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***“Privatisation, Employment and Employees”***

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*Privatisation, restructuring and employment  
in the Czech Republic*

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## **Conference on “Privatisation, Employment and Employees”**

Privatisation of state owned assets constitutes the key factor of the whole transformation process in the Czech economy initiated 12 years ago. The large-scale privatisation accounts for 57 percent of all the assets selected for transformation, second comes with 21 percent share free transfers to municipalities, then with nearly 14 percent share comes transformation of production and agriculture co-operative property and about 8 percent of selected assets was subject to restitution and to small-scale privatisation.

Despite that the large-scale privatisation started 11 years ago and that it covers shares of transformed joint stock companies and movable and immovable property representing the above mentioned 57 percent of all the state assets transformed, the Czech Republic has succeeded till today in maintaining a relatively high level of economic activity among its population, which for the whole period has been varying between 55 and 60 percent, that means still one of the highest in Europe. Maintenance of social reconciliation during the course of the decade is considered as substantial and valuable achievement.

It is however appropriate to note that privatisation and restructuring of large, so called strategic companies with high employment level started in the Czech Republic practically in 1999 only. These companies have major, often a monopoly position at the market and it is assumed that its privatisation will still last for several years. They comprise practically complete energy sector (power, gas, oil and coal), major part of telecommunication sector, they fully cover air and railway transport and hold a key position in Czech metallurgy and heavy engineering. To have the picture complete, about 1 500 already privatised non-strategic companies should be also at least noted in this regard. But since these numerous companies, despite their importance, do not play in the Czech economy decisive role and are not decisive from the point of view of employment either, let us further deal with large, strategic companies only.

Since ninetieth, there were 43 state owned strategic enterprises on the list in the Czech Republic, of which 41 were transferred into the portfolio of the National Property Fund and 2 remained in direct state ownership (Czech Railways and Czech Post). In 1998 they employed approximately 340 thousand employees (see Table 1) and their share of the total number of civil sector employees in the Czech Republic slightly exceeded 10 percent.

At the end of 2001, the number of employees in strategic companies fell by more than 60 thousand to a total of 280 thousand what represents nearly 18 percent retrenchment and total strategic companies employment fell down to less then 9 percent

share of all the civil sector employees. The largest employment decline was registered in production companies (by 26 percent), in telecommunications (by 21 percent) and in the financial sector and in energy sector (each by 18 percent).

This decline is no doubt partially the result of privatisation of about 50 percent of strategic SOE. Today there remain only 23 strategic SOE on the list and if the present privatisation tempo is preserved, it is assumed that by the end of 2002, the State shall own only about 13 strategic enterprises with some 200 thousand employees accounting to only 6 percent of all the civil sector employees in the Czech Republic.

Privatisation naturally led to restructuring that was started by the state itself on one hand and by the new private owners on the other hand. The share of employment reduction in the companies restructured in connection with privatisation represents 46 percent of total employment reduction in all the 43 strategic companies. It means that employment retrenchment in the Czech strategic, large size companies relates by more than 50 percent just to the transformation and restructuring of SOE. In other words, the main draught-horse of restructuring is the state. Till present the state enforced restructuring, often, but not only, as a pre-privatisation measure in such sectors like telecommunication, coalmines, steel and heavy engineering. A typical example of pre-privatisation and post-privatisation restructuring is the Czech financial sector, where 40 thousand of employees were reduced in the year 2000 only by approx. one forth. Even more striking example is Vitkovice steel and heavy engineering company where the non-privatisation related restructuring resulted into 50 percent employment reduction during the last two years, surprisingly with the consent of Trade Unions. But, for example, the retrenchment of employment by nearly 6 thousand of working places over the last 3 years in the Czech Railways is a typical transformation product only.

However, from the macroeconomic point of view, the reduction of employment in privatised and restructured companies seems to be not so radical till today. More over it has been accompanied by financial measures adopted by some companies themselves, namely by banks and by Telecom. This is why the state has had to adopt significant additional social measures only in coal, steel and railways sectors. But since the assumed retrenchment of employees of SOE concerns a good number of employees concentrated in 2 or 3 extraordinarily sensitive sectors of the economy and practically in 2 regions of the country, one can expect a continues pressure on sector and regional unemployment.

The Czech Government is, of course, well aware of the danger of the breach of social reconciliation thanks to the increasing sector and regional unemployment that strongly affects the overall rate of unemployment presently exceeding 9 percent. With the objective of alleviating the undesirable social consequences of accelerated privatisation and restructuring, the policy of the Government is guided in terms of targeted measures and in 3 basic planes: (i) national, (ii) sector and (iii) corporate. The national plane means legislative improvement, short and long term national development and action plans of employment being adopted or amended annually. In the sector plane the Government adopts a number of programmes and regulations on the support and financial contributions to the employees dismissed in connection with restructuring and

reduction of coal production, with transformation of railways, with privatisation and restructuring of steel industry and of electricity energy sector. Among corporate plane measures we can name for example provisions entered into the sale and share transfer agreements obliging private investors to preserve the respective subject of business activity of the company and a certain - of course reduced - level of employment. Naturally this is not a common phenomenon of the Czech privatisation policy. It is more less a unique sector measure valid for privatisation of steel mills or of mines, for example.

So much to the extent of employment retrenchment, employees protection measures and general situation in privatisation and restructuring process in the Czech Republic.

It is of course impossible to focus on all employment impacts in a short presentation. This is why I will now concentrate shortly just on one, in the Czech Republic presently extremely important and largely discussed subject that serves best as a general example. It is: Impacts of privatisation to the hands of foreign investors on economy and labour.

FDI into privatisation play a key role in the Czech Republic with more then 90 percent share on annual privatisation revenue for the last 3 years and 66 percent share on total privatisation revenue for the whole decade. The reasons behind the present rush of foreign investors to the privatisation in the Czech Republic are obvious. This has been mainly, but not exclusively, due to the launch of privatisation of large, strategic SOE in 1999. For the last two years there was practically no important privatisation realised in the country without a foreign investor.

According to statistics the total FDI for the last ten years in the country amount to nearly USD 32 billion with foreign investment into privatisation accounting for more then 22 percent of this amount. But for the last 2 years the share of foreign privatisation investment exceeded 30 percent and for the 1<sup>st</sup> half of 2002 even 66 percent of the total FDI inflow into the country. For the 10 years history of large-scale privatisation foreign investors participated in 170 privatisation projects. As to the territorial composition the share of European countries amounts to 94 percent of privatisation FDI and Germany is presently the largest privatisation investor. As to economy sectors more then 53 percent of privatisation FDI went into utilities (gas, telecommunication and water distribution), over 33 percent was invested into banking sector and only 7 percent into manufacturing companies.

Up today experience proves that the impact of privatisation FDI on the Czech economy is positive and its role in the current phase of privatisation is indispensable. Foreign investors mostly have sufficient means to invest; they rapidly accomplish restructuring, modernize production, introduce new management style and reduce costs. They integrate local companies into supranational chains and often create local sub-supplier environment. The result is not only the survival of the former problematic SOE, but a sustainable development and gradual growth of profit. According to the statistics the present growth in the industrial production and construction is above all driven by companies with foreign capital including privatised ones. The growth in income of Czech industrial companies increased by 3.7 percent in 2001 (compared to the previous year)

but the growth in companies with foreign capital (privatised companies among them) was over 6 percent. The share of companies with foreign capital in the total exports of the Czech Republic amounted to 54 percent in 2000 and to 57 percent in 2001. The two largest export leaders were the privatised Skoda Auto and Siemens (partly also due to privatisation investment). The added value per employee is 35 percent higher in companies with foreign capital than in Czech owned companies.

Interesting is the impact of foreign investment into privatisation on the employment and labour market. On one hand the entry of foreign investors into privatised companies leads first to an initial reduction in the number of employees as a result of pre-privatisation or after privatisation restructuring. However, as I have already mentioned privatisation related employment retrenchment accounts for less than one half of the total employment reduction in large, strategic companies. It is important to realize that in companies privatised with foreign capital, and this is the case of the last years, the quality of workforce grows more rapidly, the share of employees with just basic education decreases what finally results into a positive overall development of wages. According to statistics of state agency Czech Invest foreign investment, inclusive the one into privatisation, safeguards an estimated 10,000 Czech suppliers in the manufacturing and service sectors and a minimum of 500,000 jobs in local supplier companies, approximately 10 percent of the total Czech labour force in employment.

At the end I would like to sum up this short presentation into the following words: Progressing privatisation and restructuring of SOE is not the main, decisive source of present rate of unemployment in the Czech Republic. Nevertheless it creates and will create in near future sector and regional unemployment that the government is fighting with since it produces regional social tension and new demands on the state social spending. On the other hand it brings higher quality of management, improves economic results of the companies and total output of the Czech economy. It instigates transfer of employees into other sectors of the economy thus enabling qualitative change of labour market. Subsequent return effect in the form of taxes is obviously expected.

Table 1. **Participation of the National Property Fund in strategic companies**<sup>1)</sup>

Company	State's share in per cent		Employment in persons	
	December 1998	December 2001	December 1998	December 2001
<b>Financial sector</b>				
<i>Privatised</i>				
Ceska sporitelna (CS)	45.00	0,00	16580	11958
Ceskoslovenska obchodni banka (CSOB)	19.59	0,00	4987	8300
Komerčni banka (KB)	48.74	0,00	13861	9238
Ceska pojistovna (insurance)	30.25	0,00	8423	6158
<b>Energy sector</b>				
<i>Privatised</i>				
Most Coal Company	46.29	0,00	9260	6479
Paramo (refinery) <sup>2)</sup>	70.87	0,00	824	
Transgas (gas transmission) <sup>3)</sup>	100,00	100,00	1793	1432
Central Bohemia Gas <sup>3)</sup>	48.52	48.49	535	577
Eastern Bohemia Gas <sup>3)</sup>	47.12	47.10	658	668
Northern Bohemia Gas <sup>3)</sup>	49.20	49.19	713	718
Southern Bohemia Gas <sup>3)</sup>	46.69	46.66	273	263

Northern Moravia Gas <sup>3)</sup>	47.17	40,05	1092	1097
Prague Gas <sup>3)</sup>	49.18	49.18	865	610
Southern Moravia Gas <sup>3)</sup>	47.65	47.65	1350	1376
Western Bohemia Gas <sup>3)</sup>	45.92	45.84	770	634
<i>To be privatised</i>				
Czech Power Company (CEZ) <sup>4)</sup>	67.57	67.61	10600	7552
Central Bohemia Power <sup>4)</sup>	58.31	58.30	1877	1704
Eastern Bohemia Power <sup>4)</sup>	48.11	49.62	2114	1614
Northern Bohemia Power <sup>4)</sup>	48.06	48.05	1884	1499
Northern Moravia Power <sup>4)</sup>	47.25	48.66	2112	1857
Southern Bohemia Power <sup>4)</sup>	48.10	48.06	1302	1150
Southern Moravia Power <sup>4)</sup>	46.66	46.66	2346	2141
Prague Power <sup>4)</sup>	48.19	48.19	1517	1314
Western Bohemia Power <sup>4)</sup>	48.10	48.30	1487	1429
Unipetrol (oil and chemicals) <sup>5)</sup>	62.99	62.99	8574	7190
OKD (coalmines)	45.88	45.88	27098	20271
<i>No privatisation plan</i>				
Northern Bohemia Coalmines	54,38	55,38	6242	5402
Sokolov Coal Company	48.69	48.69	6863	5707
Cepro (sales and storage of refined)	100,00	100,00	1175	832
Mero CR (oil transport and storage)	100,00	100,00	167	164
<b>Steel</b>				
<i>To be privatised</i>				
Nova Hut (steel works) <sup>6)</sup>	49,00	49,00	14681	12549
Vitkovice – Steel <sup>7)</sup>		98,96		1838
<b>Manufacturing</b>				
<i>Privatised</i>				
Chemical Works Sokolov (Eastman Sokolov)	73.74	0,00	851	n.a.
Jan Becher-KV Becherovka (liquor factory)	59,00	0,00	344	273
Plzensky Prazdroj (brewery)	0,00	0,00	2558	2754
Aero Holding	61.83	in liquidation	21	7
SEVAC (R&D manufacturing of pharmaceuticals)	78.85	liquidated	70	0
<b>Manufacturing</b>				
<i>To be privatised</i>				
Vitkovice a.s. (engineering works)	67,31	67,31	16109	4732
<i>No privatisation plan</i>				
Skoda Praha (engineering works)	54.77	54.77	1958	979
<b>Transport</b>				
<i>No privatisation plan</i>				
Czech Airlines (CSA)	56.92	56.92	4010	3900
Ceske drahy (Czech railways) <sup>1)</sup>	100,00	100,00	91870	86000
<b>Telecommunications</b>				
<i>Privatised</i>				
Ceske radiokomunikace	51,19	0,00	1550	1362
<i>To be privatised</i>				
Cesky Telecom	57.1	51.1	22277	15194
<b>Water</b>				
<i>Privatised</i>				
PVK (Prague Water and Sewage) <sup>8)</sup>	100	34,00	n.a.	1929

1) The state is represented in Ceske drahy (Czech railways) directly, not by National Property Fund

2) Sold and transferred to Czech state controlled Unipetrol holding in 2000

3) Sold and transferred to German private investor RWE Gas in May 2002

4) The government approved sale of NPF's shares in the 8 regional power distribution companies to the state controlled power generating company CEZ in May 2002. Respective sale contract signed in June 2002 is under consideration of anti-monopoly authority

- 5) Sale contract signed at the end of 2001 with private investor that withdrew from the contract in September 2002. The government is to decide about a new public tender. In course of 2000-2001 the company acquired companies like Paramo, Spolana and Aliachem
- 6) The government approved sale of state share to Dutch investor LNM Holdings N.V. in May 2002 and respective sale contract was signed in June 2002
- 7) Vitkovice-Steel was separated from Vitkovice a.s. in 2001 and sold to OSINEK company (a 100 per cent daughter of the National Property Fund) in April 2002
- 8) The remaining 34 per cent share was transferred to the Municipality of Prague in June 2002