

Anthology of Czech State-Owned Enterprises



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The state-owned enterprises (SOEs) represent a broad category of entities pursuing commercial activities with the unifying feature of public ownership. This article summarizes the main legal forms of enterprises (state enterprises, national enterprises, and state shareholdings in private companies) through which the Czech state operates inside the economy, and provides important examples in each category. The concluding remarks stress that business operations owned by a public authority are not limited to state, but are also present at regional and local, levels.

Former structures of the planned economy in the Czechoslovak Socialist Republic reserved all economic activity from retail to manufacturing and provision of services to state enterprises or cooperative organizations.

In the 1990s, the Czech Republic undertook a transformation that resulted in the development of institutions of a liberal democratic state and a gradual opening to private ownership in the economy – partly by privatizing SOEs and partly by liberal treatment and incentives to foreign direct investments.

The central government and other public entities in the Czech Republic (regions, municipalities) are still engaged in benefit provision of the social-market economy (social security, health care, education). According to OECD data, general government spending (indicating whole spending by central and local governments, not only their direct business operations) in the Czech Republic reached 41.6% of GDP in 2015 (slightly more than 41.5% in Poland and slightly less than 42.8% in the United Kingdom)¹. Business opera-

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tions that remain in the hands of the state are only a fragment of full state control under the socialist regime before 1989. Nevertheless, this residue of the public operation of business activities still includes strategic enterprises in the energy sector, transportation, and other utilities. This article summarises the main legal forms of enterprises through which the Czech state operates inside the economy and provides important examples in each category.

DEFINITION: WHAT ARE SOES?

SOEs represent a broad category of entities pursuing commercial activities with a unifying feature of public ownership, in full or partial. The borders of this category are not

¹ OECD (2017), General government spending (indica-

tor). doi: 10.1787/a31cbf4d-en



IN THE CZECH LEGISLATION, THERE IS A SPECIFIC LEGAL FORM OF A “STATE ENTERPRISE” (STÁTNÍ PODNIK; S.P.)

as unequivocal as it may seem from such a definition – there may be several specific aspects of national law that shape opinions on which entities fit into the SOE category. The legal form of SOEs may vary significantly, from a legal form shaped specifically for SOEs to SOEs existing in a legal form of an ordinary commercial corporation.

STATE BUSINESSES, LEGALLY

In the Czech legislation, there is a specific legal form of a “state enterprise” (Státní podnik; s.p.). That entity could be founded by the state with the consent of the government. It can pursue commercial activity in its own name. It does not own property but it can manage specific state property.

An example of an SEO in this form is the Czech postal service (*Česká pošta s.p.*), which operates 3,868 post offices around the country (including partner offices and postal points of special purposes) and has 29,974 employees².

This legal form is also used by enterprises managing five river basins in the territory of the Czech Republic (the Vltava, Labe, Morava, Odra, and Ohře rivers) and an enterprise managing most

(around 86%) of the forest areas under state ownership, *Lesy České republiky, s.p.*, which represents more than 1.3 million hectares³.

Furthermore, the state enterprise form has also been used to found *Řízení letového provozu České republiky, s.p.*, an enterprise managing air traffic services in the airspace above the territory of the Czech Republic in accordance with the Chicago Convention establishing the International Civil Aviation Organization. Finally, *LOM PRAHA s.p.*, is an example of this legal entity used in the defense industry. It has a specific purpose and necessary certificates for general repairs of helicopters of the Mi category (Mi-2, Mi-8/17, Mi-24/35) of the Russian construction in the armies of NATO and the EU⁴.

NATIONAL BUSINESS

There is also a specific legal category of the “national enterprise” (*Národní podnik; n.p.*) which is a remnant of the legal forms existing prior to 1992. The only still-existing enterprise in this category is *Budějovický Budvar, n.p.* It is the last brewery that remains under state ownership, mostly for the sake of legal disputes over trademark and geographical identification (more than 40 court proceedings and more than 70 administrative patent cases) that the company wages worldwide with *Anheuser-Busch InBev* and its “Budweiser” brand⁵.

STATE-OWNED COMPANIES

This category of state enterprises (supplemented with the remaining example of the national enterprise *Budějovický Budvar*) would not provide a full picture of the state involvement in commercial activities.

³ *Lesy České republiky, s.p.* <https://lesy.cz/o-nas/profil-firmy/>

⁴ *LOM PRAHA s.p.* <http://www.lomp Praha.cz/o-nas>

⁵ *Budějovický Budvar, n.p.* <http://www.budejovicky-budvar.cz/o-spolecnosti/budejovicky-budvar.html#znamkopravni-spory>

² Data for 2016. Source: *Česká pošta s. p.* <https://www.ceskaposta.cz/o-ceske-poste/profil/zakladni-informace>

Those legal forms are divergent from the ordinary forms of commercial corporations and only the state can found a state enterprise. The state is, however, not limited to those forms. The state can also own shares in regular corporations – in particular, in the legal form of a joint-stock company (*akciová společnost; a.s.*).

In that case, the state has a position of an ordinary shareholder and its decision power depends on its shareholding in the company or specific provisions in the company's articles of association. The state has to follow all the rules for shareholders resulting from company law, e.g., rights of minority shareholders. In the case that the company has its shares publicly listed, it also has to follow all the rules on availability of information for individual investors. The shareholding of the state may be 100% or another majority. Lower shareholdings and smaller portfolio investments without intention to pursue decision powers in the company are also possible. However, in that case it depends on how we define SOEs and if enterprises without state influence over its management should still be considered SOEs.

“PARADE” OF CZECH SOEs

The following companies are examples of the state holding a 100% share:

ČEPRO, a.s. is a company providing transportation of crude oil products in its pipeline network length of more than 1,100 kilometers, connecting its storage capacities with refineries in Litvínov and Kralupy nad Vltavou in the Czech Republic, and Bratislava in Slovakia⁶. It also operates a network of petrol stations under the EuroOil brand. With its 194 filling stations, EuroOil is the third most-numerous petrol station net-

work in the Czech Republic. **ČEPRO, a.s.** is also the sole supplier of petrol offered under the EuroOil brand.

MERO ČR, a.s. is a company owning and operating part of the backbone crude oil pipelines Družba and IKL, situated in the Czech Republic⁷. It is thus the only company with capacity to ship crude oil into the Czech Republic. **MERO ČR, a.s.** is also the biggest provider of storage capacity for the Czech national emergency reserve of crude oil.

ČEPS, a.s. is another pivotal company in the Czech energy network. It is the sole operator of the backbone transmission system for electric energy in the Czech Republic, consisting of 41 substations with 71 transformers that allow electricity to be supplied from the transmission system to the distribution network. The company also operates a total length of 3,508 kilometers of lines in 400kV voltage and 1,910 kilometers of lines in 220kV voltage⁸.

Český Aeroholding, a.s. owns the key infrastructure at the international Václav Havel Airport Prague. It is a holding company with shares wholly owned by state⁹. Its wholly owned subsidiary, *Letiště Praha, a.s.*, operates the Prague airport which is, with more than 13 million passengers in 2016, the largest airport among the new EU Member States. It holds shareholdings in other subsidiaries that provide technical and supplementary services at the Prague airport, such as *Czech Airlines Handling, a.s.*, which operates handling services for a number of airlines flying to Prague airport, or *Czech Airlines Technics, a.s.*, which operates repair sheds at the airport. A spe-

⁷ **MERO ČR, a.s.** <http://www.mero.cz/>

⁸ **ČEPS, a.s.** <https://www.ceps.cz/CZE/O-spolecnosti/Stranky/Default.aspx>

⁹ **Český Aeroholding, a.s.** <http://www.cah.cz/cs/>

⁶ **ČEPRO, a.s.** <https://www.ceproas.cz/o-nas/produktovodni-sit-a-sklady>





cific example of a company wholly owned by the state is **Thermal - F, a.s.** It operates a large four-star hotel and congress complex in Karlovy Vary, built in the “brutalist” architectural style of the 1970s that is unusual for its 19th-century spa town location, which annually hosts the Karlovy Vary International Film Festival¹⁰.

The state further maintains majority or significant shareholdings in many other companies (e.g. *Výzkumný a zkušební letecký ústav, a.s.*, *PRISKO, a.s.*, or *GALILEO REAL, k.s.*, among others).

KEY COMPANIES WITH GOVERNMENT SHAREHOLDINGS

First of all, through the Ministry of Finance, the state keeps a majority shareholding of 69.78%¹¹ in the Czech energy giant **ČEZ, a.s.**¹². Shares of ČEZ, a.s. are publicly listed at the stock exchanges in Prague and Warsaw, and belong to the PX index, a WIG-CEE index. It is the second-biggest company by turnover in the Czech Republic (after car manufacturer *Škoda Auto, a.s.*)¹³. Its turnover in 2016 reached CZK 203,744 million (about EUR 7,546 million). ČEZ, a.s. and its subsidiaries (the *ČEZ Group*) are involved in a broad spectrum of the energy business, primarily in electricity generation. It carries business in the Czech Republic and the broader region. In the Czech Republic, it has a power generating portfolio that includes two nuclear plants (Temelin and Dukovany), coal-fired and gas power plants, all of the biggest hydroelectric

power plants, several wind and solar power plants, and other renewable sources. It also distributes electricity and other commodities (including gas and heat) to end customers and operates coal extraction businesses.

Its dominant position in the Czech energy business, accompanied with its financial strength and specific know-how in the sector, previously led to business expansion in electricity generation, electricity distribution, and sales into regional markets, including Poland, Romania, Bulgaria, Hungary, Slovakia, and Turkey.

The expansion is pursued either solely by the ČEZ Group or, as in Poland and Turkey, in cooperation with a local partner. The ČEZ Group also uses subsidiaries in the Netherlands and Ireland as holding companies, and for the provision of finances to the operation of the group. It holds an A-rating by Standard & Poor's and a Baa1 rating by Moody's. Since 2007, ČEZ, a.s. has maintained a policy to distribute around 50%-60% of the consolidated profit of the group among its shareholders. In 2016, CZK 21,369 million (about EUR 791 million) was distributed among shareholders with a direct infusion of CZK 15 billion (about EUR 550,000 million) into the state budget.

Besides ČEZ, a.s., the state possesses shareholdings in various companies with specific roles in financial support provided to exporters, especially in the case of exports to target destinations which, for various reasons, makes private insurance of other financial instruments hardly accessible, such as *Česká exportní banka, a.s.* (state shareholding of 43.68%) and *Exportní garanční a pojišťovací společnost, a.s.* (state shareholding of 40%). Similarly, specific financial needs

¹⁰ *Thermal - F, a.s.* <http://www.thermal.cz/cs/o-hotelu/>

¹¹ The shareholdings are mentioned according to actual data provided by ministries responsible for the state rights as a shareholder for the specific company in question.

¹² ČEZ, a.s. <https://www.cez.cz/cs/o-spolecnosti/cez/profil-spolecnosti.html>

¹³ Data for 2016. Source: Czechtopy100. <http://www.czechtopy100.cz/menu/aktualne/vysledky-100-nejvyznamnejsich-firem-cr-2016.html>



AN INTERESTING AND POLITICALLY SENSITIVE AREA IN WHICH SOEs USUALLY OPERATE IS RAILWAY TRANSPORTATION

for regional development could be assisted by *Českomoravská záruční a rozvojová banka, a.s.*, in which the state holds a shareholding of 32.95%.

A company owning a big congressional center in Prague (*Kongresové centrum Praha, a.s.*), again with communist-era architecture, as in case of the previously mentioned Thermal hotel, is also owned by the state. In this case, the shareholding is 54.35%.

The state keeps also approximately 1/3 of shares (34.22%) in the company manufacturing modern steel radiators and heating systems, *KORADO, a.s.* In this case, the shareholding is not a result of a strategic decision of the state, but is a direct consequence of the financial reconstruction of the company in the late 1990s, in which the state Czech Consolidation Agency that adopted a problematic loan of *KORADO, a.s.* from a Czech bank played its role. In the late 1990s, the Czech economy faced a serious crisis with its main banks. As a result of the reconstruction of the banking sector, the state and the Czech Consolidation Agency assumed the bad debt of several

banks together with its security, including shareholdings in some of the privatized companies.

A similar story involving the Czech Consolidation Agency could be found behind one of the most curious present shareholding of the Czech state. It is a shareholding of 96.5% in *VIPAP VIDEM KRŠKO d.d.*, from Slovenia, one of the biggest paper plants in South-Eastern Europe. In both cases, the state is looking for a way to privatize its shareholdings in *KORADO, a.s.* and in *VIPAP VIDEM KRŠKO d.d.*, but all attempts have ended in vain.

CZECH RAILWAY AND ITS PRIVATE COMPETITORS

An interesting and politically sensitive area in which SOEs usually operate is railway transportation. The majority of railway tracks in the Czech Republic is owned by the state through *Správa železniční dopravní cesty (SŽDC)*. The railway lines network is one of the densest globally, given the industrial tradition of the country, but lacks modern high-speed tracks. Its total length is 9,463 kilometers. In recent years SŽDC also gained control over most of the important train stations in the country, previously owned by railway operator *České dráhy, a.s.*

SŽDC offers infrastructure to railway operators in accordance with EU legislation. The major railway operator in the country is the wholly state-owned company *České dráhy, a.s.* In 2016, *České dráhy, a.s.* and its subsidiaries (*ČD Cargo, a.s.* in particular) had 23,664 employees and transported 171.5 million passengers and 65.5 million tons of cargo¹⁴. According to the statistics of SŽDC, the group covers over 90% of passenger transport in the Czech Republic,

¹⁴ *České dráhy, a.s.*, "Výroční zpráva skupiny, 2016". <http://www.ceskedrahy.cz/assets/pro-investory/fi-nancni-zpravy/vyrocní-zpravy/vyrocní-zprava.pdf>



WHILE ČESKÉ DRÁHY, A.S. CAN PROFIT FROM ITS BROAD COVERAGE OF TRAIN LINES WITH SUPPORT BY STATE OR REGIONAL SUBSIDIES AND UTILIZE ECONOMY OF SCALE IN TRAIN TRANSPORTATION, THE PRIVATE COMPANIES AS NEWCOMERS CANNOT RELY ON SUCH AN ECONOMY OF SCALE AND MUST COMPETE WITH ADDITIONAL SERVICES AND OTHER FORMS OF CONNECTED TRANSPORTATION

measured both as train kilometers and train tons¹⁵, and over 60% in cargo transportation¹⁶.

Several private companies started to operate individual commercial lines (lines that are commercially sustainable from passenger fare and other commercial activities without state subventions for operation), such as the train connection Prague–Ostrava, connecting the capital and north-eastern city of Ostrava, which is the third-biggest city in the country. Those lines are operated by private companies and *České dráhy, a.s.* in parallel, which has led to a significant increase in passenger comfort and related services, and also in price competition that kept fares at a reasonable level.

The two biggest private companies competing with *České dráhy, a.s.* are *RegioJet, a.s.* (about 3% of passenger transport by train kilometers and about 7.5% by train tons) and *LEO Express, a.s.* (about 1.5% of passenger transport by train kilometers and about 1.3% by train tons¹⁷). The remaining smaller private operators in the Czech Republic (such as *GW Train Regio a.s.*, *ARRIVA vlaky s.r.o.*, or *Die Länderbahn GmbH DLB*) have shares significantly below 1%.

There are several factors that make competition with *České dráhy, a.s.* harder for the newcomers. For instance, *České dráhy, a.s.*, as a traditional national train operator, provides various fare discounts or free rides to tens of thousands of its employees or former employees and their families. In this way, it creates a group of passengers financially motivated to use their services and, if travelling in a bigger group, persuading

¹⁵ SŽDC, “Podíl jednotlivých dopravců na výkonech v osobní dopravě”. <http://www.szdc.cz/provozovani-drahy/dopravci/podil-vykonu.pdf>

¹⁶ Ibid.

¹⁷ Ibid.

others to use *České dráhy, a.s.* services. While *České dráhy, a.s.* can profit from its broad coverage of train lines with support by state or regional subsidies and utilize economy of scale in train transportation, the private companies as newcomers cannot rely on such an economy of scale and must compete with additional services and other forms of connected transportation.

RAILWAY PRIVATIZATION IN REVERSE: NEW TREND OR BLIND IDEOLOGY? COMPARISON WITH THE U.K.

The issue of railway privatization is not a hot political topic only in the Czech Republic. The Labour Party manifesto for the 2017 general election in the United Kingdom calls for bringing “private rail companies back into public ownership as their franchises expire” and, as a result, promises “lower prices, more accountability, and a more sustainable economy”¹⁸. Instead of a hybrid system in which privatization will go step by step on tracks that may be commercially sustainable without any public money, the United Kingdom started in the 1990s with the outright opening of all lines to private operators.

A further difference between the Czech Republic and the United Kingdom is that the latter did not preserve any significant state-owned national operator. Without any counterexample, Labour could claim that a state-owned company would be more effective. However, the issue is much more complicated.

The private companies operating rail routes in the United Kingdom are quite often not fully private, but represent various joint ventures with participation of state-owned or, at least, majority state-



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owned railway companies from Germany (*Arriva* as a subsidiary of *Deutsche Bahn*), the Netherlands (*Abellio* as a subsidiary of *Nederlandse Spoorwegen*), and France (*Keolis* as a subsidiary of *SNCF*). In that light, the Czech system of hybrid cohabitation of one national railway operator and several gradually growing genuine private companies appears to be a more sustainable alternative. It may not be threatened to be splashed by a sudden change of the mood of political leadership as it would be in the United Kingdom if the current Labour manifesto is ever used in practice.

If the opening of new railway lines to private operators is gradual, and does not fall asleep somewhere on its way, it can pro-

¹⁸ The Labour party manifesto 2017, “For the many, not the few”, <http://www.labour.org.uk/page/-/Images/manifesto-2017/labour-manifesto-2017.pdf>, p. 19.

vide space for the development of genuine private operators (not only branches of foreign SOEs) that could remain.

STATE, REGIONAL, OR MUNICIPAL?

The state remains an important player in the operation of strategic infrastructure (transportation, energy) and several related business activities. Two main forms, state enterprises or shareholdings in private companies, are available. The first form is used for the operation of natural resources (river basins, forests) owned by the state and some other business operation. The second form has a much broader use.

The state as such is not the only public body that pursues commercial activity. State involvement in the economy is at various levels supplemented by commercial activities pursued by entities owned (fully or partially) by other public bodies, i.e., Czech regions (*kraj*) and municipalities. The state and its SOEs in various legal forms, as described above, are present in sectors and areas necessary for the whole country. Other public entities are involved in business activities that are relevant locally or for a specific region. For instance, the international airport in Prague-Ruzyně has, with its annual share of more than 90% of total air traffic in the Czech Republic (by number of passengers), relevance for the incoming and outgoing tourism of the whole country and is owned by the state. In contrast to this, the other international airports in the country, such as Brno-Tuřany or Ostrava-Mošnov, have only regional importance and are owned by the corresponding regions.

The business enterprises owned at a sub-state level of public authority are usually ordinary commercial corporations founded by a region or municipality with the aim to pursue a specific activity that cor-

responds to the self-governing tasks of its founder. The category of state enterprises is not available at this local or regional level.

An example of one of the biggest publicly-owned companies in the hands of a municipality is *Dopravní podnik hl. m. Prahy, a.s.*, which is a transportation company wholly owned by the capital city Prague. It has about 11,000 employees and operates three lines of the underground, 33 tram lines, and 142 bus lines in the capital¹⁹. Most of the bigger towns in the Czech Republic have their own transportation companies responsible for operating mass transportation within its territory and most of the related infrastructure. A specific situation remains in the railway sector, where the track and train stations of regional or local importance are owned by state through *SŽDC*.

¹⁹ *Dopravní podnik hl. m. Prahy, a.s.* <http://www.dpp.cz/dpp-v-datech/>



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