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## Article

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CESifo DICE Report

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*Suggested Citation:* Berne, Michel; Pogorel, Gérard (2005) : Privatisation Experiences in France, CESifo DICE Report, ISSN 1613-6373, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 03, Iss. 1, pp. 33-40

This Version is available at:

<https://hdl.handle.net/10419/166832>

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## PRIVATISATION EXPERIENCES IN FRANCE

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After a long period of nationalisation, France started to privatise state-owned firms in 1986. We will first show why and how such a dramatic change happened, then we will concentrate on the impact of privatisation policies based on the cases provided by major firms. The next section reviews the privatisation status of major state-controlled enterprises. Then we study the performance of privatised firms and summarise our findings with some conclusions.

### Privatisation in France – why and how

The peak of the privatisation policy can be found during the period when the Socialist Party and their allies ruled France from 1981 to 1986. At that time, the total public sector represented 21 percent of production, 23 percent of wages earners, 28 percent of GDP, 30 percent of exports and 49 percent of gross capital formation (Mamou 1996). However, it soon became clear that this situation could not go on forever for five major reasons:

1. Besides the theoretical critics of state ownership of firms, basically resting on the theory of incentives, the French state behaved as a weak and erratic “shareholder”, hesitating between the maximisation of short-term financial or political benefits and a “laissez-faire” approach allowing the state firms to develop as they wished in spite of the bureaucratic control of their activities.<sup>1</sup> Adverse effects of

poor state control can be felt by the firms themselves, by the state treasury as well by other French investors.<sup>2</sup> One radical way to solve the problem was privatisation. Another was to better manage state investments: the Ministry of Finance created in 2003 a state agency, *Agence des Participations de l'Etat*, to bring more consistency and vision to the management of state holdings (Barbier de la Serre 2003; Minefi, 2003; Minefi 2004).

2. The co-existence of state-run and private companies (as in the car industry since 1945 or in the telecom industry more recently) is awkward and could prevent nationalised companies from expanding freely at home and abroad.

3. Even though they can boast an outstanding technical level, state monopolies suffered from time to time from traditional problems like high prices, low regard for customers, bureaucratic attitude (see Giraud 1987 for a discussion within the field of telecommunications). They also engaged in uncontrolled and costly expansion policies because of the weakness of government control.

4. A major liberalisation and privatisation drive started internationally in the 1980s and France followed the trend. Even though European competition policy does not demand privatisation, it imposes severe restrictions on government intervention in the economy (like state aids); at the same time, deregulation policies (telecom, electricity, railways etc.) permit other companies to enter the market – private companies that nearly automatically complain about the former state-owned monopoly leading to difficulties with the European Commission.

5. The size of the state budget deficit also provides a permanent incentive to privatise state firms as France has constantly experienced budget deficits since 1981.

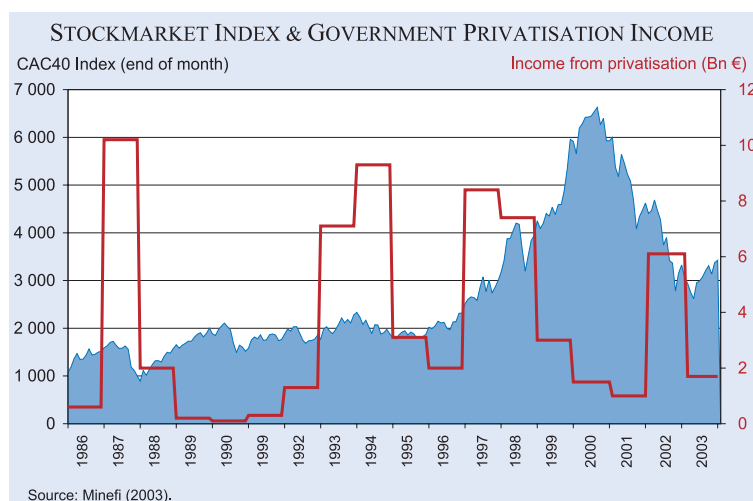
Despite all former initiatives to privatise, in 2003 there were still a huge number of state-controlled enterprises: 1,447 enterprises with 1.1 m employees (in France) and a wage sum of 5.2 percent of total wages in the economy.



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<sup>1</sup> Several severe audits of state management of public firms can be found, including a report of the National Assembly (Diefenbacher 2003).

<sup>2</sup> In the case of a large, partly state-owned company listed on the stock exchange, any poor performance will have two impacts : on stock price indexes and on financing conditions.



er in the summer of 2003, the French government wanted to buy 300 M€ shares in Alstom. But this plan was not approved by the European authorities and the government backed off).

The large number of firms sold and their size can make privatisation a profitable operation for the government. According to (Minefi 2003), the gross privatisation income from 1986 to July 2003 amounted to €65.8 bn, used in the following way:

When a centre-right government was formed in 1986, it started dismantling the then enormous state sector. It benefited from favourable conditions on the Paris Bourse. The Socialists came back to power in 1988 with a fragile majority in the National Assembly. They enforced a policy that was then dubbed “neither-neither” (*ni-ni* in French): no privatisation carried out by the previous government was overturned, but no significant further privatisation was allowed. Since 1993, privatisation was the norm and the succession of right and left governments has not really slowed the process (see Figure).

Since 2002, the centre-right government of Jean-Pierre Raffarin has gone on privatising state-owned companies with a very pragmatic approach:

- Selling when favourable conditions appeared (for example, Crédit Lyonnais, sold over a week-end to Crédit Agricole in 2003 after some hectic bidding),
- taking into account the long-term interests of the companies (as in the Snecma-Sagem merger in 2004), and even
- trying to “re-nationalise” companies in deep trouble: (for example, to rescue Alstom, the troubled electric and transportation equipment manufactur-

- €9 bn to reduce the public debt (mostly between 1986 and 1988);
- €1.6 bn allocated to a special pensions fund set up to ease the impact of demographic changes on the French pensions system;
- €50.5 bn allocated to the firms as equity injection;
- €4.7 bn for the regular state budget (in the early 1990s).

As can be expected, different figures have been computed by other sources, but we can safely conclude that privatisation has had a positive impact on the state budget (Mauduit 2002).

## Impact of privatisation

### Changes of ownership

Two very different cases can be distinguished regarding changes in ownership. Some companies were swiftly and totally privatised (the smaller ones or the industrial firms nationalised in 1982), but a large number of state-controlled companies went through a very long and sometimes painful privatisation process: after a partial IPO, the state gradually sold additional chunks of shares until its participation became nil or reduced to a “golden share” (*action spécifique*). In a few extreme cases, this last step has not yet been possible, either because of legal problems or because of the poor financial health of the company.

The legal framework includes three major acts dating back to 1986 (JO 1986a; JO 1986b; JO 1993). For the largest companies, a special privatisation act is

**Table 1**

### Gross privatisation income 1986–02 – Major phases

Government	Coalition in power	Dates	Income billion €
Chirac	Right	1986–88	13
Balladur	Right	1993–95	17
Juppé	Right	1995–97	9.4
Jospin	Left	1997–2002	31

Note: More than 6 bn € was spent in 1983 on a major nationalisation plan.

Source: Mauduit (2002) based on Baert (2000) and Orange & Rocco (1999).

needed to prepare the procedure. A government decree is enough for smaller firms. A special system was set up to allow entry and exit into and from the state-owned sector for the many subsidiaries owned by large state-owned firms. Since 1993, most of these subsidiaries as well as local public services (*sociétés d'économie mixtes locales*) can be sold under two simple declarative procedures (Minefi 2004). From 1993 to 2003, 442 sales of subsidiaries involving 210,781 employees were performed.

The privatisation process of France Telecom required three steps. The first one was the transformation of the PTT administration into two parastatal entities – done by an act (JO 1990a) creating La Poste and France Telecom. The unions were satisfied by the guarantees offered that the personnel would remain mostly public servants and that no further significant change was planned. However more changes were soon needed to cope with the decision, taken in 1993 at the European level, to have full competition in 1998 in the telecommunication sector leading to a second telecommunications act which was passed in 1996 (JO1996a).

Another act was also adopted in 1996 transforming the basically state-run entity France Telecom into a quasi-standard private company (JO 1996b). Moreover, in 1997, France Telecom paid €5.7 bn to the state as a lump sum to be used to pay the extra costs for the pensions of its retiring civil servants: the government was happy to receive funds lowering the budget deficit while France Telecom was happy to get rid of a sizeable pension debt looming in the future.

The French government, pushed by the top management of France Telecom, decided in 1995 to go for an initial public offering (IPO) of the company. The change of statute was mainly justified by the international ambitions of France Telecom, above all a strategic alliance with Deutsche Telekom and Sprint.

After a long delay, the Initial Public Offering (IPO) of France Telecom finally took place successfully in 1997 and netted €29 bn (Bertolus 2003, 35–70). The state kept 75 percent of the capital; individual shareholders got 10.55 percent of the capital. Financial institutions obtained 11.95 percent and 70 percent of the personnel of France Telecom bought 2.5 percent. A second public offering took place in 1998 and netted €9 bn. Since then, the percentage of France Telecom owned by the state has decreased in

several stages. As permitted by a 2003 act (Mer 2003; JO 2004a), the government sold 9.6 percent of France Telecom and retained 42.2 percent in September 2004.

A major problem blocking the privatisation of France Telecom was the status of most of its staff who were civil servants. After the IPO, France Telecom stopped hiring civil servants and the remaining ones were allowed to stay in the company until their retirement.

#### *Who owns the privatised firms ?*

One major concern of the French government was to keep control of the companies while selling their capital, or at least to prevent the privatised companies from falling into foreign hands. During the first privatisation phase, in 1986–88, the government tried to set-up stable groups of investors (in French *Noyaux durs* for “hard core”). This decision generated a long controversy about the choice of these friendly and stable investors (mostly banks). The percentage of foreign ownership has nevertheless grown to very high levels for some companies. In an extreme case, in 2003, the Canadian firm Alcan has launched an offer for Pechiney – so the later will no longer be under French management. One can safely conclude that the globalisation of business has dealt a fatal blow to any dreams of national independence that might have inspired French governments in the past.

Another impact was the creation of a large class of small shareholders, tempted by the initial public offering of blue-chip stocks (banks, large industrial firms and France Telecom). The France Telecom IPO generated a tremendous interest in the general public, who was severely affected by the incredible rise and precipitous decline of the share price in later years. The staff of privatised companies has also consistently bought the shares reserved for them by law (at very sweet prices).

#### *Changes in competition*

Privatisation has played a role in the increase of competition in the French economy. In the network industries, barriers to entry can be extremely high for economic reasons – the so-called natural monopoly problem. Therefore, the privatisation of a state monopoly will give various results depending on barriers to entry and sector regulation, as shown by

the contrasted situation of airlines and telecommunications. Until the arrival of low-cost companies in the twenty-first century, Air France has kept a strong grip on the French market and all moves to create a viable competitor to the flag carrier have failed.

On the other hand, France Telecom has steadily lost market share to its competitors: at the end of 2002, it held less than 50 percent of the mobile market and 64 percent of the long-distance market. It has kept 81 percent of the local telecommunications market, but the unbundling of the local loop is progressing fast.

#### Privatisation status of state-controlled firms

At present state-owned firms can be found in four major categories:

- Public services. Privatisation is following European Union deregulation policies, usually with some delay. The case of EdF, the electricity producer is discussed below. SNCF, the national railways, is in poor financial condition and trade unions are very powerful: no IPO and privatisation plans are possible.
- Defence and other strategic industries. Privatisation or at least a transformation of state administrations into standard companies is a must to participate in the construction of the new European defence industry. As GIAT-Industries, which produces weapons and armoured vehicles and has been a firm since 1990, is in bad shape, no further move is possible. On the contrary, DCN (*Direction des Constructions Navales*, the former Navy shipyards) was transformed into a private firm in 2003 and is presently in good shape.
- TV and radio. Back in 1987, the first state channel, TF1,

was privatised and sold to the Bouygues group. France Télévision is the holding company managing the remaining state TV channels, notably France 2 and France 3. Even though rumours regularly surface as to the privatisation of one or several of these channels, the government had no official plans at the end of 2004.

- Miscellaneous firms: Charbonnages de France (coal mines, closing down), Française des jeux (lottery), toll highways etc. They are sold one by one, when possible.

An interesting example of the difficulties of privatisation policies for public services is provided

**Table 2**

#### Major state-owned companies in France, 2003

Consolidated figures	Sector	Sales billion €	Profits million €	Employees
Air France	Airline	12.4	98	717,000
Areva	Nuclear industry	8.3	473	491,000
DCN	Shipyard (Navy)	1.9	24	140,000
EdF	Electricity (utility)	44.9	935	1,697,000
France Télécom	Telecommunications	46.1	3200	221,700
France Télévisions	Television channels	2.4	49	7,000
GdF	Natural gas	16.7	980	38,300
GIAT	Army vehicles, weapons	0.7	-640	6,200
La Poste	Postal services	18.0	205	314,100
SNCF	Railways	22.5	66	243,900
SNECMA	Aerospace	6.4	185	39,700

Source: Minefi (2004).

**Table 3**

#### Privatisation status of major state-controlled companies (January 2005)

	Percent state-owned	Status	Remarks
Air France	18	SA	Government share below 50% when Air France and KLM merged (2004)
Areva	95	SA	IPO planned, 2005
DCN	100	SA since 2003	Alliances being signed, IPO possible after act is adopted
EdF	100	SA since 2004	IPO planned, 2005
GIAT	100	SA	Evolution blocked due to poor financial results
France Télécom	42	SA	
France Télévisions	100	SA	No official privatization plans
GdF	100	SA since 2004	IPO planned, 2005
La Poste	100	"Exploitant public"	Impacted by European deregulation
SNCF	100	EPIC	No privatization plans
SNECMA	40	SA	Merger with Sagem in 2004
Note: The normal legal status for large business firms in France is <i>Société Anonyme</i> (SA). SNCF, is an EPIC. The legal form of La Poste is unique but it is close to an EPIC.			

Source: company information.

by situation the national electricity producer EdF found itself in at the end of 2004. European deregulation policy means that competition has arrived on the French market. EdF would like to be in good shape when competition becomes stronger: ability to supply other energies, reform of its specific pension plan, job cuts. But it is prevented by law from expanding outside of the electricity sector and the main trade union, CGT, has blocked a change in the specific pension plans of EdF-GdF employees in early 2003. So both the management of the firm and the French government have planned a change of statute and a slow move to competition, a policy that would solve most of the problems of EdF. Despite the opposition of CGT, the change of statute was implemented by a law voted in August 2004 (JO 2004b).

But EdF, as a former EPIC (see the box below), has benefited from the financial guarantee from the state, a clear advantage anytime it has to borrow money. Also, in 2003 the European Commission believed that EdF benefited from an undue competitive advantage and it has declared its intention to ask the operator to pay back to the state more than 1 bn (mostly unpaid taxes, because of the EPIC statute).

### Performance measures

It is extremely difficult to give clear and objective performance measures for French privatisation policies. However, we will study three major areas for performance: prices, productivity/cost structure and finance.

#### EPIC

An EPIC (*Etablissement public à caractère industriel ou commercial*) is a state entity with mixed features. On one side, it belongs to the state system: its mission is defined by law and cannot be easily extended; it cannot default financially as it benefits from state backing; it does not always pay taxes like a normal company; it has a Board nominated by the state and all its main decisions have to be approved a posteriori. On the other hand, it conducts quasi-normal commercial operations, can enter partnerships and own subsidiaries. Variations exist in the actual statute of the many EPICs found in France. (Minefi 1991).

### Prices

In this section, we will concentrate on prices for public services. In competitive sectors, like cars,

banks etc., prices are market-oriented and price controls are very limited. The situation is very different for public services like La Poste or EdF as they have to have their tariffs approved by the relevant ministries.

In the emblematic case of France Telecom again, the retail prices decrease in general, and significant marketing efforts take place (ART 2003; France Telecom 2003a). These moves follow a complex tariff “rebalancing” strategy where local call prices and subscription fees increase while long distance call price decrease, following a pan-European trend. Moreover, France Telecom (as all other state companies) has to have its main prices approved by the ministers in charge of Telecommunications and the Economy, after ART, the sector regulator, has presented a specific report. From 1997 to 2000, a minimum decrease in prices had been imposed by the Ministry of Economy (9 percent per year in 1997–98 and 4.5 percent per year in 1999–2000; these figures apply to a selected basket of basic services). ART is especially careful about predatory pricing by France Telecom. Thus France Telecom is walking a tightrope: if its prices are too high, it will lose market share; if its prices are too low, they will not be approved.

### Productivity and cost structure

Privatisation introduces changes in cost structures for a number of reasons:

1. Starting and stopping activities is easier. International expansion is also easier.
2. There is also more flexibility as regards human resources management in all its components: hiring, compensation, promotion;
3. After privatisation, specific tax systems disappear (usually leading to higher taxes). For example, France Telecom has declared its 1997 IPO cost the company more than 300 million euros in additional taxes in France (mostly local taxes, excluding income tax) that year.

When we look at the figures of France Telecom in France, the number of employees decreased from 160,700 to 141,100 between 1996 and 2002. In 1997, each employee of France Telecom in France was responsible for 207 main lines and 10 mobile lines. In 2002, (s)he was responsible for 241 fixed lines, plus 136 mobile lines and 28 internet customers.

Privatisation is only one possible cause of this increase in labour productivity, the two main fac-

tors being the development of new services (like mobile phones) and the age structure: Starting in 1996, a large number of older employees retired, with additional incentives being provided for early retirement for civil servants (22,000 early retirees between 1996 and 2002). Since 1992, various reforms have also increased the flexibility of workforce use. For example, in 2002, 9,500 employees have been retrained and mostly transferred to customer relations, information systems and multimedia (France Telecom 2003a; France Telecom 2003b). Full privatisation should make these changes easier to implement, but they are feared by trade unions.

Finally, privatisation made it easier to give additional compensation to the top management of France Telecom and to offer them stock options.

#### *Innovation*

French public services have long had a reputation for innovation and technical prowess.<sup>3</sup> All these innovations were possible because tariffs were set by the state and were based on large-scale cross-subsidies between services, at least during the launch of the new services or production tools. European regulation, as it opens public services to competition, prohibits cross-subsidies from regulated to unregulated activities as detrimental to competition. Moreover, the state had a long-term view of technical innovation and financial performance so that pay-back periods could be long. In privatised firms, the private shareholders are more impatient about financial rewards, less enthusiastic about technical innovation (Munari 2002) and unable to deal with social and political controversies (as EdF with nuclear energy, dealing with environmental issues).

The case of France Telecom, again, provides interesting insight. France embarked in the 1970s and 1980s on developing several innovative technologies (digital switching, videotex [Berne 1997], cable television). Most of these innovations came from the renowned research centre, CNET, (*Centre National d'Etudes des Télécommunications*), founded in 1944 as a national research institution dealing with fundamental research coupled to a traditional operator

R&D centre. Following the IPO of France Telecom, CNET, renamed France Telecom R&D and completely refocused on internal needs, mainly for the development of new services (France Telecom 2003a). Costs figures for R&D show a steep decline as a percentage of sales after the IPO. In 2003, the percentage of sales devoted to R&D is up again.

#### *Finance*

Financial indicators, like profits, debt ratios and stock prices provide another set of measures of performance but methodological reasons could flaw the results. For example, the financial health of the public sector was poor in 2002/03, but now that the government has privatised nearly all the profitable companies, it is mostly stuck with the unprofitable ones (Minefi 2003). One very positive impact of the privatisation process is that it forces the government to make the firms profitable (debt reduction, fresh capital, restructuring). Thomson, Air France, Usinor, Crédit Lyonnais have all gone through very difficult times: yet, after some painful years, it was possible to privatise them as soon as they were in good shape and since then (at least until 2004) most of them have developed normally.<sup>4</sup>

Again, the case of France Telecom is interesting. After its IPO, France Telecom expanded very fast, particularly abroad and in new sectors (mobile, internet, television). When it bought Orange in 2000 at a price of €43.2 bn as well as several UMTS<sup>5</sup> licenses, most of these purchases were paid in cash: issuing new stock would have lowered the share of the state below 50 percent, a move then forbidden by law. France Telecom had to borrow massively for this purchase. Even though overall operational results were quite acceptable at group level, some of these purchases failed to produce financial returns, and servicing the debt was nearly impossible. A rescue plan devised in 2002 called for €15 bn of fresh money, a debt refinancing of €15 bn and €15 bn in savings.

As regards stock prices, the introduction price for France Telecom shares was €24.03 and after one trading day it was up to €31.5; the share peaked at

<sup>3</sup> To name a few examples, EdF has conducted an outstanding program in nuclear energy; rail transport has been transformed by the introduction of the TGV high speed train by SNCF and Air France has, jointly with British Airways, operated the supersonic Concorde plane.

<sup>4</sup> Out of the 1000 largest firms in the world (listed by Business Week according to market value in May 2004), 44 firms were French. There were 23 privatised firms on the list. Amongst them, with their world rank: Total (23), France Telecom (64), BNP (71), Vivendi (170), Alcatel (276), Saint-Gobain (303), Autoroutes du Sud de la France (626), TF1 (813), etc. (Business Week 2004).

<sup>5</sup> Universal Mobile Telecommunications System, the European version of the third mobile generation.

€219 on 2 March 2000, then fell to an all-time low of 6.94 on 30 September 2002. In January 2005 the price was around €23.

## Conclusions

### *The changing role of ideology*

The privatisation process in France has been heavily loaded in terms of ideology as has the case for nationalisation itself. The reluctance to privatise has been especially high due to the combination of three political ideologies. The Socialist ideology states that “people” or state-ownership are in all cases superior to private ownership. The “Dirigiste” (Colbertiste, Bonapartist, and Gaullist) tradition, highlights the superior knowledge and vision of the state. A Christian inspired Social Doctrine advocates public property in the name of the public good and social solidarity.

This combination resulted not only in the above-mentioned nationalisation, but in provisions for “public ownership” to be included in the 1946 constitution when the government coalition was composed of those three political forces. Until the early 1980s, this combination had remained prevalent in terms of popular support. The radical changeover in ideology and reality in the United States and the United Kingdom began to induce, but with some delay, changes in French political doctrines. It, combined with the disastrous economic situation which followed the phase of nationalisations carried out by the “Union of the Left” coalition (1981-1986), paved the way for the protracted and not yet finalised privatisation process.

### *Perception of privatisation policies*

Privatisations are now a widely accepted in principle. However, trade unions and social forces often fight successfully to oppose them in order to preserve special workers and social conditions in the public sector. It often takes imperious “strategic” moves, as in the Air France KLM merger case, to assuage this reluctance.

It has to be said that the reluctance demonstrated recently by this blue-ribbon, global corporation to comply with the governance and information transparency rules they preach has not helped in promoting the image of private corporations.

### *Lessons to be learned?*

The implementation of sound governance rules for the private sector seems to have to go hand in hand with the promotion of the privatisation process. Succeeding French governments have learned the hard way that privatisation is a slow process and that one should pay as much attention to corporate governance of partially privatised firms as to privatisation moves. As an example, the IPO of France Telecom was a resounding success in 1997; the results of the company were disastrous in 2001 and 2002 – not only because of the burst of the telecom bubble. Another sad example is provided by the computer manufacturer Bull: the state has been unable to revitalize the firm, despite massive injections of public money (much disliked by the European Commission, as to be expected).

### *Reaction to EU directives*

EU directives have played a very important role in the evolution of economic ideologies and realities. In many cases, French governments have taken advantage of them to promote internal policies they actually supported without daring saying so. We know no directive can be taken without the explicit agreement of member countries Governments. “Brussels constraining demands”, however, have often been invoked by French governments as forcing them to take not-so-popular or unpopular measures and decisions. It is a well established principle that European policy is neutral as regards the ownership of firms. However, European policy promotes competition in most sectors. These changes have a deep impact on state firms. Actually, they cannot survive in the new, deregulated, environment without drastic changes. Probably, privatisation is the only way for them to meet the challenges of deregulation. After France Telecom and Air France, the government has decided on IPOs for both EdF and GdF. After France Telecom again, EdF will be a testing ground for the success of the privatisation process: it is a well-run company, renders vital services, employs sensitive technologies, makes huge long-term investments, and is, at the same time, under deregulation constraints.

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