

## Report of the

### Review Group on State Assets and Liabilities

April 2011

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#### Section 1: Introduction and Summary

It is not sustainable for the state to continue to borrow at current levels and all avenues for reducing expenditure and raising additional revenues must be explored. Opportunities to de-leverage the state balance sheet through asset realisations must also be examined.

It is in this context that the Minister for Finance established the Review Group on State Assets and Liabilities in July 2010 to advise on how commercial state assets can be better deployed or disposed of to support economic recovery.

##### 1.1. Membership and Terms of Reference of the Review Group

The Minister appointed Mr. Colm McCarthy, School of Economics, University College Dublin as member and chair of the Review Group; the other members were Mr. Donal

McNally, Second Secretary, Department of Finance, and Prof. Alan Matthews, Department of Economics, Trinity College, Dublin. The Group was supported by a Secretariat provided by the Department of Finance.

The Review Group was given the following terms of reference:

1. To consider the potential for asset disposals in the public sector, including commercial state bodies, in view of the indebtedness of the state;
  2. To draw up a list of possible asset disposals;
  3. To assess how the use and disposition of such assets can best help restore growth and contribute to national investment priorities;
- and
4. To review where appropriate, relevant investment and financing plans, commercial practices and regulatory requirements affecting the use of such assets in the national interest.

The Group began its work at end July, 2010.

The Group invited all Government Departments and commercial state bodies to make formal submissions and it also advertised generally for submissions from interested parties.

Over 45 submissions were received. Between September 2010 and February 2011, the Group met delegations from all of the main commercial state bodies, the appropriate regulatory authorities and individual economic and regulatory experts in the various sectors of the economy. The Group wishes to acknowledge the considerable co-operation it has received.<sup>1</sup> The Group engaged Mr. Joe Burnell to assist with financial analysis and wishes

to record its appreciation of his contribution and those of Mr. Michael Perkins and Mr. Ronan Gallagher, who acted as the secretariat to the Group.

The Review Group's deliberations were focused primarily on commercial state bodies, but it also examined certain of the state's intangible assets to determine whether they are efficiently allocated and priced. In framing its recommendations, the Group paid particular attention to questions of market design and the regulatory reforms necessary to underpin competition and appropriate levels of investment, especially in those sectors where there

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are natural monopolies subject to statutory regulation. The recommendations are intended to enhance the competitiveness of the sectors of the economy where state bodies are active, even in cases where the Group has not recommended that the state divest its interest at this time.

### 1.2. Assets Reviewed

A list of the assets to be reviewed was attached to the terms of reference, as follows:

#### (i) Commercial State Bodies

	Dublin, Cork and other
Dublin Airport Authority	
An Post	port companies
Irish Aviation Authority	Bord Na gCon
RTÉ	
TG4	Horse Racing Ireland
CIE (including Dublin Bus,	
National Oil Reserves	Irish National Stud
Irish Rail, Bus Eireann)	
Agency	Company
ESB	Bord Na Móna
Bord Gáis Éireann	
EirGrid	<b>Coillte</b>

#### (ii) Intangible Assets

These include, inter alia, radio spectrum allocated for broadcasting and telecommunications; carbon emissions permits; and mineral, hydrocarbon and other licences issued by the state.

### 1.3. Exclusions from consideration by the Group

VHI: The VHI was excluded from the Review Group's terms of reference because the Government had already initiated a separate process that addresses both the sale of the VHI and the wider complexities involved in the private health insurance market.

The National Oil Reserves Agency (NORA): NORA featured in the list of commercial state bodies attached to the Review Group's terms of reference, agreed by Government in June 2010. As per the provisions of the National Oil Reserves Agency Act, 2007, NORA is a non-commercial state agency whose function is to manage the state's strategic stocks of

oil. Although substantial, the strategic stock cannot realistically be run down because Ireland is obliged, as a member of the EU and the International Energy Agency (IEA), to hold stocks of at least 90 days of oil for use in the event of major oil shortages nationally or internationally. On this basis the Review Group does not propose to make any recommendations in regard to NORA.

NAMA: The assets held on behalf of the state by the National Asset Management Agency as part of the Government's programme of remediation for the banking sector are outside the terms of reference of the Review Group.

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Banks: The government has acquired substantial ownership stakes in certain banks as a result of the rescue and re-capitalisation process. These stakes may be disposed of in due course but the Group feels that it is too early to consider concrete disposal options.

#### **1.4. Summary of the Group's Recommendations**

The recommendations are presented throughout the text and gathered for ease of reference in Chapter 20. They can be summarised as follows:

We are recommending that there should be a planned programme of asset sales to reduce the state's very high level of indebtedness.

We are not recommending an accelerated sale process. This would inhibit attainment of value and in many cases would not be prudent or even possible given the requirement for revised regulatory procedures and complex legislation.

We are not putting valuations on individual state assets in this report. These depend on many factors and ultimately on what a buyer will pay. The net asset value of commercial company assets whose disposal is recommended is about €5 billion, but net asset value is no more than a rough guide to what might be realisable.

We are recommending restructuring of state companies and strengthened regulatory arrangements as prelude to possible sale, but also to enhance the competitiveness of the economy even if assets are not sold.

We are not recommending that core transmission assets in gas and electricity be sold to private interests in the immediate future. Such assets have been successfully privatised in some countries but we believe that disposal in current Irish circumstances involves risks and that consideration of this option should be deferred.

We are recommending changes in the governance of state bodies while they remain in public ownership to enhance efficiency and performance. We also propose a review of regulatory arrangements and a new structure for the oversight of regulatory agencies.

We are not proposing that all assets be disposed of. In the case of land-based assets in particular, we propose that the state sell the rights to reap the produce of the land but not the land itself.

We are proposing that intangible assets (rights, licences, options, leases etc.) be treated in exactly the same way as tangible assets. They should invariably be sold to the highest bidder.

The Group's appointment pre-dates the resort, in November 2010, to official financing from the International Monetary Fund and the EU institutions. The Memorandum of Understanding dated 28 November 2010 mentions the Group's consideration of these issues and enjoins the Irish authorities to consult with the IMF/EU later this year. It does not specify any target for an asset disposal programme.

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We are proposing a planned, prudent approach designed to secure maximum value to reduce the debt burden and to meet and protect the public interest, decisions on which are a matter for the Government and the Oireachtas.

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## Section 2: Asset Sales and the Policy Context

Economic recovery, including in particular the generation of sufficient economic growth to expand employment and to generate government revenue to ease debt service burdens,

must be the central concern of economic policy. The realisation of proceeds from state asset disposals can assist the adjustment process - through reducing the debt burden - but such assets can also be used to support economic recovery through enhancing productive efficiency and competitiveness. The Group believes that it is inadvisable to focus solely on short-term revenue maximisation through, for example, conferring excessive market power on entities to be disposed of, and that conflict between revenue realisation and the promotion of longer-term economic growth should be clearly resolved in favour of the latter.

Table 2.1: Budgetary Adjustments since mid-2008 - Planned Budgetary Impact

	July 2008
1.0	Expenditure adjustments Budget 2009 (October 2008)
2.0	Revenue raising measures February 2009
2.1	Expenditure adjustments Supplementary Budget (April 2009)
5.4	Revenue-raising & expenditure-reducing measures Budget 2010 (December 2009)
4.3	Expenditure-reducing & minor revenue-raising measures Budget 2011 (December 2010)
6.0	Expenditure-reducing & revenue-raising measures Total
€20.8bn	

Source: National Recovery Plan 2011-2014 and Budget 2011, Department of Finance (2010).

The burden of debt service is absorbing a rapidly increasing proportion of tax revenue, even assuming no upward pressure on interest rates. Moving towards a balanced budget is therefore a prerequisite for re-entry to the bond market. A strategy to address this was set out in the National Recovery Plan (published on 24th November 2010) and implemented for

2011 in the Budget published on 7 December 2010.

### 2.3 Budget Outlook

Achievement of the budget targets set in the National Recovery Plan 2011-2014 is

predicated on implementing the expenditure and taxation adjustments set out in the Plan.

To the extent that asset sales can provide revenue and reduce the level of debt and debt interest payments, they can contribute to reducing the burden of spending cuts and tax increases otherwise necessary and the pain to be suffered by all sections of the community.

Asset sales must be viewed in this light and in the light of very limited policy alternatives.

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**Recommendation 1:** The Review Group recommends that any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value-enhancement of privatised entities through weak regulatory arrangements.

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#### 4.1 The Aggregate Balance Sheet

The total book value of the state's main commercial companies is approximately €8.3 billion, based on aggregate shareholder funds as reported in their most recently published accounts. This figure should not be taken as a headline estimate of potential disposal proceeds should all of these companies be sold. The reason is that balance sheet book values reflect accounting conventions and are not a good guide to potential proceeds, which could exceed book values in some cases but could also fall short.

#### **Table 4.1: Net Asset Value of Major State Commercial Companies**

Notes 2009

€000

Energy  
ESB  
4,032,150

Bord Gáis Eireann		
1,401,715		
Bord na Móna (March 2010)		
224,408		
EirGrid		
90,332		
Total Energy		
5,748,605		
Transport		
Dublin Airport Authority		
976,717		
Irish Aviation Authority		
6,299		
Dublin Port		
238,270		
CIE		1
-		
Total Transport		
1,221,286		
Communications		
An Post		2
-		
RTÉ		
145,435		
Total Communications		
145,435		
<b>Coillte</b>		
<b>1,207,484</b>		
Total		3
8,322,810		

Notes 1: CIE has a shareholder deficit of €346.1 million.  
2: An Post has a shareholder deficit of €39.8 million.  
3: No adjustments have been made for any ESOT or off-balance sheet pension liabilities.

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ESB alone accounts for almost half of the aggregate state commercial sector book value, while the energy sector as a whole accounts for almost 70% of aggregate book value.

**Table 4.7: Chief Executive Remuneration 2007-2009 (€)**

ESB		Dec-09	Dec-08
Dec-07			
Salary		432,688	
458,309	376,879		
Pension		70,961	
75,163	59,754		

Other		248,919	
120,849	98,365		
Total		752,568	
654,321	534,998		
Bord Gáis		Dec-09	Dec-08
Dec-07			
Salary		270,000	
288,000	213,000		
Pension (not shown separately)			
Other		124,000	
73,000	248,000		
Total (excluding pension)		394,000	
361,000	461,000		
EirGrid		Sep 2009	Sep 2008
Dec-2007			
Salary		228,000	
216,000	194,000		
Pension		68,000	
68,000	58,000		
Other		111,000	
73,333	73,333		
Total		407,000	
357,333	325,000		
Bord na Móna		Mar-2010	Mar-2009
Mar-2008			
Salary		231,000	
247,000	289,000		
Pension		58,000	
62,000	39,000		
Other		103,000	
110,000	37,000		
Total		392,000	
419,000	365,000		
<b>Coillte</b>		<b>Dec-09</b>	<b>Dec-08</b>
<b>Dec-07</b>			
<b>Salary</b>		<b>297,000</b>	
<b>297,000</b>	<b>254,000</b>		
<b>Pension</b>		<b>74,000</b>	
<b>74,000</b>	<b>63,000</b>		
<b>Other</b>		<b>46,000</b>	
<b>118,000</b>	<b>92,000</b>		
<b>Total</b>		<b>417,000</b>	
<b>489,000</b>	<b>409,000</b>		
DAA		Dec-09	Dec-08
Dec-07			
Salary		320,400	
347,900	333,000		
Pension (not shown separately)			
Other		247,700	
290,600	365,000		
Total		568,100	
638,500	698,000		
IAA		Dec-09	Dec-08
Dec-07			
Salary		232,000	
253,000	207,000		
Pension (not shown separately)			

Other		92,000	
159,000	143,000		
Total		324,000	
412,000	350,000		
Dublin Port		Dec-09	Dec-08
Dec-07			
Salary		239,000	
222,000	214,000		
Pension (not shown separately)			
Other		78,000	
77,000	76,000		
Total		317,000	
299,000	290,000		
RTÉ		Dec-09	Dec-08
Dec-07			
Salary		276,000	
298,000	283,000		
Pension		24,000	
24,000	23,000		
Other		26,000	
26,000	135,000		
Total		326,000	
348,000	441,000		
An Post		Dec-09	Dec-08
Dec-07			
Salary		386,000	
379,000	353,000		
Pension		77,000	
75,000	70,000		
Other		37,000	
39,000	100,000		
Total		500,000	
493,000	523,000		
Aggregate CEO Remuneration		4,397,668	
4,471,154	4,396,998		

Note: CIE discloses remuneration of Executive Chairman

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**Table 4.8: Major State Commercial Companies - Financial Summary**

Cash	Net Debt/	Net Debt	Total	Private	Bonds
(Cash)	to		Debt	Placement	
				Notes	
EBITDA			€m	€m	€m
ESB	€m	Dec-09	2,230.7	1,036.1	
0	2,230.7	2.7			
Bord Gáis		Dec-09	2,356.8	730.2	550.0
546.2	1,810.6	5.7			

DAA		Dec-09	1,254.2	850.0
638.2	616.0		4.9	
<b>Coillte</b>		<b>Dec-09</b>	<b>178.9</b>	
<b>1.5</b>	<b>177.4</b>		<b>3.2</b>	
CIE		Dec-09	119.9	
1.5	118.4	N/M		
Bord na Móna		Mar-10	263.8	262.7
206.7	57.1		0.9	
Dublin Port		Dec-09	39.7	
0.8	38.9		1.2	
IAA		Dec-09	15.0	
19.7	(4.7)			
EirGrid		Sep-09	123.9	
153.9	(30.0)			
RTÉ		Dec-09	0.0	
58.8	(58.8)			
An Post		Dec-09	2.5	
290.1	(287.6)			
Total			6,585.4	2,029.0
1,917.4	4,668.0			1,400.0

#### 4.7 Corporate Governance and Other Issues

The analysis set out above suggests insufficiently active shareholder involvement in setting performance targets for commercial state companies. A common thread is the limited dividend return to the shareholder and investment of capital with inadequate focus on

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securing an acceptable rate of shareholder return. The first criterion that any shareholder in commercial companies will apply is the return on investment in the form of dividends.

#### 4.8 Dividend Policy

One of the main arguments put forward for retaining state ownership is that commercial state companies provide dividends to the state. The rate of dividend paid by state companies is, however, low and reliability is patchy. Some clearly profitable companies have paid poor dividends for long periods of time.

Table 4.9: Dividends Paid by Certain State Bodies 2002-2009

	2009	2008	2007	2006
2005	2004	2003	2002	

€000	€000	€000	€000	€000	€000
€000	€000	€000	€000	€000	€000
Bord Gáis		39,074	28,372	8,361	9,079
10,093	9,679	9,796	21,735		
Bord na Móna		5,257	12,894	8,035	3,850
NIL	NIL	NIL	NIL		
ESB		81,867	129,486	66,722	72,389
77,413	67,118	19,704	20,000		
ESB (special		185,317	NIL	NIL	NIL
NIL	NIL	NIL	NIL		
dividend)					
<b>Coillte</b>		<b>NIL</b>	<b>2,600</b>	<b>NIL</b>	<b>NIL</b>
<b>NIL</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>		
Dublin		19,400	NIL	NIL	NIL
NIL	6,074	7,245	NIL		
Airport Authority Dublin Port					
Co.		5,300	5,108	4,200	NIL
1,271	1,000	1,071			NIL
TOTAL4		336,215	178,460	87,318	85,318
87,506	84,142	37,745	42,806		

The picture has improved somewhat in the recent past with a general guideline of a 30% dividend now in place. This, it seems, has been taken to apply to normal profits as dividends have not been paid in all cases out of windfall gains. The rate of 30% is not an overly demanding target. The rate paid by public utilities abroad is often much higher.

The state is not merely a shareholder interested solely in a regular cash return. There are longer term, strategic goals that require that the reserves of state companies be built up, e.g. to fund investment, especially as the state is usually unwilling to subscribe further capital resources itself. On the other hand, the lack of dividend discipline may have encouraged firms to over-invest in capital without seeking an adequate rate of return or, in some cases, to plug pension holes at the shareholder's expense rather than by seeking more realistic benefit levels and staff contributions.

4 Includes special dividends and payments to Employee Share Option Schemes.

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**Recommendation 15:** The Review Group regards the regular payment of a reasonable dividend to the shareholder as good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.

### **5.1 The State's Involvement in Energy**

In both electricity and gas, the state is a major player in Ireland's energy industry. The Electricity Supply Board (ESB) (Section 6) remains the largest undertaking in state ownership by some margin, accounting for roughly one-half of the state commercial sector when measured by net assets. Moreover, the electricity industry is a critical economic sector, and its structure and performance have economy-wide consequences.

The state presence in the energy sector also includes Bord Gáis Éireann (BGÉ) (Section 8), a smaller company than ESB but substantial nonetheless. BGÉ was principally a gas transmission, distribution and supply business, but it has expanded into renewable (wind) and gas-fired power generation as well as electricity supply. The state also owns Bord na Móna (Section 10), which is involved in peat production and power generation including wind, and Coillte (Section 11), which sells forest product into the power generation industry and has begun to develop interests in wind farms.

**Thus, more by accident than design, the state owns three companies (ESB, BGÉ and Bord na Móna) that have competing interests in the electricity generation sector and one (Coillte) which has development interests in wind power.**

Ireland is a substantial importer of primary energy and is heavily gas-reliant in power generation. **There are also plans for heavy investment in renewable energy, particularly in wind power** and the associated transmission and back-up investment. The Group has reservations about the advisability in the public interest of heavy commitments to sunk

costs in the form of renewable generation assets and the transmission infrastructure needed to connect them to the grid. Ireland has international commitments to emission reduction, as a member of the EU and as a signatory to the Kyoto agreement. These should of course be honoured, but at minimum cost to an economy which is struggling with serious competitiveness problems.

### 5.3 Gas Reliance and Security of Supply

Ireland's high reliance on natural gas, particularly for power generation, equates to a reliance on imports given the run-down of Celtic Sea production and the **extended delay to production from Shell's Corrib discovery offshore Mayo.** Current plans to shift power generation increasingly to reliance on renewables, particularly wind, are sometimes grounded in security of supply arguments. The contribution of wind power to security of supply is, however, limited by the intermittency of the wind resource. Electricity cannot be stored and must be produced hour-by-hour in lock-step with demand. Intermittent supplies such as wind must be backed up by conventional generation, such as oil, gas or coal. While oil prices in the medium and long-term can reasonably be expected to stay high or indeed to increase further, Ireland is reliant to a limited and diminishing extent on oil-fired power generation. But the picture for gas supplies and prices is less threatening.

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The importance of gas is shown in the table below, which is extracted from the Sustainable Energy Authority of Ireland's 2010 report on energy in Ireland. It shows that natural gas is by far the main fuel used in electricity generation in Ireland, at 57% in 2009, with the next largest source being coal, at just 17.6% of total fuel mix used.

Table 5.1: Growth Rates and Shares of Electricity Generation Fuel Mix

Growth Rate%				Growth% Share%	Average Annual	
95-00	00-05	05-09	2009	1990-2009 1990	90-09 2009	90-95
Fossil Fuels (Total)				45.1	2.0	4.4
4.9	-0.2	-1.9	-7.8	98.1	90.9	

Coal				-31.6	-2.0	3.8
-0.0	-0.2	-11.9	-18.6	40.3	17.6	
Peat				-5.0	-0.3	-1.0
-3.1	0.8	2.9	1.3	19.5	11.8	
Oil (Total)				-36.9	-2.4	12.9
10.7	-5.7	-27.4	-38.6	11.0	4.4	
Fuel Oil				-39.6	-2.6	12.6
10.5	-6.9	-26.7	-39.8	10.8	4.2	
Gas Oil				8.5	0.4	16.5
13.3	18.8	-41.8	-24.4	0.2	0.2	
Gas				227.3	6.4	4.7
11.5	2.3	7.8	-1.8	27.3	57.0	
Renewable (Total)				524.5	10.1	0.9
13.4	8.9	20.1	13.8	1.9	7.7	
Hydro				29.4	1.4	0.5
3.5	-5.7	9.3	-6.9	1.9	1.6	
Wind				-	-	-
72.4	35.4	27.7	22.6	0.0	5.3	
Non- Renewable (Wastes)				-	-	-
-	-	-	-	0.0	0.0	
Combustible Fuels (Total)				46.5	2.0	4.4
5.1	-0.2	-1.8	-7.7	98.1	91.8	
Electricity Imports (Net)				-	-	-
45.6	83.6	-21.8	69.6	0.0	1.4	
Total				56.5	2.4	4.3
5.2	0.7	-1.3	-5.9			

Source: Sustainable Energy Authority of Ireland's Energy in Ireland 1990-2009 (2010 Report).

The economics of wind power are dependent on a comparison of costs, allowing appropriate credit for the savings in CO2 emissions, with the costs of alternatives. High prospective gas prices favour greater investment in wind, all other things being equal. The most significant development in international energy markets in the last few years has been the altered medium-term outlook for gas supplies and prices. Briefly, improvements in exploration and extraction technologies in North America have increased dramatically the estimates of recoverable reserves and have reduced sharply the likely level of import demand in the United States. This has in turn re-focussed Arabian Gulf and other suppliers on the European market where prices are now expected to moderate into the medium-term, notwithstanding short-term pressures in the market arising from the crisis in Japan. In addition to pipeline supplies from Russia and North Africa, European importers have been investing in liquefied natural gas (LNG) facilities and potential supplies have been diversified. In its recent World Energy Outlook, the International Energy Agency (2010) summarises the position thus:

'The glut of global gas-supply capacity that has emerged as a result of the economic crisis (which depressed gas demand), the boom in US unconventional gas production and a surge in liquefied natural gas capacity (LNG), could persist for longer than many expect. Based on projected demand in the New Policies Scenario, we estimate that the glut, measured by the difference between the volumes actually traded and total capacity of inter-regional pipelines and LNG export plants, amounted to about 130 bcm in 2009; it is set to reach over 200 bcm in 2011, before starting a hesitant decline. This glut will keep the pressure on gas exporters to move away from

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oil-price indexation, notably in Europe, which could lead to lower prices and to stronger demand for gas than projected, especially in the power sector.'

An additional supply security consideration is gas storage which is widely regarded as inadequate in Europe.

**Recommendation 17:** The Review Group recommends that policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.

Estimates of the world's recoverable reserves of natural gas have been revised upwards in recent years in response to the enhanced technical capacity to recover so-called 'unconventional' reserves, especially shale gas. One consequence is the increased availability of LNG supplies in the European market as capacity originally constructed with a view to supplying the United States is re-directed (see Helm (2011)). Ireland's supply security would be enhanced if, in addition to UK pipeline interconnection, domestic production from Corrib and enhanced storage capacity, facilities were available to import and store LNG.

**Recommendation 18:** The Review Group recommends that, if security of supply is the

goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.

#### 5.4 Targets for Wind Energy Penetration in Power Generation

The optimal economic deployment of wind in the power generation mix will depend on the price of natural gas as well as on the price of carbon. Wind power makes economic sense, all other things being equal, if gas (the practical alternative) or carbon is expected to be expensive. The improved outlook for gas availability and price in recent years worsens the economics of wind power for a given carbon price.

A power system with a high dependence on intermittent generation in the form of wind incurs direct construction cost in supplying the generation capacity, but also hidden cost in several forms. There is a greater requirement for network investment to connect generators and to provide interconnection to external power systems in the interests of system stability. Conventional generation capacity must be maintained due to the intermittency of the wind resource, and base-load generators in particular will face lower utilisation and higher maintenance and depreciation charges due to cycling (intermittent operation). Neither of these system costs enters the calculations of wind generators since they do not bear them in the current market structure. Extra network costs are socialised through the practice of 'postalisation' of transmission costs, that is, their recovery from customers rather than from generators. Wind generators therefore face transmission charges which do not reflect the incremental capital costs created by their location decisions. Costs imposed through intermittency on conventional generators are also socialised or borne directly by

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them. The value of the existing stock of conventional power stations, including those owned by the state, is diminished in a power system with large intermittent supplies which attract dispatch priority.

The current official targets for renewable power generation (for practical purposes targets for wind-power given currently available technologies) are motivated by a desire to cut

carbon emissions, but they imply heavy capital investment in both generation and transmission notwithstanding the subdued outlook for electricity demand.

**Recommendation 19:** The Review Group recommends that carbon emission targets should be pursued on a least-cost basis and that current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.

### 5.5 Generation and Transmission Adequacy

The requirement for additional generation capacity in Ireland derives mainly from the policy to shift to wind generation, rather than to meet prospective increases in demand. The recent All-Island Generation Capacity Statement (SONI/Eirgrid 2010) notes that total demand in the all-island market will be no greater in 2013 than it was in 2008. It projects peak demand for the island as a whole at about 6,400 MW in 2011, rising to 7,000 MW on the low projection in 2020 with a high projection of 7,800 MW. Dispatchable capacity on the island (i.e. the amount of capacity the system can produce contemporaneously with demand) will rise to just over 10,000 MW in 2012 with the commissioning of the East-West interconnector and is not expected to fall below 9,000 MW in any year up to 2020 even with the planned closures of some older stations. Installed wind capacity, which is not dispatchable (i.e. cannot be produced on demand as it is dependent on the weather), will more than double to over 4,350 MW by 2020 on current plans. This capacity will in effect replace available conventional capacity (which will no longer be fully utilised) and is not necessary to meet incremental demand. The substantial investment plans for both transmission and distribution are thus intimately connected to the targets for wind penetration. The recent Academy of Engineering report observes:

'The only stated justification currently evident for continuing investment in generation capacity is the obligation Ireland has to supply 16% of its gross final energy requirements from renewables by 2020. The Government has chosen to meet this obligation by providing at least 40% of its electricity generation from renewables

(mainly on-shore wind) by 2020. This latter decision is based on Irish policy development and is not an EU obligation. Not only does this require a major capital investment in wind generation it also requires an almost equally large investment in network infrastructure because of Ireland's policy of permitting virtually random location of new generation with much of the network cost subsequently "socialised" and paid for by the consumer. The projected amount of wind generation needed to achieve this objective also requires further large capital investment in

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interconnection to other countries in order to ensure the stability of the Irish power system under conditions of high wind production.'

The Academy argues that cheaper methods of reducing carbon emissions, in particular energy conservation measures such as improved insulation of buildings, have lower overall economic costs, and concludes:

'The Academy is strongly of the view that the proposed capital investment in renewables for the period to 2015 should be greatly curtailed or totally suspended in view of Ireland's surplus installed generating capacity, and the emerging global gas glut. Failure to respond to the transformed global energy situation, cheap gas and the national economic circumstances will result in reduced rather than improved Irish competitiveness.'

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BGE invested €866 million on capital projects, including acquisitions. All but €100 million or so of this total was directed towards building up its electricity generation infrastructure. BGE spent €598 million (including deferred consideration of €33 million) on the acquisition of a number of wind farm developments together with €18 million for a 50% interest in a peaking plant joint venture. The €598 million spend on wind farms included net debt acquired of €261 million. Stripping this out, BGE paid €337 million for the net assets of the wind farm businesses, a multiple of 3.8 times net assets (€88 million).

Its largest acquisition by far was in December 2009, when the Cork-based SWS Natural Resources was acquired for approximately €500 million, including debt acquired of €245 million. This brought BGÉ's wind generation capacity to 218MW by the end of 2009, representing a little over 17% of Ireland's operational wind capacity at that date. These wind generation assets are included in the 2009 accounts at €426 million, or just under €2 million per MW. SWS also brought to BGÉ a development pipeline, which, on completion, would add further wind generation capacity of 460MW on the island of Ireland. At the end of 2009, BGÉ had wind development projects with a total capacity of 565MW, valued in the books at €109 million.

**Recommendation 28:** The Review Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, should be privatised as a single entity.

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## **Section 10: Bord na Móna**

Established as the Turf Development Board in 1935 to exploit Ireland's peat resources for energy production, Bord na Móna (BNM) became a public limited company in 1999. Whilst best known for harvesting peat for use as fuel and for planting products, the company today has a much more diverse range of activities.

### **10.1 Corporate Structure, Governance and Operations**

BNM is a public limited company owned 95% by the Minister for Finance with the remaining 5% belonging to the staff through an Employee Share Ownership Plan (ESOP). It operates under various Turf Development Acts and the Companies Acts 1963 to 2005. Given the nature of its business BNM must also operate in accordance with an extensive range of environmental legislation. The state's shares are held in the name of the Minister for Finance, with Board appointments made by the Minister for Communications, Marine and Natural Resources, with the consent of the Minister for Finance.

The Company operates five major business areas, involved in fuel distribution, energy generation, water treatment, horticulture and waste collection and disposal, respectively. With a group turnover of €384 million in 2010, BNM is a significant operation, employing more than 2,000 people primarily based in Ireland (in 70 locations), but also in the UK and the USA.

## 10.2 Activity and Income Streams

As mentioned above, BNM operates in a range of markets through five subsidiary companies, each of which contributes a varying level of revenue and profitability.

BNM Fuel is involved in the manufacture, importation and distribution of fuels for the industrial and domestic heating market. It manufactures and distributes peat briquettes to the residential heating market, imports and distributes bituminous and smokeless coal and distributes oil products to domestic and commercial customers. It is consistently the largest revenue-generating subsidiary in the BNM Group.

BNM Energy is involved in power generation and also in the production and supply of biomass and peat feedstock, which are the raw materials that are used in power generation, horticulture products and briquette production. This division is the largest contributor to group profits and consistently delivers the second largest component of the group's annual revenue stream.

AES (Resource Recovery) is the waste management company BNM acquired in 2007 for €52.1 million, including debt acquired, and it has become the umbrella for BNM's resource recovery business. AES's core business is in domestic and commercial waste collection and disposal. It provides domestic bin collection services in Leinster (mostly outside of Dublin), Roscommon, Tipperary and Limerick; and it provides a commercial waste collection service in all counties in Leinster, north Munster, Connaught and in the Ulster border counties of Cavan and Monaghan.

BNM Horticulture provides products for the gardening sector, both for commercial

growers and domestic customers. The product range is peat-based composts and potting soils, although increasingly it is moving towards the production and supply of peat-free products in keeping with developments in EU environmental directives and regulations. The company is a market-leading supplier to the retail sector in the UK and Ireland.

BNM Environmental provides solutions in the areas of wastewater treatment and air pollution abatement systems. In addition, the business provides laboratory and technical services, catering for domestic, industrial and municipal clients in Ireland, the UK, Continental Europe and the USA.

The contribution of BNM's different subsidiaries to total revenue is shown in Table 10.1 below.

Table 10.1: Bord na Móna Revenue Streams

2005	2004	2010 2003	2009	2008	2007	2006
€m	€m	€m	€m	€m	€m	€m
110	103	107	157	127	124	130
59	69	66	122	112	84	83
			52	42		
54	49	45	48	56	53	51
			24	34	38	32
35	32	28				
258	253	246	402	371	299	296

### 10.3 Financial Background

Bord na Móna's total revenue has grown from €246 million in 2002/2003 to €402 million in 2008/2009, with a 4% decline in revenues from €410 million to €384 million in 2009/2010. During this period, its capital employed more than doubled from €179 million to €364 million. Operating profit did not increase commensurately, although it has proved relatively resilient in the year to March 2010 at €23 million, down from €23.7 million in the previous year.

From 2006/2007 onwards, BNM significantly upped its investment activity, spending in the

order of €250 million on acquisitions and new plant and equipment. This increased level of investment over the past four years has coincided with a material downturn in profitability. Pre-tax profits peaked at €34 million in 2005/2006 and have shown a decline in each of the past four years. The company reported a one-third fall in pre-tax profits (from €19.5 million to €12.9 million) in 2009/10.

While operating profits over the past four years have been relatively stable at about €23 million, interest costs have risen sharply, this reflects two fundraisings in recent years, a substantial portion of which has yet to be spent. Net finance costs more than doubled in 2009/2010, from €4.3 million to €10.1 million which contributed to a one-third deterioration in return on average equity (from 7.4% to 5%). Bord na Móna paid its first

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dividend ever to the state in 2007 - €3.8 million - and has continued to pay a dividend each year since. It paid €5.3 million in 2009/2010, equivalent to 33% of previous year earnings.

#### 10.4 Recent Financial Performance and Outlook

Recent divisional performance has been mixed. BNM Energy, which has been the fastest growing subsidiary in recent years, experienced an increase in sales in 2009/10 (up 4.0% to €126.3 million). Sales of the BNM Fuels business, however, were down (-10.2% to €140.7 million), as were AES Resource Recovery (-3.1% to €50.3 million) and BNM Environmental (-25.5% to €14.6 million). BNM Horticulture sales showed a partial recovery (+3.5%) to €49.2 million following a 15.2% decline in the previous year.

Although BNM's financial ratios have weakened in recent years, both gearing and interest coverage ratios at end-March 2010 remained sound. For instance, EBITDA interest cover in 2009/2010 was 8.1 times (2008/2009: 14.6 times), while the Debt to EBITDA ratio was 0.9 times. BNM has healthy cash balances of over €200 million arising from two separate private debt placements in the United States in recent years. Just €60 million of this debt is repayable within the next five years, with the balance of a little over €200 million payable over the four years to 2018/2019.

The core revenue and profitability of BNM still derives from its fuel and energy operations, but both of these are mature cash-generative businesses that face significant issues over coming years as carbon emissions are reined back. In the medium term, therefore, the company plans to reduce its dependence on these legacy operations and diversify into complementary, faster-growing areas such as renewable power generation and waste management. Indeed, in October 2008 **BNM announced an enhanced business plan that would see it double in size by 2013 and become Ireland's leading renewable energy provider.**

This change of direction is behind its recent high investment and acquisition activity levels, which have expanded BNM outside of its traditional business areas and contributed significantly to recent revenue growth. The company's largest acquisitions to date have been Edenderry Power, a 128MW peat-fired power station bought for €79.5 million in December 2006, and the Leinster-based waste management business AES, bought for €52.1 million, including debt acquired, in May 2007.

**A key element of BNM's strategy is the development of a sizeable wind energy business (approximately 500MW) centred mainly on its Oweninny, County Mayo site. The first phase of the Oweninny project is being executed as a joint-venture with ESB.** The company plans to invest heavily in its AES business over the coming years.

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#### Box 10.1 - The Future of Peat-Powered Generating Stations

The original justification for peat extraction for power generation was to reduce Ireland's dependence on imported fossil fuels. Currently, the peat generation stations benefit from a range of public policy supports. These policies require priority dispatch of the peat plants and their use is supported by a Public Service Obligation (PSO) Order which requires the ESB to purchase electricity generated by peat-fired stations under fixed-price PSO contracts. The PSO Order provides for the recoupment by ESB of the additional costs incurred by comparison with the wholesale market price in the SEM through a PSO levy payable by all consumers. The level of the

PSO levy is set annually by the Commission for Energy Regulation and can be zero in any given year.

The current Power Purchase Agreement (PPA) with the ESB for BNM's Edenderry peat plant, which is supported by the PSO levy where necessary, runs out in 2015. PSO levy support for the ESB's Shannonbridge and Lanesboro plants ends in 2019. The delivered price of peat is effectively the same to all three PSO-supported peat plants, and is derived from a fixed base price agreed in the mid-1990s which varies annually according to a basket of indices which include labour, materials and energy price components. **In the absence of an extension of the PSO agreement after these dates, the viability of peat-generated electricity will depend on the world market price of competing fuels, the cost of acquiring carbon emission permits, and the extent of co-firing with biomass.**

BNM has recently commenced co-firing with biomass at Edenderry in line with Government policy outlined in the White Paper on Energy (2007). In 2010 biomass use reached approximately 13% of fuel use and the target is to reach 30% in 2015. The two ESB plants have similar targets but due to technical difficulties are unlikely to reach them. **Biomass includes sawmill residues, pulpwood and forest residues, energy crops and dry materials. The use of biomass is subsidised through REFIT support prices announced in May 2010 of €95/MWh for electricity produced from energy crops and €85/MWh for electricity produced from other types of biomass.**

BNM has recently completed a survey of peat reserves which has clarified the availability of peat resources over the coming years. The company has indicated that it does not intend to open any new bogs. It is probable that the technical lifetime for the existing bogs is around 20 years at current rates of extraction. Their economic lifetime depends on the future value of milled peat as an energy source, which is currently underwritten by the PSO levy. The Edenderry plant, which has a remaining operational life of at least 20 years, is more efficient than the two ESB peat plants. Currently with the PSO levy in place it is producing electricity at less than the current wholesale price. Thus it could be economically viable even in the absence of the levy, although it might not run on a year-round basis. **The viability of the ESB plants appears more doubtful once the PSO levy comes to an end. The EPA's (2010) projections for greenhouse gas emissions for 2020 project a sharp decline in peat consumption by 94% compared to 2008 following the termination of the Public Service Obligation (PSO) supports for peat-burning power stations.**

## 10.6 Divestment Opportunities

Bord na Móna has a diversified portfolio of business interests, some underwritten by government supports (underpinning its peat extraction business and its wind generation plans) while some of its newer business activities operate in volatile and uncertain markets. The company believes it will need capital to invest in growing these new businesses. BNM is operating in business markets where there are many private competitors, and indeed, in many cases it entered these markets by buying the assets of private companies that had created these in the first place.

## 10.7 Conclusions and Recommendation

The Review Group recommends that the government should seek to dispose of BNM as a single entity, with a peat extraction business based on the right to exploit the remaining peat on the existing opened bogs and not the land itself. While it would be possible to sell off the subsidiaries as individual companies, the Review Group considers that there is some added value from the business synergies developed and planned by BNM that makes it worth more as an entity. In any event, any new owner would be best positioned to decide

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what fits and what does not. A new owner would have the same incentive to continue to extract peat as does BNM at present, depending on the availability of state supports and carbon penalties. The same level of extraction activity would continue in the Midlands as would occur if the state retained ownership of the company.

**We favour retaining the ownership of BNM's peat lands in the hands of a state agency. As BNM's peat lands are currently owned and managed both at group level and by the subsidiary companies, this option would require extensive preparation to transfer land titles into a single successor state entity. The privatised company would inherit the licence conditions imposed on the extraction of peat by the Environmental Protection Agency under IPPC licences, including the preparation and implementation of a detailed**

rehabilitation plan following termination of peat production. Once the peat extraction licence (including rehabilitation) terminated, management of the rehabilitated peat land would be the responsibility of the new state-owned land management company. If a decision were made to dispose of Coillte's forest estate through long-term lease, as proposed by the Review Group in Section 11, then consideration should be given to merging the residual land management functions of Coillte with the residual land management functions of Bord na Móna in a single new state agency. This agency would receive commercial income from its licence revenue in the early years, but would be required to develop new commercial uses for its land bank in future years.

We are conscious that peat extraction has a finite life and that the transactions costs of preparing the company for sale have to be set off against the potential value that a sale would realise. The value that a potential purchaser would put on the remaining peat would depend, in part, on government policy decisions (including, for example, whether the current Public Service Obligation be continued). It would also depend on the licence terms agreed for the extraction of peat between the new state land management company and the newly-privatised operations. The higher the licence rent sought by the land management company, the less would be the value of the licence to a potential purchaser. **It would be important to establish as much certainty as possible in terms of future government policy for the use of peat as energy before the option of privatising BNM was embarked upon.** We reiterate our view in Recommendation 1 that what is important is securing long-term economic competitiveness rather than simply maximising the immediate value of asset disposal.

**Recommendation 31:** The Review Group recommends that the government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.

Coillte was established under the Forestry Act 1988 to manage the state forests on a commercial basis. Prior to Coillte's establishment, the state forests were managed by the Forest Service, which was at that time within the Department of Energy. The Forest Service, which is today within the Department of Agriculture, Fisheries and Food, remains the authority responsible for ensuring the development of forestry on a sustainable basis in Ireland. Coillte has developed into a diversified commercial enterprise and now has significant market positions in panel products, telecoms infrastructure, renewable energy (wind and biomass) as well as forestry.

### 11.1 Activity and Income Streams

The Coillte Group has three business areas: Coillte Forest, Coillte Panel Products and Coillte Enterprise. Coillte Forest carries out the traditional functions associated with forest management and harvesting. Coillte Panel Products is a division established following the acquisition of two wood product production facilities in 2002 and 2006. Coillte Enterprise is the new business arm of the group.

Table 11.1: Coillte Revenue Streams

	2009	2008	2007	2006
2005	2003	2002		
2004	2000	2000	€000	€000
€000	€000	€000		
Forest Revenue	62,735	77,508	96,366	87,381
-	-	-	-	-
Enterprise Revenue	27,511	27,647	31,822	47,173
Panel Products	116,619	144,320	189,940	79,235
-	-	-	-	-
Total Revenue	206,865	249,475	318,128	213,789
215,673	184,965	172,121	144,135	

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### Box 11.1 - National Forest Policy Context

The Government's strategic plan for forestry Growing for the Future was launched in 1996 and set a planting target of 25,000 hectares in the first four years and 20,000 hectares a year thereafter until

2035. This land use change would see forestry covering 17% of the country. However, despite huge taxpayer-funded incentives for private planting in recent years and a state-owned forestry company, afforestation has fallen from over 20,000 ha in 1996 to around half that level in recent years (most recent figures from the Forest Service indicate that Ireland is currently planting 8,300 ha annually) compared with a target level of 15,000 ha annually assumed in the National Climate Change Strategy 2007-2012 (DoEHLG, 2007).

By 2009, the national forest estate stood at 737,000 ha, roughly equally divided between private ownership (46%) and State ownership, and representing about 11% of Ireland's total geographical area. The Renewed Programme for Government in 2009 reiterated the commitment to the 1996 target of 17% forestry cover and proposed a target for new forest planting of 10,000 hectares per annum, a rate in keeping with its complementary commitment to developing the national forests as a carbon sink, as set out in the National Climate Change Strategy. The Programme for a National Government 2011-2016 committed to an annual 14,700 hectare afforestation programme. Three review groups have been set up by the Department of Agriculture, Fisheries and Food to examine national forestry policy, the funding of forestry schemes and the future of Coillte in this context. The reports are expected to be published shortly.

While forestry policy was initially about producing timber, in recent years there has been a growing emphasis on the non-wood benefits or 'public good' forestry, including the role of forests in recreation, managing biodiversity, flood control and carbon sequestration. Currently, over 15% of Coillte's forest estate is actively managed for nature conservation. Forests provide the largest outdoor area for recreational use in the country. Coillte Forest owns and manages 10 forest parks, 150 other dedicated recreation facilities and approximately 2,000 km of off-road trails. Other areas with high levels of usage outside their forest parks include areas such as South Dublin/Wicklow, Slieve Bloom Mountains (Laois/Offaly) and Ballyhoura Mountains (Cork/Kerry).

## 11.2 Financial Background

Coillte's group revenues more than doubled between 2002 and 2007, from €144 million to €318 million, with a sizeable portion of this increase coming on foot of the acquisition of SmartPly and Medite. In the last two years, there has been a precipitous drop in sales,

reflecting the company's overall exposure to the construction sector in Ireland and the UK, where the difficult trading environment has resulted in a sharp fall in the price of logs and panel products.

**A noteworthy feature of Coillte accounts is the company's reliance on property trading.** In the eight-year period under review to end-2009, Coillte reported aggregate pre-tax profits of €204 million, with profits on land sales accounting for 70% of this amount and profits on sales of immature forests a further 17%. Profits from forestry and its downstream operations (including log sales and CPP) - traditionally the core operations of the company - accounted for just 13% of profits over the period.

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**Table 11.2: Heavy Dependence on Profits from Sale of Land and Immature Forests**

2006	2005	2004	2003	2009	2008	2007		
€000	€000	€000	€000	€000	€000	€000		
Pretax profit excl. gains on fixed assets/immature forests	343	(5,548)	24,546	15,124	(33,762)	5,274	(9,375)	29,635
Profit on sale of fixed assets	26,914	31,863	13,171	12,700	15,906	14,420	10,839	16,772
Exceptional profit on sale of immature forest					25,372		10,141	
Pretax profit incl. gains on fixed assets/immature forests	27,257	26,315	37,717	27,824	7,516	19,694	11,605	46,407

Since it was established, Coillte has acquired 52,000 hectares of land, most of which predated the end of premia support. Coillte has sold 12,000 hectares, over half of which was sold to various state agencies or for public benefit projects. The vast bulk of the disposed land was either un-plantable or poor quality and low yielding. In 2009, it reported gains on asset sales of €15.9 million, up from €10.8 million in the previous year: these gains are treated as normal profits from (property) trading.

These exceptional gains were partly offset in 2009 by restructuring costs of €5.2 million

and impairment losses of €3.1 million related to forestry assets. In the previous year, Coillte incurred exceptional restructuring costs of €700,000 and an impairment charge of €8.7 million related to SmartPly Europe.

According to Coillte, forestry in Ireland and other temperate climates typically provides an internal rate of return of between 3% and 7% in real terms. Coillte's returns have been well below these levels in recent years. Since 2002, Coillte's average pre-tax return on capital employed (including profits from the sale of land and immature forests) has been under 2.5%. Without the contribution from the sale of these property assets, its average pre-tax return on capital would be 0.4%.

### 11.3 Recent Financial Performance and Outlook

The financial results for 2009 show that, despite the exceptional gains on immature forests and a reduction in capital spending to its lowest levels in eight years (€40.6 million), Coillte experienced a net cash outflow for the second year in a row, with net debt increasing by €16.2 million to €177.4 million. Coillte's results in 2010 have improved significantly (unaudited profits were in excess of €30m and debt levels were reduced to €150 million) primarily due to a strong recovery in log prices. Coillte's panel business has also seen an improvement in UK and European markets during 2010, and the company is confident that the medium-term demand for its products is strong and will be further strengthened by environmental policy developments at EU level in the area of energy conservation and renewable resources. This is especially the case for Coillte Panel Products, the financial performance of which has been turned round during 2010 on the basis of higher sales prices, new customers and lower costs. These plants, according to Coillte, require further investment of about €80 million.

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For Coillte Forest, there are business challenges ahead. The division has experienced a sharp fall in the volume of forest planting in recent years and has effectively withdrawn from planting, reflecting the company's view that it does not make commercial sense to afforest land in the absence of state grant support and where land costs more than €4,000

per ha. Its commercial challenges are exacerbated by the fact that its forest estate is very fragmented, consisting of up to 6,500 separate properties, of which about half are considered commercial, one quarter potentially commercial with investment, and one quarter have no commercial value because of their poor location, poor quality of the trees or the lack of roads. The significant protection and support given to the main alternative land use, agriculture, results in a very high price of land and further undermines the commerciality of forests.

Table 11.3: Downward Trend in Forest Planting

2006	2007	2008	2009	2005
				Afforestation of Coillte land (ha)
231	181	189	92	569
				Farm partnership (ha)
98	62	30	51	500
				Restocking (ha)
6,694	6,996	6,006	4,452	7,582
				Planting for farmers (ha)
1,404	896	567	877	1,855

Source: Coillte Website

This less than positive outlook could be turned around by future developments in the area of carbon sequestration, which has the potential to give the forest estate a commercial value as a carbon storage (or sink) asset. However, there remains great uncertainty as to what way policy in this area will go.

Coillte Enterprise is likely to continue to focus heavily on its interests as a developer of wind farm sites on its own land and a provider of sites to other developers. In July 2010, 20% of total wind generation capacity (1,380MW) was on sites that originated with Coillte. Through this division, the company intends to be the principal provider of sites to the private wind farm sector in the period to 2020 and estimates that it will realise value in the range of €100 million to €200 million from its wind farm sites over the period 2012 to 2025. Coillte is also developing a telecoms business focused on providing infrastructure for wireless communications (mobile telephony, broadband and radio) in rural areas. Any slowdown in wind-power investment would constrain revenues from providing sites.

#### 11.4 Dividends

Despite generating profits of over €142 million from fixed asset sales over the past eight years, Coillte has paid a dividend just once over the period: it paid out €2.6 million in 2008 in relation to 2007 earnings.

### 11.5 Pay and Pensions

The Group operates defined benefit schemes in Coillte and Medite Europe, although both have recently been closed to new entrants, who are offered a new defined contribution

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scheme. SmartPly contributes to a defined contribution scheme on behalf of certain of its employees.

Coillte's two defined benefit schemes are the No. 1 Fund (which covers pension liabilities for Coillte employees since vesting day in 1989) and the No. 2 Fund (which covers pension liabilities prior to 1989). With assets of €103 million at end 2008, the pre-vesting day liabilities covered by the No. 2 Fund remain the responsibility of the Minister for Finance. Total pension assets of the Coillte Group in 2009 amounted to €161 million, representing just 69% of total pension liabilities. The Group's pension deficit fell from €82.6 million to €72.4 million during 2009, helped by the injection of €20.7 million in employer contributions. Coillte is implementing a funding plan agreed with the Pensions Board to address the deficit in the No. 1 Fund.

### 11.6 Divestment Opportunities

The future of Coillte and possible disposal options were last considered in a Merrill Lynch/AIB Capital Markets report in 2000. This report advised against a sale or stock market flotation at the time, believing that further cost reductions needed to take place and that the likely value to the state would be well below book value. A decade later, there are a number of options open in considering the future of Coillte:

- Sale of Coillte as a going concern, including the land estate;
- Sale of Coillte as a going concern, but with a licence or lease to manage and harvest the timber on the forest estate while retaining state ownership of the land;
- Continuation as a state-owned forest company but with divestment of non-core

activities;

- Continuation as a state-owned company with a diversification strategy.

With each of the last three there is the further option of an accelerated programme of disposing of unforested land that is surplus to Coillte's needs.

A number of countries have turned to privatisation of their forest assets, including New Zealand, South Africa, and the State of Victoria in Australia (see Appendix 2 for a more extended discussion). The experience abroad suggests that the sale of forestry assets is feasible but it highlights issues that need to be addressed, including the maintenance of the multiple benefits of forestry including recreational access. Where disposal has occurred, the preference has been to sell the timber rights but to retain ownership of the land in the hands of the state.

Coillte is in the process of transforming itself into a business focused on innovative and sustainable use of natural resources, of which forestry is just one component. **The further the company moves away from its forestry heritage, the weaker is the case for retaining it in state ownership given that the state is not in a position to invest risk capital.** For example, the company is currently seeking substantial financing for an investment in its SmartPlay board plant.

**If forestry is considered solely as the production of timber, there is no obvious rationale for state ownership.** We do not expect milk production to be undertaken on state dairy farms, or grain production on state arable farms. There are no natural monopoly issues which

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would warrant state ownership. Moreover, there is evidence that there is a strong appetite for forestry investment from pension and other financial funds, and there are also forest companies who invest in forest real estate. **Given that Coillte is unlikely to pay a dividend for the foreseeable future, and given the state's financial position, there is an urgent need to explore ways to realise for the taxpayer the value invested in forestry over many decades.**

Public recreational access needs to be assured. Regulation can take the form of legislation

governing forest management, as well as covenants inserted into forest leases. For example, all Irish forests, whether public or private, are required to abide by the Irish National Forest Standard which implements the principles of sustainable forest management and is enforced by the Forest Service. Before trees can be felled a felling licence is needed and the Forest Service will continue to issue these licences. Planning consent is required for change of use from forestry to other activities such as golf courses. Forest owners must also comply with a range of environmental legislation which applies regardless whether the forests are publicly or privately owned.

**We recommend below that the carbon sequestration undertaken by forests should be remunerated.** We also believe there is a case that the cost of providing recreational amenities in forests necessary to realise access (e.g. car parking, sign-posting, mountain trails) should be borne by general government expenditure.

### 11.7 Recommendations

The Review Group recommends that the government should proceed to dispose of Coillte as a going concern, but with the proviso that Coillte would be sold with long-term leases to the use of forest land with ownership of the land remaining with the state. The option of selling the harvesting rights but retaining ownership was employed in New Zealand and Australia in the 1990s. The New Zealand Crown Forestry Licence may provide a possible model which could be modified to Irish conditions. **We view the retention of land ownership and the use of leases rather than outright sale as an appropriate instrument to ensure the continuation of the multiple benefits of forestry. Were this recommendation to be accepted, then the state agency set up to manage the ownership of Coillte's forest land might also be considered as the appropriate agency to manage the ownership of bogs retained following a possible privatisation of Bord na Móna (see Section 10).**

**While we do not recommend in principle the sale of forest land, Coillte possesses a substantial land area which is not forested and which may never be forested. Coillte should be encouraged to accelerate its disposal of that part of its land bank which is surplus to its immediate commercial requirements in its own business, as recommended by the Report of**

**the Special Group on Public Service Numbers and Expenditure Programmes, with the proceeds being remitted to the Exchequer by way of special dividend.**

Another option would be to keep Coillte as a forest company but to dispose of its non-core activities, particularly the two board mills. There is no obvious rationale for state involvement in the business of operating panel board manufacturing facilities. This option could include the sale of Coillte's telecommunications business, which involves the lease of sites for telecommunications masts and more recently the construction by Coillte of its own masts and the lease of antenna space to telecommunications companies.

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**Recommendation 32:**                   **The Group recommends that the state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.**

Concerns over Coillte's market power in the sale of logs can be addressed by suitable provisions in sale agreements. The issue of public amenity and access can be dealt with in the license conditions. We believe that this option best realises the return to the taxpayer from the state's investment in forestry over decades, while protecting the legitimate concerns for recreational access to state-owned forest land, biodiversity and environmental sustainability.

Irrespective of the ownership decision, Coillte is now managing a static forest estate in which the only planting is reforestation of cut-down areas. **The requirement to re-afforest is a long standing one and applies to all recipients of grant aid for forestry and not only Coillte. We consider this restriction to be unjustified and counter-productive. There will be fears that removing this requirement might lead to a reduction in the forest area. But forests are a means to an end, not an end in themselves. Provided that forests can be fully compensated for the multiple benefits they provide, there is no case to intervene further in the forestry market, particularly when national resources are so limited. Indeed, the**

replanting requirement may have the perverse result of reducing rather than increasing the forest area. Survey results indicate that farmers' apprehension that once land is planted to forestry it can never be taken out of forestry is one of the strongest disincentives to farm afforestation. Removing this requirement would lead to a significant improvement in the incentives for new planting, and thus the prospects of meeting government targets, without requiring any increase in exchequer expenditure.

**Recommendation 33:** The Review Group recommends that the replanting obligation attached to Coillte and grant-aided forestry should be discontinued.

On the subject of sequestration discussed earlier, the Review Group notes that the Renewed Programme for Government (October 2009) committed to working with the Irish forestry sector, including Coillte, to develop a scheme through which some of the monies currently set aside to purchase carbon credits abroad would be diverted for forestry investment in Ireland. The outline proposal was for the taxpayer to fund carbon offsets, using funds which would otherwise be used to purchase carbon credits over the period 2013-2020. Given the pre-existing level of public support for private forestry, the Group does not favour adding further to this support by adding a carbon sequestration payment. However, there would be merit in restructuring these incentives to explicitly recognise the carbon sequestration value. In the case of publicly-owned and -funded forestry, any proposal to introduce a carbon offset scheme for forestry should be confined to new planting after 2013.

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**Recommendation 34:** The Review Group recommends that, in order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts to reward forest owners for the value of carbon sequestered by new forests after 2013. For farmers in receipt of the current range of financial incentives, we recommend that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.

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## Section 19: Intangible Assets

The range of intangible assets in state ownership consists of various rights, options, easements, licences etc. to use, exploit, acquire, rent etc. various assets. This includes: permits to emit CO<sub>2</sub>; licences to use radio spectrum; and rights to use land or other assets.

The policy issues surrounding the granting of such licences, permits or rights extend, in some cases, beyond the narrow one of realising maximum market value. Nevertheless, there is no reason not to place a value on such intangible assets and to seek an appropriate fee for their use or purchase. The following paragraphs deal with realising value from a number of the assets listed above.

- 19.1 Permits to emit CO<sub>2</sub>

- Carbon pricing is one of the instruments chosen as part of the EU's coordinated approach to climate change and Ireland's margin for manoeuvre in this area is to a large extent circumscribed by the EU framework.

Under the EU Emissions Trading Scheme (ETS), large emitters of carbon dioxide within the EU must monitor and report their CO<sub>2</sub> emissions annually to the Commission. An allowance is required in respect of each tonne of carbon emitted; however, emitters currently obtain allowances for free from the relevant EU member state government.

From 2013, the scheme will become a centralised, EU-wide cap on CO<sub>2</sub> emissions with an annually declining trajectory of 1.74% to 2020. Excluding aviation, the cap will deliver an overall reduction of 21% below 2005 verified emissions by 2020. Auctioning will progressively replace free allocation as the main method for allocating allowances to all EU ETS sectors except aviation. The EU power sector will have to buy 100% of allowances from 2013, with temporary exemptions for some power stations in new member states. For energy-intensive industries in the ETS, the final agreement provides for 20% auctioning of industrial emissions permits from 2013, rising to a minimum of 70% in 2020, with a view

to reaching 100% by 2027. Sectors and sub-sectors found to be exposed to a significant risk of carbon leakage will continue to receive allowances for free based on ambitious benchmarks. These rules imply that as from 2013 at least half the total number of allowances is expected to be auctioned.

The amount of allowances allocated to each member state is determined as follows:

- 88% of total EU allowances are distributed to member states according to their verified emissions in 2005 or the average for the period of 2005-2007 (whichever is higher). In the case of Ireland, this means about 0.92% of total allowances.
- 10% of allowances are allocated to member states with low income per capita to encourage investment in climate friendly technologies.

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- 2% are distributed among member states, which, in 2005, achieved emission reductions of 20% below the levels set for the base year under the Kyoto Protocol.

For aviation, 15% of allowances will be auctioned in 2012 and this proportion will stay the same in subsequent years.

Based on the current state of knowledge and data as supplied by the Environmental Protection Agency, the quantity of the state's allowances can be estimated as follows:

Table 19.1

Tonne 000's		2012	2013	2014	2015	2016
Year	Year	2019	2020			
2017	2018					
Aviation		475	475	475	475	475
475	475	475	475			
Allowances						
EUA		-	8,151	8,001	7,852	7,702
7,552	7,403	7,253	7,104			
Allowances						
(ETS excl						
aviation)						

However, considerable uncertainty around the future carbon price makes it difficult to

forecast the potential revenues for the Exchequer from auctioning of these allowances. For example, reduced economic activity in the EU will likely lead to lower production (lower emissions and surplus permits) and thus a lower price for carbon than might otherwise be the case.

**In addition, while the revised EU ETS Directive states that member states shall determine**

**the use of revenues generated from the auctioning of allowances, it also states that at least**

**50% of the revenues generated from the auctioning of allowances should be used for a variety of specified climate mitigation and adaptation purposes. These include funding research and development, developing renewable energies, avoiding deforestation and increasing afforestation, forestry sequestration, environmentally safe capture and geological storage of CO<sub>2</sub>, encouraging a shift to low-emission and public forms of transport, measures to address energy efficiency and insulation, as well as covering the administrative**

**costs of the ETS.** Member states shall be deemed to have fulfilled this mandate if they have in place and implement fiscal or financial support policies, including in particular in developing countries, or domestic regulatory policies which leverage financial support established for these purposes and which have a value equivalent to at least 50 % of the revenues generated from the auctioning of allowances. Member states are required to inform the Commission as to the use of revenues in their regular reports.

Recommendation 55: The Review Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.

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## Section 20: Conclusions and Recommendations

The Review Group has purposely refrained from providing valuations of various state companies as this is a matter for the market and for investors in the final analysis. We have also not been prescriptive on how or when state assets might be disposed off. In many

cases, any sale will take time.

Our basic message is that, given the over-borrowed nature of the state's balance sheet, asset disposal is inevitable. This should take place on a planned, phased basis to maximise value to the state from any such disposal. Any programme of sales should balance the longer term strategic needs of the state with the short-term urgent demands for cash and should do so in a prudent manner.

For ease of reference, the recommendations made in each section are set out below distinguishing between general economic, specific state-body and governance recommendations.

## Section 2: The Policy Context of Asset Sales

1. Any programme of asset disposal should be assessed from the standpoint of its contribution to long-term economic recovery. The Group cautions against any actions which enhance short-term asset disposal prices at the cost of damage to the economy's long-run competitiveness, including specifically any failures to maximise the potential for competition or any value-enhancement of privatised entities through weak regulatory arrangements.

2. Any privatisation legislation involving companies operating critical infrastructures in Ireland should include explicit provision for resolution or step-in powers. The United Kingdom rules provide a possible template.

## Section 3: Market Design and Regulatory Reform

3. The objectives of economic regulatory agencies need to incorporate, explicitly and on a common basis, the minimisation of cost to the rest of the economy.

4. A comprehensive review of the legislation governing economic regulatory agencies should be undertaken and necessary legislative amendments enacted prior to any state disposals.

5. The Department of Enterprise, Trade and Innovation, which already has responsibility for competition policy, should become the parent department for all economic regulatory bodies, and should take responsibility for their supervision and performance measurement and for legislative updating.

6. Levies on regulated entities, including license fees and other miscellaneous charges, should accrue directly to the Exchequer, and, in order to strengthen their independent

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role, the operating budgets of economic regulatory bodies should be a charge on the Central Fund.

7. Central government departments responsible for policy in areas such as energy and transport should ensure that adequate internal resources are made available for the task and should avoid excessive reliance on regulatory agencies and outside consultants.

8. Economic regulators should be relieved of responsibility for extraneous administrative functions.

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11. In the event that a customer-financed water industry structure emerges, this monopoly should be regulated through expanding the role of the Commission for Energy Regulation rather than through the establishment of yet another sector regulator.

12.

#### Section 4: The Commercial State Companies in Aggregate

15. The regular payment of a reasonable dividend to the shareholder is good practice and a performance regulator. The Group recommends that a dividend of at least 30% of profits should be paid each year except in the most unusual circumstances.

16. The exercise of the shareholder function in all state commercial companies should be centralised in a specialised unit located in the Department of Finance. This unit should also take responsibility for whatever asset disposal programme is decided on by Government.

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#### Section 5: The Policy Framework for State Energy Companies

17. Policymakers and the regulator should facilitate the development of gas storage capacity in Ireland on a commercial basis.

18. If security of supply is the goal, policymakers and the regulator should facilitate the development of liquefied natural gas importation capacity in Ireland on a commercial basis.

19. **Carbon emission targets should be pursued on a least-cost basis and current targets for wind penetration in power generation should be revised downwards in the context of the adequacy of existing capacity, the diminished prospects for demand growth and the altered outlook for gas supplies and prices.**

### Section 8: Bord Gáis Éireann and Gas Industry Structure

27. The Group recommends that BGÉ's regulated transmission and interconnector assets should be retained in state ownership. Consideration should be given to the establishment of a distinct state body to own and operate these assets and also to the option of merging these operations into EirGrid.

28. The Group recommends that the remaining operations of BGÉ, other than gas transmission and interconnection, be privatised as a single entity.

### Section 10: Bord na Móna

31. The Group recommends that the Government should seek to dispose of Bord na Móna as a single entity, including peat extraction rights but not ownership of the peat lands.

### Section 11: Coillte Teoranta

32. **The state should initiate the disposal of Coillte's forest and non-forest assets (but not its forest land), possibly using the New Zealand Crown Forest Licence template modified to make it suitable to Irish conditions. Unforested land surplus to Coillte's requirements should be sold and the proceeds remitted to the Exchequer by way of special dividend.**

33. **The replanting obligation attached to Coillte and grant-aided forestry should be discontinued.**

34. In order to minimise the national cost of climate policy, activities that sequester carbon should be treated equally to those that emit carbon. The Group supports efforts to reward forest owners for the value of carbon sequestered by new forests after 2013.

For farmers in receipt of the current range of financial incentives, the Group recommends that these incentives be restructured to explicitly reward the carbon sequestration value but there is no justification for a further increase in these payments.

Section 18: **Asset Management in Certain non-Commercial Sectors**

51. The Group reiterates the proposal of the Special Group on Public Service Numbers and Expenditure Programmes that there should be one state property management agency and a consolidated register of all state property howsoever owned.

52. The Group recommends that an annual target should be set for sales of state property over each of the next five years and the responsibility for this should be given to a single agency.

**Section 19: The State's Intangible Assets**

55. The Group is firmly of the view that if the granting of licences or allocation of rights or quotas confers substantial market rights, the process should involve a transparent market auction. This is the only way to secure market value for the state without controversy. For all other cases, fees should be charged to cover administrative costs, at least.

**Appendix 2 - International Experiences with Forest Privatisation**

Forest ownership varies widely, the pattern often reflecting political histories. In Europe, forest land is evenly divided between public and private ownership, but with significant national differences. High levels of public ownership are common in South-eastern Europe and Eastern Europe ranging up to 90-100%, while about two thirds of the forest area is in private hands in the north-western and centrally located countries of the European Union. Over four-fifths of private forests are owned by individuals and families (farm forests). Around 5% is owned by private wood processing enterprises, while the remaining 13% is owned by private institutions, including religious and educational institutions as well as pension or investment funds (Schmithüsen and Hirsch, (2008)).

A number of countries have privatised some or all of their forests, including New Zealand, South Africa and Australia (Nelson, (2008)).

New Zealand is a relevant case study because the impetus to privatise the previously corporatized state-owned New Zealand Forestry Corporation arose in the context of a high public sector debt and growing debt service burden. The Minister for Finance Roger Douglas announced the government's intention to sell the state forests in 1998. A forestry working group was established comprising government officials and private sector consultants to dispose of the forest assets. They recommended that only the timber (cutting rights) should be sold and not the underlying land. To assist the sale, the forest estate was split up into 90 sale parcels ranging from 51 hectares to hundreds of thousands of hectares. The sale of state forests between 1990 and 1996 raised approximately NZ\$3.5 billion (Kant, (2008)). A factor assisting privatisation was that most forests were commercial without conservation or significant multiple use values (McEwen, (no date)).

In the late 1990's, South Africa had approximately 1.5 million hectares of commercial plantations (52% of pine and 39% of eucalyptus). In 2000, prior to the starting of the process of privatization, 30% of the plantation forest was owned by the state, with 47% owned by two large forest companies (Sappi and Mondi), and the remainder divided between small private companies and farmers. Its 1996 forest policy drawn up after the end of apartheid in 1994 called on the government to withdraw from ownership and

management of state plantations, in order to free state resources for more important needs and improve the overall productivity and efficiency of operations. The government wanted to ensure that privatization benefited the previously disadvantaged black population, through increasing its ownership and control of plantations, providing employment opportunities and securing access to forest goods and services for livelihood security. Since 2001, a total of nearly 250,000 ha of state-owned plantations have been transferred to the private sector.

The approach adopted was to divide the forestry assets into seven 'packages', each representing a logical business unit, and a 'Special Purpose Vehicle' (SPV) was created for each package. It was decided that 25% shares in each SPV would be held by non-private agencies including the government (10%), workers (9%), and the National Empowerment Fund (6%), with the remaining 75% sold to the private sector (of which at least 10% needed to be black owned). The remaining state-owned South African Forestry Company is

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due for privatisation but progress is held up by legal uncertainties surrounding land claims on state land.

Under the South African approach the ownership of the land under plantations remained with the state and investors were offered the use rights only through a long-term lease. The New Zealand Crown Forest License was the template for the original lease. The lease included (i) a lease duration of minimum 70 years; (ii) payment of market-related rent to use the land where the value of standing trees was not included in the calculation of the land rent; (iii) full undisturbed possession of the land subject to Forest Act provisions that allows public access for cultural, recreational, and spiritual purposes; (iv) the license covers all activities, including silvicultural, ecotourism, hunting, and quarrying, and the lease holder may issue licenses to third parties for some of these activities.

Australia also has experience of forest privatisation. In the Australian State of Victoria in 1993, the government established the Victorian Plantation Corporation as an entity within

the Department of Conservation and Natural Resources. This corporation functioned as a profit centre within the Department with the eventual goal being its sale to private interests. The government created a new license, granting the right to grow trees in perpetuity, but retaining a fee simple interest in the land itself. The right would only be invalidated if there were a change in land use from forestry. The corporation was then offered for sale with existing supply contracts in place and was purchased by Hancock Victoria Plantations, a subsidiary of the American Hancock Timber Resources Group Ltd. for A\$603 million or c. €430 million. The main asset was a 99-year licence to manage, harvest and re-grow plantation timber on approximately 204,000 hectares. This equates to a price of c. €2,100 per hectare. Under the 99-year licence, the Queensland Government retains ownership of the underlying land. Conditions of the sale include a commitment to plant 20,000 hectares of eucalypt hardwood plantations between 2010 and 2025 and protection of public access to forests. The Victoria government's expectation was that by drawing in outside capital it would assist in attracting other investors into forestry and thereby help it meet its policy goal of trebling the area of plantations by 2020 (with this to take place on private land).

In Britain, privatisation policies were first introduced in 1979 and the sale of publicly-owned forests began in the early 1980s. Forests selected for sale were primarily chosen where their disposal would rationalise the management of state forests. It was mostly remote conifer plantations, very small forests or areas difficult to manage in some way that were prioritised for sale. Forests providing a high level of non-timber benefits were not sold due to concerns about the loss of public access. The government set revenue targets from sales of forest and the area to be sold each year (£150 million and 100,000 hectares by the year 2000). By March 1997, the Forestry Commission had sold 66,000 hectares (out of a total of 900,000 hectares before the sales started) and raised £75 million.

In 1994 the government commissioned a review to examine the case for privatizing state plantations. This report, though not published, recommended against the sale of state plantations for various reasons (Grundy, 2003). Sale of the plantations to one or a few buyers would be problematic. Because of the sheer scale of the transaction, it was feared

there would be few bidders. The wood processing industry was opposed as it preferred to deal with the supplier it knew rather than face one or a few new powerful players in the wood market. Some companies considered they might have to bid themselves to avoid losing security of wood supply, which would divert capital they could use more profitably

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developing their businesses. While the sale of plantations singly or in small groups would be more feasible, and the market was already developed, it would obviously take a very long time to sell 1 million hectares.

In October 2010, the UK Environment Secretary announced plans to dispose of most of the 250,000 ha overseen by the Forestry Commission in England. The UK government decided against an open market sale of the whole public forest estate. It proposed to sell or lease heritage and amenity forests to charitable organisations and community or civil society groups. It proposed to lease large-scale commercial forests to commercial operators - the option of leasing rather than outright sale was preferred because it would better ensure that these forests would continue to provide public benefits through lease conditions. It also proposed an increased sale programme targeted at woodland with limited added value in terms of public benefits. Following a widespread campaign of opposition, the UK government announced in February 2011 that it was reversing this decision (House of Commons Library (2011) reviews the recent UK experience). However, a separate sale of 40,000 hectares of Forestry Commission land announced in the Spending Review is still planned once additional protections on access and biodiversity are put into place. This sale may raise £75-100 million.

In Scotland the government proposed in 2008 to lease 100,000 hectares or 25% of the public forest estate managed by Forestry Commission Scotland to private companies with a view to raising £200m to reinvest in new planting. The proposal was dropped in March 2009 following consultation on various grounds including concerns over public access, the possible diversion of the funds raised away from forestry, future marketing arrangements for timber and job security.

These experiences suggest that the sale of forestry assets is feasible, although they also highlight various issues that need to be addressed. In general, the preference has been to sell a management and felling licence but to retain ownership of the land in the hands of the state. Disposal is more complicated where there are multiple use objectives in forestry management, most obviously recreation and public access in the UK. It has been argued that the loss of a multi-use approach to forestry is a long-term legacy of these reforms, and environmental groups tend to prefer public ownership because they fear commercial considerations would dominate private sector management. The wood processing industry is often opposed because it prefers to deal with the supplier it knows, and potential market structure and market power issues need to be addressed. In general, disposal often stretches over a period of time and there may be relatively few interested buyers. We take these lessons into account in our recommendations regarding Coillte in Section 11.

#### Appendix 8 - Coillte Financial Data

2007	2006	2005	2004	2009	2008
Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
Income Summary	Coillte			€'000	€'000
€'000	€'000	€'000	€'000	€'000	€'000
Forest revenue				62,735	77,508
96,366	87,381				
Enterprise revenue				27,511	27,647
31,822	47,173				
Panel products revenue				116,619	144,320
189,940	79,235				
Revenue				206,865	249,475
318,128	213,789	215,673	184,965	172,121	144,135

EBITDA				56,261	54,838	
76,500	51,500	66,645	61,199	51,298	45,137	
Depreciation				8,961	11,077	
11,794	6,627	6,109	5,251	4,616	3,633	
Depletion				18,439	12,765	
10,538	12,390	12,304	13,231	13,921	15,929	
Amortisation of goodwill				117	312	
312	204	194	194	194	125	
Gains from sale of				26,838	10,141	-
10,342	4	-475	-471	-495	-382	
immature forests/other						
Operating profit before exceptionals				1,906	20,543	
64,198	32,275	48,513	42,994	33,062	25,832	
Exceptionals				18,529	549	-
10,272		-17,956				
Share of assoc. /j.v. profits				-50	-50	
-38	-4	-580	-1,187	-686	-1,080	
PBIT				20,385	21,042	
53,888	32,271	29,977	41,807	32,376	24,752	
Net interest payable				-8,447	-7,220	
-7,084	-4,139	-3,447	-4,045	-4,552	-5,058	
Other finance costs (pension-related)				-4,422	-2,217	
-397	-875	-215	-45			
Net interest & other finance costs				-12,869	-9,437	
-7,481	-5,014	-3,662	-4,090	-4,552	-5,058	
Profit before tax				7,516	11,605	
46,407	27,257	26,315	37,717	27,824	19,694	
Tax				-3,273	-2,399	
-6,279	-4,793	-6,661	-2,623	-2,314	-958	
Earnings				4,243	9,206	
40,128	22,464	19,654	35,094	25,510	18,736	
Memo Items						
Profit on sale of fixed assets				15,906	10,839	
16,772	26,914	31,863	13,171	12,700	14,420	
Exceptional profit on				25,372	10,141	
sale of immature forest						
Pretax prof. excl. fixed				-33,762	-9,375	
29,635	343	-5,548	24,546	15,124	5,274	
asset/imm. forest gains						
Summary Balance Sheet			Coillte			

Property, plant & equipment					1,421,670	1,412,202
1,387,118	1,354,494	1,267,041	1,240,758	1,209,675	1,182,092	
Intangible assets					814	931
1,894	2,206	1,234	1,428	1,622	1,816	
Investment in associates/jv's					-151	43
93	131	127	-760	148	-101	
Inventories					17,462	23,047
25,082	21,973	14,206	13,751	9,193	9,431	
Trade debtors					31,322	36,423
44,601	44,816	30,524	28,725	28,112	24,129	
Less current trade creditors					9,713	9,482
14,644	18,098	14,329	13,120	11,860	11,499	
Working Capital					39,071	49,988
55,039	48,691	30,401	29,356	25,445	22,061	
Other assets less					1,946	-13,090
16,069	-9,815	-8,895	3,298	7,112	8,012	-
other curr. liabilities						
Capital employed (excludes def. tax)					1,463,350	1,450,074
1,428,075	1,395,707	1,289,908	1,274,080	1,244,002	1,213,880	
					1,456,712	1,439,075
1,411,891	1,342,808	1,281,994	1,259,041	1,228,941		606,940
Equity capital & reserves					1,207,484	1,200,813
1,203,880	1,152,686	1,102,033	1,079,217	1,127,574	1,097,079	
Net debt / (cash)					177,353	161,187
149,711	163,268	97,207	105,873	109,146	112,660	
Pension liabilities					72,372	82,614
66,346	71,092	86,352	84,180			
Deferred tax liabilities					733	1,018
2,756	2,031	-1,466	-1,452	841		
Net deferred tax					733	1,018
2,756	2,031	-1,466	-1,452	841	0	
Other long-term liabilities					5,408	4,442
5,382	6,630	5,782	6,262	6,441	4,141	
Capital Employed					1,463,350	1,450,074
1,428,075	1,395,707	1,289,908	1,274,080	1,244,002	1,213,880	

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				2009	2008
2007	2006	2005	2004	2003	2002

Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
GAAP	GAAP	GAAP	GAAP	GAAP	GAAP
€'000	€'000	€'000	€'000	€'000	€'000
Cash Flow Summary Coillte					
EBITDA				56,261	54,838
76,500	51,500	66,645	61,199	51,298	45,137
Change in working capital				-9,891	-2,169
4,565	-2,826	9,628	-5,594	4,566	-9,558
Other operating cashflow				-35,227	-12,169
17,369	-25,159	-42,250	-14,264	-17,114	-17,243
Cash generated from operations				11,143	40,500
63,696	23,515	34,023	41,341	38,750	18,336
Cap.expenditure				-40,626	-57,978
58,298	-48,766	-48,590	-51,926	-46,705	-44,279
(property, plant & equip.)					
Disposals				16,564	11,185
19,537	27,843	32,402	13,499	13,248	14,921
Capital grants received				2,466	3,442
5,687	6,638	5,882	3,631	756	7,718
Net capital expenditure				-21,596	-43,351
33,074	-14,285	-10,306	-34,796	-32,701	-21,640
Operating cashflow				-10,453	-2,851
30,622	9,230	23,717	6,545	6,049	-3,304
Net interest				-6,495	-7,344
5,900	-4,209	-3,126	-4,352	-3,977	-5,134
Tax				782	-4,651
8,755	-4,470	-6,484	-1,641	-1,954	-589
Free cash flow				-16,166	-14,846
15,967	551	14,107	552	118	-9,027
Dividends paid					-2,600
Acquisitions & investments					
2,410	-65,978	-2,270	-279	-898	-16,634
Disposal of businesses					5,970
3,000	4,294	3,174			
Other				0	0
0	-634	-3,171	0	0	-5,601

Change in net debt\ (cash)					-16,166	-11,476
13,557	-66,061	8,666	3,273		3,514	-28,088

Memo Items      Coillte

Pensions

Present value of funded					233,847	221,022
245,238	248,205	231,486	198,509		142,127	126,519
pension obligations						
Fair value of plan assets					-161,475	-138408
178892	-177,113	-145,134	-114,329		-102,823	-91,042
Deficit for funded plan					72,372	82,614
66,346	71,092	86,352	84,180		39,304	35477
Balance Sheet pension liability					72,372	82,614
66,346	71,092	86,352	84,180		0	0

Analysis of debt

Loans					178,850	163,721
160,291	178,772	107,291	109,316		112,904	112,660
Cash balances					1,497	2,534
10,580	15,504	10,084	3,443		3,758	0
Net debt/(cash)					177,353	161,187
149,711	163,268	97,207	105,873		109,146	112,660

Employee data

Total employee costs					63,493	70,920
76,020	67,413	61,453	56,067		53,612	47,671
Average number of employees					1,170	1,250
1,269	1,214	1,230	1,188		1,213	1,231

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					2009	
2008	2007	2006	2005	2004	2003	2002
					Dec.	Dec.
Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	
					GAAP	GAAP
GAAP	GAAP	GAAP	GAAP	GAAP	GAAP	

Ratios      Coillte

Profitability

Operating margin (before exceptionals) %						0.9
8.2	20.2	15.1	22.5	23.2	19.2	17.9

EBITDA margin %						27.2	
22.0	24.0	24.1	30.9	33.1	29.8		31.3

#### Activity

Revenue/avg. capital employed (excl. JV's)						0.14	
0.17	0.23	0.16	0.17	0.15	0.14		

Revenue/ avg. fixed assets						0.15	
0.18	0.23	0.16	0.17	0.15	0.14		

#### Return on investment

Avg. ROCE (pre tax & excl. JV's) %						1.4	
1.5	3.8	2.4	2.4	3.4	2.7		

Avg. ROE (after tax) %						0.4	
0.8	3.4	2.0	1.8	3.2	2.3		

#### Growth

Revenue %						-17.1	-
21.6	48.8	-0.9	16.6	7.5	19.4		

Forest revenue %						-19.1	-
19.6	10.3						

Enterprise revenue %						-0.5	-
13.1	-32.5						

Panel products revenue %						-19.2	-
24.0	139.7						

EBITDA %						2.6	-
28.3	48.5	-22.7	8.9	19.3	13.6		

#### Pensions

Retirement Benefits assets/ R.B. liabilities (%)						69.1	
62.6	72.9	71.4	62.7	57.6	72.3		

#### Financial/General

EBITDA interest cover (x)						6.7	
7.6	10.8	12.4	19.3	15.1	11.3		8.9

Group interest cover (x)						2.4	
2.9	7.6	7.8	8.7	10.3	7.1		4.9

Debt/ EBITDA (x)						3.2	
2.9	2.0	3.2	1.5	1.7	2.1		2.5

Debt/ equity %						14.7	
13.4	12.4	14.2	8.8	9.8	9.7		10.3

Debt/ fixed assets %						12.5	
11.4	10.8	12.1	7.7	8.5	9.0		9.5

Tax rate (%)					43.5	
20.7	13.5	17.6	25.3	7.0	8.3	4.9

Employees

Employee costs as % of revenues					24.3	
22.1	19.3	24.3	22.0	22.0	21.9	22.2

Revenue per employee (€000)					177	
200	251	176	175	156	142	117
						157

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Net debt/(cash)			118,385		48,278	
68,751	94,017		135,595		149,928	88,333
222,158						

Employee data

Total employee costs			643,465		676,542	
645,151	608,640		583,347		556,332	531,250
511,950						
Average number of employees			11,463		11,848	
11,701	11,816		11,926		12,037	12,223
12,311						

Grants

Operating grants			315,960		321,093	
320,163	298,681		283,427		267,786	262,476
252,724						
State & EU capital grants			441,812		596,821	
471,185	345,473		311,202		175,298	395,369
283,042						
Total grant funding			757,772		917,914	
791,348	644,154		594,629		443,084	657,845
535,766						

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