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FOR Communication 2/2020: Takeover of the German Condor Airline: Propaganda of Success

The acquisition of the German Condor airline is another allegedly unprecedented success in the history of the Polish economy: LOT, formerly notoriously loss-making and destined to close down or, at best, sell to Germany's Lufthansa, is now, thanks to the "good change", not only finally making a profit, but also developing so rapidly that it is beginning to expand on the German market. Again, one could hear a false narrative by Mateusz Morawiecki about the messianic role of Law and Justice party in the history of the Third Republic of Poland: "Until now, it was foreign companies that took over valuable Polish assets, we reversed this trend, we reversed this phenomenon". The alleged success was supposed to come from the fact that now "Polish companies are managed in a conscious and patriotic way as regards the economic aspects"¹. The message, of course, is not reflected in reality, which is often a feature of propaganda.

Firstly, the acquisition of Condor is not, contrary to Morawiecki's suggestions, the first time a large foreign company has been acquired by a Polish company. In 2015, PKP Cargo acquired 80% of the shares of the Czech freight carrier AWT². The transaction, however, due to the company's presence on the Warsaw Stock Exchange, took place in a transparent manner, which cannot be said of the acquisition of Condor, for which even the purchase price was not officially confirmed. Nevertheless, after the Law and Justice party took power, the public prosecutor's office filed dubious charges against Jakub Karnowski, former chairman of the Supervisory Board and his associates in connection with this transaction.

The acquisition of Condor is also not the first Polish investment in Germany. At the end of 2018, the cumulative value of Polish foreign direct investment in Germany was over PLN 6 billion. Recently, the acquisition of a German company was carried out by e.g. Wielton, a trailer manufacturer from Wieluń, who bought the Langendorf company.

Secondly, the relative improvement in LOT's performance after 2015 is not due to the fact that people who, as Marek Suski said in the context of PZU, "are familiar with the Law and Justice party program and are a guarantee of its implementation"³. This is the result of the restructuring initiated in 2013, the first effects of which were visible as early as in 2014, when LOT achieved a profit on its core business of PLN 99 million. As the government granted LOT public aid in the amount of PLN 527 million in connection with the restructuring, the condition imposed by the European Commission was the closure of certain routes. LOT could start launching new routes from the beginning of 2016. The restructuring made it possible to increase profits, and the cessation of this condition coincided with a change of government.

¹ Mateusz Morawiecki during a conference with Deputy Prime Minister Jacek Sasin, <https://youtu.be/W5Otkl4WUDY>.

² On the acquisition of AWT and the situation at PKP Cargo, you can read in: Wojciech Zając, *Analysis 14/2016: Politicisation of Treasury companies under the dictates of trade unions - example of PKP Cargo S.A.*, <https://for.org.pl/pl/a/4171,anaiza-142016-upolitycznienie-spolek-skarbu-panstwa-pod-dyktando-zwiazkow-zawodowych-przyklad-pkp-cargo-sa>.

³ M. Suski about Sadurska: PZU needs a person who knows the Law and Justice program and is a guarantee of its implementation, <https://www.radiozet.pl/Radio/Programy/Gosc-Radia-ZET/Gosc-Radia-ZET-Marek-Suski-u-Konrada-Piaseckiego-9-06-2017-r>.

However, it is not known to what extent LOT's profits will turn out to be sustainable. In 2016 and 2017, the net profit of the state-owned carrier exceeded PLN 300m, but in 2018 it fell to only PLN 45m, and in 2019, according to President Rafał Milczarski, it is possible to make a loss⁴.

Thirdly, the fact that LOT started to make profits does not mean that it has become an aviation power. First of all, it doesn't really have its own planes. LOT only owns three 45 Embraers, which it has not used for several years and which it has been trying to sell for a long time without success. All other LOT aircraft are either under operating lease (53 aircraft) or financial lease (16 aircraft). Liabilities under finance lease (over PLN 1.7bn) are four times LOT's equity (PLN 439m). For comparison, over 75% of Lufthansa's fleet is financially unencumbered⁵.

Fourthly, LOT's performance in recent years has had no impact on the acquisition of Condor, as it is not LOT that is the buyer in this transaction. During the conference, against the background of LOT's and Condor's logos, Mateusz Morawiecki considered the acquisition to be "a very brave and prudent movement of LOT Polish Airlines", while Jacek Sasin announced that LOT "is a company that is able to expand into European markets"⁶. However, the buyer was not LOT, but the Polish Aviation Group (PGL), the parent company of the state-owned carrier. Thus, the purchase of the German airline is not at all financed by LOT's financial surpluses in recent years, which would probably not be enough for this purchase.

The capital of PLN 1.2 billion for the establishment of PGL in December 2017 comes from the State Reprivatization Fund, from which the funds were intended to be used for the purposes of satisfying the claims of former owners of the property taken over by the State Treasury⁷. However, in 2016, the Sejm amended the Act on Commercialisation and Privatisation (which is now called the Act on Commercialisation and Certain Rights of Employees) to enable the financing of the expansion of state-owned molochs. The first step was then to recapitalize Polish Television (PLN 20 million), Polish Radio (PLN 8 million) and Radio Kraków (PLN 2 million).

The second source of funding for the acquisition of Condor is a state-controlled consortium led by Bank Pekao, which also includes PKO BP and PZU. There are no private entities among the financiers whose presence could indicate that the transaction makes sense.

The transaction, contrary to Morawiecki's words, is not "proof of the strength of the Polish economy". It is proof of its nationalisation. Airlines, which in the light of government propaganda requires special emphasis, do not necessarily have to be state owned, as the examples of Lufthansa or IAG prove. So this transaction is not a cause for "pride", but for concern. It must be a matter of concern that investment decisions are driven by the political calculation and the needs of propaganda - regardless of whether or not the press release is confirmed and Lufthansa addresses the European Commission on this matter, and regardless of what the European Commission will state in any proceedings against PGL.

⁴ President of LOT Polish Airlines: financial result worse than expected, <https://www.rdc.pl/informacje/prezes-pll-lot-wynik-finansowy-gorszy-od-zakladanego/>.

⁵ Ulrik Svensson, Dennis Weber, Commerzbank German Investment Seminar 2020, s. 58, https://investor-relations.lufthansagroup.com/fileadmin/downloads/en/charts-speeches/presentations/200113_Coba_GIS_Presentation_p5g-jssb65767h5p.pdf.

⁶ Deputy Prime Minister Jacek Sasin on the acquisition of Condor airlines by the Polish Aviation Group, <https://youtu.be/mRPM4JHhCmw>.

⁷ Marcin Zieliński, Communication 30/2018: Polish Aviation Group: double mystification for money from the Reprivatization Fund <https://for.org.pl/pl/a/6322,komunikat-30/2018-polska-grupa-lotnicza-podwojna-mistyfikacja-za-pieniadze-z-funduszu-reprywatyzacji>.

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