DOING BUSINESS IN POLAND AND THE REGION

BUSINESS CONDITIONS IN THE REGION: PKN ORLEN AS A CASE STUDY

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Enlargement of the European Union will result in a significant increase in its dependence on oil imports. The security of the EU’s oil supply would greatly benefit from the involvement of Central European oil companies as this will enable the diversification of the Union’s crude supply and energy dialogue with Russia. Consolidation of regional assets in the oil sector is a need for today’s conditions in respect to scale, profitability, job security and the regional identity.

Central East European Oil Consolidation Could Improve EU Oil Security

Fossil fuels represent 80% of Europe’s energy consumption; almost two-thirds are imported. The enlarged EU will consume more than 20% of the world’s oil production. Energy imports will be even higher in 30 years, amounting to 70% of total needs. Some 90% of oil is likely to be imported. The risk in such dependence is worrying. For example, the transport sector, which is 98% dependent on external oil supply, will be extremely vulnerable to supply instability. In addition, for its crucial role in supplying gas to the EU and oil to the acceding countries, Russia will play an important role in supplying EU countries with alternative sources of oil. Existing infrastructure gives Russia a dominant position on the regional oil market, with exports reaching Poland, Hungary, the Czech Republic, Slovakia via the Druzbha pipeline. The Czech Republic can also import crude oil from Western Europe while Poland has an oil terminal in Gdansk, showing that Russia does not have a monopoly position on the regional oil market. But it is still the most price attractive source. The Druzbha pipeline is further used to export oil to Germany.

PKN Orlen’s board concluded that improving the security of the oil supply system is necessary, particularly in view of EU enlargement. Russian crude oil is a key factor for Central European energy security and of growing importance for the security of the enlarged EU’s energy supply. Central European oil companies’ contribution to the development of oil infrastructure and an energy dialogue with Russia depends on their business position, so the strengthening of them is of great importance. This could be achieved by close cooperation leading to the consolidation of regional operators. Central European countries, in particular a regional oil corporation, whatever you want to call it, can play the role of a gear between European needs and Russian potential, which means a window of opportunity is there.

Thinking this way, we believe that we need to grow—Poland accounts for 50% of regional consumption. Thus, we believe that organizations existing on the Central European market, like OMV of Austria, MOL of Hungary and Orlen, must come to a sort of cooperation agreement if the future is seen like I just mentioned. And the first two to come together will dominate the market.

Political and Bureaucratic Constraints on Consolidation

What has happened so far? We have started a dialogue with others. The first was with Hungary’s MOL. We have found many business similarities, a lot of synergies, a common language and the same experiences in the post-communist era. Based on this, we have started to analyze the economics and we have found that we could come together. But this is not easy because locally in our countries the political
factor is very important. It is not only economics that stimulate business growth, but it is also the political approach, and sometimes a populist approach. Everyone knows that the crude oil business is the most political medium in the world, though this could be discussed in light of Ms. Rapaczynska’s comments.

We have cooperated closely with our friends from Hungary, but we have not been able to conclude talks because on the borders of this discussion a lot of questions were raised: “the state is going to lose control of the largest company,” “what is the definition of national energy security,” “who is going to take responsibility for the country’s security in this kind of business.” Then we ask: “who’s going to pay for the diversification of the crude oil supply for national energy security, the company or the state, or citizens, another tax maybe?”

Questions like these raised via media and political debates are also still blocking the continued privatization of a number of companies, including Orlen. To give you a picture, we consider Orlen a private company because 72% belongs to private investors—mutual funds, pension funds, private citizens—and 28% belongs directly or indirectly to the government and the Treasury Ministry. But this 28% is pretty strong, and independent of the vision even of the Treasury Ministry, as it also comes under the strong influence of parliamentary debate, party interests and party goals.

From another side, we have a bureaucratic structure, like it exists everywhere. But our Central European structure shows that “the little guy” sitting somewhere at a corner desk is always afraid that he will be suspected of corruption, so he better not touch a case and should wait to see who’s going to push and try to trade away this decision, which is a little decision, really just a comment. But if the first little decision is negative, then the upper echelons are afraid to go against it, because then they would be under suspicion. Now I don’t want to say Poland and other Central European countries are totally free of corruption; this factor probably exists.

**Economic Transition: Building Internal Value**

In such an environment, we decided at PKN Orlen that we need to first build internal value, showing our investors, including the government, that management is successful and knows where it is going. So, we implemented a cost-cutting program, a value-based management program, and we pushed the company onto a very fast growth path.

One of the important messages to the public was that we were changing, from being a production company to a marketing company. Before it was like as follows: the guys from production produced and then said to marketing, “now you guys need to sell it.” When the marketing side said, “but the public does not need it, consumers would like to have something different, they would like to have light fuel, say,” the production side said: “No, no, you have to sell or we’ll replace you.” As you can imagine, this didn’t work very well. So we had to change the mentality, and we did this. Now, we have re-branded our gas stations.

I will tell you a story so you understand how big is the difference between the past and present. If you go to a gas station, you will be surprised that the lane for the cars is so long, sometimes 100-200 meters. Why? Because it was prepared for a minimum 20-car queue waiting for gasoline since everyone used to receive coupons and sometimes had to wait all night for gas. Today, we are fighting for clients, using loyalty programs. We want to keep them. Some 23% of the market belongs to international concerns, like Shell, BP or Statoil, and 40% belongs to Orlen. But it used to be 80%, so we lost. But we have stopped this rot. We changed, we rebuilt the market and now we are growing very fast. This year was fabulous for us. We recorded a record profit of over USD 250 million and will pay a dividend that is three times higher than last year’s.
This happened not just because of the very high global crude oil prices. It happened because of internal, organic growth. That was the first step: to think more broadly of how to expand. Then, we bought 500 gas stations in northern Germany, taking 7% of the local market, which is 3% of the German market. Everybody said, “whoa, Poland buying Germany.” For the last 15 years Poland was a kind of privatization shop, selling its companies and assets. Now, we changed that point of view and welcome our new place in the expanded EU as a member of the European economy.

**Changing Mentalities, Thinking Continentally**

What does this give us? Two things, the first being the breaking of the mentality in Poland, in Polish institutions and in ministries, and I would say bravely, also in the Polish government and the public. The second side is that we are amassing lots of experience in fighting in such a competitive market as in Germany. After a year, our project is going very successfully in Germany and this allowed us to be brave enough to place a bid for Unipetrol in the Czech Republic. We believed our offer was the best, and it was approved in the first stage by the Czech government. We won and we are going to invest over EUR 400mn. Orlen is also going to invest in chemicals in both countries. There are a lot of synergies in the chemical business in the Polish privatized sector and also in the Czech Republic.

Concluding, we believe that on one side there are similarities in Central Europe, like a government presence in companies. It looks like Orlen should be privatized this year, so I’m keeping my fingers crossed. From another side, there is still a big growth potential in this area, though short-term planning is difficult because of the not very strong stability in law and government—governments are changing very fast, ministers are changing very fast. But because of the potential, Central Europe is the right region in which to invest because it is still an attractive area in fast-moving consumer goods as consumption in Poland is some 50% of the European Union.

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