State asset sales – what are other countries doing?

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A recently published survey of international trends in privatisation makes interesting reading, given the widespread public debate about the government's mixed ownership model in New Zealand. The survey[1] notes that 2009 and 2010 saw the highest revenues ever generated internationally from privatisations, with US$265 billion raised in 2009 and US$214 billion in 2010.

New Zealand's closest neighbour, Australia, was very active, ranking second largest privatiser in the world last year in terms of revenues generated from sales. The two largest Australian sales were the A$3.0 billion sale of Queensland Motorways Ltd by the Queensland state government and the A$2.3 billion sale of the retail business of Integral Energy by the New South Wales state government. The Australian federal government was less active, having already quit almost all of its commercial businesses, except Australia Post.

As has been the case for several decades, governments of all shades of the left and right were active in selling state assets. The Communist government in China again led the world in terms of sales of commercial enterprises, with 19 sales in 2011 raising US$14 billion. The Democrats in the US were also active privatisers, with the US being the third largest seller of state assets last year. Towards the other end of the political spectrum, the European countries most active in privatisation in 2011, such as Ireland, Poland, Portugal, Sweden and Greece, have government more to the right in terms of their country's politics.

A concern many New Zealanders have expressed about the mixed ownership model is that ownership of the assets may pass into foreign hands. It is interesting to note the extent to which other countries have allowed ownership of their state assets to go offshore. The pattern of ownership changes arising from privatisations last year mirrors the interconnectedness of international capital markets. To mention just some examples, the Portuguese government sold shares in an energy company, Energias de Portugal, to Chinese investors; the Greek government sold a telecommunications company, Hellenic Telecom, to German investors; Spain sold a gas company, Gas Natural, to Algerian investors; the Polish sold the utility Stoleczne Przedsiebiorstwo to French investors; the Russians sold shares in a bank, VTB, to Italian and American investors; the Australians sold a coal terminal, Abbott Point Coal Terminal, to Indian investors; and the Ukrainians sold a telecom operator, UKrtelecom, to Austrian investors. Meanwhile, New Zealanders concerned about the sale of shares in some companies offshore, even while the government retains 51% control.

Of particular relevance to New Zealand, given the government's plans to float shares in Mighty River Power and three other energy companies, is the extent of privatisations in the energy sector. The energy sector was one of the most active in terms of privatisations last year. The largest privatisation in China, for example, was the listing of shares in Sinohydro Group, the world's largest hydroelectricity company. In Australia, both Integral Energy and

[1] W. Megginson and B. Bortolotti (2011). "Privatization Trends and Major Deals in 2011". The PB Report 2011.

Energy Australia Pty were privatised in early 2011. In Europe, one of the largest deals of the year, the sale of Energias de Portugal, and a second Portuguese energy company, REN, were both successfully sold to Chinese companies last year. Similarly Spain, Luxembourg, Poland and Belgium all made significant privatisations of companies in the energy sector.

One feature of the landscape in 2011 that will cause some consternation to the Key government is the large number of planned privatisations that were cancelled or withdrawn. Global financial retrenchment, prompted by multiple sovereign debt crises in Europe and the fallout from political fights over raising the U.S. federal government's borrowing limit, made raising funds from asset sales very difficult for most governments. Spain, Russia, Greece, Poland, South Korea, Romania, Turkey, Serbia, Italy and the USA all saw significant deals fall through last year.

Looking ahead, Poland, Spain, Portugal, Britain, Romania, Mongolia, Ukraine, Nigeria, Iran, Kuwait, Japan and Russia all have plans to make significant privatisations in the near future. Of relevance to New Zealand, Britain is considering selling off its share in the air traffic control service (NATS) and the national postal service (Royal Mail); the Portuguese government has plans to privatise an airline (TAP Air Portugal) and airport operator; and Spain is seeking to sell its stake in the local water system. All these sectors are ones where central or local governments in New Zealand continue to hold significant commercial interests.

In summary, despite a difficult environment for raising capital in 2011, privatisation has continued to be very much the norm in recent years for governments across the political spectrum. Sales have often been made to foreigners, with sales in the energy sector being particularly common last year. Our nearest neighbour, Australia has been very active. In this context, the New Zealand government's plan to partially sell down its shares in five state businesses hardly seems extraordinary. The puzzle, if anything, is why New Zealand has remained mired in the debates of the last century, while other countries have got on with it.

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