currently, oil and gas exporting countries control two-thirds of the assets managed by SWFs; Asian countries account for the rest. However, over the coming years, Asian SWFs are likely to grow more rapidly and eventually make up half of the total assets under SWFs' management by the end of the decade. Given their size and the fact that their investment style will be much more active than the way official reserves are managed, the future evolution, both in terms of the size and balance of the portfolios of the 'oil-based' SWFs, will have important implications for the world's risky asset prices, as well as policies on capital flows.

....that will likely have an impact on financial markets and policies

We believe SWFs will significantly alter the balance of power along several dimensions. Specifically, they will skew the balance against the private sector investors and in favour of public sector investors, against developed and in favour of developing countries, against safe assets (bonds) and in favour of risky assets (equities), and against the 'core' currencies (USD and EUR) and in favour of emerging market (EM) currencies. Equally importantly, the fact that many SWFs are not deemed nearly as transparent as most private funds will likely cause the governments of recipient countries considerable angst. Financial protectionism, in my opinion, will be a more important consideration than trade protectionism. Partly because SWFs have so many close cousins (other investment vehicles that are not totally distinct from SWFs), it will be difficult for governments to single out SWFs. In any case, a web of bilateral arrangements similar to those governing trade under the WTO will likely emerge to govern cross border capital flows.

In short, SWFs will be a game changer for the financial markets and for financial policies.

First, the basics about SWFs

What are SWFs?

As the name suggests, these funds are 'sovereign', as in owned and are by governments. They are wealth accumulating funds, and are similar to pension funds but with no explicit or implicit liability streams. Additionally, in my definition, SWFs are sovereign wealth accumulating funds held mostly in foreign currency assets. SWFs also have the outstanding traits of having a relatively high risk tolerance and a very long investment horizon.[3] There are essentially two broad types of SWFs, distinguished by the sources of their

Two major categories of SWFs:

capital. First, there are the SWFs of oil or other energy exporters, and, second, there are the SWFs of merchandise goods exporters from Asia. Most of the oil exporting countries have their own SWFs, many of which were originally established as oil price (or commodity price) stabilization funds to help block out disturbances from volatile oil prices on the budget, monetary policy and the economy. However, with the sharp and, most likely, permanent rise in oil prices in recent years, these funds have evolved from 'stabilization funds' to 'wealth accumulation' or 'wealth preservation' funds. The other major category of SWFs consists of Asian exporting countries which have accumulated more foreign official reserves than are required for liquidity contingencies for the countries in question. The massive current account surpluses and net capital inflows enjoyed by many Asian countries in recent years have led to a situation where these central banks no longer deem it prudent to leave the official reserves invested in relatively low-yielding foreign sovereign bonds. In other words, more and more Asian reserve holders are considering separating out their reserves into a 'liquidity tranche' (which are invested conservatively in sovereign bonds) and an 'investment tranche' (which are invested in riskier assets). While the favorable external positions of these countries have enhanced these countries' ability to invest in risky assets, their recognition of the demographic realities was the key factor that made them willing to expose national wealth to risky assets.

What is the scope of SWFs today? And what will be tomorrow?

Assets under management by SWFs now total more than US$2.8 trillion, and will soon approach US$3.0 trillion, given the rapid pace of growth of these funds (Table 1). Given the elevated oil prices and the buoyant exports from Asia, most of the funds listed in this table are expected to grow rapidly in size. Three funds, however, are worth highlighting.

The rising SWFs of China, Russia and Japan

First, while it may take some time for China's CIC to be fully set up and functional, this fund is likely to become the largest SWF in the world in several years' time. China is accumulating foreign reserves at the pace of US$350-400 billion a year, from what is already considered to be an excessive stock of foreign exchange reserves. Additional transfers from the PBoC to the CIC are more likely than not. Second, Russia's SWF will become operational on February 1, 2008. While the Russian government's forecast for the launch size of the SWF is US$24 billion, given the high oil prices, it is likely that this fund will grow in size relatively rapidly over time.[4] Third, and perhaps most importantly, Japan is contemplating establishing its own SWF. We believe the arguments in favour of a SWF in Japan are very compelling and that the current objections of the MoF will eventually be overcome. What makes Japan's prospective SWF important is its size: this SWF will likely be centred on both the excess official foreign reserves – which could total US700 billion – and also the GPIF (Government Pension Investment Fund), which now has US$1.5 trillion under management.[5]

Short-medium term forecast on SWFs value

We have also computed the likely trajectory of SWFs over the next decade. Figure 1 shows that, with some innocuous assumptions, total assets under management by SWFs could reach US$12.0 trillion by 2015. While official reserves are now close to US$6.0 trillion – about double the size of the SWFs, we could see the SWFs surpass the world's reserves as early as 2011.

Four Key Points about SWFs

Four consequences of SWFs...

What makes SWFs such an important topic, from both the market and policy perspectives, is that they are at the crossroads of many important economic themes: demographic trends, revolutions in wealth creation, the rise of emerging

powers, financial globalization, portfolio construction, impact on financial prices, outsourcing of financial management and financial protectionism. Much more research needs to be done on each of the above topics, but four key points about SWFs are worth highlighting here.

Impact on global risky asset prices

Point 1. SWFs favor equities over bonds. As capital is diverted from official reserves into SWFs, risky assets in general and equities in particular should be supported, at the expense of sovereign bonds. Our calculations show that, all else being equal, the mere formation of the SWFs should lead to a 40 bps rise in long-term sovereign bond yield and a 10% rise in the P/E ratio of global equities.[6] These are very conservative estimates of the likely impact on bonds and equities. Let's take the GCC (Gulf Cooperation Council) as an example. The six members of the GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE) have close to 500 billion barrels of proven oil reserves. At today's market

Table 1. Assets under management by SWFs

Country	Fund Name	Assets (Mlns US$s)	Inception year	Source of funds
Total		2,841,256		
UAE	ADIA [1]	875,000	1976	Oil
Norway	Government Pension Fund - Global	345,000	1996	Oil
Singapore	GIC [1]	330,000	1981	Other
Saudi Arabia	Saudi Arabian funds of various types [1]	300,000	N/A	Oil
Kuwait	Reserve Fund for Future Generation	250,000	1953	Oil
China	CIC, including.Central Hueijin Co. [2]	200,000	2007	Other
Singapore	Temasek Holdings [1]	159,210	1974	Other
Libya	Oil Reserve Fund	50,000	2005	Oil
Qatar	Qatar Investment Authority	50,000	N/A	Oil, gas
Algeria	Fond de régulation des recettes	42,600	2000	Oil
US (Alaska)	Permanent Reserve Fund	38,000	1976	Oil
Brunei	Brunei Investment Authority	30,000	1983	Oil
Malaysia	Khazanah Nasional BHD	25,700	1993	Other
Russia	Stabilisation Fund [3]	24,000	2003	Oil
Korea	KIC (Korea Investment Corporation)	20,000	2006	Other
Kazakhstan	National Fund	17,600	2000	Oil, gas
ROC (Taiwan)	National Stabilisation Fund *	15,000	N/A	Other
Canada	Alberta Heritage TF	15,500	1976	Oil
Iran	Oil Stabilisation Fund	15,000	1999	Oil
Chile	A new SWF based on the Copper Fund [4]	14,820	1985	Copper
Nigeria	Excess Crude Account	11,000	2003	Oil
Botswana	Pula Fund	6,800	1966	Diamonds
Oman	State General RF	2,000	1980	Oil, gas
Azerbaijan	State Oil Fund	1,500	1999	Oil
Venezuela	FIEM	756	1998	Oil
Canada	Fond des générations (Québec)	560	2006	Electricity
Trinidad & Tobago	Revenue SF	460	2000	Oil
Kiribati	Revenue Equliz. Fund	400	1956	Phosphates
Uganda	Poverty Action Fund	350	1998	Aid
	Oil & gas-related funds	2,068,416		
	Non-oil related funds	772,840		

[1] My guesstimates as of January 2008.
[2] Launche in September 2007. Central Huijin will have US$130 billion on its balance sheet.
[3] To be launched on February 1, 2008.
[4] The Pension Reserve Fund, FRP, and the ESSF and FEES.

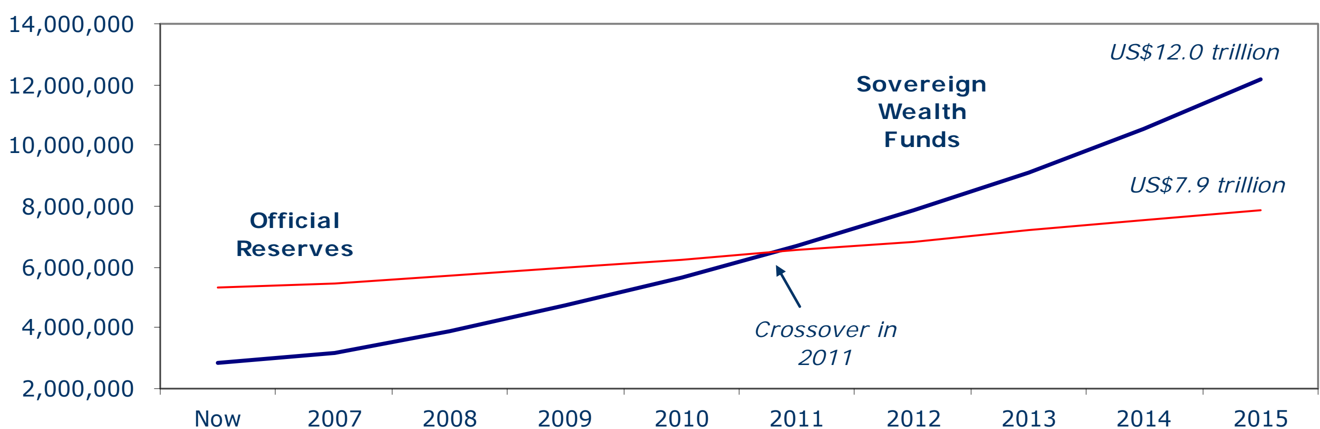
Source: Various country sources and Morgan Stanley Research.

price, this is worth some US$44 trillion.[7] For the GCC countries, the ratio of their wealth 'underground' to 'above-ground' is around 28 – significantly above the ratio of 6 for Norway, which has been aggressively transforming oil and natural gas wealth into financial wealth for the past decade.[8] Essentially, the GCC countries are faced with the choice of, on one hand, leaving the oil underground and waiting for it to appreciate in value and, on the other, extracting it, selling it and converting it into financial wealth. Since 1985, in SDR terms, the composite value of equities has risen seven-fold, while bonds have risen only around four-fold. Crude oil (not crude oil instruments but WTI itself) has actually performed very poorly – doubling in value.[9] The point here is that, from a financial perspective, it makes much more sense for the GCC countries to convert their under-ground wealth into above-ground wealth. The market capitalization of the world's equity markets is around US$52 trillion. This gives some perspective on the likely impact of the GCC's oil reserves (worth US$44 trillion) on global risky asset prices. In essence, due to the presence of SWFs, global equities will likely go up enthusiastically and go down grudgingly.

Implications for currencies...

Point 2. Full deployment of SWFs could hurt both the USD and the EUR, and help EM currencies. In many ways, SWFs mark a watershed in financial globalization. Not only do they mark the rise of emerging powers, these new reservoirs of capital will likely be diverted away from developed markets into developing markets, with clear implications for currencies. We are, therefore, likely to see a good deal of EM-to-EM investment flows through the SWFs. We believe both the USD and the EUR will be sold by SWFs, and that many of the EM currencies, the JPY and the GBP will be bought. Table 2 shows our thought process. Columns [1] and [2] indicate the currency compositions of the world's reserves and the reserve holdings of the developing countries in the world. USD, EUR and GBP assets account for some 95% of the world's reserve holdings, and central banks have collectively been moving out of USDs and into the other two currencies. Based on the data we have on the market capitalizations of various bond and equity markets in the world, we calculated the percentage share of the world's total bond and equity markets (Columns [3] and [4]). For the world's market shares of 'alternative investments,' which include real estate, infrastructure, private equity, commodities and hedge funds, we assumed that they would be broadly in line with the countries' GDP shares as a percentage of the world's GDP (Column [5]). SWFs are likely to adopt, in the long-run, a

Figure 1. SWFs Could Total US$12 Trillion by 2015



Source: Morgan Stanley Research.

model portfolio that consists of 25% in bonds, 45% in equities, and 30% in alternative assets.[10] Using this benchmark, we computed the 'benchmark' currency exposure of SWFs (Column [6]): 43% in USDs, 18% in EURs, 17% in non-G4 (mostly EM) currencies, 13% in JPY and 9% in GBP. Comparing the currency shares indicated in Column [2] to those in Column [6], we can see that the portfolio that many SWFs will eventually adopt, however long this process might take, will likely have a very different currency composition to today's currency composition of reserve assets. Based on total assets under management (AUM) of US$3.0 trillion, full deployment of SWF's capital in line with the long-term benchmarks implies large sales of USDs and EURs, and purchases of EM currencies and the JPY.

Shift towards alternative investments

Point 3. SWFs will likely play a dominant role in alternative investments, thereby attracting a great deal of attention. Not only will SWFs be a key player in bond and equity markets in general, they will also likely have a considerable exposure to 'alternative investments,' which include infrastructure, private equity, real estate, real estate debt, commodities and hedge funds. Our guess is that many SWFs could have a long-term model portfolio with 25% in bonds, 45% in equities and 30% in alternative investments.[11] While bond and equity markets are very liquid, many alternative investments may not be. Given the long investment horizon that most SWFs have, they enjoy a 'liquidity premium' that allows them to be active in these relatively illiquid markets in which traditional real money investors cannot be active. SWFs will, as a result, be a dominant force in these markets. By sector, we suspect the SWFs may be especially interested in four particular sectors: (i) high tech; (ii) financials; (iii) resources; and (iv) infrastructure. High tech and resources mark two ends of the value-added chain that yield strategic advantages to the countries with the SWFs. Financials are attractive, given their ability to capture the rise of wealth in general, and the growth of the middle class in particular, in the globalization process. Infrastructure is essentially a high-yield long-duration fixed income asset. If our guess is correct, there will be considerable capital flows into these

Table 2. SWF Flows Likely to Hurt USD and EUR, Help EM

	Currency Composition of Official Reserves		Market Capitalisation (In % of the World Total)			25.45.30 Model Portfolio	Potential FX Flows
	World	Developing	Bonds	Equities	Alternative		
	[1]	[2]	[3]	[4]	[5]	[6]	[7]
USD (%)	64.8	60.5	48.3	40	29	43	($526)
EUR (%)	25.6	28.6	22	18.3	24	18.3	($309)
GBP (%)	4.7	5.9	2.1	8.5	5	8.5	$78
JPY (%)	2.8	2.6	8.6	12.8	11	12.8	$306
Other (%)	2.1	2.4	19	20.4	31	17.4	$451

[1] These are the currency weights from the IMF's COFER database for the world's reserves.
[2] These are the currency weights for the developing countries sub-category.
[3] These are the weighted average market capitalisation shares of fixed income instruments.
[4] Global market share of equities, in terms of market capitalisation.
[5] We assume that GDP weights should dictate the broad weights of alternative investments.
[6] Assuming our long-term model portfolio weights of 25% bonds, 45% equities, and 30%
[7] Potential FX flows associated with portfolio rebalancing, in billions of dollars, based on US$3 trillion in AUM.

Source: Haver, Datastream, and Morgan Stanley Research.

particular sectors. Already, we have witnessed numerous high-profile acquisitions by SWFs of distressed financial institutions in the West. This should not come as a surprise, as these highly desirable assets are now being offered at fire-sale prices, and political resistance toward these acquisitions is weak, at least for the time being, in light of the fact that these financial institutions are in a compromised position. In any case, the key point here is that, given SWFs' size and the relatively low liquidity of the alternative markets, their transactions are likely to attract a lot of public attention, which may affect the sentiment of the private investors and policy makers.

Emergence of financial protectionism

Point 4. The risk of financial protectionism is high. In the past few decades, the notion of 'protectionism' has been confined to trade. However, going forward, the counterpart of the cumulative trade surpluses – official reserves and SWFs – will likely become a source of political tensions. The transformation of these foreign central banks from creditors to owners could lead to political reactions in countries offering assets that reserve-rich nations find desirable. Financial protectionism, therefore, will become a much more important policy issue, possibly surpassing trade protectionism as a topic of policy debate. There are several considerations in this discussion. First, are SWFs another source of market instability? While some are worried about SWFs' clout in some smaller emerging economies and the risk of a 'sudden stop' in capital flows if one or two major SWFs decide to pull out of a market, possibly due to political motivations, our sense is that they should, in general, be a source of stability. The recent experience with financial sector shares is one good example, and is effectively a rebuttal from SWFs of the criticism that they are a source of market instability. Their long investment horizon and higher tolerance for swings in P/L allow them to be more immune to herdish mood swings in the market. Second, the question regarding transparency has been raised often by commentators. Unfamiliarity with these SWFs is a major source of worry for the recipient countries, as is the idea that some SWFs may have motives other than purely financial in certain strategic acquisitions. The IMF has been charged with the task of proposing a set of best practice guidelines for SWFs, including the area of transparency. From our perspective, we believe the concept of 'transparency' needs to be elaborated, i.e., transparency on what, to whom and for what purpose? Policy makers of the recipient countries need to think harder about these aspects of transparency before demanding that SWFs comply with certain requirements. Third, reciprocity of investment rules is also key. While there is a great deal of attention on the risk of financial protectionism imposed by the recipient countries in the West, the truth is that many of the SWFs are by far much more protectionist. Thus the issue of reciprocity will be intertwined with the political discussions on SWFs. Fourth, protectionist measures cannot be aimed at SWFs specifically, given that there are close cousins of SWFs, such as Sovereign Pension Funds, that are not totally distinct from SWFs. Further, the fact that SWFs can invest through private asset managers suggest a comprehensive approach to financial protectionism is necessary in dealing with SWFs.

Bottom line

SWFs are a game changer, for the financial markets and for financial policies. They will be sources of 'high octane' cross-border flows that are very large in size and relatively proactive in nature; these SWFs are likely to lead, rather than follow, private investors. Not only will SWFs have important implications for the world, they themselves are reflections of powerful secular shifts in the global economy, such as demographic realities, the revolution in wealth creation in

emerging markets, the rise of emerging powers in general, and financial globalization. Financial protectionism is a risk, but that should not only be seen as a negative, since many SWFs are still 'pliable' in how they want to run their funds. Threats of protectionist measures could actually help encourage these funds to adopt orthodox investment and governance standards.

Notes

[1] The world's official foreign reserves stood at some US$6.0 trillion as of end-September, 2007.
[2] Stephen L Jen (2007) 'How Big Could Sovereign Wealth Funds be By 2015?' Morgan Stanley.
[3] Stephen L Jen (2007) 'The Definition of a Sovereign Wealth Fund.'
[4] According to our calculations, of the US$3.2 trillion in official foreign reserves owned by emerging economies, some US$1.5 trillion is considered 'excessive.' In other words, they are not needed for liquidity purposes (Jen and St-Arnaud, 2007, 'Excess Official Reserves').
[5] Stephen L Jen (2007) 'Why Japan Should Have Its Own Sovereign Wealth Fund'.
[6] Jen and Miles (2007) 'Sovereign Wealth Funds and Bond and Equity Prices.'
[7] In comparison, the total market capitalisation of publicly-traded equities in the world is around US$52 trillion.
[8] Mr Knut Kjaer, the CEO of NBIM, *From Oil to Equities*, November 2006.
[9] Since 1985, global real estate and global equities have been the out-performers, while oil and non-energy commodities have been laggards. Specifically, if one had invested SDR100 in 1985, the investment would be SDR739 for global real estate, SDR639 for energy instruments, SDR639 for global equities, SDR403 for global bonds, SDR264 for non-energy commodities and only SDR182 for crude oil (including the recent surge in oil prices toward US$100 a barrel).
[10] Stephen L Jen (2007) 'A 25:45:30 Long-Term Model Portfolio for SWFs'.
[11] Stephen L Jen (2007) 'A 25:45:30 Long-Term Model Portfolio for SWFs.'

Erik Dansbo [§] and Oscar Wallner [†]

[§] Areim [†] Lehman Brothers

Sweden's Privatization Program

From Colbertism to liberalism

Sweden is not the country it was 20 years ago. During the decades following the Second World War, the Social Democratic Party consolidated its role as the leading political party, helped along by the prevailing shift to the left in domestic political opinion. The 60s and 70s saw a considerable increase in the level of government involvement in many parts of society, not least as an integral part of the business life.

This stands in stark contrast to what is currently happening in the country. In September 2006 the center-right coalition "Alliansen" (the Alliance) won the Swedish general election. They did so on the back of promising more jobs and easier rules for small enterprises. A less pronounced policy – not even part of the election manifesto – was an ambitious privatization program comprising six State Owned Enterprises (SOEs) worth an estimated 200 billion Swedish crowns (EUR 21 billion).

Is now the time for privatization in Sweden?

The ongoing privatization effort in Sweden is interesting not least from two perspectives. Firstly, and most obviously, it is carried out in a state with a long left-wing tradition (the Social Democratic party has ruled for around 70 of the last 100 years). Unlike many other countries across the world, the Swedish electorate is not convinced that privatization of state owned enterprises will provide better and more efficient services – as would be one of the main arguments for privatization. Neither are they convinced of the more ideological arguments that the state should not carry out activities that can just as well be produced by the private sector.

Secondly, what is currently taking place in Sweden is a privatization program timed when the country's economy is booming and there is no obvious need for the proceeds. Indeed, the government has pledged to use the proceeds to pay down the public debt. These two perspectives will be the main foci of this article.

Sweden has historically been characterized by a strong intervention of the government in the economy...

Historically, Swedish governments have seen it as part of their mission to protect and help develop vital infrastructure and important assets, such as forests, metals and minerals. As a result, the state built and controlled a number of, what were then considered, "natural monopolies" and a number of those companies are still in government control.

In the latter half of the 20th century, this focus was widened to also include a stabilizing role in Sweden's economy, which meant supporting industries and regions that were becoming decreasingly competitive, such as the ship building industry on the west coast and the steel industry in the north. The involvement has since stretched to include a significant role in the Swedish banking and mortgage lending markets through state ownership of Nordea Bank AB and

SBAB, the mortgage lender – both of which are still under state control but are now due to be divested.

...and by a general trust in the policies regarding the state-owned sector

When thinking about how Swedish governments have dealt with SOEs, one should consider the Swedish social and political system and the mentality and attitude of the Swedish population and its effects on political decisions. Unlike many other people, Swedish citizens, by and large, trusts their politicians. The level of corruption is low, and so is the acceptance level for behavior on the part of the elected representatives of the people. There have been a number of events where leading politicians have committed what would in many countries have been considered petty acts of no significance, but which have lead to them having to resign from Swedish public service.

Thus, motivating and securing popular support for privatization poses a challenge for the current government

The inherent trust in the government and the state's ability to positively influence society is also reflected in the policies regarding state owned enterprises. The Swedish people, by and large, do not believe that having the government own many large firms (the Swedish government is the single largest owner of enterprises in Sweden with a portfolio valued by the government at around SEK 770bn, or EUR 81 billion) constitutes any problem – and few would say it is worth arguing about. On the contrary, many Swedes still believe that the government involvement in business life is, if anything, good. In light of this, motivating and securing popular support for the program poses a challenge for the current government.

The main arguments that led the four centre-rigth parties to win the elections in 2006 were employment and economic growth...

It is in this setting and political environment that the government is trying to gain support for the current program. In August 2004, two years before the 2006 general election, the four centre-right parties of the Swedish parliament formed what they called "Alliance for Sweden." At an early stage the Alliance announced that their main focus would be to raise the employment rate and that the means to this end were, firstly, that it should be more profitable to work and, secondly, that it should be easier and more profitable to run businesses. Apart from employment, other foci of the Alliance were education, international relations, economic growth and legal issues.

For the parties in the centre-right alliance the election manifesto indicated a shift to the center-left, so as to attract voters from the governing party and increase chances of winning the elections. The privatization program, however, was not mentioned in the manifesto the Alliance published in the run-up to the election.

Nevertheless, in an article published in the spring of 2006 the Alliance listed seven companies it wanted to divest. The selection criteria and reasons for choosing these seven were not stated in any great detail, and to the extent they were, these were lost on the public at large. They did, on the other hand, outline the reasons for not privatizing the mining company LKAB and the power utilities company Vattenfall. Future expansion of the LKAB iron ore mine in the town of Kiruna will involve moving a substantial part of the city. The Alliance argued that the state as an owner would guarantee that the company would take the appropriate responsibility for this investment. In the case of Vattenfall, the Alliance argued that it would be unwise to privatize the company since it is a dominant producer and supplier of electricity in the ill functioning electricity market.

However, singling out these two companies may well have been a result of political considerations. The northern parts of Sweden have long been a stronghold for the Social Democratic party, so "jeopardizing" two of the major

employers in the area would likely not further the political ends of the Alliance. It is important to note that in the lead up to the election privatization was not heavily debated. This was partly because the Alliance, as outlined earlier, focused on how they would increase employment, while the Social Democrats and their allies focused on how this would undermine the extensive welfare they had built over decades.

Since the election, the government has suffered a series of setbacks. The most notable were the resignations of three ministers for varying reasons – including having avoided paying taxes for domestic cleaning services and having neglected paying the licensing fee for public service broadcasts. These setbacks have, most likely, contributed to the decreasing support for the ruling alliance as well as their policies. As described earlier, the Alliance won the election on promises of reducing unemployment, increasing the attractiveness of working and stimulating the growth of small and mid-size enterprises. These policies were, comparatively, firmly anchored with the electorate. In many ways the decision to privatize a number of Swedish state owned enterprises differed from these policies.

...but the promises of reducing unemployment and increasing the attractiveness of working differed from the decision to privatize a number of Swedish SOEs

Representatives from both ends of the political spectrum express the opinion that the announcement of the privatization program came somewhat suddenly and that the preparations and motivations for it were less than perfectly communicated. The fact that the privatization program was not mentioned in the election manifesto indicates there may be some truth in this. Critics argue that the privatization program was an unplanned policy or that "privatizations simply is something that a centre-right government is expected to and required to carry out" as one interviewee expressed it. Moreover, the debate – or lack thereof – over the use of the proceeds provides further indication of limited preparation for the launch of the program. Many argue that the level of the country's indebtedness does not require further amortization at this point in time.

On the other hand, emotional and nationalistic arguments were used in favor of keeping the companies under state control

The opposition to the privatization program has found it easy to use emotional and sometimes almost nationalistic arguments in favor of keeping the companies under the control of the state. Common arguments from representatives of the opposition include first and foremost that the divestiture of SOEs would mean the state losing control of important assets and important employers, which would de-stabilize the economy and certain regions. Another common argument heard in the political debate is that divesting SOEs would represent a loss of future dividend income, leaving the state, net, with less money to finance its operations. The arguments thus indicate that the pricing of the companies does not reflect future returns – admittedly somewhat puzzling from a corporate valuation stand-point. This argument is interlinked with another, namely that the government is acting too swiftly and that the revenues because of this will be unreasonably low – the SOEs the Swedes have built are now "on sale".

Another common argument is that these Swedish assets with a long history as integral parts of Sweden's economic life, that have been important not only for the income they bring but also for the people they employ, would leave the country if bought by a foreign owner. The emotional content in these arguments are exasperated by the traditionally "hot potato" of local employment figures. Opponents argue that if the companies are acquired by foreign corporations or venture capitalists, people will lose their jobs and all the profits will leave the country (without being re-invested in Sweden). There may of course be some validity to these concerns. Most of the state-owned enterprises still under government control are, however, difficult to move by their very nature.

Another argument is that the state, for strategic reasons, should retain control over the companies. History offers interesting insight into this issue. Both SJ, the national railway service provider, and Telia (today a part TeliaSonera), the telecommunication company, were state monopolies. As monopolies the companies both controlled the infrastructure and provided the train/telephone services. In the abolishment of the monopolies the treatment of the physical infrastructure can potentially pose problems. In the case of SJ, this was solved by separating the tracks and the train service provision, something that has not been done with the telephone lines in the case of TeliaSonera. The fact that the former monopoly still controls the vital infrastructure has caused considerable debate and frustration, not least among TeliaSonera's competitors.

A troubled process...

The government has had difficulties in responding to these and other arguments put forward by the opposition. The near-total failure to provide solid arguments, and the apparent reluctance to use more ideological reasons for privatization, have lead many to believe the privatization program was not the most thought through policy implemented since the election.

In addition to the previously mentioned setbacks, external to the privatization program, the privatization program itself has suffered a series of setbacks. The government had appointed representatives to oversee the privatization effort who had previously worked for the regional investment bank Carnegie. Foremost of these was the former Carnegie CEO Karin Forseke. The investment bank has since suffered a blow to its reputation from an internal trading scandal – which resulted in the bank giving up the mandates it had from the government to evaluate strategic options for the divestment of two of the SOEs. Naturally, this has also reflected badly on the privatization program as a whole. Following this scandal, the Alliance in general and Mr. Mats Odell, the minister in charge of overseeing the privatization program, in particular have had to pay a high political price. Mrs. Forseke had to resign form the privatization advisory committee and Mr. Urban Funered, another former Carnegie employee, had to resign from his position as state secretary to Mr. Odell. Voices have also been raised saying that in order for the privatization program to be credible and successful Mr. Mats Odell needs to resign.

In this context it is of interest to note the changing position of the present opposition party, the Social Democrats. The party that during 2000 privatized the former telecommunication monopoly Telia through an IPO is today a firm opponent of the current government's privatization plans. In fact, during the spring of 2007 Marita Ulvskog, party secretary of the Social Democrats, suggested changes to the constitution in order to secure state ownership.

...facing sound criticism and opposition

Intertwined in the opposition to the program, as mentioned in the introductory section of this article, is the fact that the general economy of Sweden has over the last few years performed extraordinary well. In most previous privatization efforts in Western Europe there has been a need for the proceeds generated in the sale of government owned assets. This is not the case today in Sweden, which thus provides an interesting experiment. Whether this will provide any material difference in terms of the outcome is of course not known. However, it subjects the government to greater risk of criticism--not only in the ways that could ordinarily be expected, but also because the companies are more likely to suffer from a downturn in their end markets and in the economy as a whole, since the economy and the country have been performing well over a long period of time. This will further increase the risks of the government seeing more

criticism from opponents since the absolute performance of the companies may deteriorate in the coming years. If that goes as far as to result in lay-offs and unemployment from these newly divested companies, the government may face a difficult battle with public opinion.

A political, economical and social challenge

As a result of all the above, the ongoing privatization of major state owned enterprises in Sweden is interesting from a political, economical and social point of view. As of the time of writing the article, the outcome remains unknown and so does the way in which the government intends to perform the actual divestitures of the companies. The current privatizations will be a test not only of Swedish public opinion, but also of privatizations in modern developed Western European economies in times of relative economic prosperity that governments and policy makers around the world are sure to study closely in and use as a yard-stick in future divestitures of SOEs.

Andrea Goldstein and Céline Kauffmann

OECD §

Private sector and the water challenge in developing countries

Water is a central issue in sustainable development

Introduction

Securing safe and reliable water and sanitation services for all is one of the leading challenges on the road towards sustainable development. In fact, the water divide is still very large. All but a few OECD countries have connected 100% of their populations to safe water supplies, and the majority are connected to wastewater treatment. While progress has also been made in developing countries, there is still a long way to go.

In this context, water is a central issue for economic development and poverty reduction. As outlined by the UN Task Force on Water and Sanitation, two constraints stand in the way of expanding access and bridging the gap between the financing needs for water infrastructure and the available sources of financing: the lack of appropriate institutions and chronic dysfunction of existing institutional arrangements. Many policies (including water pricing, public budgets, private investment, official development assistance or ODA) are needed to ensure sustainable financing and involve the private sector in this effort.

An effort from the private sector is needed in order to fill the gap between the financing needs for water infrastructure and the available sources of financing

The role of the private sector

The private sector is already playing an important role in some activities. In some countries, upstream water activities, such as extraction, water treatment and downstream activity of wastewater treatment involve a buoyant (often international) private sector activity, generally in the form of Build, Operate and Transfer (BOT) contracts. Thriving business opportunities are also developing in water purification and desalinization. Direct services to users involve some private sector participation in the form of concession, lease or management contracts, although public ownership and management of the main networks remain the norm in many countries. Small-scale and informal providers are also active in most developing countries for service delivery in the poorer and isolated areas. Worth noting, there is also a thriving emerging market for bottled water.

A wide variety of private actors are active: international investors, local and regional actors, small-scale water operators, and a private sector whose core activity is not water (such as construction companies), including joint ventures between public and private companies as well as public companies operating abroad as private participant to competitive bidding. The landscape of service provision has also become more diversified in the last 10 years. During the 1990-97 period, five operators accounted for 53 per cent of projects awarded (Suez, Veolia, Thames Water, Agbar and Saur)[1]. Five years later, their share had

§ *The authors are economists at the Organization for Economic Co-operation and Development in Paris. They write in their individual capacity. In particular, the opinions expressed are the sole responsibility of the authors and do not necessarily reflect those of the OECD or the governments of its member countries.*

dropped to 23 per cent (over 2003-2005). The new players come from diverse backgrounds: they are water construction or engineering companies, industrial conglomerates seeking to diversify, local companies that formed joint ventures with international operators and local companies expanding and going regional.

Still, political involvement is unavoidable

This recomposition of the private sector landscape accompanies a trend among "traditional" international players towards shorter, less risky arrangements involving lower or no investment obligations. This is not surprising given the relatively high incidence of water and sanitation cases among those currently pending in front of the International Centre for Settlement of Investment Disputes (10 out of 123 at 21 January 2008). At the same time, the water and sanitation sector, as already stressed by the Camdessus panel, poses specific risks for commercial funding[2]. Projects are capital-intensive. They involve high initial investment, long payback periods and low rate of return. The resulting infrastructure is fixed, specific and cannot be used for other purposes or removed from the country. This profile generates high contractual risk, especially in a context of poor initial information and a weak regulatory environment. The revenues come mainly from user fees or government subsidies in local currency while funding is largely in foreign currency, exposing the investor to high foreign exchange risk, a true constraint for international investors, but also for national operators in a context of poorly developed local financial markets. The foreign exchange risk is compounded by a complex and politically sensitive pricing process. Management of the projects is mainly local, exposing the investors to the often weak management and financial capacities of the sub-sovereign entities (sub-sovereign risk). Finally, as a basic need, water has important social and political repercussions that justify political involvement on the grounds that final users shoul be protected from possible abuse of a monopolistic position on the part of service providers. This often takes the form of control over the setting of tariffs, with the consequence that these rarely reflect the full reality of costs and lead to under-investment and deterioration of service quality.

Regulation is crucial

The implication is clear. Delegating water services to private operators, without a well-defined regulatory environment, cannot be successful. But adequate safeguards must be in place to protect private investors against the risk of expropriation.

The case of sub-Saharan Africa[3]

Sub-Saharan Africa: not a resource issue, but a management, pollution, wastage and lack of facilities setback

Ten million people annually have gained access to improved drinking water over 1990-2004 in sub-Saharan Africa. However, the population has grown even faster with the result that the absolute number of unserved people has increased by about 60 million over the same period. Consequently, the number of additional people obtaining access to drinking water annually would need to triple to reach the water Millennium Development Goals (MDG) by 2015. The situation is even worse for sanitation, both in the low level of access and the limited progress made since 1990. For the region to reach the MDG, 35 million more people annually need access to improved sanitation, compared with the current rate of 7 million. Even then, some 234 million people would still lack access to safe drinking water by 2015 and 317 million to improved sanitation.

Limited access to water and sanitation in Africa is not mainly a resource issue. Though a third of countries experience some pressure on their internal water resources, they are overall considered abundant. The problem is one of poor management, pollution and wastage, as well as lack of facilities – except in

South Africa. In most African cities over 50 per cent of the water supply is wasted or unaccounted for.

Many countries have sought to involve the private sector in the development of their water infrastructure...

To meet their tremendous needs, many African countries have sought the involvement of the private sector to develop their water and sanitation infrastructure. The first involvement of an international water provider in Sub-Saharan Africa took place in Côte d'Ivoire in 1960. Guinea followed in 1989 with a ten year lease. The two experiences were relatively successful and led Senegal to adopt an innovative affermage contract, further extended in 2006. In contrast, agreements in Gambia and Uganda were not as successful and were brought to early termination in 1995 and 2004 respectively. Since 1990, more than 10 African countries have sought to involve the private sector in the development of their water infrastructure, using a wide range of contracts: service contract, management contract, affermage, lease, concession and BOT. But while in Latin America and Asia the concession model has been the main vector for private sector involvement, in Africa only two concession contracts have been signed so far, one of which was terminated early. BOT, shorter term contracts and lower-risk contracts (management/lease) are more common, reflecting the perception of high risk.

...including local private investors

In parallel, the local private sector plays an increasingly important role in Sub-Saharan Africa. Strong development of small-scale local actors reflects their flexibility and adaption to the diversity of demand. In Ghana, several independent operators manage small piped networks. In Mali, 25 independent suppliers operate water networks in Bamako. In Mozambique, about 200 independent providers operate small networks in Maputo and Matola. The activities of formal and informal small-scale private sector enterprises in the water service sector are also driving innovative institutional settings. In Uganda, 13 local private operators provide services under short-term management contracts. In Mauritania, 356 management contracts have been awarded to independent operators in small towns.

The Southern Mediterranean experience[4]

Southern Mediterranean region: water scarcity and uncontrollable urbanization

The Southern Mediterranean region faces one of the most important water crises in the world. Out of the 11 countries of the region, 8 are water scarce (Algeria, Cyprus, Egypt, Jordan, Malta, Morocco, Palestinian Territories and Tunisia). Moreover, several studies predict that climate change will worsen the situation. In addition to water scarcity, the southern Mediterranean region is confronted by uncontrollable urbanization. By 2030, this region will count 239 million urban residents. Urban population will represent more than 70 per cent of total population in nine countries of the region.

Institutional arrangements, recent regulatory reforms and experiences with private sector participation in water infrastructure differ in Algeria, Egypt, Jordan, Morocco and Tunisia. A paper produced in the framework of the International Research Project "Understanding Privatisation Policy: Political Economy and Welfare Effects" co-ordinated by the FEEM and funded by the European Commission within the sixth framework programme proposes a new monitoring tool to analyze the institutional organization of the water sector and to assess the future of private sector participation. This Water Sector Analysis Scorecard is based on 10 dimensions (water resource, water use, management of water, water pricing and metering policy, water institutional framework, private sector participation in water supply, desalination, projected investments in water

and wastewater services, impact of demography and economic conditions) and on 49 indicators.

Again, reforming the water supply is the issue

The application of the scorecard suggests possible institutional reforms for Algeria, Egypt, Jordan, Morocco and Tunisia. The study has shown that governments of Mediterranean countries are well aware of the urgency of reforming the water supply sector. Some countries started to restructure the organization of the sector a long time ago; others are still at the beginning of the process. Overall, the study has shown that institutional arrangements and pricing policy seem to be the two factors that matter the most in improving water supply.

The OECD investment tools – how can they be of help to the water sector?

Private sector participation, per se, in water supply does not systematically lead to gains in efficiency. Reforming the institutional framework is an essential prerequisite for delegating water services. In this context of sector segmentation and severe constraints on financing, ensuring that the partnership with the private sector yields the hoped-for benefits to all constituencies is a necessity to policy makers. From the point of view of governments, optimizing the contribution of the private sector requires a clear understanding of "who does what and where" along the whole cycle, from upstream resource "extraction" to service delivery. Experience shows that it is essential to avoid coordination problems arising from the decentralized nature of these actions, as they may lead to sub-optimal organization of the sector and unsustainable initiatives. It also involves maintaining a sound investment climate based on transparent and predictable regulatory and policy frameworks in order to reduce the risks faced by investors.

The investment tools developed by the OECD provide useful guidance to governments by ensuring investment policy coherence and by highlighting the key issues faced by the public authorities when involving the private sector in the development of infrastructure. The Policy Framework for Investment (PFI) is a non-prescriptive checklist of issues for consideration by any interested governments engaged in domestic reform, regional co-operation or international policy dialogue aimed at creating an environment that is attractive to domestic and foreign investors and that enhances the benefits of investment to society.[5] The Principles for Private Sector Participation in Infrastructure were approved in March 2007 by the OECD Council to help governments work with private sector partners to finance and bring to fruition projects in areas of vital economic importance, such as transport, water and power supply and telecommunications.[6] A sectoral application of the Principles to the water and sanitation sector is currently under way.[7]

Notes

[1] World Bank. Suez controls 51% of HISUSA, that in turn owns 90% of Agbar.
[2] Winpenny, J. (2003), *Financing Water for All*, Report of the World Panel on Financing Water Infrastructure.
[3] See Kauffmann, C. (2007), "Access to Drinking Water and Sanitation in Africa," OECD Development Centre, *Policy Insights*, No. 41 (www.oecd.org/dataoecd/27/2/38563239.pdf) and Kauffmann, C. & E. Perard (2007), "Stocktaking of the water and sanitation sector and private sector involvement in selected African countries", Background Note for the NEPAD/OECD Regional Roundtable on Strengthening Investment Climate Assessment and Reform in NEPAD Countries (www.oecd.org/daf/investment/africa).
[4] See Pérard, E. (2008), "Private Sector Participation and Regulatory Reform in Water Supply: The Southern Mediterranean Experience," OECD Development Centre, *Working Papers*, No. 265 (www.oecd.org/dataoecd/16/38/39922177.pdf).
[5] See www.oecd.org/daf/investment/pfi
[6] See www.oecd.org/document/40/0,2340,en_2649_34863_38305192_1_1_1_1,00.htm.
[7] See www.oecd.org/investment/water

Timothy Frye [§] and Ekaterina Zhuravskaya [†]

[§] Columbia University [†] New Economic School

Support for Revising Privatization in the Postcommunist World

Revising privatization

Over the last fifteen years, governments in the postcommunist world have transferred assets from state to private hands at a staggering rate.[1] Many have recognized that reform leaders such as Estonia and the Czech Republic conducted rapid and extensive privatization in the 1990s, but fewer have appreciated the extent to which reform laggards like Moldova, Albania, and Kyrgyzstan have also shed considerable portions of their state sectors.

In recent years, however, it is the revision of privatizations that has gained headlines. Governments in Kazakhstan, Ukraine, and most prominently, Russia, have reversed privatizations that were in some cases conducted almost a decade ago. These changes in the privatization bargain have taken place not only in the natural resource sectors, but also at a number of prominent manufacturing and financial companies as well.

A politically sensitive subject

Privatization remains a politically sensitive subject across the region. Even in some countries that have become members of the European Union political parties and presidential candidates calling for "correcting" privatization or protecting "national interests" are common features of the political scene. In Bulgaria, for example, the protest party, "*Ataka*" gained about 10 percent of seats in parliament in the 2004 elections on a platform that endorsed revising privatization.

Extent and causes of mass attitude toward revising privatization

Certainly a large-scale reversal of the wave of privatization in the 1990s is off the table in most countries in the region, but even the threat of revising privatization can have important consequences for economic efficiency. Where popular support for revising privatization is high, current owners may prefer to strip their assets rather than to use them productively given the potential for expropriation. This underinvestment and asset-stripping, in turn, may only heighten calls for revising the privatization bargain. Given the incentives that politicians face to stir up public sentiment on the issue and the potential economic consequences of the change in property rights, it is important to understand the extent and causes of mass attitudes toward revising privatization.

Using a survey of 28,000 respondents in 28 postcommunist countries funded by the European Bank for Reconstruction and Development, we studied mass support for revising privatization. The survey was conducted in face-to-face interviews in all postcommunist countries except for Turkmenistan in the summer of 2007. More specifically we asked: "In your opinion, what should be done with most privatized enterprises. They should be ….

1) Renationalized and kept in state hands
2) Renationalized and then reprivatized again using a more transparent process

3) Left in the hands of the current owners provided that they pay what the assets are worth
4) Left in the hands of current owners with no change.

What emerges is that privatization is not unpopular itself...

We find that support for revising privatization is high across the region. Overall, 80 percent of respondents in the sample wanted to revise privatization in some way – either via renationalization, reprivatization or a tax levied on current owners. Opposition to maintaining the status quo privatization was also broadly held. In each country in the region a majority of respondents wanted to revise privatization. Even in Poland, one of the most successful economies in the region during the transition, only 20 percent of respondents wanted to leave assets in the hands of current owners with no change. In Croatia, only 6 percent of respondents preferred this status quo response.

These figures are consistent with several studies from Latin America where privatization has been equally unpopular (Graham and Sukhtankar 2004; Panizza and Yanez 2006). Nonetheless these figures are surprising in a different sense. After sharp drops in economic output in the early and mid-1990s, economic growth across the postcommunist region has been impressive. Since 1998 the average real rate of GDP growth in the 28 countries under study was 5.5 percent. As the private sector has led this growth, one might have expected support for revising privatization to be more muted. There is, however, little correlation

Table 1. "In your opinion, what should be done with most privatized companies? They should be..."

Country	Renationalized and kept in state hands	Renationalized and then re-privatized again using a more transparent process	Left in the hands of current owners provided that they pay privatized assets' worth	Left in the hands of current owners with no change
Albania	14.5	18.7	51.7	15.2
Armenia	40.5	22.6	26.8	10.1
Azerbaijan	41.4	26.4	8.6	23.7
Belarus	20.4	7.1	25.8	46.7
Bosnia	25	17.9	43.4	13.7
Bulgaria	28.8	15.8	48.3	7.2
Croatia	23.9	29.1	41	6
Czech Republic	13	11.8	50.6	24.6
Estonia	22.4	10.7	22.6	44.4
FYR Macedonia	35.3	20.7	38	6
Georgia	30.9	31.9	14	23.2
Hungary	24.6	10.2	51.9	13.3
Kazakhstan	47.5	13.4	26.7	12.5
Kyrgyzstan	43.8	11.2	17.7	27.4
Latvia	19.1	14.2	40.4	26.4
Lithuania	17.6	17.3	38.3	26.8
Moldova	34.8	14.6	32.7	17.9
Mongolia	19.9	22.6	21	36.5
Montenegro	19.3	20.6	51.3	8.8
Poland	22.4	20.4	37.2	20
Romania	19.9	14.4	53	12.8
Russia	36.7	13.3	31.5	18.5
Serbia	20	18.3	50.7	11
Slovakia	34.2	8.7	39.9	17.1
Slovenia	12.4	19.6	36.6	31.4
Tajikistan	48.4	13.7	21.9	16
Ukraine	43	12.5	31.9	12.6
Uzbekistan	51.6	10.6	22.6	15.3
Total, %	29	16.7	34.8	19.4
Cumulative, %	29	45.7	80.6	100
Observations	8,077	4,654	9,697	5,412

Source: *EBRD.*

between economic growth and the national-level average support for revising privatization.

...but most likely unpopular are the methods the process has been conducted

While we found that support for revising privatization was broad and deep, we also found that most respondents wanted privatized firms to end up with private owners.

Only 29 percent of respondents preferred that privatized assets be renationalized and left in state hands. At the extreme, 48 percent of respondents favored this outcome in Kazakhstan, while only 13 percent of respondents chose this option in Estonia. One surprising case comes from Slovakia where 34 percent of respondents wanted assets to be renationalized and remain in state hands. Thus, opposition to privatization should not be equated with support for state property.

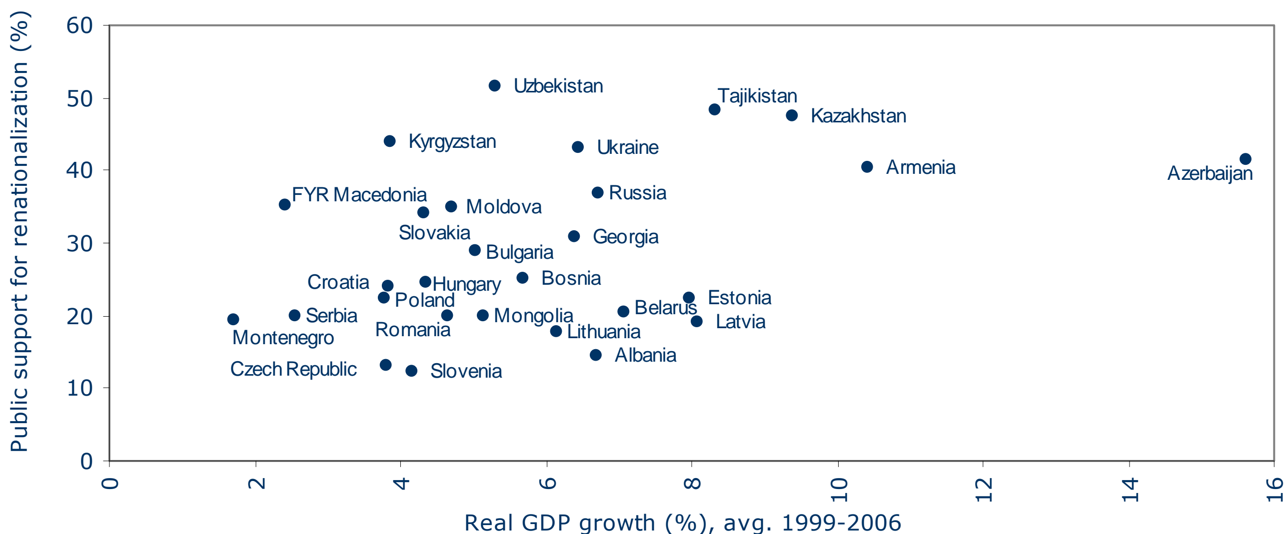
Indeed, in many cases respondents are unhappy with privatization, but ultimately favor private ownership. Thirty-five percent of respondents wanted assets to be "left in the hands of the current owners provided they paid what the assets were worth." This was the most common answer. Another 17 percent of respondents preferred that firms be "renationalized and then re-privatized using a more transparent process." These answers indicate that while most respondents are dissatisfied with privatization and would like some form of redress, there is still considerable support for keeping privatized assets in private hands.

Who Wants to Revise Privatization and Why?

What are the in-depth reasons underlying this privatization review?

Understanding the extent and breadth of support for revising privatization leads to the question: who wants to revise privatization and why? We examined what types of individuals were especially likely to support revising privatization. We also determined why respondents held this view. We wanted to know whether respondents supported a revision of privatization due to a preference for state property or because they viewed privatization as unfair. This is important because the policy implications differ dramatically between these two motivations.

Figure 1. "In your opinion, what should be done with most privatized companies? They should be..."



Notes: Vertical axis: Percent of countries' populations who agree that most privatized companies should be renationalized and kept in state hands . Horizontal axis: Average annual growth rate of real GDP between 1999 and 2006.
Sources: "Life in Transition" Survey by the EBRD and the World Bank, EBRD 2007b; EBRD, selected economic indicators as of May 2007.

For sure, individual economic interests are a realistic motivation in shaping preferences over privatization policy...

In a statistical analysis, we found that respondents with human capital poorly suited for an economy dominated by private firms were especially likely to favor revising privatization. More specifically, older respondents, those working in lower-skilled jobs, those in poorer health, and those with less education were significantly more likely to support revising privatization.

Moreover, these respondents held this view largely due to a preference for state property over private property. That is, controlling for other factors, respondents with human capital poorly suited for a market economy were significantly more likely to favor that assets be renationalized and left in state hands. This suggests that responses to the survey were not driven solely be emotional appeals or nostalgia for the command economy, but also retained a potent economic logic. Respondents who were unlikely to be successful in an economy dominated by private ownership were most likely to favor revising privatization. In addition, they preferred to revise privatization in a way that left assets in state hands.

It is interesting to note that older respondents who worked in a high-skill occupation were significantly more likely to oppose revising privatization. This finding points to the importance of human capital in shaping preferences over privatization policy. It also indicates the extent to which individual economic interests underpin these views.

We also found that individual experiences in transition influenced support for revising privatization. Respondents who suffered severe economic hardships for whatever reason during the transition, such as those who were forced to reduce their food consumption, experience wage cuts, or sell assets to make ends in meet were more likely to support revising privatization. Groups suffering these rather significant forms of economic hardship support a revision of privatization primarily due to concerns over fairness. Thus, privatization appears to serve as a lightning rod for groups who suffered grave economic losses during transition.

Somewhat surprisingly, career trajectories during the transition were not especially strong predictors of support for revising privatization. The more years that a respondent worked in the state sector during the period 1989-2006, the more likely they were to support a revision of privatization, but respondents who changed jobs frequently, worked for many years in the private sector, or moved from work for wages (usually in the state sector) to self-employment were no more likely than other respondents to favor revising privatization.

However, career trajectories did shape preferences for state property and private property. Respondents who moved from wages to self-employment during the transition and those who worked for more years in the private sector expressed significantly stronger support for keeping privatized assets in private hands.

Finally, we examined how national level institutions and policies, such as democracy, the quality of governance, and privatization policies influenced individual attitudes toward revising privatization. We found that these factors did not have a significant impact on how human capital shaped preferences for revising privatization. Regardless of the institutional and policy environment, respondents with human capital best suited for an economy dominated by state ownership favored revising privatization.

In contrast, the impact of career trajectories during transition on attitudes toward revising privatization depended on the institutional and policy environment. Democracy, good governance, extensive privatization, and low levels of

inequality exacerbated the difference between the responses of economic winners and losers during transition. Respondents who moved from wage work to self employment in an environment of democracy, strong governance institutions, and relatively income equality were significantly more likely to oppose revising privatization than those who remained in wage work. In bad environments of autocracy, weak governance, limited privatization and high levels of inequality, differences in the responses between these groups are minimal. In the latter set of cases, those who have moved to self-employment and those who have remained in wage work may be equally unhappy with privatization.

Conclusion

To our knowledge this is the first study to examine not only who supports revising privatization, but also why respondents hold this view. This is important because if respondents support a revision of privatization primarily because their human capital is ill-suited for an economy dominated by privately-owned firms, then retraining programs may moderate opposition and increase the perceived security of privatized property rights. Indeed, we find that human capital poorly suited for a market economy is a robust predictor of support for revising privatization across institutional and policy environments. In contrast, if opposition to privatization is motivated by concerns about fairness, then compensation to groups losing during the transition may be inevitable. We also find that groups experiencing severe losses during transition are more likely to oppose privatization on fairness grounds.

The breadth and depth of support for the revision of privatization is high across the postcommunist region, which suggests that that there is considerable scope for politicians to rally public sentiment against privatization. However, public opinion is rarely translated directly into policy as collective action problems, power differentials among interest groups, and political institutions can yield policy outcomes far from those preferred by the median voter. Thus, high levels of support for revising privatization need not lead automatically to changes in policy.

Two optimistic notes emerge from our study for those who are concerned about the potential economic and political costs of revising privatization. First, while support for revising privatizing is high across the region, over 70 percent of respondents prefer that privatized assets ultimately end up in private hands. Second, much of the support for revising privatization on fairness grounds is due to experiences during transition. With time these experiences may fade from memory taking their support for revising privatization with them.

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Notes

[1]This research note reflects work from the larger project "Who Wants to Revise Privatization and Why? Evidence from 28 Postcommunist Countries" by Irina Denisova, Markus Eller, Timothy Frye and Ekaterina Zhuravaskaya.

Selected News

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CZECH REPUBLIC

2007-11-23 - **Credit Suisse To Advise On Privatization Of Prague Airport**
PRAGUE (Dow Jones)--The Czech Finance Ministry chose a unit of Credit Suisse Group to advise the Czech Ministry of Transport on its privatization of **Prague International Airport**, the finance ministry said Friday. Credit Suisse Securities (Europe) Ltd. will manage the analysis of appropriateness, breadth and manner in which the state-owned airport will be sold. The Ministry said earlier this month that by March of next year it will announce details of the privatization, including whether a majority or minority stake would be sold, and whether the sale would be directly to a strategic or financial investor, or via a float on the Prague Stock Exchange. The Prague airport posted a 9.7% annual increase in first-half 2007 net profit at 654.1 million koruna ($36.2 million) on rising passenger numbers.

2008-01-04 - **Czech Prime Minister: Government Undecided On Level Of CEZ Share Sale**
PRAGUE (Dow Jones)--The Czech government has yet to make a final decision about whether it will seek additional revenues from a selldown of its stake in power company **CEZ AS**, the country's prime minister said in a newspaper interview published Friday. "Now the discussion is if we will sell only to the level of necessary revenues or to the maximum-approved percentage of shares," Mirek Topolanek said, adding no final decision has been made. To date the Czech government has sold 1.8% of CEZ shares. Early last year the government approved a plan to sell up to but not more than 7% of its then 68% stake in CEZ to raise 31 billion koruna ($1.74 billion) to fund highway construction. The plan set out a minimum selling price of CZK950 a share. "The operation has gone brilliantly, and today the shares are being sold for CZK1,400," Topolanek said. Analysts have said if the government sells less than 7% it will help the CEZ share price, but if the government seeks to sell the full 7% it will create an overhang on the market and hurt the share price.

FINLAND

2007-12-14 - **Finnish Lawmakers Authorize Government To Sell Outokumpu, Other Companies**
HELSINKI (AP)--Finnish lawmakers Friday approved a bill allowing the government to sell its 30% stake in metals group **Outokumpu Oyj** and relinquish ownership of two other companies, **Rautaruukki Oyj** and **Kemira Oyj**. The approval, in a 108-68 vote with 24 absentees, had been expected, as the coalition parties hold a majority in the 200-member Parliament. The bill is in line with the government's policy of gradually reducing its ownership of several of the 19 companies in which it holds a major interest. In 2006, revenue from those shares reached a record EUR1.6 billion. Last year, the government reduced its ownership in Outokumpu, the world's second-largest stainless steel maker, by more than 7%, selling shares worth nearly EUR300 million. In August, the government announced it sold a 32% stake in the Kemira chemicals group for more than EUR655 million, but it remains a major owner with 16.5%. It also has a 39% stake in Rautaruukki, which supplies metal-based components for the construction and mechanical engineering industries. Besides having full ownership of YLE, the Finnish Broadcasting Company, and Alko Oy, the state-run alcohol retail monopoly, the government owns 57% of the national carrier, Finnair. It is also a major shareholder in paper maker Stora Enso Oyj and the Nordic telecom company TeliaSonera AB. Last year, turnover of the 19 companies, which employ some 200,000 people in Finland and abroad, reached some EUR68 billion.

FRANCE

2007-12-20 - **French State To Have Veto On GdF French Asset Sales**
PARIS (Dow Jones)--The French state plans to transform the ordinary shares it holds in **Gaz de France** into special shares that will allow it to oppose any sale of the firm's French assets, the prime minister's office said Thursday in a statement. The statement also noted the appearance in the official state bulletin Thursday of a decree to privatize

GdF. GdF must first be privatized in order to facilitate its planned merger with Franco-Belgian energy and environment conglomerate Suez. The French state's special shares, essentially a golden share, will initially be in GdF, said Arnaud Joan, an analyst at Kepler Equities. But since it is GdF that legally will absorb Suez, the new shares will be valid in the future GdF-Suez, he said. Joan rated GdF buy with a EUR46 target price. A so-called "golden share" is a share in a company that grants certain special rights to the holder. Per Lekander, an analyst at UBS, said the arrangement should not fall foul of European Union antitrust law, which allows golden shares only for "very limited public-service reasons." The legislation on the special shares will refer to essential parts of France's gas infrastructure, Lekander said. Still, Lekander, who rates GdF neutral and with a EUR38.50 target price, said the move seems to be a "pure marketing tool," aimed more at France's domestic audience than winning a veto over the business decisions of the future GdF-Suez. "I don't see any importance of this as the government already has a de facto golden share" in the future GdF-Suez, since it will own more than 33% of the company and therefore control a blocking minority of shares, he said. The French state currently owns around 80% of GdF. Privatizing the company has met with union opposition. President Nicolas Sarkozy has sought to placate opponents of the move by saying the GdF-Suez merger amounts to the "nationalization" of the future company, thanks to the blocking minority shareholding the state will have.

2007-12-24 - **France's CEA Requires EUR6B From Areva Shares Sale**
PARIS (Dow Jones)--The French atomic energy commission, the CEA, would need to raise EUR6B from the sale of its shares in French nuclear engineering company **Areva**, said Alain Bugat, the CEA's director general in an interview with French business daily La Tribune, Monday. Bugat did not state the percentage of the shares the CEA would sell, but insisted it would cover the CEA's costs and noted that the commission was not obliged to sell all the necessary shares at once. The director general added that the organization was looking to move to a business model allowing it more flexibility in the management of its resources.

GERMANY

2007-08-08 - **German Economics Minister: KfW Should Exit IKB After Restructuring**
BERLIN (Dow Jones)--German Economics Minister Michael Glos Wednesday said the government should sell state-owned KfW banking group's stake in troubled bank **IKB Deutsche Industriebank AG** once the restructuring is over. He said that once the bank has been restructured "I would say it makes sense for the federal government to sell its stake," Glos told reporters. But he added that this is his personal view and not a joint government position.

2007-09-10 - **North-Rhine Westphalia: Citigroup To Advise On WestLB Sale**
FRANKFURT (Dow Jones)--Germany's state of North-Rhine Westphalia said Monday it has hired Citigroup to advise on the state's planned sale of its stake in wholesale bank **WestLB AG**. Citigroup has been appointed to examine all options for the stake and the possible effect these options would have on the region as a financial center, the state's finance ministry said in a statement. The NRW state controls 38% of WestLB, although its direct stake is 17.5%. The WestPhalia-Lippe savings banks association, or WLSGV, and the Rhineland savings bank association, which together own around 51% of WestLB, have both said they favor WestLB merging with Stuttgart-based wholesale bank Landesbank Baden-Wuerttemberg. NRW bank holds the remaining 31.2% of WestLB.

2007-09-12 - **RAG Seeks To IPO Energy, Chemicals, RE Operations As Evonik 1H 2008**
ESSEN, Germany (Dow Jones)--Germany's **RAG AG**, Wednesday reiterated that it plans an initial public offering in the first half of 2008, but said that it also is considering selling a certain stake to an investor ahead of the IPO. RAG's energy, chemicals and real estate operations will be listed under the name of **Evonik Industries**, RAG Chief Executive Werner Mueller said at a press conference in Essen, but didn't say how much it was planning to raise. To make the shares of Evonik in an IPO more "attractive" and to increase the proceeds from the floatation, the company is considering selling a first tranche of shares to an investor, Mueller added. However, he said: "We would only be able to accept an investor as a shareholder if the candidate in question were to offer a significantly higher price than (what) the first tranche would bring in on the stock market," Mueller said. But he added that the company hasn't yet made a decision about whether or not to sell a certain stake to an investor before the IPO. Mueller also said that under the Evonik brand name, the company seeks to "grow profitably" after the IPO. For this, the company has set target pretax profit margins of 16% for the chemicals unit, 10.5% for the energy business and 6.3% for the real estate operations. Evonik will consistently divest all of its activities that won't fulfill these targets, Mueller said. RAG's

heavily subsidized coal-mining operations are to be spun off as the RAG Foundation, which will hold a majority stake in the listed company, Evonik.

2007-12-11 - **Deutsche Bahn Sees Partial Privatization End 08**
BERLIN (Dow Jones)--Deutsche Bahn AG Chief Executive Hartmut Mehdorn told Dow Jones Newswires Tuesday he is confident that a plan for a partial privatization of the state-owned railway operator will be implemented by the end of 2008. "This is still the aim, and it is still possible and we are working towards this," Mehdorn said on the sidelines of a conference of employers here. Media reports saying that the senior coalition officials have agreed to address the company's planned partial privation only after state elections in Hesse, Lower Saxony and Hamburg have taken place, won't change the scenario. The elections are scheduled for Jan. 27 in Lower Saxony and Hesse, and for Feb. 24 in Hamburg. "I wouldn't get agitated about it," Mehdorn said. "We are very confident that all things have been put on the table." He added that no new aspect of a privatization model could be presented anymore. "Everything has been said and examined," Mehdorn said. Only the decision has to be made. He said he expects a proposal from Germany's coalition government on the privatization to be completed in the first quarter of 2008. Banks continue to show interest in investing in the railway operator's privatization, he added. "They are waiting for us and are very interested in buying Bahn assets," Mehdorn said. "It is good if we get the decision in March next year." He added that he expects all parties to agree on the proposed holding model for the company. Mehdorn's comments come as the planned privatization has hit obstacles because Chancellor Angela Merkel's grand coalition government disagrees on how to privatize the company. The Social Democrats, or SPD, in October approved a plan that seeks to prevent strategic investors from gaining too much influence in the company by selling 25.1% in Deutsche Bahn in the form of non-voting preferred shares, known in German as Volksaktien. Merkel's CDU party has said the SPD's plan is an unattractive instrument for private investors as the aim of selling a stake in **Deutsche Bahn AG** has been to attract investors to inject fresh cash into infrastructure projects. But the Volksaktien model would deter strategic investors, they say. As an alternative scenario, the German government is considering partially privatizing Deutsche Bahn passenger and freight businesses by way of a holding company. Mehdorn said it is "important" that the decision to partially privatize the company be made in the first quarter, or by April at the latest, in order to implement the move in 2008. "I have heard from both SPD Chairman Kurt Beck and Chancellor Angela Merkel that they will find an agreement in the first quarter 2008," Mehdorn said.

GREECE

2007-09-25 - **Greece Affirms Plan To Privatize OTE**
ATHENS (Dow Jones)--Greek Finance Minister George Alogoskoufis has reaffirmed plans to further privatize **Hellenic Telecommunications Organization SA** after a meeting with the company's second-largest shareholder. In a brief statement released late Monday, the finance ministry said Alogoskoufis had met with Andreas Vgenopoulos, vice-chairman of Marfin Investment Group, which owns 10% of OTE. "The minister, at the meeting, restated the already announced position of the government relative to the privatization of OTE," the statement said. "Mr. Vgenopoulos, on behalf of MIG, confirmed his intention for close cooperation with the government about the future of OTE. Within the next few days, MIG will make a more extensive declaration about the issue," the statement said. In early August, MIG began acquiring shares in OTE and has raised its stake to 10.805% of the company, making it the second-largest shareholder behind the government, which now controls 28% of OTE. The government has said it would like to sell down its stake further - preferably to a strategic investor such as another telecom operator - and is eyeing reducing its holdings to as little as 5%-10% of OTE. However, the MIG share purchases have prompted speculation in the press that the government may put those plans on hold. The worry is that MIG - a Greek private equity firm with no telecommunications experience - may not offer much in terms of management or technical expertise to OTE.

2007-11-01 - **DJ Greek Public Power Corp Denies Has Postponed Strategic Plan**
ATHENS (Dow Jones)--State-owned electricity company **Public Power Corp. SA** Thursday denied reports that it has postponed again the presentation of its restructuring plan due to union opposition. "PPC announces that the reports published regarding the withdrawal of the strategic plan... are completely inaccurate," the company said in a statement. Earlier, Greek news agencies reported that the management of the company had bowed to union pressure and had postponed for six months an announcement of the plan. The General Federation of Electric Power Workers union opposes the plan, which would restructure the company's operations through the creation of six wholly-owned

subsidiaries. The union says this would be a further step towards further privatization of the company, at present 51%-owned by the Greek government. The presentation of the plan, originally scheduled for mid-October, has already been postponed once, until Nov. 21, because of union pressure. The company's board of directors is expected to approve the plan at a meeting Nov. 13. The union has said it will stage a 24-hour strike Nov. 5 and a protest on the day of the board meeting itself. PPC shares fell sharply in mid-afternoon trade closing EUR0.98, or 3.5%, lower at EUR27.0.

2007-11-05 - **Greece To Sell 38% Stake In Attica Bank Early In '08**
ATHENS (Dow Jones)--The Greek government plans to sell off a 38% stake in Bank of Attica SA in early 2008, financial Web site Capital.gr reports Monday. Citing an unnamed senior finance ministry official, the Web site says the procedures for privatizing the stake will begin before the end of the year. Recent press reports have said French mutual bank Caisse Centrale des Caisses d'Epargne and a local Greek pension fund had expressed interest in the bank. Representatives of both Belgium's Fortis Bank NV and France's Societe Generale SA have also visited the head of Attica Bank, suggesting a similar interest in acquiring a stake, according to reports.

HUNGARY

2007-08-22 - **Hungary To Sell Horse Racing Companies, Racing Concession**
BUDAPEST (Dow Jones)--The Hungarian Finance Ministry said Wednesday it plans to sell state-owned horse racing firm **Nemzeti Loverseny Kft.** and betting company **Magyar Loversenyfogadast Szervezo Kft.** The ministry said it will call a single-round open tender for both companies, which are fully state-owned. Bids will be invited from Thursday, when the tender documents are published. The ministry also said it plans to invite bidders for the national concession to organize horse races and related betting. There will be a single winner of both the privatization and the concession offers, the ministry said in a statement. The bidder making "the most favorable offer" will be the winner, the ministry said. The deadline for bids will be Nov. 30. The ministry said it wants to ensure the continuing development of Hungary's horse breeding and racing stock, as well as the establishment of local horse racing as a sport of international standing.

2007-09-11 - **Hungary Lawmakers Pass Privatization Legislation**
BUDAPEST (Dow Jones)--Hungarian lawmakers late Monday passed legislation allowing the privatization of certain companies still owned by the state. The bill was passed at the second attempt after President Laszlo Solyom sent it back to Parliament to be amended. The bill permits the sale of a 25% stake in electricity wholesaler **MVM Zrt.** and the post office **Magyar Posta Zrt.** It also allows the sale of textbook publisher **Nemzeti Tankonyvkiado**, sports facilities manager **Sportletesitmenyek Vallalat**, state highway company **AAK** and porcelain manufacturer **Herendi Porcelanmanufaktura**, among other firms.

ITALY

2007-11-23 - **Italian Treasury Mulls Export Credit Agency Sace Sale**
ROME (Dow Jones)--The Italian Treasury is looking into privatizing state export credit agency **Sace**, financial daily Il Sole-24 Ore reported Friday, citing a letter from the Treasury's director general. The Treasury is seeking an adviser to decide between a stock market listing, a sale to private equity companies or an industrial partner for Sace, the newspaper said.

2008-01-09 - **Air France Chairman Seeks To Win Favor For Alitalia Bid**
ROME (Dow Jones)--Seeking to reassure Italian politicians and labor unions, Air France-KLM SA's chairman said the planned purchase of **Alitalia SpA** would create a European champion and wouldn't abandon Milan's airport hub. "We do not plan to abandon Milan, we'll keep a very dense network," Jean-Cyrill Spinetta said, without giving details on how many routes would be cut at Milan's hub, Malpensa. Politicians in northern Italy oppose the Franco-Dutch carrier's plan to make Rome the nation's main airport hub at the expense of Milan. Spinetta said he planned to change the flight schedule for Milan's Malpensa airport, giving business clients better offers to reach major destinations in Europe. The chairman of Air France-KLM said talks in Rome Wednesday to discuss the Franco-Dutch carrier's plans

to buy Alitalia had been "very useful.". Spinetta met with Italian Finance Minister Tommaso Padoa-Schioppa, whose ministry controls Alitalia with a 49.9% stake. He also met separately with Alitalia Chairman Maurizio Prato and with a labor union leader. "Air-France doesn't intend to buy Alitalia, just like it never bought KLM, but to build a European champion," he said at a press conference. The Italian government picked the Franco-Dutch carrier on Dec. 28, 2007, to hold exclusive takeover talks for eight weeks, preferring it to a rival bid from smaller domestic airline Air One SpA. Spinetta said the eight-week exclusive talk period with Alitalia is slated to start at the end of this week, when Air france-KLM will officially sign a letter with Italy's Finance ministry. Spinetta is trying to persuade Italian politicians, labor unions, and Alitalia employees that Air France-KLM is best placed to turn around the struggling airline. The head of the Ugl union, Renata Polverini, after meeting with Spinetta, said that Alitalia's Prato is aiming for the Italian government to end up with a 5% stake in Air France-KLM following the sale of its Alitalia shares. Spinetta wouldn't comment on that, saying it will depend on the final outcome of the talks. Spinetta confirmed plans to lay off about 1,700 Alitalia workers from a total of 20,000 staff. Air France-KLM has said it aims to purchase 100% of Alitalia stock through an exchange offer, but hasn't disclosed a price. It is proposing to inject EUR750 million into Alitalia through a capital increase. Spinetta said Wednesday that if the outcome of the talks is positive, a holding controlling 100% of Air France-KLM/Alitalia would ensure the company will remain listed in Milan, as well as keeping its current listings in Paris and Amsterdam.

POLAND

2008-01-03 - **Polish Treasury Ministry Wants To Sell 4% Stake In TPSA In 09**
WARSAW (Dow Jones)--Poland's Treasury Ministry wants to sell its 3.96% stake in dominant telephone operator **Telekomunikacja Polska SA** in 2009, the Polish Press Agency, or PAP, reported Thursday citing ministry representatives. France Telecom holds a 47.5% stake in TPSA and has already signaled its readiness to buy the Treasury's stake.

2008-01-07 - **Polish Treasury: Warsaw Stock Exchange IPO Planned 2H 2008**
WARSAW (Dow Jones)--Shares in Poland's **Warsaw Stock Exchange**, or WSE, will be offered in an initial public offering in the second half of 2008, Deputy Treasury Minister Michal Chyczewski said Monday. In a brief telephone interview with Dow Jones Newswires, Chyczewski said the offering will include tranches for retail and institutional investors. Chyczewski didn't reveal the size of the stake that would be offered but said the Treasury intends to retain 51% of the exchange. Chyczewski said proceeds from the issue will help lower Poland's debt issuance as the country plans to reduce its fiscal deficit and balance its budget in the medium term. In 2008, Poland's central budget deficit is projected at 27.09 billion zlotys ($11.06 billion), compared with a deficit of PLN18 billion-PLN19 billion in 2007. In November 2007, the ministry said WSE was worth no less than PLN1.8 billion. The consortium advising the ministry on the sale is likely to present an updated strategy on the WSE privatization in January. Meanwhile, WSE Chief Executive Ludwik Sobolewski denied media reports earlier Monday that the exchange would this year buy a trading platform from Nordic stock-exchange operator OMX AB. "Given the planned WSE privatization this year, it makes sense to wait on buying the trading platform until strategic business partners are selected," Sobolewski told television channel TVN-CNBC Biznes. Sobolewski said he wouldn't favor any large European exchange as a strategic partner for WSE. "Having one of the European bourses as our investor and strategic partner is not the only possible scenario, and personally I don't think it's the optimal one," he said.

PORTUGAL

2007-05-28 - **Energias De Portugal Could List Renewables Unit In '08**
LISBON (Dow Jones)--Portuguese utility Energias de Portugal SA is considering listing its renewable energy unit **Novas Energias do Ocidente**, or NEO, although it is unlikley to happen before 2008, EdP Chief Executive Antonio Mexia said Tuesday. Mexia, who was speaking on the sidelines of a renewable energy conference, said: "We were the first ones to consider that (listing its renewable energies unit)...but we're now focused in consolidating our most recent acquisitions and it doesn't make sense to do it before 2008." In March, EdP announced it would acquire Horizon Wind Energy LLC from Goldman Sachs Group Inc. for more than $2 billion plus debt, creating a global renewable-energy player with more than 3,800 megawatts of wind-power generation in operation by the end of 2007, EdP said at the time. The Horizon deal will rank EdP as the world's 4th biggest wind-power producer after U.S.

company FPL Energy, part of FPL Group Inc. and Spanish companies Iberdrola SA and Acciona SA, EdP said. Analysts see renewable energies as EdP's main growth driver and the company sees an increase of average capital expenditure per megawatt to EUR1.3 million by 2010 in renewable energies. Just last week, Spain's Iberdrola SA announced its plans to list a stake of up to 20% in its renewable energy unit Iberenova on the Spanish stock market in the last quarter of this year. EdP shares ended down 0.5%, or EUR0.02, at EUR4.26, in an overall higher market Tuesday.

2007-10-11 - **Portugal To Float A Further 5% In EdP By Year-End**
LISBON (Dow Jones)--The Portuguese government approved the privatization of another 5% of utility **Energias de Portugal SA** by the end of the year, EdP said in a regulatory filing late Thursday. The operation, which is the seventh privatization phase of EdP, will be carried out through convertible bonds and leave the Portuguese government with a 20% stake in EdP. Considering EdP shares' closing price of EUR4.3 on Thursday, the sale will allow the government to cash in some EUR786.2 million, well above the EUR675 million needed to meet its target of raising EUR2.4 billion from the sale of various state-held assets in 2006 and 2007. The government also floated oil and gas company Galp Energia and energy grid operator REN this year, as part of a broader restructuring of the Portuguese energy sector ahead of the long-awaited single electricity market for the Iberian peninsula, MIBEL, to be launched next year.

SWEDEN

2007-12-11 - **Swedish Govt Launches Vin & Sprit Auction**
STOCKHOLM (Dow Jones)--The Swedish government Tuesday launched an auction to sell distiller **Vin & Sprit**, maker of Absolut vodka, the world's fourth-largest premium spirits brand by volume. The sale is expected to be completed in 2008, said Financial Markets Minister Mats Odell. Vin & Sprit, valued at around $6 billion, is being sold as part of a state asset sale announced in 2006, which aims to raise around 200 billion Swedish kronor ($31.7 billion). At a press briefing, Odell said an auction process was chosen to maximize value although price would not be the only factor to determine the winning bid. "We will make a gathered assessment," Odell said, adding that price will be very important but also keeping production of Absolut in Sweden will be important. Odell said Vin & Sprit would be sold as a complete entity and not split up. "Our analysis shows that we will get best value by selling the company as a whole," Odell said adding it's up to the buying company "to find a partner for the entities it doesn't want for itself.". V&S consists of three business areas: V&S Absolut Spirits, which handles the production, marketing and distribution of premium brands Absolut vodka, Cruzan rum and Plymouth gin; V&S Distillers, which produces aquavit, bitters and vodka; and V&S Wine. In the most recent quarter, ending Sept. 30, Vin & Sprit's operating profit was SEK677 million of which 88% came from V&S Absolut Spirits. Group revenue in the quarter was SEK2.67 billion. Odell also invited companies to come forward even if just interested in parts of Vin & Sprit. "We're open to consortium solutions," Odell said. Morgan Stanley, which is managing the sale on behalf of the Swedish state, Tuesday sent out offer documents to interested bidders. Odell said there are more than 30 interested parties, both industry players and financial buyers. Among the interested parties are industry giants such as the U.K.'s Diageo PLC, the world's largest drinks maker and owner of Smirnoff vodka, France's Pernod Ricard which distributes Stolichnaya vodka outside Russia.
"We expressed our interest (in Vin & Sprit's Absolut) and we remain interested," a Pernod Ricard spokesman said Tuesday. Asked whether Pernod Ricard would be interested in buying all the company or just the Absolut brand, the spokesman noted the company "always said it was interested to acquire Vin & Sprit as a whole.". U.S.-based Fortune Brands Inc. (FO), which has a distribution joint venture with V&S in the U.S., and family-owned Bacardi International Ltd, the Bermuda-based rum maker, have also expressed interest. Swedish private-equity firm EQT has also said it was in talks with Investor AB (INVE-B.SK), the investment company owned by Sweden's Wallenberg family, about a possible joint bid for V&S. The government's privatization program includes divesting stakes in telecommunications company TeliaSonera AB, stock exchange operator OMX AB and Nordea Bank AB (NDA.SK). It also plans to sell state-owned mortgage company SBAB and property company Vasakronan. Odell said that the next asset to be sold is the government's 6.6% stake in exchange operator OMX. Borse Dubai and Nasdaq Stock Market Inc. (NDAQ) worked out a complex deal in September to buy OMX for $4.9 billion.

SLOVENIA

2007-08-31 - **Slovene Government Calls For Bids For 49% In Telekom Slovenije**

LJUBLJANA, Slovenia (AP)--The Slovenian government called Friday for bids for a 49% stake in the country's leading telecommunications company, **Telekom Slovenije**, which holds virtual monopoly on fixed phone lines. Initial bids for the stake - valued at about EUR3.1 billion - should be submitted by Sept. 28. The government left open the option of selling 35% of the shares first, and another 14% in a second phase of privatization. It plans to sell more shares in the future, eventually keeping only 25% plus one share in the company it now fully controls. Matjaz Jansa, a senior official at the economics ministry, said 10-15 companies had showed interest in bidding and the ministry already talked with some of them. Jansa didn't identify them. Telekom Slovenije consists of 11 companies, including Slovenia's largest mobile operator, Mobitel. It holds a near-monopoly in fixed-line communications. But Mobitel faces several strong rivals, particularly Vodafone. Telekom Slovenije employs about 4,000 people. The group said Friday it generated operating revenues of EUR380.8 million in the first six months of the year, up 5% over last year. Sales revenues also rose 5%, to EUR377.3 million, the group said. The company's operating profit dropped, however, by 11%, to EUR64.3 million, while net profit stood at EUR46.3 million.

UK

2007-10-18 - **UK Government Mulls IPO Of Investment Fund CDC**

LONDON (Dow Jones)--**CDC**, the U.K. government-owned fund that pioneered venture capital investment in its former colonies, could soon be floated on the London Stock Exchange after its advisers concluded a strategic evaluation of the business, the Times reports Thursday. The paper said that the agency, formerly known as Commonwealth Development Corp., "is understood" to be analyzing four options presented in a report by Morgan Stanley. They include a sale, a private share placement, a partial float or remaining a standalone business. The paper said that although it is unclear which option the government will choose, "it is thought" that CDC's advisers have recommended a partial float, with the government diluting its holding to a minority stake and giving CDC a market value of GBP2 billion to

Table 1. Announced Deals Old Europe

Date of Announcement	Company Name	Country	Percent for Sale	Method of Sale	Date Expected (as announced)	Rescheduling /Notes
January-08	Deutsche Postbank	Germany	unspecified	Private Sale	unspecified	
December-07	Kemira	Finland	16,50	unspecified	unspecified	
December-07	Outokumpu	Finland	30,00	unspecified	unspecified	
December-07	Rautaruukki	Finland	39,70	unspecified	unspecified	
November-07	Sace	Italy	unspecified	unspecified	unspecified	
November-07	Bank of Attica	Greece	38,00	unspecified	Early 2008	
October-07	CDC Group plc	UK	unspecified	IPO	unspecified	on hold
October-07	Energias de Portugal	Portugal	5,00	Public Offer	by 2007	
September-07	OTE	Greece	up to 23	unspecified	unspecified	
September-07	Areva	France	unspecified	IPO	unspecified	
September-07	SUEZ Environment	France	65,00	IPO	2007	postponed to June 2008
August-07	Project Services Ltd.	UK	100,00	Private Sale	unspecified	completed
August-07	BBC Resources Ltd.	UK	100,00	Private Sale	by March 2008	
August-07	IKB Deutsche Industriebank AG	Germany	37,80	unspecified	unspecified	
August-07	HSH Nordbank	Germany	25 to 30	IPO	unspecified	
July-07	Atomic Weapons Establishment Management Ltd.	UK	33,00	Private Sale	2008	
July-07	Energie AG Oberösterreich (EAG)	Austria	40,00	IPO	February 2008	
July-07	REN	Portugal	unspecified	Public Offer	1H2008	canceled
July-07	Connexxion	The Netherlands	33,33	Private Sale	3-5 years	
May-07	Novas Energias do Ocidente	Portugal	unspecified	IPO	2008	
May-07	MVV Energie	Germany	16,10	Private Sale	unspecified	completed
May-07	Fincantieri	Italy	up to 49	IPO	Spring 2008	
May-07	Rail Cargo Austria	Austria	unspecified	IPO	after 2010	
January-07	Evonik Industries - RAG	Germany	unspecified	IPO	2007	postponed to 1H2008
January-07	Stadtwerke Leipzig GmbH	Germany	49,00	Private Sale	2007	on hold
January-07	Gosselies and Bierset Airports	Belgium	unspecified	Private Sale	unspecified	
January-07	WestLB	Germany	38,00	Private Sale	before 2010	
December-06	SBAB	Sweden	unspecified	unspecified	by 2010	
December-06	Vasakronan	Sweden	unspecified	unspecified	by 2010	
December-06	Hamburger Hafen und Logistik AG (HHLA)	Germany	30,00	IPO	Autumn 2007	completed
December-06	Deutsche Post	Germany	unspecified	unspecified	2007	
December-06	Deutsche Telekom	Germany	unspecified	unspecified	2007	
December-06	Thessaloniki Port Authority	Greece	unspecified	unspecified	Early 2008	
October-06	Gaz de France	France	45,80	unspecified	July 2007	postponed to June 2008
October-06	LEG	Germany	100,00	unspecified	by 2008	
September-06	SAS AB	Sweden	unspecified	unspecified	unspecified	
September-06	Vin & Spirit AB	Sweden	unspecified	unspecified	by 2008	
September-06	Nordea Bank	Sweden	19,90	unspecified	by 2008	
September-06	OMX	Sweden	6,70	unspecified	by 2008	
September-06	Tote (Horserace Totaliser Board)	UK	unspecified	unspecified	2008	
August-06	SAS	Denmark	14,30	unspecified	unspecified	
June-06	Alitalia	Italy	up to 39.9	Private Sale	1H2007	postponed to 1H2008
April-06	DONG	Denmark	28,00	IPO	1H2005	postponed to 1H2008
March-06	British Nuclear Group	UK	unspecified	Public Offer	September 2007	
March-06	Urenco	UK	33,00	Public Offer	unspecified	on hold
March-06	Piraeus Port Authority	Greece	unspecified	Public Offer	2007	postponed to early 2008
March-06	Scottish Water	UK	unspecified	Public Offer	unspecified	
February-06	Depa	Greece	30,00	Private Sale	unspecified	
February-06	ANA	Portugal	unspecified	unspecified	2007	postponed to 2008/2009
February-06	Inapa	Portugal	15,00	unspecified	2006 or 2007	postponed to 2008/2009
February-06	REN	Portugal	up to 19	IPO	end of 2006	canceled
February-06	TAP Air Portugal	Portugal	unspecified	unspecified	2007	postponed to 2008/2009
January-06	Connexxion	The Netherlands	66,60	Private Sale	2006	completed
January-06	Mount Parnes Casino	Greece	51,00	IPO	2007	postponed to 2008
January-06	Dagris	France	64,70	Private Sale	2006	ongoing
January-06	Agricultural Bank of Greece	Greece	up to 23.8	unspecified	2006	postponed
December-05	SEA Milan	Italy	33,00	Public Offer	2006	postponed
November-05	Telekom Austria	Austria	up to 25.2	unspecified	after autumn 2006	canceled
October-05	Scandlines AG	Denmark, Germany	100,00	Private Sale	2H2006	completed
October-05	Enel SpA	Italy	10,00	Public Offer	2006	canceled
October-05	Eni SpA	Italy	10,00	Public Offer	2006	canceled
October-05	Atomic Energy Authority	UK	unspecified	Private Sale	2008	
February-05	Snam Rete Gas	Italy	up to 30	unspecified	2005	postponed to 2008
January-05	Deutsche Flugsicherung	Germany	up to 75	unspecified	2005	on hold
January-05	Athens Intl. Airport	Greece	up to 55	unspecified	2005	postponed
December-04	Olympic Airlines	Greece	unspecified	Private Sale	2005	postponed
October-04	Red Electrica	Spain	10,00	Public Offer	2005	postponed to 2008
October-04	TV2	Denmark	51 to 66	Private Sale	1H2005	postponed
October-04	Endesa	Spain	3,00	Public Offer	2006	postponed to 2008
October-04	Iberia	Spain	5,30	Private Sale	2005	postponed to 2008
September-04	Aguas de Portugal	Portugal	up to 49	IPO	2H2005	postponed
June-04	Deutsche Bahn	Germany	25,00	IPO	2006	by the end of 2008

Source: Elaborations on *DowJones, and Privatization Barometer.*

Table 2. Announced Deals New Europe

Date of Announcement	Company Name	Country	Percent for Sale	Method of Sale	Date Expected (as announced)	Rescheduling /Notes
December-07	Ferencvaros' real estate	Hungary	unspecified	Private Sale	2007	
December-07	Bogdanka	Poland	25 to 35	IPO	early 2009	
November-07	Warsaw Stock Exchange	Poland	up to 47.8	IPO	2H2008	
November-07	PKO Bank Polski	Poland	unspecified	Public Offer	unspecified	
November-07	Airport-Debrecen	Hungary	100.00	Private Sale	1Q2008	
October-07	Airport Bratislava A.S.	Slovakia	unspecified	Private Sale	unspecified	
October-07	Cargo Slovakia A.S.	Slovakia	unspecified	Private Sale	unspecified	
October-07	Polkomtel	Poland	unspecified	Private Sale	unspecified	
September-07	Iwonicz Resort	Poland	unspecified	Private Sale	2008	
September-07	Kamien Pomorski Resort	Poland	unspecified	Private Sale	2008	
September-07	Polczyn Resort	Poland	unspecified	Private Sale	2008	
September-07	Polish Airports' State Enterprise (PPL)	Poland	unspecified	unspecified	1Q2008	
September-07	Przerzeczyn Resort	Poland	unspecified	Private Sale	2008	
September-07	Rabka Resort	Poland	unspecified	Private Sale	2008	
September-07	Ustka Resort	Poland	unspecified	Private Sale	2008	
September-07	Wysowa Resort	Poland	unspecified	Private Sale	2008	
September-07	Stocznia Gdansk	Poland	unspecified	Private Sale	2007	
September-07	Stocznia Gdynia	Poland	unspecified	Private Sale	2007	
September-07	Szczecinska Stocznia Nowa (SSN)	Poland	unspecified	Private Sale	2007	
August-07	Bank Gospodarki Żywnościowej (BGŻ)	Poland	unspecified	IPO	1H2008	
August-07	Magyar Loversenyfogadast Szervezo	Hungary	100.00	Private Sale	by 2007	
August-07	Nemzeti Loverseny	Hungary	100.00	Private Sale	by 2007	
July-07	Katowicki Holding Weglowy (KHW)	Poland	unspecified	IPO	Autumn 2008	
July-07	CD Cargo	Czech Republic	100.00	Private Sale	by April 2008	
July-07	Skodaexport	Czech Republic	100.00	Private Sale	2007	
July-07	Lattelecom	Latvia	51.00	Private Sale	2008	
July-07	LMT	Latvia	23.00	Private Sale	unspecified	
July-07	Energetyka Poludnie	Poland	unspecified	IPO	early 2009	
July-07	Elmu	Hungary	10.00	Private Sale	unspecified	completed
June-07	Health Insurance Funds (22 funds)	Hungary	up to 49.00	Private Sale	1H2008	
June-07	Silesia Coal Mine	Poland	100.00	Private Sale	unspecified	
June-07	Hollolhazi Porcelan Manufactura	Hungary	45.64	Private Sale	by 2007	
May-07	Grupa Energetyczna ENEA S.A.	Poland	unspecified	IPO	1Q2008	
May-07	Zaklady Azotowe Anwil	Poland	45.00	IPO	2008	
May-07	Herendi Porcelanmanufaktura	Hungary	25.00	unspecified	unspecified	
May-07	Magyar Posta	Hungary	25.00	unspecified	unspecified	
May-07	Magyar Villamos Muvek Zrt	Hungary	25.00	unspecified	unspecified	
May-07	Nemzeti Tankonyvkiado	Hungary	25.00	unspecified	unspecified	
May-07	Sportletesitemenyek Vallalat Zrt	Hungary	up to 75	unspecified	unspecified	
May-07	Tokaj Kereskedohaz	Hungary	up to 99	unspecified	unspecified	
May-07	Wojskowe Zaklady Mechaniczne	Poland	unspecified	IPO	2008	
May-07	Nova Kreditna Banka Maribor - NKBM	Slovenia	49.00	PO & PS	by summer 2007	completed
May-07	Rafamet	Poland	unspecified	IPO	2007	completed
April-07	Bank of Valletta Plc	Malta	25.00	Public Offer	2008	
April-07	Fabrika Sklejka Pisz	Poland	unspecified	IPO	2007	postponed to 2H2008
April-07	Gdansk, Gdynia and Szczecin Shipyard	Poland	unspecified	unspecified	unspecified	
March-07	Grupa Centrum	Poland	35.00	IPO	2007	
March-07	PGE - Polska Grupa Energetyczna	Poland	10.00	IPO	4Q2008	
March-07	AAK Rt	Hungary	20 to 40	IPO	2008	
February-07	OEP	Hungary	unspecified	unspecified	by 2008	
February-07	Budejovicky Budvar NP	Czech Republic	unspecified	unspecified	before 2009	
February-07	Czech Post	Czech Republic	unspecified	unspecified	unspecified	
February-07	Czech Railways	Czech Republic	unspecified	unspecified	unspecified	
February-07	Telecom Slovenije	Slovenia	up to 49.00	Private Sale	by summer 2007	ongoing
January-07	Archimedes	Poland	unspecified	Private Sale	unspecified	
January-07	Centrum Produkcyjne Pneumatyki Prema	Poland	unspecified	IPO	2008	
January-07	HCP Cegielski S.A.	Poland	unspecified	IPO	2H2008	
January-07	Kombinat Koksochemiczny Zabrze	Poland	unspecified	IPO	unspecified	
January-07	Wałbrzyskie Zakłady Koksownicze	Poland	unspecified	IPO	unspecified	
January-07	ZA Kedzierzyn	Poland	80.00	Private Sale	unspecified	
January-07	Bumar	Poland	up to 25	IPO	before 2010	
January-07	LOT SA	Poland	up to 16.96	IPO	1H2008	
January-07	Polska Wytwornia Papierow Wartosciowych	Poland	unspecified	IPO	before 2010	
January-07	Fabrika Lozysk Tocznych - Krasnik	Poland	51.00	Public Offer	before 2010	
January-07	Huta Labedy	Poland	unspecified	IPO	2007	postponed to 2008
January-07	Kopalnia Soli Klodawa	Poland	unspecified	IPO	2007	postponed to 2008
January-07	Krajowa Spółka Cukrowa	Poland	unspecified	IPO	2007	
January-07	Ruch SA	Poland	72.50	PO & PS	2007 & 2008	
January-07	Wroclaw's Hutmen	Poland	unspecified	IPO	2007	
January-07	Zakłady Azotowe Kędzierzyn (ZAK)	Poland	unspecified	Private Sale	2007	
January-07	Zaklady Azotowe Tarnowie Moscicach (ZATM)	Poland	unspecified	IPO	2007	postponed to June 2008
January-07	Zaklady Chemiczne Police	Poland	60.00	Private Sale	2007	

Source: Elaborations on *DowJones, and Privatization Barometer.*

Table 2. (Continued) Announced Deals New Europe

Date of Announcement	Company Name	Country	Percent for Sale	Method of Sale	Date Expected (as announced)	Rescheduling /Notes
January-07	Agro Man	Poland	unspecified	IPO	before 2010	
January-07	CEFARM	Poland	unspecified	unspecified	2007	
January-07	Centralwings (Nowy Przewoznik)	Poland	unspecified	unspecified	before 2010	
January-07	Fabryka Przewodów Energetycznych (FPE)	Poland	unspecified	IPO	before 2010	
January-07	Gamrat	Poland	unspecified	IPO	before 2010	
January-07	INTRACO	Poland	> 51.00	IPO	before 2010	
January-07	KGHM Ecoren	Poland	unspecified	IPO	before 2010	
January-07	Niewiadow	Poland	unspecified	IPO	before 2010	
January-07	Nitroerg	Poland	unspecified	IPO	before 2010	
January-07	PZL Swidnik	Poland	unspecified	IPO & PS	2008	
January-07	Rzeczpospolita	Poland	unspecified	IPO	before 2010	
January-07	Telefonia Dialog	Poland	unspecified	IPO	before 2010	
January-07	WSK - PZL Kalisz	Poland	unspecified	IPO	before 2010	
January-07	Zaklady Gorniczo - Hutnicze	Poland	unspecified	IPO	2007	postponed to 2008
January-07	Zebiec	Poland	unspecified	IPO	before 2010	
September-06	CEZ AS	Czech Republic	7.00	Public Offer	2007	ongoing
September-06	Prague Airport	Czech Republic	up to 49.00	unspecified	2008	
August-06	Czech Airlines	Czech Republic	unspecified	IPO	2008	
August-06	Babolna Zrt	Hungary	100.00	unspecified	unspecified	
July-06	Malev	Hungary	99.95	Private Sale	unspecified	completed
June-06	MAV Cargo	Hungary	100.00	Private Sale	by 2007	completed
May-06	Powszechny Zaklad Ubezpiecz - PZU	Poland	unspecified	unspecified	unspecified	
February-06	TPSA	Poland	3.96	Private Sale	2006	postponed to 2009
January-06	FHB Rt	Hungary	50.00	unspecified	by 2007	completed
January-06	Szerencsejatek Rt.	Hungary	unspecified	unspecified	unspecified	canceled
January-06	Volan Rt.	Hungary	unspecified	unspecified	unspecified	
December-05	Jastrzębska Spółka Węglowa	Poland	25 to 30	IPO	2007 or 2008	
November-04	Patnow-Adamow-Konin SA	Poland	up to 50	Private Sale	unspecified	

Source: Elaborations on *DowJones, and Privatization Barometer*

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