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What Does the Public Gain from Privatization?

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Privatization of state-owned utilities such as electricity, water, oil, and telecommunications will lead to increased charges, since the newly created businesses must earn profits. This will lead to a higher cost of living.



Is Privatization Necessary?

The usual justifications for privatization are:

1. Investment capital. Utilities need capital to expand production. The government must guarantee loans by state-owned enterprises, and any losses must be absorbed by taxpayers, i.e., the general public.

2. Improved efficiency. State-owned enterprises suffer from inefficiency and red tape.

3. External pressure. One of the conditions imposed by the International Monetary Fund during the 1997 economic crisis was increased privatization.

All three justifications are subject to debate. Some scholars argue that the justifications given above are all secondary, and that the most important justification is the need for organizational reform and increased competition. These arguments are influenced by neo-liberalist ideas, propagated by international economic and financial institutions, which imply that the private sector is more efficient than the public sector.

Some scholars argue, however, that, in many countries such as the United Kingdom, privatization has led to an increase in corruption, and to increased prices for basic necessities such as electricity. Opponents of privatization argue that state enterprises should aim to meet people's needs rather than increasing profits since the state has a responsibility to provide the public with essential services.

Where did the Idea to Privatize Come From?

Privatization of state-owned enterprises was mentioned in Thailand's first economic development plan. Experts from the World Bank argued that the role of the private sector should be expanded. Early plans were very cautious and did not go beyond the privatization of a few non-essential state-owned enterprises.

As the forces of globalization grew and Thailand joined the World Trade Organization, the country committed itself to free trade in services. International organizations such as the IMF and World Bank, together with transnational corporations, encourage the spread of capitalization by transferring state enterprises into the private sector.

Until the advent of privatization of utilities such as electricity, privatization proceeded with few protests or difficulties. This was partly because the enterprises being privatized had been established to address temporary crises or to assist local entrepreneurs. Examples included enterprises making bags, leather, glass, shoe polishers, and matches. The activities were carried out more efficiently in the private sector.

In contrast, public utilities deal with essential goods and services. Privatization can lead to a higher cost of living. The main objective of state-owned utilities is to provide access to everyone, regardless of business losses. In addition, the attempt to privatize the electricity utility, which is very profitable, was carried out hastily and non-transparently, without a clear discussion of advantages and disadvantages. So many questions and objections were raised that the privatization had to be postponed.

The Privatization of the Electricity Generating Authority of Thailand (EGAT) Many Unanswered Questions

Many large state enterprises, such as the Communications Authority of Thailand, the Mass Communication Organization of Thailand, Thai Airways International Company Limited, the Airports Authority of Thailand, and the Petroleum Authority of Thailand, have been privatized in the past few years (see Table). And many people have raised questions about these privatizations.

Privatized State Enterprises

New Name	Former Name	Year privatized	Year listed
Thai Airways International PCL	Thai Airways Co.,Ltd.	1988	1991
PTT Public Company Limited	Petroleum Authority of Thailand	2001	2001
Airports of Thailand PCL	Airport Authority of Thailand	2002	2003
TOT Public Company Limited	Telephone Organization of Thailand	2002	2002
CAT Telecom PCL	Communications Authority of Thailand	2003	2003
MCOT PCL	Mass Communication Organization of Thailand	2004	2004
EGAT PCL	Electricity Generating Authority of Thailand	2005	Court has ordered listing to be suspended

Source : State Enterprise websites, accessed 2006.

(1) Who benefits from the listing? Many people have asked whether it is the general public or a select group of people who would benefit from the floating of EGAT shares. Shares in PTT were sold out in less than two minutes. The well-placed people who managed to buy shares reaped huge gains when share prices then rose dramatically. The government has not explained how it plans to prevent the same thing happening if and when EGAT were to go public.

The government proposes to sell 2 billion shares, or 25% of the total number, in the initial offering. Many people are concerned that a few large investors, including overseas investors, will buy most of the shares. In principle, foreigners may own only 30% of the 25% of shares issued. However, it is not clear how this rule will be enforced under the government's free trade policy.

(2) Why is the listing occurring so quickly? Some scholars argue that privatization is necessary, but that EGAT should first be restructured to allow competition. The restructuring must be supervised by an effective and transparent body. Otherwise the privatized company will have a monopoly. It would be much more difficult to restructure the company after the stock exchange listing. Research suggests that companies' value on the stock exchange does not accurately reflect their efficiency.

Some opponents of the privatization of the consistently profitable EGAT have argued that people involved face a conflict of interest.

EGAT has received massive quantities of public investment. However, the plan is for EGAT to lease its assets to the operator at very low prices. EGAT also owns a nation-wide network of fiber optic cables that can be used for television, the Internet, and telephones. After privatization, EGAT Telecom will be a subsidiary company. It is likely to need a partner with a well-developed national telecommunications network. The likely identity of this partner is well known.

(3) Will electricity charges increase after privatization? Another question with important implications for the general public is whether privatization will increase electricity charges. Some people argue that, even without privatization, prices have been increasing faster than costs. High prices will benefit shareholders, since it will increase the value of their shares. Some of the directors of the company will be appointed from among shareholders, and both major and minor share holders are likely to favor constant or rising prices.

The government has promised that a commission to supervise electricity charges will be set up after privatization. However, many people feel that the commission will not be truly independent, and that politicians will interfere with the selection of commissioners. It is not clear that the Ministry of Finance will be able to assert control over a private company. Even if they initially remain constant, electricity charges are likely to rise eventually, as happened in the United Kingdom.

Some scholars have suggested that EGAT be restructured before privatization. It should lose its monopoly over electricity generation and transmission and allow private companies to generate their own electricity, to encourage competition. People should have the right to buy electricity from the supplier with the lowest prices. The market should be regulated by a truly independent organization that would stipulate fair prices. Opponents of the EGAT privatization put forward a similar set of proposals, after the administrative court issued its injunction postponing the privatization and listing of EGAT.

Important Events in the Privatization of EGAT

On November 8, 2005, the Federation of Consumers' Organizations, representing 12 petitioners, requested that the Supreme Administrative Court revoke two Royal Decrees relating to EGAT privatization, the Royal Decree on the Authority, Rights, and Objectives of EGAT PC 2005 AD and the Royal Decree on Stipulation on the Revocation of Laws Relating to EGAT, 2005.

On November 9, 2005, the Federation of Consumers' Organizations' representative asked that the Supreme Administrative Court issue an emergency injunction, as a temporary protective measure, to prevent the issue of EGAT shares on the Stock Exchange of Thailand, scheduled for November 16-17, 2005.

On November 15, 2005, the Supreme Administrative Court issued the injunction.

On January 7, 2006, the Sub-Committee for the Privatization of EGAT, under the Senate Committee on State-Enterprises Privatization, held a public hearing on EGAT privatization in parliament. Approximately 260 organizations and individuals participated. Mr. Kaewsun Atibodhi, Bangkok Senator, expressed his disappointment that the government had failed to send a representative. The government later argued that it was unable to send a representative because of the Administrative Court's order, prohibiting the Minister of Finance from advocating the sale of EGAT shares. The Committee did not accept this explanation.

Using the Conflict to Strengthen Society

Kwansuang Atibodhi, an expert on civil society, has suggested that the conflict over privatization offers an opportunity for popular empowerment, if ordinary people can participate in the decision process. He suggested that the protesters should seek to play a constructive role in the design of privatization policies. That way the public can help provide a check on the government's actions.

We must build on the lessons from previous privatizations

Privatization of publicly owned utilities is too complicated and too sensitive to be completed quickly, without clear explanations. The government should listen to people who will be affected by the decision. It must learn from previous privatizations.

As yet there have been few ideas on how to resolve the dispute over EGAT for the good of the country. It is important to study the issue carefully and to determine whether privatization is really the best solution. Conditions in Thailand may be different from those in other countries, and hasty and non-transparent privatizations may do more harm than good. All parties must concentrate on the good of the public at large, and not political advantage or personal wealth.

