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The Restructuring of Polish Network Monopolies in the Context of Future Membership in the European Union (Presenting the Polish Oil and Gas Company as a Case Study)

1. The involvement of the government administration in the restructuring of the national economy from 1990 to 1995

The transformations of our system which took place in the years 1990-1995 have converted our economy from a centrally planned one into a market-oriented economy. At the beginning the government was interested mainly in macroeconomic transformations, one of those being the intensive de-monopolisation of the economy which took place in the years 1990-1991. It included:

- import liberalisation, that is opening the economy to international competition;
- dividing state-owned enterprises which had either a monopolistic or a dominant position in the domestic market, or had been established in the previous system in order to compulsorily co-ordinate the activities of subordinated entities;
- privatisation of the economy and support for establishing new economic entities.

Visible effects have been seen from the active restructuring of the economy through splitting of enterprises. Through government directives, intermediate levels in organisation hierarchies in the mining and power industries were eliminated[1]; regional corporations in the sugar industry were

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[1] In February 1990, the so-called Coal Commonwealth, as well as Power Engineering and Lignite Commonwealth were dissolved.

divided (individual sugar factories becoming independent companies); and some large enterprises in the agricultural and food industry were also split. Another decision of great importance was the statutory dissolution of both the central and regional co-operative unions, thus bringing to end the top-down control of the co-operative sector. The splitting of state-owned enterprises have been, in most cases, carried out by so-called statutory founding authorities, i.e. relevant ministers or provincial governors. In some cases the splitting of corporations or enterprises was initiated by the concerned entities themselves. Such a consequent and large-scale process has brought significant results: in the years 1990-1991 as many as 1091 new, independent companies were established, based on the assets of 272 divided state-owned enterprises.

The purpose of splitting of large entities, as carried out in the initial stage of the transformation, was to eliminate many weaknesses existing in those enterprises. It was expected that management de-centralisation would stimulate initiative and improve the economic standing of the entities concerned. It indeed proved true in many branches of the economy, especially in commerce, material services, and branches of industry producing consumer goods. Some other branches however stagnated or even showed temporary regress, a commonplace price for system transformation. The most severely affected were the industries in which demand had been permanently and significantly reduced (such as the coal mining industry and railways). Taking into consideration also other causes of demand reduction, such as the limiting of trade with the countries of the former Soviet Union and the world recession in the years 1991-1993, it is hardly surprising that the situation of some branches became critical and called for government intervention. An alternative solution would have been to privatise those crisis-afflicted industries as well. However, this solution was not chosen, although it was very interesting, as the recovery of the branch would have become a problem for the new owner. On the other hand, while noticing the inadequate role of privatisation in the process of economy transformation, for the sake of objectivity some factors which made this solution difficult should be also pointed out. Those were the following:

- political instability – frequent changes of the Parliament and government, which made privatisation a political issue which certain political parties were fighting for or against;
- lack of experience in large-scale privatisation, thus stimulating carefulness and tendencies to avoid taking responsibility for the risk;
- lack of capital large enough to buy a whole sector and not single selected entities, and in some cases also an unattractive purchase bid (low price).

The state interventionism took the form of general protectionistic actions – it meant primarily resignation from the previous policy of import liberalisation and imposition of protection measures (duties, contingent limits, and special charges) in numerous markets. But first of all new governmental programmes for the restructuring of so-called strategic branches were initiated.

The main purpose of the developed restructuring programmes was to adjust the important industries and sectors to the demands of a market economy. It included, as well, getting rid of past burdens (such as useless assets, superfluous employment, projects started and not finished, severed co-operative links and lost sales markets in the East), as preparation to face international competition (adjustment to the European Union regulations, modernisation of means of production, modifications of the organisational structure and the area of activity, and reduction of costs). The state and its administration in this way sought to meet their obligation as owner and to make sure the crisis-afflicted branches survived or were able to develop. In the case of public utility companies it was also necessary to provide continuous services, even in spite of economic loss.

The first governmental programmes[2] for restructuring were started in their design phase as early as in the beginning of 1991, involving the steel industry, telecommunications, and the oil industry. Based on their motivation, the goals expected to be achieved, and the branch's perspectives after the finished restructuring, those programmes may be divided into three categories:

1. **Anti-crisis programmes** which are implemented in branches unprofitable for a long time and which involved a relatively large amount of assistance from the state. In the author's opinion, this category includes programmes in:

- the hard coal mining industry (original project 1993, updated yearly);
- the sugar industry (original project 1993, different statutory regulation in 1994);
- the Polish State Railway Enterprise (initial project in 1991-91, put into effect by a parliamentary act in 1995);
- the defence industry (several projects in the years 1992-94);
- the ship building industry (1995).

2. **Adjustment programmes** in branches where there are development opportunities after the execution of large investments or the finishing of a recovery procedure. The following programmes fall into this category:

- in the iron and steel industry (programme accepted in 1992, amended in 1993);
- in the banking sector (put into effect by a parliamentary act in 1992 and 1994, still being amended and modified);

[2] Also known as "inter-sectorial" programmes.

- in the petroleum chemistry and liquid fuel industry (original project accepted in 1992, eventually a different project was chosen for implementation only in the beginning of 1996);
- in the pharmaceutical industry (accepted in 1994).

3. **Development programmes**, being implemented in those sectors of economy where the market transformation created development opportunities not available in the previous system. This in particular involves the telecommunications sector.

In the years 1990-1991 a new framework programme was developed for transformations in the telecommunication industry and in the post service. Those two institutions, which at that time had constituted a single, public utility state enterprise, were split. A new parliamentary act was also passed, through which the state monopoly in telecommunications has been abolished. The following projects were later accepted:

- the Strategy of telecommunications development in Poland until the year 2000 (accepted by the Council of Ministers in 1993 and again in 1994);
- the Guidelines for telecommunications development policy in rural areas until the year 2000 (accepted in 1995);
- the Directions of structural transformations in Polish telecommunications (accepted in 1995).

The following programmes also, without doubt, belong in the development category:

- motorway construction (first version accepted in 1993, extended and specified more accurately in 1994-95);
- the Mass Privatisation Programme (parliamentary act passed in 1993 and put into practice at the end of 1994).

One development programme still waiting for acceptance by the Parliament is a draft project of a new energy law and accompanying structural changes.

It would be difficult to provide an evaluation of the ideas and results of the above mentioned restructuring programmes just now, as too little time has passed since their acceptance. Only the programme for the hard coal industry proved to be a total failure.

2. Restructuring of Polish Oil and Gas Company - the projects, their implementation, the perspectives

Restructuring of Polish Oil and Gas Company affects many important aspects of this enterprise’s activity. The first aspect involved was an economic one - this was influenced by the transformation of the economic system and the change of prices of imported natural gas from Rouble into hard currency. After that, three decisions were made which shaped the technological and production as well as the organisational aspects of the enterprise. They included the following:

- the Directive of the Economic Committee of the Council of Ministers, dated December 23, 1992, regarding construction of huge underground gas storages in order to buffer the peaks in seasonal demand and to keep national reserves;
- the Directive of the Economic Committee of the Council of Ministers and the „Agreement between the Government of the Republic of Poland and the Government of the Russian Federation regarding construction of a gas pipeline system for transmission Russian gas through the territory of the Republic of Poland and the delivery of Russian gas for the Republic of Poland", signed in August, 1993;
- the Directive of the Antimonopoly Office, dated March 12, 1993, regarding splitting the Polish Oil and Gas Company.

2.1. Price and financial problems[3]

The rise, by a factor of almost four, of the price of natural gas imported from the former Soviet Union, which covers about 65% of the domestic demand, resulted in big financial problems for the Polish Oil and Gas Company. This huge increase in the purchase price of imported gas, together with the increase in other operating costs of the enterprise, resulting from the adjustment of domestic prices to real levels, could not be compensated for quickly by an increase in sale prices for consumers. This was due to the seriously limited ability of consumers to pay especially in household sector. For individual consumers, who use natural gas for cooking, water heating, and central heating, the percentage of their budget devoted to energy expenses is around 10-13%, a larger figure than in Western Europe, where it is around 4-8%. The price policy of the Ministry of Finance is such that the price of natural gas is regulated by the Minister of Finance for various kinds of gas (that is coke-oven gas, high-methane natural gas, and nitride natural gas) and it depends on the consumer category. The difference between fuel cost and the actual sale price has gradually decreased, as shown in the Table 1.

If the Company was financially independent in the years 1991-95, the gas prices in this period would have had to be 35-40% higher. The inadequate income due to the difficulty of getting the correct price level was compensated to some extent by clearing the deliveries of Russian gas partially without charge and partially using the exchange rate of Zloty against Rouble rather than against the dollar. In addition to that, the payment of income tax for the years 1992-95

[3] This chapter uses internal reports prepared by Polish Oil and Gas Company.

was prolonged, the payments to suppliers of imported gas was extended for several months from the time of delivery, some liabilities resulting from this were remitted, and short-term credits were obtained. If not for these measures, the Company would have been insolvent.

Table 1. **Gas fuel cost and gas sale price**

	1991	**1992**	**1993**	**1994**	**1995**
fuel cost[a)]	116.70	198.88	255.40	328.69	384.33
actual price (VAT included)	100.10	164.90	234.90	304.00	387.00

a) The gas fuel cost involves the purchase cost (constituting around 70%) plus costs of storage, transmission, and distribution.

According to the new energy law draft, a newly created agency, the Power Industry Regulatory Office, will be responsible for the correct setting of gas prices and the charges. This office will also check the conditions for changing the prices and charges, in order to prepare a new tariff system for gas consumers based on so-called legitimate costs. This tariff system, now under preparation, will provide for the following:

- establishing new categories, including wholesale pricing for future distribution companies;
- diversifying the tariff charges, taking into account a bigger number of influencing factors (such as the distance from the consumer to the supply source);
- establishing discounts for consumers using gas at periods which are convenient for the gas provider;
- individual agreements at negotiated prices with large gas consumers.

However, the main problem, which must be solved soon, is the setting of gas new prices for households. For this category of consumers there are particularly big differences in price levels between Poland and Western Europe, as shown in the Table 2.

The Polish Oil and Gas Company, taking into account the circumstances mentioned above, especially the losses due to not covering full costs of gas delivery to the end consumer, has prepared an analysis of the enterprise's financial situation up to year 2000. To meet the targets for development of gas infrastructure in the country, the following is postulated:

- To continue in the years 1996-1997 to clear the delivery of gas from the so-called Yamburg Agreement based on the exchange rate of Zloty against Rouble (during the period of Russia's credit re-payment);

- To increase the net prices of gas fuel in the years 1997, 1998, and 1999 by 3 points above the inflation rate of a given year. Increase of the VAT rate by 5 points in the years 1997 and 1998 would result in an additional rise of prices.
- To keep the increase of gas fuel prices in the years 2000-2006 equal to the inflation rate. After 2006 the increase of gas fuel prices could be 2% below the inflation index.

According to the management of the Polish Oil and Gas Company, these postulates, if accepted, will improve the profitability of the enterprise in the years 2004-2010 and will enable it to pay off in full the debts previously incurred.

Table 2. Price of natural gas with a calorific value of 8200 kcal/m^3 in 1995 (VAT excluded)

<table>
<tr><th>Country</th><th>Households [a)]</th><th>Households [b)]</th><th>Commerce</th><th>Medium sized industry</th><th>Large industry</th></tr>
<tr><td>France</td><td>0.57</td><td>0.30</td><td>0.23</td><td>0.15</td><td rowspan="7">0.11-0.15</td></tr>
<tr><td>Germany</td><td>0.50</td><td>0.31</td><td>0.23</td><td>0.14</td></tr>
<tr><td>U.K.</td><td>0.38</td><td>0.25</td><td>0.24</td><td>0.14</td></tr>
<tr><td>Belgium</td><td>0.61</td><td>0.31</td><td>0.22</td><td>0.19</td></tr>
<tr><td>Holland</td><td>0.38</td><td>0.24</td><td>0.14</td><td>0.12</td></tr>
<tr><td>Italy</td><td>0.36</td><td>0.27</td><td>0.21</td><td>0.14</td></tr>
<tr><td>Poland</td><td>0.20</td><td>0.19</td><td>0.16</td><td>0.14</td></tr>
</table>

[a)] Households using gas for cooking and water heating.
[b)] Households using gas for central heating.
(The following year average exchange rate, as published by the National Bank of Poland, was used: 1 US dollar = 2.4244 PLN.)

Source: *„The European Price Bulletin for Energy Media"*.

2.2. Construction of underground storages of natural gas

The Polish Oil And Gas Company has four underground reservoirs of high-methane natural gas, of a 700 million m^3 capacity, in the following places: BrzeŸnica, Husów, Strachocina, and Swarzów. Those reservoirs have been made of completely exploited gas deposits in the Podkarpacie region and they are not sufficient for the enterprise, which therefore rents underground reservoirs of a 350 million m^3 capacity from abroad, in the Ukraine (Lvivtransgaz at Lvov) and in Byelorussia (Byeltransgaz at Miñsk). The usable storage capacity is settled in yearly agreements.

The expansion of domestic underground gas reservoirs became necessary for the following reasons:

- to cover the seasonal variations of consumption of gas used by households and for heating (peak demands);
- to increase the energy safety and independence from foreign supply (strategic reserves).

The accepted programme stipulates an expansion of underground storages up to 4.5 billion m^3, with available delivery at disposal of 80 million m^3/day. The necessary outlays for implementation of this project is estimated at around 13-14 billion PLN up to the year 2010.

The Polish Oil And Gas Company is continuing the expansion of existing storages in Husów and Strachocina, and it has started construction of new storages in Mogilno and in Wierzchowice. In September 1993 a new company, Investgas Ltd, was established with 51% of shares owned by Energopol-Warszawa, and 49% held by the Polish Oil and Gas Company. The objective of the Company is to operate as an acting investor for construction in Mogilno. The first stage of the construction of an underground gas storage in a salt mine in Mogilno involves eight caverns of around 400 million m^3 capacity and will take place until the year 2000. The first two caverns, of 40 million m^3 capacity are to be operated in 1996. Eventually the possibilities exist to expand the storages up to twenty caverns of a total capacity of around 1 billion m^3.

Construction of new underground storages is the most realistic possibility for making the gas supply more flexible. Most domestic gas deposits have been exploited for over 15-20 years and they are nearly finished. Because of that, as well as because of the limited investment ability of the Polish Oil and Gas Company in exploiting the new gas fields, one can hardly expect that gas production from domestic fields might grow quickly.

2.3. Construction of a gas pipeline for the transmission of Russian gas and delivery of Russian gas to Poland

Currently the percentage of natural gas in the consumption of so-called primary energy in Poland is only 8.6%. This is less than half of the consumption percentage in Western Europe, where natural gas makes for 18.3% of the primary energy used. Following a period of temporary decrease in gas demand in the years 1991-1994, its consumption increasing amounting to 10.5 billion m^3 last year. According to predictions of the Polish Oil and Gas Company, consumer needs (including technological consumption) will be as follows:

- in the year 2000 – 13.6 billion m^3;
- in the year 2005 – 20.3 billion m^3;
- in the year 2010 – 27.3 billion m^3.

Due to the lack of possibilities for increasing domestic production, as mentioned above, the only way to cover the increasing demand for natural gas is through additional import. The Polish Oil and Gas Company predicts necessary volumes of import as shown in the Table 3.

Table 3. Import and production of gas (in billion m^3)

	1996	2000	2005	2010
Import (total)	6,6	9,5	16,0	23,0
this includes:				
- contract linked to the transit gas pipeline construction	-	2,8	10,2	13,0
- existing contracts for gas import (government agreement and Orenburg and Yamburg contracts)	4,9	4,9	4,9	4,9
- other deliveries from Russia (one-time contracts)	1,7	-	-	-
- other sources of supply	-	1,8	0,9	5,2
Domestic production	3,6	4,2	4,4	4,3

The necessity to ensure of a long-term steady supply of natural gas was thus the key objective in concluding the Polish-Russian agreement mentioned above. Poland, being a transit country on the way to the largest West European consumers, has therefore the additional warranty of obtaining the necessary amount of gas from the Yamal Peninsula. As stipulated in the agreement, the Polish side will participate in financing of the project only to the extent to which it will use it, namely about 15% of the cost of the gas pipeline construction within the territory of Poland, or around 350 million dollars.

For execution of the investments stipulated by the agreement the joint stock company Transit Gas Pipeline System EuRoPol Gaz was established in 1993. The company has the following structure:

- Polish Oil And Gas Company - 48%;
- RSA Gazprom (Russia) - 48%;
- Gas-Trading S.A. - 4%.

The minor shareholder, Gas-Trading S.A., was established as a limited liability company at the end of 1992, and on March 1, 1994 it was transformed into a joint stock company with a stock capital of 300,000 PLN. Its shareholders are the following:

- Polish Oil And Gas Company - 30% of shares;
- Vep Gazexport - 35% of shares;
- PHZ Bartimex S.A. - 25% of shares;
- Wêglokoks S.A. - 5% of shares;
- Wintershall Erdgas Handelshaus GmBH - 5% of shares.

A statute of the Transit Gas Pipeline System EuRoPol Gaz Co. stipulates that any strategic decisions concerning the company's operation may only be made upon consensus between the Polish Oil And Gas Company and the Gazprom. This is particularly important because of the production and financial potential of Gazprom, which produces about 600 billion m^3 of natural gas yearly, 25% of which is exported to the West European countries.

The execution of the agreement, despite doubts and critical opinions expressed in the press, is proceeding according to schedule. The documentation for the first line of the gas pipeline has been developed by the Gas Industry Design Bureau 'Gazoprojekt' in Wroc³aw. The general contractor of the first segment of the line, from Górzyca to Lwówek (107.5 km long), is the Gaz-2000 Co. This is a joint stock company, established in December 1993, and its founders and shareholders are the following Polish companies, all of which have extensive experience in the construction of gas pipelines and the necessary infrastructure:

- Energopol-Trade Co. Ltd. in Warsaw;
- Energopol-7 S.A. in Poznañ;
- Gazobudowa in Zabrze;
- Hydrobudowa-6 S.A. in Warsaw;
- Readbud Co. Ltd. in Krakow.

Construction of the first segment of the first pipeline was completed in the fourth quarter of 1996.

In February 1995, a protocol was signed between the concerned governments, regarding organisational measures to ensure the following through of the 1993 agreement. This protocol was approved in August 1995 by the Council of Ministers of the Republic of Poland. The most important stipulations of the protocol are the following:

- a certain amount of gas to be delivered to Western Europe and Poland in particular years;

- the time schedule for the construction of and setting into operation the line and pumping stations of the gas pipeline on the territory of Poland;
- long-term contracts for gas pipeline operation and for gas delivery to Poland;
- credit guarantees for the Polish party for the pipeline construction on Polish territory (proportionally to the throughput potential used by Poland);
- customs allowances and tax allowances for materials, equipment, and services, which are necessary for the gas pipeline construction and are not available in Poland.

In October 1996, the first long-term agreement was signed between Polish Oil and Gas Company and the Russian Gazprom (joint stock company), for delivery of natural gas to Poland in the years 1997-2000. The delivery according to this contract will cover about 30-40% of gas demand in Poland. This is going to lend to the stabilisation of supply and should improve the natural gas usage, especially in the power industry. According to the management of Polish Oil and Gas Company, the agreement conditions are favourable for the following reasons:

- the guaranteed delivery amount is much higher than the anticipated consumption of gas;
- amounts of gas not received in one year may be received during the following years;
- the amount of delivered gas increases gradually until the year 2010, then it stabilises at a steady level;
- the share of gas delivered upon this contract decreases as domestic gas consumption increases;
- the gas delivery is guaranteed, while there is no financial guarantees from the Polish government;
- the gas quality complies with Polish standards.

The tapping points of gas from the transit gas pipeline system will be in the region of W³oc³awek and of Poznañ. These places are convenient to the Polish gas distribution system and its expansion. Distribution of gas if from outside the state border, is much more complex requiring higher expenditures for installation and operation.

2.4. Organisational restructuring of the Polish Oil and Gas Company

The programme for restructuring the organisation of Polish Oil and Gas Company has been the most complex among the tasks faced throughout the division of the state-owned enterprise which were developed by the

Antimonopoly Office. The Office issued a directive to partially divide the Polish Oil and Gas Company according to the following objectives:

- to break off the natural monopoly, that is the gas pipeline network, from other operations of the enterprise, as well as to put it under special supervision;
- to eliminate internal cross-subsidising;
- to develop auxiliary service enterprises, which after the separation could provide service for other companies also;
- to start sector privatisation.

The execution of the Antimonopoly Office's directive should lead to the necessary streamlining of the organisational structure of the Company, which consisted of as many as 46 economic entities making up their own balance sheets, with three-level hierarchy of gas distribution system and equally complicated functioning of self-governing structures. The directive stipulated the following measures:

- in the first stage (until April 30, 1994), to separate seven business entities, namely construction and assembly companies and a design bureau;
- in the second stage (until April 30, 1995), to separate six geophysical and exploration (drilling) companies.

The Antimonopoly Office did its best to prevent the prepared restructuring programme from causing conflicts in this strategic sector of economy. Before the decision was made, a lot of meetings were held with representatives of central management and of subordinated enterprises. The Office was able to convince the concerned entities that their organisational structure is out of date (it had not been changed since 1982) and that the execution of the directive would not cause losses for the enterprise. That was because the splitting was planned such, as to establish subsidiary companies and sell their shares or stakes to investors. That meant that the money from privatisation would flow into newly created companies. The Antimonopoly Office's directive was eventually accepted by the enterprise statutory organs (the Director and the Workers Council), which did not appeal to the Antimonopoly Court.

In the second quarter of 1993 the directive seemed to be on its way to smooth implementation without delay. Unfortunately, several obstacles prevented this. First there were political developments. In June 1993 the government fell and the Parliament was dissolved, not yet having passed the so-called „State-owned Enterprise Pact”, a set of statutes providing, among others, that when a state-owned enterprise is privatised its employees are given 10% of its shares free of charge. As the "Pact" failed to be passed, the workers of the Polish Oil and Gas Company lost much of their interest in the separation and privatisation of individual entities, and conservative attitudes began to dominate among them. Also, it was not possible to find strategic investors for enterprises engaged in geophysics and exploration, as those entities owned fixed assets of very high value while their order portfolio for provided services was insufficient. An additional difficulty in the restructuring of the enterprise resulted from a dispute between the Ministry of Industry and Commerce and the Ministry of Privatisation as to the owner's supervision of the Polish Oil and Gas Company after its transformation into a one-shareholder company owned by the State Treasury. The Minister of Industry was interested in keeping the enterprise under his authority and several times requested for its statutory power to be extended. The above mentioned factors first caused delay and eventually the virtual halt of the process of organisational restructuring.

In practice, until the end of September 1996, the only entities restructured have been the following:

– Gas Equipment Overhaul Works in Poznañ – formed as a limited liability company with a German citizen, Mr. Hans Jaeger, where Polish Oil and Gas Company holds 46% of shares;
– a part of assets of Gas Equipment Construction Works ‘Gazobudowa’ in Zabrze – formed as limited liability companies with their own employees, namely ‘Gazobudowa’ in Poznañ and ‘Gazobudowa’ in Kraków, with Polish Oil and Gas Company holding 49% of shares in each;
– Gas Industrial Construction Works ‘Gazomonta¿’ in Wo³omin — formed as a limited liability company with its own employees, with Polish Oil and Gas Company having 49% of shares;
– the Gas Industry Design Bureau ‘Gazoprojekt’; in Wroc³aw – formed as a limited liability company with its own employees, where Polish Oil and Gas Company holds 75% of shares.

In this complicated situation the enterprise Board of Directors started a new initiative, developing the "Programme for organisation a restructuring of Polish Oil and Gas Company". This programme was accepted by the Minister of Industry and Commerce in July, 1995. Relevant parliamentary commissions also took interest in it, and it was submitted for passing to the Economic Committee of the Council of Ministers. The Committee, during its meeting on September 4, 1995, after long discussion accepted and approved the Programme’s essential points. It established a task group, with an under-secretary of the Ministry of Industry and Commerce as the group chairman, in order to prepare the final version of the Programme, taking into consideration results of the discussion during the meeting. The final version of the Programme, in fact very close to one accepted by the Economic Committee, was finally approved by the Council of

Ministers during its session on April 2, 1996. Even before that, taking into account the opinion of the Economic Committee, the Antimonopoly Office had changed its Directive dated March 12, 1993, regarding the splitting of the Polish Oil and Gas Company, and indicated new deadlines for its execution (until September 30 and January 1, 1998, respectively).

The programme approved by the Economic Committee and by the Council of Ministers contains stipulations that take into account the directive of the Antimonopoly Office, but the starting point for it is so-called "commercialisation". This is the transformation of the Polish Oil and Gas enterprise into a one-shareholder joint-stock company owned by the State Treasury, under the name of PGNiG S.A.('Polskie Górnictwo Naftowe i Gazownictwo' S.A. - Polish Oil and Gas Company). The statutory basis for this was a Parliamentary Act regarding privatisation of state-owned enterprises.[4] For the next stage, the following measures have been planned:

- to establish subsidiary companies to the PGNiG S.A., based on the assets of the technical support and auxiliary manufacturing enterprises, as well as of enterprises engaged in geophysics exploration;
- privatisation of those companies or at least decreasing the capital participation of PGNiG S.A. to below 50%.

Implementation of this stage would ensure compliance with the directive of the Antimonopoly Office.

Further organisational changes would involve the launching, by PGNiG S.A., of the following companies:

- a joint-stock company 'Polskie Górnictwo Naftowe' (Polish Oil and Gas Upstream Operations), based on the assets of Oil and Gas Regional Enterprises in Sanok, Krosno, and Zielona Góra;
- a joint-stock company 'Polski Gaz' (Polish Gas Downstream Operations), based on the assets of gas distribution entities in Gdañsk, Poznañ, Tarnów, Warsaw, Wroc³aw, and Zabrze, together with their subsidiary gas distribution enterprises.

Implementation of this stage would transform the structure of PGNiG S.A. into a holding organisation, at the same time ensuring compliance with recommendations contained in the justification of the Antimonopoly Office's directive, namely to split the enterprise further than as directly ordered by the directive.

[4] Polish Oil And Gas Drilling enterprise was finally transformed into a one-shareholder joint-stock company owned by the State Treasury on October 30, 1996, that is with a four-month delay from the timetable stipulated in the Programme.

According to the Board of Directors of the Company, the planned restructuring is directly motivated toward the following objectives:

- to separate the basic operation from auxiliary services;
- to streamline the economic and financial settlements between upstream and downstream operations;
- to accurately control and reduce the costs of as many organisational units as possible (those units having been transformed into separate business and legal entities);
- to assign clear competencies and responsibilities for individual entities being transformed into subsidiary companies.

After implementation of the organisational restructuring programme, the objectives of PGNiG S.A. will be significantly different, consisting mainly of the following:

- performing its duties as the owner of Polish Oil and Gas Upstream Operations and Polish Gas Downstream Operations joint-stock companies, at the same time keeping share packets (and stakes) of newly-created companies based on the assets of technical support, geophysical, exploration, and other enterprises (including EuRoPol Gaz S.A. and Gas-Trading S.A.);
- responsibility for implementation of energy policy in the domestic hydrocarbons sector and the national gas distribution system, as well as responsibility for its development and for ensuring state interests in the energy sector;
- ensuring the creation of strategic gas reserves, including construction of underground gas storages;
- execution of laws resulting from the ownership of shares and stakes, and co-ordination of activities by Polish Oil and Gas Upstream Operations and Polish Gas Downstream Operations, as relates, first of all, to the exploitation of Polish gas fields and capital flow;
- ensuring that the credits taken by Polish Oil and Gas Company (state-owned enterprise) are repaid;
- management of assets not transferred to newly-established companies.

3. Conclusions

Domestic network monopolies, which above all now include the railways, motorways, telecommunication, supply of electric power, supply of heat, and supply of gas and liquid fuels, play an important economic role for several reasons. The characteristic features of the network monopolies are most often the following:

– a high number of employees;
– a high value of assets;
– a high income;
– great significance to the state budget incomes and to the equalised balance of payments;
– very high participation of state ownership.

Another issue often raised is the significance of those monopolies to the economic self-sufficiency of the country. All network monopolies, except for the heat-generating industry, have been involved in governmental restructuring programmes.

Restructuring of the Polish Oil and Gas Company, not unlike as in other Polish network monopolies, faced difficulties but avoided any open conflict with government administration or with employees. In the current state of affairs the enterprise seems to be ready for radical transformation from a multi-entity enterprise into a holding company, together with partial privatisation. Those measures would eventually result in implementing the directive of the Antimonopoly Office.

The restructuring in technology and processing, as well as in the development areas, continue according to plan and the only obstacle in further execution could be the lack of adequate financial means for planned investments. However, negotiations with the European Investment Bank regarding a loan amounting to 180 million ECU for the construction of underground gas storages have been successfully completed. This allows for moderate optimism, especially if and when the problem of raising natural gas prices to the economically justified level is solved. It must be, however, emphasised that this may not mean a price increase equal to the Western Europe levels, as this would result in:

– a strong pro-inflation impulse;
– excessive straining of household budgets with energy expenditures;
– worsening the competitive standing of Polish industrial products due to the significant increase of costs of consumed energy.

On the other hand, no company can in the long turn sell its products below costs, making a price compromise unavoidable.