FT.com FINANCIAL TIMES

ENERGY

Dublin eyes state asset sell-off

Print

By John Murray Brown
Published: March 7 2011 01:03 | Last updated: March 7 2011 01:03

Privatisation, a word not heard in Ireland for some years, is back on the agenda as the incoming government seeks ways to reduce the budget deficit and meet conditions of an €85bn (£73bn, $119bn) bail-out provided by the European Union and the International Monetary Fund.

As the centre-right Fine Gael party and centre-left Labour party **finalise their coalition agreement** this weekend, the politicians must match the state's pressing fiscal needs with the dangers that Ireland could be selling into a buyers' market because of **the country's financial plight**.

Clearly any privatisation will be driven by necessity not ideology.

Colm McCarthy, a university economist commissioned by the outgoing Fianna Fáil government to draw up a list of possible sell-off candidates, briefed the would-be coalition partners on Thursday.

The two sides are also likely to be studying a report by the Economic and Social Research Institute, an independent think-tank.

It concluded there was a "clear preference for asset sales as a method of resolving the indebtedness of the state". It points out that the government retains interests in major airports, interurban bus travel, ports, electricity and gas utilities, radio and television, forestry and solid fuel peat production. But it says before any sales take place "careful consideration needs to be given to wider issues than maximising revenues from sales".

Fine Gael's manifesto proposed a €7bn job stimulus programme, funded in large part by the sale of what it termed non-strategic state assets. It identified the power generation assets of the Electricity Supply Board and of Bord Gais, the state-owned gas company – appearing to rule out a sale of the more valuable transmission and distribution network assets.

However, economists believe the incoming government will come under **renewed pressure from the IMF and EU** to go further. The IMF agreement with Ireland, signed in November, talks only of the "possible privatisation of state- owned assets". However, Irish officials note that, in its latest report on the Greek rescue plan, the IMF calls for a "scaling up" of the privatisation effort.

Timing could be crucial. Feargal O'Brien, chief economist with the Irish Business and Employers Confederation, believes it would "not be in the best national interest to sell assets at a time when there is a perception out there that Ireland is in fire sale mode".

"The carpet baggers are already in town," he says, referring to reports that Dublin hotels are full of distressed debt investors looking for bargains. Dublin stockbrokers, clearly anticipating opportunities for fee income, are well prepared.

Davy, a Dublin-based wealth management company, made a detailed presentation in October to the department of finance.

It proposed merging the network businesses of ESB and Bord Gais, and estimated the combined regulated asset base at €9.8bn. With debts of €4.8bn, Davy calculated the merged entity could be sold for around €5bn.

Eircom struggles amid investor merry-go-round

Paul Donovan, chief executive of Eircom, the former state-owned telephone monopoly, believes the company's current plight comes partly from a botched privatisation process, which has seen the business change hands five times in 12 years.

"Any company which is the subject of stop-start every time there is a change of ownership is going to be held back," he says.

He estimates "more than €2bn (£1.7)" has been taken out of the business by the various different investors.

But John Conroy at Merrion stockbrokers believes the real mistake was to use a retail privatisation sales model, rather than selling to institutions. He says there were political pressures to get "every Tom and Mary" to buy shares, as ministers then put it.

The deal had been priced at the peak of the dot.com bubble. "But when prices then fell the retail investors had no stomach for the pain and sold out," he says.

To meet concerns about a loss of control of the network, Davy proposed the National Pension Reserve Fund, the state's sovereign wealth fund, acquire 50 per cent of the shares. The rest would be sold by initial public offering.

The retail electricity market in Ireland is expected to be fully deregulated in 2011. By the time the combined electricity and gas networks company is ready for sale, the gas market will also be fully deregulated at which point the state would no longer need to own the assets, it says. One potential obstacle in ESB's case could be the employee share ownership trust structure: the Esot owns 5 per cent of the company.

The ESRI report says the Esot structure "makes privatisation more difficult". The gift of shares to employees in other sell-offs was seen as a bid to win their support. But the ESRI says "there should be no bribes for the switch of assets from the public to the private sector".

Backing from the Esot was certainly a key issue in the privatisations of both Eircom, the former state telephone monopoly sold in 1999, and of Aer Lingus.

Mr Conroy believes the retail investor base made the company vulnerable to takeover, as happened when a private equity consortium led by Sir Anthony O'Reilly took the company private.

The company was floated a second time, and then taken private again by a unit of Babcock & Brown, the Australian financial services company.

Singapore Technologies Telemedia, which bought the Australians' stake in January 2010, are now being asked to put in further equity as the company has warned it faces breaching covenants on its €2.7bn of senior debt "within the next three to six months".

The national carrier was the most recent state-asset disposal in 2006 although the government retained a 25 per cent strategic stake. It has had a troubled time as a public company, with rival Ryanair conducting a dawn raid within days of the original flotation. John Conroy, managing partner at Merrion stockbrokers, believes the €500m the IPO raised for the company was critical for its survival. "It could not have come through the recession without that," he says.

He concedes the cause of privatisation was damaged by the experience of Eircom, which has had five different owners since privatisation in 1999. However he is confident the energy assets now under consideration should attract buyers.

Copyright The Financial Times Limited 2011. Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

"FT" and "Financial Times" are trademarks of the Financial Times. Privacy policy | Terms
© Copyright The Financial Times Ltd 2011.