

AES Gets Run Out Of Yerevan

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This article originally appeared in mid-May in the Armenian newspaper Iravunk, under the title, "When National Interests Are Upheld, the Colonialists Retreat."

Everybody expected that AES Silk Road, the special daughter company of Virginia-based AES for acquisitions in the Transcaucasus and Central Asia, would become owner of a majority stake in four electricity distribution networks, comprising the bulk of Armenia's power grid, after competitive bidding on April 21. It didn't happen, however, because no tenders were submitted at the appointed time.

Naturally, the majority of the population received this news with satisfaction. But the attitude of the authorities was not the same; or, perhaps, the Prime Minister's extremely convoluted explanation of the matter was incomprehensible to the people. It is worth mentioning that Tigran Naghdalian, the public television personality who was one of the main official boosters of the deal, made a half-threatening prediction that in the future, we ourselves will be begging to sell the power networks as scrap. At the same time, he remarked that these transmission lines are the best in the CIS [Commonwealth of Independent States] countries.

This latter acknowledgment, made after the great shock of the failed auction, is very important, because for months, the authorities were trying to assure the population that the only solution for the power grid would be privatization, as our networks were already rotten. The fact of our grid's being the best in the CIS was also mentioned on April 23, at the press conference given by some members of the government—Justice Minister David Harutunian, Vice Minister of Energy Areg Galstian, chairman of the Parliament's Committee on Finance and Economics Gagik Minasian, and Vice President of the Power Commission Nikolai Grigorian. All of these speakers blamed Ukraine for the failure of our tender (the Ukrainians having recently privatized their grid). At the same time, they said that the failure had been "an important experience" for them. That makes clear, of course, that previous major privatizations, such as the privatization of Armenia's cognac plant, were done *without* benefit of experience!

There is no doubt that AES had reason to back out of the deal. The population did not like the idea of privatization. And, when the members of Parliament were forced to vote on the privatization, it caused a crisis in the parliamentary majority. Certainly, state propaganda also played its role, the

main emphasis of which was to claim that the grid was in a bad state and was being looted by current management, against which the government was powerless. Of course, everybody would like to buy high-quality goods, and everybody would wish to have their rights protected against various sorts of robbers. Thus, the mass media propaganda, backfiring, had a certain negative effect on AES Silk Road.

Interests of the State

But the most important thing is the following: Thanks to concerted efforts by some political forces, a special law was passed, which takes into account the interests of the state. Thirty political parties and public organizations, and at least one-third of the members of Parliament, came out strongly against the privatization as a threat to the national security. On the eve of the tender, thousands demonstrated in downtown Yerevan against the sale. Moreover, unlike with previous privatizations, a special committee was formed this time, charged with making sure that at least the minimum requirements of our nation were taken into account.

The negotiations had to do mainly with the distribution networks, but AES wanted also to get control over the power-generating companies, and over import and export of the electricity. This was rejected, which may have been yet another reason for AES Silk Road, and the international financial organizations supporting it, to back out of the deal.

It goes without saying, that the failure of this deal will greatly affect the position of Prime Minister Andranik Margarian. Now, President Robert Kocharian has the opportunity to dismiss him at any time, invoking the decrease in anticipated budget revenues, which would have accrued from privatization of the electricity networks. The Prime Minister, in turn, will be obliged either to force the shadow economy to pay taxes, or to try to force the Parliament to reconsider and accept the issue of privatization.

The organizers of the above-mentioned press conference on energy, did not exclude the possibility of such reconsideration. Only there are a few "buts." For one thing, it is not pleasant for elected deputies to become the enemies of the population. Moreover, we have already seen how Russia was increasing pressure for the collection of Armenia's debts for natural gas deliveries, one reason for which pressure was the pending Armenian deal with AES on the sale of the electricity grid. Earlier this year, for example, after Russian Gazprom's subsidiary Itera was excluded from bidding for the electricity grid, Russia reportedly shifted to seeking a 50% stake in the Medzamor nuclear power station, in exchange for writing off Armenia's gas debts. With the failure of the sale of the networks in the first round, there would have to be 60 days before a second attempted tender, and it is evident that Moscow would take steps to get into the act again—likely with a new attempt to bid for the electricity networks. [As of May 24, the Armenian government announced its intention to try again to sell the distribution networks, in November 2001.—ed.]