WARSAW ENTERPRISE INSTITUTE
UL. ALEJE JEROZOLIMSKIE 30/7
00-024 WARSAW

SUMMARY

- The long-planned merger of Orlen and Lotos will soon take place. This will widen the possible sphere of influence of the Polish company, and the newly formed concern will have greater negotiating power and a stronger position in the entire region. The merger of the two entities must, however, take place on terms negotiated with the European Commission, which has decided that a transaction on this scale poses a threat to competitiveness because the new entity will have such a dominant position and advantage over smaller players that nothing will stand in the way of cutting them off from the supply of raw materials and, in practice, excluding them from the market. Hence, under the agreed terms, the newly formed Polish company will have to sell off some of its assets (primarily a 30 percent stake in Rafineria Gdańska and almost 80 percent of Lotos' fuel stations). The questions remain: To whom? At what price? And on what terms?

- The potential bidders for the whole or part of the assets include Saudi Aramco, MOL, AlimentationCouch-Tard (Circle K), and BP. These companies have such different objectives and interests that the choice facing Orlen, and indeed the Polish government may well determine the future not only of Poland but also of the entire region.

- It is crucial that, when considering potential candidates to buy out part of the assets, one does not look solely through a purely business lens, making a decision based on the nominal value of the offer alone. A merger of two large state-owned companies and separation of a part of assets, which would be transferred to other entities, has an impact not only on the financial situation of companies but also on their non-monetary dimension. The choice of partner will be important for further cooperation in the region and will have long-term geopolitical consequences.

- At the heart of the discussion about the future of this transaction is a fundamental question: Should Poland, in choosing a buyer for the most important asset of those to be divested, i.e. a stake in the Gdansk refinery, take more account of easy and cheap access to crude oil or of the possibility of developing a merged Orlen/Lotos by exchanging assets with the buyer? At stake could be shares in its refineries, petrochemical plants, or a share of the retail market. The options thus come down to a choice between Saudi Aramco and MOL.

- The disproportion between the potentials of the Saudi and the Polish concern speaks against Saudi Aramco, which makes the possibility of equal cooperation, in the face of the huge capital advantage of the Saudis, purely illusory. Another cause for concern is the company's direct links with the government of Saudi Arabia, which makes the concern primarily an instrument of political pressure. Poland is not a strategic partner for the kingdom, which has so far played a marginal role in our international politics. For Saudi Aramco it would be beneficial to mark its presence in the region of the world so far dominated by Russia: Polish assets could become a bridgehead for further expansion. On the plus side, this candidate could provide access to cheaper oil. However, this would not mean an automatic price drop for the end-user, and the business

case for such a transaction does not seem particularly attractive in the face of falling demand for oil and the need to diversify energy sources necessitated by EU action to combat climate change. There is also a well-founded fear that if, for example, the company's condition deteriorates, as has already happened in 2020, the Polish assets would be sold to other entities whose interests would not necessarily coincide with the Polish one or, in extreme cases, would be contrary to them and thus harmful.

- The most serious competitors are Hungary's MOL. The choice of this candidate for asset swap is the least risky and at the same time offers the most potential benefits. On the one hand, MOL would gain access to the Polish market, where it is present today to a small extent and is unlikely to increase. On the other hand, Orlen would gain access to the markets where MOL is present today. This could involve not only fuel stations but also shares in industrial plants, including petrochemical plants. The exchange of assets with MOL will in a way force the Polish and Hungarian companies to cooperate more closely. Closer business and political ties with the entity owned by the Orbán government, which is sympathetic to Poland, would make it possible, among other things, to strengthen the energy security of the entire region of Central and Southern Europe, which faces similar threats. Hence, an exchange of assets with another similar entity, such as MOL, could prove to be one of the pillars of international cooperation within the framework of the Trilateral Initiative. This cooperation is particularly important in the context of the energy transition. Orlen and MOL need to adapt to regulations introduced by the EU. As companies with a similar broad business profile and joint ventures after the exchange of assets, they can take a unified position on the European forum. The selection of the other potential bidders will not have similar effects.