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Privatising SOEs in Ireland – *Is it worth it?*

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Stock of SOEs in 2013

Energy

- Electricity Supply Board
- Bord Gais Éireann
- Bord na Mona (Energy)
- Coillte (Forestry)

Transport

- CIE (Rail and Bus)
- Dublin Airport Authority
- Ports (10)
- Irish Aviation Authority

Communications

- RTE (Broadcasting)
- An Post

Financial

- National Asset Management Agency
- Anglo Irish Bank
- Educational Building Society
- Irish Nationwide Building Society
- Allied Irish Banks
- Bank of Ireland (partial)
- Irish Life & Permanent
- Voluntary Health Insurance

Other

- Arramarra
- Irish National Stud

Coming on Stream

Irish Water, Shannon Airport Authority

Development of Privatisation Agenda

- Driven by
  - (1) Domestic Policymakers and
  - (2) Troika.
- Review Group on State Assets and Liabilities (April 2011).
- MOUs and Initial uncertainty over:
  - Revenue target – now €3bn.
  - SOEs to be sold (partial sale of ESB!)
  - Use of proceeds

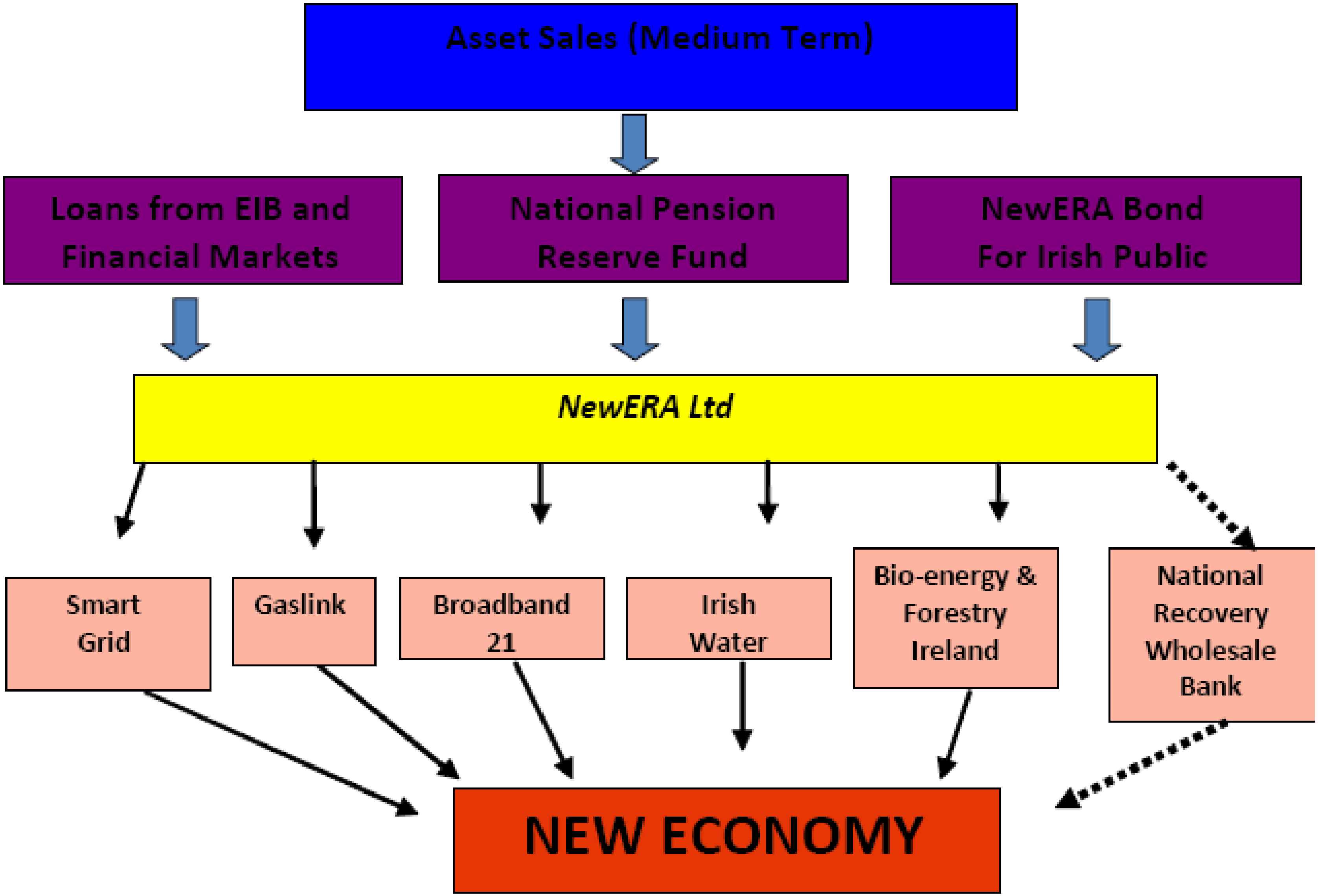
For Sale 2013

- Bord Gáis Energy.
- Some electricity generating capacity
- Remaining stake in Aer Lingus (25%)
- National Lottery
- Possible sale of Coillte (harvesting rights – not land).

Assessing Privatisation Plans 1: *Vis-a-Vis* the NewERA Plan

- Only detailed vision for SOE sector presented by trade unions.
- Adopted later (2009) by Fine Gael - *NewERA Plan*
- Involves:
  – Using SOEs as vehicle for investment in infrastructure;
  – Altering SOE governance structures;
  – Some Privatisation.

Figure 5: Financing of NewERA



Privatisation in Ireland to date

Company	***Year***	***Gov Proceeds (€m)***	***Method of Sale***
Greencore	1991-93	**210.65**	IPO + Place
Irish Life	1991-93	**601.93**	IPO + Place
B&I Line	1992	**10.8**	Trade Sale
Irish Steel	1995	**0**	Trade sale
Eircom	1999	**6,399.907**	IPO + T.Sale
ICC Bank	Jan 2001	**322.274**	Trade Sale
TSB Bank	April 2001	**408.35**	Trade Sale
INPC	May 2001	**20.0**	Trade Sale
ACC Bank	Dec 2001	**154.6**	Trade Sale
Aer Lingus	Oct 2006	**240.902m**	IPO
Total		**€8,369.4bn**	

Privatisation Objectives – 1. Performance/Efficiency

- Theoretical case not strong. Depends on competition
- Evidence is mixed.
- Pattern of improved performance before divestiture (static efficiency gains)
- Not always sustained after divestiture (dynamic efficiency)
- Factors such as product market competition and regulation generally more important determinants of performance

Other Objectives

2. Raising Revenue for the Exchequer

- Objective is maximise proceeds (minimise costs)
- Costs include:
- Discounts
- Transaction Costs
- Debt write-offs

3. Widening Share Ownership/ Re-Distribution

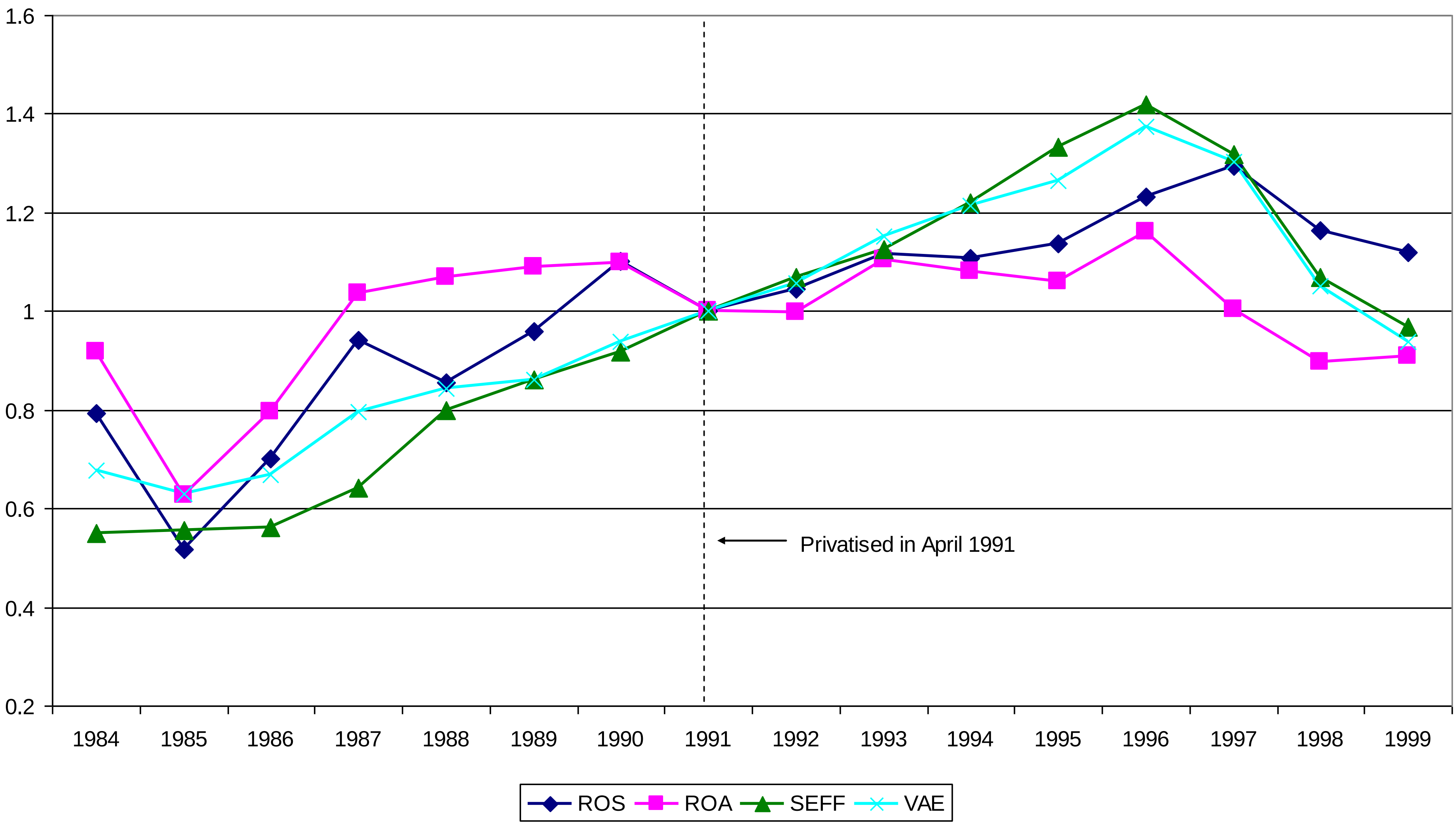
- Sell share to citizens, employees, customers
- Reduce trade union power

Irish experience: Performance / Efficiency

- 10 companies: pre- and post-privatisation data available for:
  - All 4 floated companies
  - Irish Steel and ISPAT
  - INPC and ConocoPhillips
  - B&I and Irish Ferries
  - 2 of the 3 state banks (no post-privatisation data for TSB)

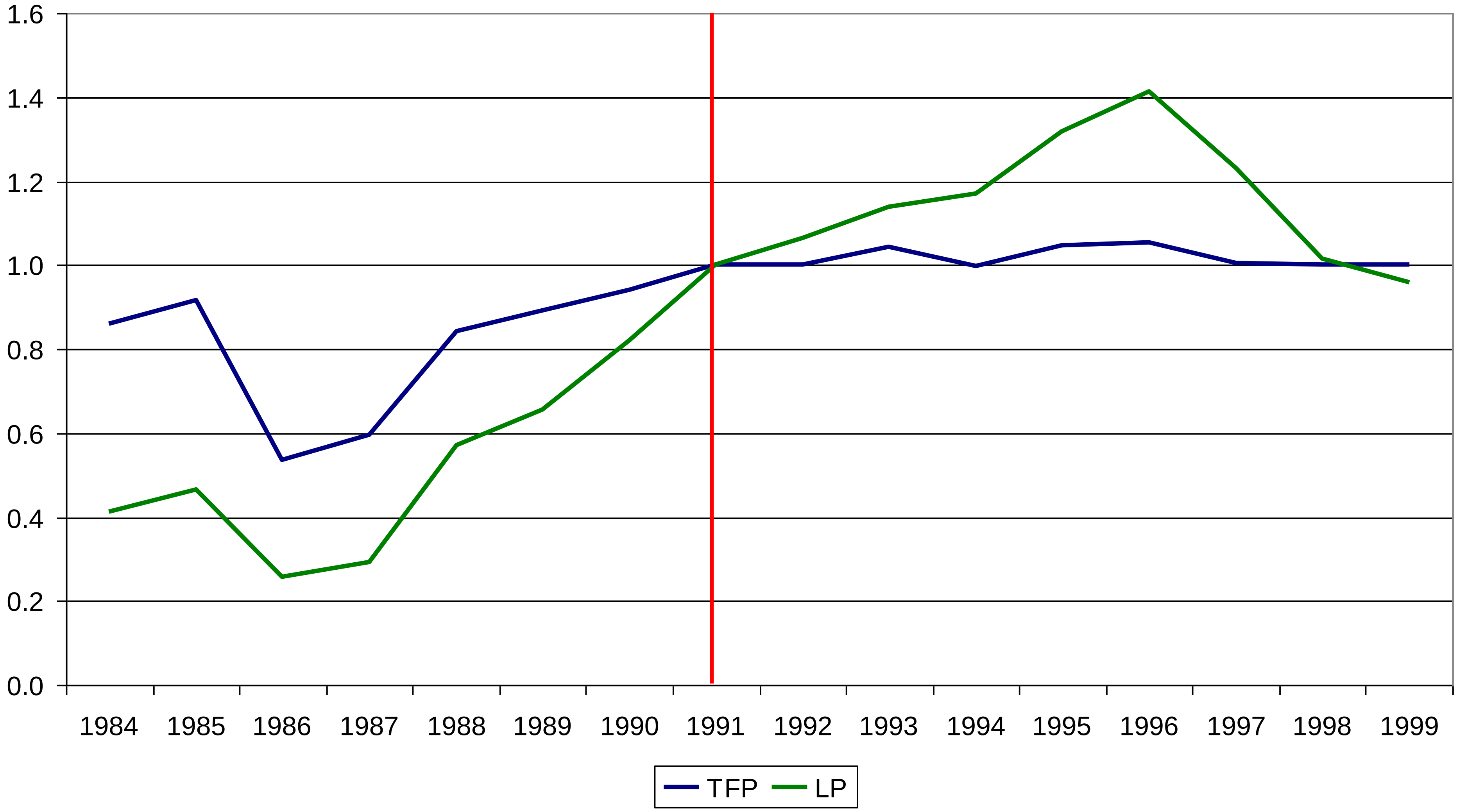
Privatisation and Performance Example: Irish Sugar

Authors' calculation from annual report data



Privatisation and Productivity Example: Irish Sugar

Authors' calculation from various data sources



Performance / Efficiency (cont/d)

- Irish Life (IL&P 1999): Improvements before and after
- B&I Line (ICG): Marked improvement after
- 3 State Banks:
  - ICC (BoSI): Improvements before and after
  - ACC (Rabobank): Modest improvements after
  - TSB (IL&P): Modest improvement before. No post-privatisation data
- Irish Steel (ISPAT): Privatised 1996. Closed 2001
- Aer Lingus and INPC: Volatile environments and erratic performance. No evidence of relationship between ownership and performance.

Eircom: How not to Privatise!

- Total debt:
  - 1999 = €340 million
  - 2007 = €4.27 billion
  - 2012 – Eircom in examinership.
- Eircom exits mobile telephony in 2001 (re-enters 2005)
- Slow progress on LLU.
- Maintains approx. 53% market share in fixed line market (was c. 80% in 2001-2005, c. 70% 2006-09).
- Significant underinvestment due to cash extraction by PEGs.
- Ireland perennially behind competitors in terms of broadband rankings.
- State has had to re-enter telecoms sector

Overall conclusions on privatisation and performance

- In general, empirical evidence fails to confirm simple hypothesis of improved performance after privatisation

- Irish experience consistent with international experience
  - Eircom experience dominates

Privatisation and exchequer

- Revenues = €8.37 billion

- Revenues foregone?
  - Biggest cost due to ESOPs - €1.01bn
  - Share discounts (except Eircom) relatively low - €0.9bn
  - All costs = €2.14bn
  - Also, some debt write-offs questionable (e.g. B&I)

Distributional issues

- Winners and losers

- *Shareholders:*
  - Widening Share Ownership?
  - Winners - Private Equity Groups
  - Losers - Small shareholders

- Other Big Winners - Employees & ESOPs

Estimates of value of ESOPs to employees 2010

Company	*Overall ESOP value (€m)*	*Per employee - Ex Ante (€)*	*Per employee - Ex Post (€)*
Eircom	1,252.7	€105,333	€93,000
ACC	24.6	€50,000	same
ICC	52.0	€145,328	€88,900
TSB	64.1	€53,446	€76,000
INPC	8.9	€38,734	$83,000
Aer Lingus	173.7	€37,242	€15,000

Conclusions

- A new era of privatisation inevitable.
- Conditionality means privatising to raise revenue (not a good starting point).
- Most important consideration should be efficiency (translating into lower prices etc.)
- Sales should be confined to SOEs in ‘competitive markets’.

Conclusions

- Smart privatisation' – state should retain some control
- *Ex ante* analysis of individual sales should be made before any final decision
- Development of privatisation policy in recent months raises concerns

Gross proceeds and total costs (€millions)

Company	Gross Proceeds	Direct Costs (1)	Indirect Costs (2)	ESOPs (3)	Total 1+2+3
Greencore	210.651	1.727	17.462	-	19.189
Irish Life	601.931	9.405	21.673	-	31.078
B&I	10.793	-	44.441	-	44.441
Irish Steel	0	0.656	47.328	-	47.984
Eircom	6,399.908	97.643	777.575	1,011.484	1,886.702
ICC	322.275	0.913	-	26.887	27.800
TSB	408.350	0.461	-	38.995	39.456
INPC	20.000	1.480	-	-	1.480
ACC	154.603	1.159	-	12.385	13.544
Aer Lingus	240.902	6.000	26.282	-	32.282
Total	**8,369.413**	**119.444**	**934.761**	**1,089.751**	**2,143.956**

Note: Indirect costs include the cost of underpricing and debt write-offs.

Greek bailout(s)

- Greece – August 2010
  - Dec 2010: target of €7bn.
  - Feb 2011: €15bn by 2015 (incl. real estate)
- New deal in July 2011:
  - Target of €5 billion by 2011,
  - €15bn by 2012,
  - €50bn by 2015 (22% of 2011 GDP)!
- Target has been continually revised downwards due to delays
  - EC recently forecast €8.5bn in sales by 2016

Portuguese bailout

- Portugal – MOU signed in May 2011
  - Accelerate existing plans for sales - €5bn
  - Full (not partial) divestiture of electricity SOEs
  - Others in rail, airports, airlines, post, insurance.
  - Portugal exceeded target for sales in December 2012 when it sold airports operator for €3bn