

CEZ's problems in Albania and Bulgaria

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On 7 February the Czech energy company CEZ entered into arbitration against Albania with regard to the fact that Albania revoked the distribution license of CEZ Shperndarje (76% of shares held by CEZ, 24% held by the Albanian state), which is the exclusive electricity distributor, and took over control of the company on 21 January. The management of CEZ has accused the Albanian government of trying to shift the high costs of electricity imports onto them and of charging excessive taxes. Albania argues that CEZ has not fulfilled conditions of the agreement and its irresponsible actions have caused losses to the Albanian budget worth US\$ 1 billion. The conflict escalated when CEZ decided to cut power to all the state-owned waterworks in Albania which were in arrears with electricity payments. In response the Albanian police arrested six CEZ employees and forced the company to resume supplies through a court verdict. The Czech prime minister, Petr Necas, has given his full support for the management of CEZ and in this context he challenged the credibility of Albanian efforts to integrate with the EU. CEZ also has problems with its assets in Bulgaria where the company controls one third of electricity distribution. High electricity prices have caused mass demonstrations in Bulgaria in recent days.

Commentary

- CEZ has had problems in Albania and Bulgaria from the very beginning of its investments there and they are linked with the theft of electricity, increasing debts of electricity recipients and conflicts with price regulators. CEZ's difficulties in these countries have led to poorer financial results for the company and have cast doubt on the future of the Czech economy's flagship investment – the construction of new nuclear blocs in the Temelin power station. Nevertheless, the losses in Albania – estimated at 200 million euros – even should CEZ lose the arbitration, will not affect the decision to continue the Czech nuclear project.
- The Albanian government's response to CEZ was dictated by mounting social discontent with corruption scandals and economic stagnation. The government feared that the fact that CEZ cut electricity to institutions who were in arrears with payments would lead to the defeat of the ruling centre right in the June election.
- The conflict between CEZ and the Albanian government has a direct impact on Czech-Albanian relations and on Albania's reputation in the EU. The Czech government, which

owns over 70% of CEZ's shares, will unequivocally support the company's measures and will probably be more critical in its review of Tirana's steps towards integration with the EU. The dispute between CEZ and Albania will also affect Albania's image among foreign investors. And the involvement of foreign investors is currently crucial to the country's further economic development.

- CEZ's difficulties in Bulgaria are not as serious as in Albania. The socialists opposition are stirring up social discontent against energy distributors and are demanding that the state buy these companies. This scenario is, however, rather unlikely. The ruling centre right has announced electricity bills will be controlled and it cannot be ruled out that it will decide to change its policy towards energy companies before the July parliamentary election. This may also affect CEZ's interests.