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Valuation of privatization in Europe by experts and stakeholders: results of explorative surveys and interviews. EU-supported project understanding privatization policy: political economy and welfare effects

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Valuation of Privatization in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews

EU supported Project
Understanding Privatization Policy: Political Economy and Welfare Effects

Gernot Nerb
Siegfried Schoenherr
Bennet Schroeder
Valuation of Privatization in Europe by Experts and Stakeholders: Results of Explorative Surveys and Interviews

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Introductory Note

The survey and interview activities on which this report focuses are part of a major project entitled “Understanding Privatization Policy: Political Economy and Welfare Effects”.

The Project was supported by the EU under the STREP Program (Specific Targeted Research Projects within the Sixth Framework Programme). It was carried out by a Consortium of 8 research Institutions from various European countries under the lead of the Fondazione Eni Enrico Mattei in Milan. It lasted from February 2006 until July 2008. The Ifo Institute worked on two research packages: a) Fiscal Effects of Privatization and b) Valuation of Privatization in Europe by Experts and Stakeholders. This report presents the results of the valuation of privatization.

Numerous individuals and institutions throughout Europe contributed to this report by answering questionnaires and participating in interviews. For all of them anonymity was assured. The Ifo Institute is very grateful to these hundreds of contributors. Many of the interviewees had prepared the interviews with great care by providing materials for documentation and further insights. Some of the interviews took a considerable amount of time from very busy people because quite often interesting issues had to be discussed in detail which were relevant but not foreseen in the questionnaire guidelines. We extend our gratitude to all these patient and cooperative experts.

Last but not least the Ifo team worked very enthusiastically especially in conducting the interviews. A good number of doctoral students assisted in the empirical work as well as in the more general country studies. Our thanks are due to all of them.

Siegfried Schoenherr
Gernot Nerb
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Evaluation of Privatization in Europe by Experts and Stakeholders: 
Results of Explorative Surveys and Interviews

1. Introduction

For more than two decades, privatization, particularly in the areas of fixed telephones, gas, water and electricity supply, has been on top of political agendas of governments throughout Europe. These efforts have primarily been guided by the assumption that privately owned enterprises outperform public enterprises in terms of efficiency. However, the implications and actual results of privatization efforts vary to a great extent, depending on the sector of the former incumbents as well as on the government’s specific approaches towards privatizations, and are still under intense discussion. Based on its longstanding expertise regarding business surveys, the Ifo Institute was entrusted with the task of exploring the perceptions, ongoing controversies and evaluations regarding privatization by experts and stakeholders in selected European countries. The Ifo Institute opted for a three-fold data gathering approach.

2. Data gathering approach

Two series of targeted mail surveys, and, in addition, in-depth personal expert/stakeholder interviews in selected European countries were designed and carried out. In a first survey a sub-sample of 1000 German firms from the Ifo Business Survey panel was selected and approached by a mailed questionnaire. The focus was on issues related to Germany.

To obtain basic information on other European countries, a second survey was conducted Europe wide. The sample was taken from another Ifo panel survey, the World Economic Survey. In this survey country specialists participate (managers and professional analysts). About three hundred experts from most of the surveyed countries in Europe were approached by a mailed questionnaire.

The two surveys for this study had a twofold purpose: firstly to obtain preliminary information on the present state and important issues, tendencies and controversies regarding privatization in most European countries and secondly to identify partners for later in-depth interviews.

Since targeted surveys permit little space for the respondent to come up with complex and detailed answers and do not allow the investigator to specify or alter the questions according to the given answers (e.g. ask for reasons and background information or new follow-up information), in-depth interviews with a number of stakeholders and well-informed other persons were therefore considered important. Furthermore, since privatization issues may
touch politically and socially sensitive aspects, personal face-to-face contacts provided the opportunity to explore such issues more adequately.

The report presents the findings of these data gathering activities. It is structured as follows: Firstly, the key findings of the Europe-wide survey are presented. Secondly, as a more focussed approach, the German manager survey results are described. Thirdly, as the major part of data gathering, the results of the in-depth interviews are presented and discussed.

3. Results of the European-wide Survey on Privatization

Owing to the structure of the poll, the results provide an initial idea of how the privatization efforts have been perceived by business leaders and economists in selected European countries. The survey was sent out to 300 country specialists (managers and professional analysts) throughout Europe. In the end, 113 experts from 22 European countries participated (a response rate of 38 percent; many of the experts who did not participate in the survey indicated that they were not well informed on privatization). Since Germany provided the highest number of respondents, the results reflect a corresponding German weight.

The survey tackles some important privatization topics – regarded ex ante – such as judgements about privatization effects on:

- consumer prices
- wages
- value of shares
- employment
- quality of consumer choice.

3.1 Impact of Privatization on Consumer Prices

The survey revealed that according to the surveyed experts prices throughout Europe have, except for telecommunication services, not declined due to privatization. As shown in the graph below, a majority of the experts believed that energy prices have even risen after the privatization of the former incumbents (above the level of the international market price for energy). When asked about the development of prices in the water and gas sector, most of the experts either stated that prices had not changed significantly or claimed that prices had risen after privatization as in the energy sector. These findings reveal that a fall of prices for consumers, a popular claim of privatization supporters, has not yet been fulfilled in most of the utilities. The only exception is telecommunications: The experts in most European countries stated that due to intensified competition and technological change in the telephone sector, consumer prices have decreased drastically.
Graph 1: Effects of privatization on consumer prices in selected EU member countries (in percent)


3.2 Impact of Privatization on Wages

When asked about the development of wages after the privatization process, around half of the experts stated that privatization has not brought about a significant change. However, overall, more experts claimed that wages have risen after privatization than fallen. This does not hold for Germany, where more experts claimed that privatization has resulted in a fall of wages in every sector of the utilities. In fact the survey revealed that compared to other EU member countries, average wages in Germany decreased according to the judgements of the experts in all 4 sectors, particularly in the telephone sector.
3.3 Impact on the Value of Shares

The majority of the experts confirmed that the shares of the former incumbents have gained value due to privatization. They affirmed, as can be seen below, that this is especially true for the telecommunication and energy sectors. Unlike other EU member countries, the value of shares of German enterprises in the telephone sector did not rise; in the other sectors, particularly in the electricity sector, share prices rose both in Germany and in other EU countries.

3.4 Impact on Employment

When questioned about the effects of the privatization of utilities on employment, the experts drew a relatively negative picture. On balance in all EU member countries, privatization led to
a decline of employment. The experts disagreed most as to the negative effects on employment in the telephone sector, where 48 percent claimed that privatization led to a decline of employment while 36 percent claimed that employment had risen. In all other sectors, the prevailing opinion was that privatization either had no consequences on employment or led to a decline (the later in-depth survey showed that experts distinguish between long-term macro effects and short-term micro effects. In the short run the negative judgements prevail, in the long run more often positive effects are expected).

Graph 4: Effect on employment in selected EU countries (in percent)

![Graph 4](image)


### 3.5 Impact on Quality of Consumer Choice

Overall the experts drew a positive picture regarding the effects of privatization on the quality of services and consumer choices. Because of growing competition, the quality of consumer choice increased particularly in the telephone and electricity sector. However, except for the telecommunication sector, more than 50 percent of the experts stated that quality has not improved in the gas, water and electricity sectors.
4. Results of the German Manager Survey on Privatisation

The Ifo Manager Survey was conducted in January 2007. The survey was sent to 1,000 German managers of German firms. In total 432 managers responded (response rate 43.2 percent). Non-respondents often explained that they are not competent in privatization issues. In total 48 percent of the participants were in the Service Sector, the rest was shared between Manufacturing (second), Construction (third) and Trade (fourth position).

More than fifty percent of the participants work for small enterprises with fewer than 50 employees, while four percent of the respondents represent larger corporations with more than one thousand employees. To avoid redundancies, the results of this survey are only presented for issues that go beyond the first European experts survey.

When questioned as to whether their companies have been directly affected by privatizations, 13 percent stated that they have had experience with privatisation through suppliers, 22 percent through the use of network services and 17 percent through their customers. The rate fell significantly when asked about cross-border experience with privatisations. Moreover, for respondents who had experienced privatization in their company, the majority expressed a rather positive view concerning the overall effects of privatization.
Most respondents had not experienced effects resulting from privatization in other countries. Referring to the small group with experience in this matter, the attitude towards privatization is also rather positive. Furthermore, the participants where asked if their company faces restrictions on cross-border mergers involving state-owned enterprises. Only very few stated that this has been the case. The following countries are named where restrictions had been experienced:

Table 1: Does your company face restrictions on cross-border mergers involving state-owned enterprises?

<table>
<thead>
<tr>
<th>Country with restrictions</th>
<th>Sector of restriction</th>
</tr>
</thead>
<tbody>
<tr>
<td>France (1x)</td>
<td>Other (non-utility/strat. industry) (1x)</td>
</tr>
<tr>
<td>Italy (1x)</td>
<td>Other (1x)</td>
</tr>
<tr>
<td>Austria (1x)</td>
<td>Other (1x)</td>
</tr>
<tr>
<td>Sweden (1x)</td>
<td>Energy (1x)</td>
</tr>
<tr>
<td>Bulgaria (1x)</td>
<td>Strategic industry (1x)</td>
</tr>
<tr>
<td>USA (1x)</td>
<td>Telecommunication (1x)</td>
</tr>
<tr>
<td>China (1x)</td>
<td>Strategic industry (1x)</td>
</tr>
</tbody>
</table>

Source: Ifo Manager Survey on Privatization in Germany, January 2007.
5. Results of In-depth Interviews on Privatization Issues in European Countries

5.1 Introduction

Rationale for in-depth interviews:
The face-to-face expert interviews have two advantages that were particularly valuable for this research project. First, they enabled us to obtain highly sensitive and first-hand information. Second, unlike secondary data analysis, which relies on ex post data, expert interviews generate information on present and ongoing events and may also include the attitudes and feelings of stakeholders that have an impact on future economic and political behaviour.

Methodology applied for country selection:
In a first step the target countries were identified. This was done in consultation with the Consortium team. The intention was to include the more important economies of the EU but also to take the country-specific diversity of the privatization experience into account. About 50 interviews were carried out in 9 countries with a total of 57 individuals. Consensus was reached that the following countries were most suitable both in terms of importance and diversity:

- Austria (3 interviews)
- France (4 interviews)
- Germany (11 interviews)
- Greece (3 interviews with 4 individual partners)
- Hungary (5 interviews)
- Italy (6 interviews with 9 individual partners)
- Poland (5 interviews with 8 individual partners)
- Spain (6 interviews)
- United Kingdom (8 interviews).

Methodology applied in the expert interviews:
In a first stage, as explained and shown above, two standardised questionnaires were sent to two different expert samples. The purpose was, as already mentioned, to obtain a brief overview on country-specific privatization issues as well as to identify persons prepared to participate in expert interviews. The preliminary results of these two surveys were presented in the Project’s Praha Conference. During the conference, a draft list of possible interview participants, identified by the two surveys, was distributed. This list was amended by Consortium members, who as country specialists proposed additional potential candidates as interview partners.
In the next step, a framework for the structure of interviews (semi-formal questionnaire) was drafted, discussed within the Consortium (by e-mail), amended and finalised. The interviews were designed for one or two hours of questioning and discussion.

The composition of interviewees per country was based as much as possible on the aim to reflect diversity of interests and expertise. It was, however, ensured that at least one interviewee was a knowledgeable specialist from the academic community not belonging to an interest group. The rest of the stakeholders were selected from public and private sectors as well as from interest groups, such as labour and consumer organizations.

The aim, it must be underlined, was not to receive a somewhat representative view on the positions of interest groups and stakeholders, because this would require methodologies going far beyond the capacities of this project. The aim was to explore country-specific issues, problems and prospects that have important relevance for the one or the other stakeholder as well as for the country-specific privatization process in total.

The potential interviewees were approached in a first step by a letter requesting participation and explaining the background of the interview action. These letters were followed-up by telephone calls in which further explanations were given and final decisions on participation and appointments were made.

The interviews in most cases were conducted by two interviewers simultaneously to obtain optimal results. In a number of cases, interviewees asked additional specialists to join the interview (especially if they belonged to institutions where several privatization/liberalization specialists were available). Some interviews, therefore, were conducted as group interviews. The number of interviewees in each country varied considerably according to availability. However, we were able to secure a minimum of three interviews for all countries.

The interviews were conceptualized, conducted and compiled by the Ifo/UPP research members: Siegfried Schoenherr, Gernot Nerb, Jutta Albrecht, Hans Russ and supported by three PhD students, Lars Hornuf, Julius Pahlke and Bennet Schroeder.

Structure of the interviews:

As mentioned, the interviews were based on a semi-formal questionnaire. Most questions focussed on judgements/attitudes, many of them formalized in scales from 1 to 5 (e.g. “strongly disagree, disagree, undecided, agree, strongly agree”). Most questions, in addition to the answer scales, gave scope for informal explanations and discussions. The whole interview was concentrated on judgements regarding privatization and liberalization achievements and deficiencies in the utilities sector (fixed telephones, gas supply, water supply and electricity supply). Judgements on the driving and retarding forces of privatization as well as beneficiary and loser groups were sought. Regulatory issues, political and other interventions as well as formal and informal political dynamics were to be discussed and a final statement on success.
or failure of the privatization programme to be made by the interviewee (questionnaires in Appendix).

The questionnaire frame was pre-tested, amended and all interviewers instructed on its concept and how to proceed. During the interviews the questionnaire proved to be adequate, in general, under the varying country and stakeholder conditions.

The most important results are presented by country in the following chapters.

5.2 Evaluation of Privatization Issues in France

In the case of France interviewees represent the following stakeholders: the public sector, academia, international organizations and the central bank. In total four face-to-face interviews were carried out.

5.2.1 The Current State of Privatization

A comprehensive and scholarly debate on privatization issues in French society detached from ideologies is hampered by a strong approval of the French central state and by the Bonapartist and Gaullist heritage. During the violent riots in various French cities that peaked in 2005, in themselves indicative of the urgent necessity of reforms, numerous French citizens expressed their anger over the inability of the French government to fight unemployment – a reflection also of the tendency in France to keep the centre of control in national hands. Considering the long tradition of industrial policy in France, all of the interviewees shared the opinion that an industrial policy with publicly owned companies is necessary. The existence of monopolies was justified for efficiency reasons – arguing that some of the industries are natural monopolies – and the need to provide firms with a sufficient financial endowment. Some respondents expressed their concerns that the provision of universal services may be endangered by the operation of private companies.

Initial privatization efforts started in France in the first legislative period of Jacques Chirac in the mid-1990s. The European Union was commonly seen as a fundamental driver of privatization by the experts. The interviewed experts stressed the importance of two very influential channels that fostered a policy change. Firstly, when the European Single Market initiative was conceived in 1985, becoming effective in 1992, it steadily forced European governments to further liberalize their markets. Since many of the French state-owned enterprises suffered from typical monopolistic problems, namely inefficiency, overpricing and excessive bureaucratic procedures, selling these firms was sometimes the only way to deal with the upcoming market liberalization. Secondly, the creation of the single currency, for which the Maastricht debt and budget deficit criteria were established as an entrance precondition, obliged the French state to consolidate its finances. The budgetary requirement
gave the government an additional incentive to privatize firms. Even more important than the revenues raised by selling firms was the motivation to get rid of state-owned corporations in order to ensure that loss-generating companies no longer put a strain on the financial performance of the state. A minority of the interviewees argued that a major rationale behind selling state firms was to use the fresh revenues to subsidize other state-owned corporations.

Graph 7: Current state of privatization according to French experts/stakeholders

![Graph 7: Current state of privatization](image)


Graph 8: Current state of liberalization according to French experts/stakeholders

![Graph 8: Current state of liberalization](image)


### 5.2.2 Present Driving and Retarding Forces

There was general agreement among the interviewed experts that pressure from political forces and interest groups has slowed down liberalization efforts in recent years. The relevant stakeholders that are retarding liberalization, according to the respondents, are the unions and the public sector as well as the alter-globalist movement. The arguments these interest groups put forward draw primarily upon the security of supply and the public-goods character of the respective sectors. On the other hand, the privatization of large corporations was mainly driven by the objective to merge them, with the ultimate goal of creating national champions.
Furthermore, the privatization of firms was in some cases pushed forward to reform the pension schemes, switching from a diversified to a unified system. The consolidation of government revenues obviously played an important role in selling firms.

5.2.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

The current situation concerning the privatization of state-owned enterprises is quite clear. Apart from the privatization of France Telecom, utility providers (gas and electricity) are still to a large extent under the control of the French government. Regarding France Telecom, many of the experts pointed out that the corporation still holds a quasi-monopoly position, as it exclusively owns and administers the fixed telephone network. In the opinion of the interviewees, the competitiveness of the fixed telephone market does not suffer from this situation, since all of them argued that competition is high in the sector. According to the statements given, fixed telecommunication providers are readily available. The situation in the other sectors looks somewhat different. There is no market for gas and electricity services in France, as indicated by the experts, because Gaz de France / Suez and Electricity de France hold nearly monopolistic positions. The competitors, Gazprom, Total, ENI and BP, respectively, hold single-digit market shares on the gas market. The stakes of private energy providers like POWEO are likewise small. Due to the natural monopoly character, the water sector can hardly be liberalized, in the opinion of all experts interviewed. Apart from one respondent, all interviewees argued that the French government still influences privatized companies. The major sources of influence are voting rights and government ownership as well as the strategic appointment of people to boards of directors. The state-owned investment bank, Caisse des Dépôts et Consignations, influences private-sector firms, according to one interviewee. In the energy sector, government control is mainly exercised through the fixation of prices. None of the respondents argued that the influence of foreign investors should generally be limited, while one interviewee made a distinction between EU and non-EU investors. In addition, there were no preferences with regard to a particular investor type. When interviewees were asked whether privatization improved corporate governance, all experts agreed unanimously.

Finally, the focus of the interviews turned to the issue of whether the network infrastructure should be separated from the network service. All respondents agreed that the service provision should be disconnected from the infrastructure. The highways as well as electricity and the railway system in France were cited as positive examples. Nearly all experts claimed that it was either too early to say whether regulatory authorities worked effectively in France or that they simply did not have enough information to assess know how well they currently perform.
5.2.4 Winners and Losers of Privatization

The experts were asked whether privatizing firms like France Telecom was beneficial or harmful to individual parts of society. The opinions of the experts as regards the effect of privatization on employees diverge. On the one hand, the employees of France Telecom benefited from privatization, as they were able to purchase staff shares at favourable conditions. On the other hand, some of them apparently lost their jobs after privatization. The managers of the newly privatized companies gained power, as they are now enjoying more freedom in the decision-making process. Nevertheless, they are still considerably restricted in management decisions, since the government owns a majority of the company shares. This is especially evident in the case of Electricité de France. The representatives of the labour force – the unions – lost some of their influence in the course of privatization, mainly because they were strongly represented in the public sector.

5.2.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

To evaluate which consequences the privatization process had so far, each expert was asked to give a statement on a five item scale or to indicate a general tendency, and give – if possible – additional arguments for this assessment. Not surprisingly it was argued that the privatization of France Telecom and the partial privatization of Electricité de France increased competition in the telecommunication and electricity sector and improved the business efficiency of the respective firms. That this notion is indeed accurate was just recently attested by the Ifo Institute (2007), using hard data on market shares and unit prices. Moreover, while in the fixed telecom sector the unit price of the former incumbent dropped and was assessed as competitive compared to private rivals, the French energy sector did not see such a price decrease. The major reason for this sluggishness is that energy comes primarily from nuclear power plants, which impose low costs on energy providers keeping consumer prices equally low. Beyond this reasoning, prices did not change in the energy sector, as they were fixed by the national government, which made a decline in the energy price de facto impossible. With regard to services, France Telecom has been assessed as a good provider, not least because the former incumbent apparently has a highly skilled staff.

Apart from the structural problems, which in the electricity sector are due to the fixation of prices and which put constraints on all corporations equally, the French experts disagree whether foreign companies face operational difficulties accessing the markets and whether financial market barriers are in some way erected by the government.

All respondents agreed that water and electricity supply are sectors that provide a public good, while there was no clarity if this is the case for fixed telephone and gas. Nevertheless, the possibility of contracts between state and private operators was mentioned for the achievement of certain public good functions, like universal access to services. It was stated
that the government established the provision of universal services in the case of railways, electricity and postal services by law and mitigated social hardships by means of a fund, allowing low income earners to get cheaper access to electricity and telephone providers.

5.2.6 Public Opinion towards Privatization

According to the interviewed experts, the prime privatization issue in French society is the welfare of consumers. They indicated that both the evolution and the volatility of prices as well as the provision of services are of major concern. Apart from that, there is an obvious fear in society of unemployed as a result of privatization.

5.2.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

To conclude, privatization is a very sensitive issue in France and it will be very difficult to initiate an imported scientific debate on the costs and benefits of privatization with the participation of media and the broader public. Obviously, France has a long history of industrial policy and planification, the consequences of which can be felt up to the present day. Although all experts claim that privatization in France has been successful, they see only very limited scope to extend the process to other sectors. Still, all interviewees stated that further moves are necessary, in particular in the railway sector. The transport of goods and materials is apparently highly inefficient and it was strongly recommended that this be privatized. One way to move forward, it was argued, is to rely on the support and regulations of the European Union, a strategy that has worked very well in the past.

5.3 Evaluation of Privatization Issues in Spain

In total six face-to-face interviews were conducted in Spain. The interviewees represent the following interests: industry, academia, the regulatory authority, a former member of Parliament as well as the public sector and the Government Commission for Privatization.

5.3.1 The Current State of Privatization

After the first stable parliament was elected in 1982, the Spanish labour party Partido Socialista Obrero Español (PSOE) remained in power for 14 years. During this period the Spanish government followed a privatization strategy rather similar to French policies, namely the creation of National Champions with the aim of conquering foreign markets and controlling domestic one. After the socialist period came to an end, the conservative party enforced a speedier and, primarily for the state finances, lucrative privatization policy by selling-off shares of the largest utility companies, like Telefonica, Endessa and Repsol to
name just a few. This change in policy was largely needed to keep the Spanish public deficit below the three percent ceiling of the Stability and Growth Pact. Today, privatization is no longer a pressing issue in Spain, as all interviewees consistently stated.

Graph 9: Current state of privatization according to Spanish experts/stakeholders

![Graph 9: Current state of privatization according to Spanish experts/stakeholders](image)


Graph 10: Current state of liberalization according to Spanish experts/stakeholders

![Graph 10: Current state of liberalization according to Spanish experts/stakeholders](image)


### 5.3.2 Present Driving and Retarding Forces

Interestingly, almost all interviewees negated that any interest groups have slowed down the liberalization process in recent years. It was argued instead that the regional division was a more interesting factor, when it comes to the question of whether privatization will move forward or not. The central government is apparently convinced that only privatized companies can compete in global markets and even more important that privatization is the only way by which these firm can expand via international mergers and acquisitions. On the regional level, however, the governments are more interested in creating private public partnerships (PPPs), with the aim of excluding expenses from the budget.
According to the experts, the two major factors that retard future privatization projects as well as the abolition of golden shares in Spain, is the concern for national sovereignty and anxiety with regard to the security of supply.

5.3.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

According to the expert interviews, the fixed line telecommunication market in Spain still lacks real competition. Telefonica, the former Spanish monopolist, still controlled four fifths of the market in early 2007. Several mergers and acquisitions created an economic giant, which not only dominates the Spanish market; with the second most customers worldwide and third highest market value in its branch, Telefonica is one of the very important global players in the telephone sector. Although all experts agreed that the corporation is entirely privatized, they have indicated that the Spanish fixed telephone market suffers today from a high degree of concentration.

The gas market in Spain is still separated into a regulated and a liberalised segment. After the partial market opening in 1998, access to the gas network was virtually not feasible for private competitors, since Gas Natural solely owned the transmission system. Just recently, the incumbent has been unbundled from Enagas – the operator of the transmission infrastructure – and access to the gas network has become possible for private gas providers. As a consequence the market share of the former incumbent fell considerably, in particular in the industrial segment. In the past five years Endesa, Iberdrola and Union Fenosa, among others, have made their way onto the Spanish gas market. According to the experts, the complete privatization of Gas Natural is undisputed, while there is some controversy about the liberalization of the gas market in total. The water sector in Spain is organized on a regional level as in many other European economies. Aguas de Barcelona (Agbar) and Fomento de Construcciones y Contratas (FCC) together hold around 80 percent of the private water management business as well as 100 percent of the joint venture market in Spain. The French water giant SUEZ, which recently merged with Gaz de France to avoid a takeover by the Italian company Ente Nazionale per L'energia Elettrica (ENEL), currently holds a 30 percent share of Agbar. According to the respondents, Spain still has numerous public water providers.

Generally speaking, it can be said that the Iberian (Spanish and Portuguese) electricity market relatively separated. No other European supplier has been able to penetrate the Spanish market apart from the Portuguese incumbent EDP and the Italian company ENEL, which both hold shares in Hidrocantabrico and Viesgo. Although the government does not possess large shares in the Spanish electricity provider Endesa and the power grid operator Red Electrica, it still holds golden shares in both companies. According to the interviewees, the Spanish
electricity sector is largely under the control of Spanish companies like Endesa, Iberdrola, Union Fenosa, Gas Natural and is not very liberalized. It was argued that this situation is partly due to the geographical location of Spain, which makes it difficult to supply energy to the peninsula.

While only two interviewees alleged that the Spanish utilities are protected through financial market entry barriers, the remaining four did not see such problems. Moreover, most of the respondents did not indicate that there are operational difficulties for foreign companies to enter the market. Nevertheless, two of them stressed that it was difficult for gas and electricity providers to directly access the network, mainly due to the geographic location of Spain. The only way a foreign company could enter these sectors, it was noted, is through a takeover of existing firms.

The universal provision of services is guaranteed in the fixed telephone sector. There is also a fund to mitigate social hardships. For other sectors, none of the respondents knew of any measures that have been undertaken by the government. This part of the interview was concluded by asking about the public-goods character of the sectors. One respondent argued that telephone, gas, water and electricity are all very sensitive goods and the government should ensure that everybody is able to use them. Another expert argued that most of the sectors lost their public-goods character, as today there are a lot more substitutes available to all of them. In other words, people no longer rely on a fixed telephone provider as mobile calls are comparably cheap.

As regards the influence of an investor, it was repeatedly argued that any type of public investor – whether foreign or domestic – might not be very suitable to be represented in the management of a privatized company, in particular if the respective government is not very democratic. Furthermore, while there are already Algerian and Russian gas providers operating in the Spanish market, one of the experts was concerned that these providers could acquire infrastructure control.

There is unanimity among the respondents that the government still influences privatized companies. Most obvious was the intervention of the government in the case of Endesa and the takeover attempt of the German energy provider E.ON. Surprisingly, only one of the respondents mentioned golden shares as an important source of influence by the government. There was nevertheless broad agreement that the strategic appointment of supervisory or executive elites in privatized enterprises as well as special relationships in the economic and political arena play an important role in influencing privatized companies. Only one interviewee disputed this claim. Furthermore, it was argued that the state is exercising power through the setting of prices and more precisely the approval of tariffs. One respondent noted that in the energy sector, state subsidies played a major role in fostering renewable energy technology, with the ultimate goal of creating a national champion in this sector.
When asked whether the service provision of a utility provider should generally be separated from the network provision, all respondents affirmed this claim. The experts admitted that there were problems in Spain in defining the access conditions to the networks, but eventually the unbundling succeeded in the gas and electricity sector, while there are still problems in the fixed telephone branch.

When the experts were asked whether regulators should be transitory or long-lasting, there were reasonable arguments in favour and against a limited lifetime of a regulatory authority. Experts that were against a long-standing regulator argued that if the institution succeeded in liberalizing markets, it would have no more rationale thereafter and competition policy should be handed over to an antitrust commission. If, on the other hand, a regulator is not successful in establishing competition, the body would have no legitimization either and the bureaucratic apparatus would simply grow by holding it up. These arguments were countered by the prediction that there will never be perfect competition in any market and that therefore a regulatory authority needs to be long-standing.

While most of the respondents saw the effectiveness of the regulatory authority as strongest in the fixed telephone sector, the institution apparently lacks power in the gas and electricity branch. This is mainly due to the fact that tariffs are set by the ministry. Moreover, half of the respondents claimed that the regulator is not truly independent and thus requires sovereign authority.

5.3.4 Winners and Losers of Privatization

We then examined how privatization policies were implemented and which parts of society gained or lost from these measures. As regards the employees, it was stressed by some respondents that there was actually no reduction in workplaces, since privatized companies grew and thereby additional jobs were created. While having to work harder, most employees benefited through salary increases. This was also true for management. Spanish consumers generally gained from the privatization of state-owned companies, which is most obvious in the case of the airline industry, and telecommunication where prices decreased dramatically. Some interviewees explicitly argued that the precise effects of privatization are hard to disentangle, but that the process as such brought a Pareto improvement for society.

5.3.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

Not surprisingly, all interviewees agreed that privatization improved the corporate governance of the respective corporations, although there are still concerns as regards the independence of the board members. Nevertheless, the transparency and the information publicly provided by these firms improved considerably.
There is not much disagreement on whether prices decreased after privatization. This was most obvious in the case of the fixed telephone sector, as this is the market that shows the largest extent of liberalization. Despite the institutional and competitive progress, gas prices followed the international trend and did not stop growing. Nonetheless, they have been developing more benevolently in the industrial sector. As regards the electricity market, no interviewee claimed that there was an improvement in prices.

All of the experts affirmed that the business efficiency of the utility providers improved, while one respondent made the case that this was primarily due to technological developments. Nevertheless, all interviewees claimed that the former incumbent Telefonica adjusted its prices rather rapidly after its privatization and became sufficiently competitive to survive in the market. The experts did not have a clear opinion on whether such a development took place also in the gas and electricity market. Finally, it was very often stated that in particular the service of Telefonica and Endessa improved considerably.

5.3.6 Public Opinion towards Privatization

The prime issue as regards privatization in Spain, according to the interviewees, is consumer welfare, meaning the continuity of service provision. Apart from that, all respondents claimed that there is no debate on privatization in Spanish society today. The interest groups that are retarding further privatization are, according to one respondent, the Greens; another interviewee saw economic think-tanks and the media – especially the newspaper Expansión – as the forces that are driving the privatization process further ahead.

5.3.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

Overall, it can be argued that Spain tended to follow the French style of industrial policy by creating national champions, but also the British model of a complete and rapid privatization of firms. With regard to other sectors, precisely healthcare and education, there are already established private and public institutions in Spain. The railway company Renfe is owned by the state, but according to the interviewees, ownership is not disputed in society, while the liberalization of the network is. To sum up, the picture in Spain is as follows: The privatization process of the big utility providers is largely over. Today, the importance lies in the establishment of competitive markets. Although the focus of liberalization has been primarily on the fixed telephone sector, the former incumbent Telefonica still owns more than half of the market share. In the other sectors, namely gas and electricity, the fixation of tariffs largely hampers any real competition.
5.4 Evaluation of Privatization Issues in Poland

In the case of Poland interviewees represent the following interest groups: the private and public sectors, academia, the trade unions, the regulatory authorities and the central bank. Overall, five interview appointments with different organizations were arranged. In some cases consultations took place in small groups, which helped the interviewers to account for different interests within the respective institutions.

5.4.1 The Current State of Privatization

The privatization process in Poland is fundamentally different from the developments in Western Europe, because many economic policies were implemented in the shadow of a previously planned economy. In the early 1990s the quality and the pace of the privatization process suffered from the political and social peculiarities in Poland. The fragmentation of the party system resulted in considerable political instability, which is evident from the ten different government majorities between the years 1990 and 2001. This state of affairs obviously did not support a stable and consistent privatization policy. While the small-scale privatization program began immediately after the communist era came to an end, starting with the privatization of stores, restaurants and small production units that previously belonged to local government bodies, a large-scale privatization process was greatly postponed. Three major initiatives to sell off larger corporations were started in the first half of the 1990s. Firstly, there was the mass privatization through the voucher method supported by Solidarity, secondly, the “Pact for Industry” under which each divestment plan was worked out by a tripartite commission made up of management, unions as well as government representatives, and thirdly private investment funds. However, the weakness of the government resulted in a failure to pursue a straight divestment strategy until the year 1997. After that considerable progress was made. Among the economic reforms prior to the accession to the European Union, a large-scale restructuring and privatization plan was drawn up, causing repeated waves of worker protests and strikes, since the industrial sector was the one most affected by job cuts. As a result of this development the percentage of total output produced by the public sector plunged from about 90 percent in the early 1990s to nowadays below 20 percent.
Graph 11: Current state of privatization according to Polish experts/stakeholders

![Graph 11: PRIVATIZATION OF UTILITIES](image)


Graph 12: Current state of liberalization according to Polish experts/stakeholders

![Graph 12: LIBERALIZATION OF MARKET](image)


### 5.4.2 Present Driving and Retarding Forces

When asked whether political forces or interest groups were slowing liberalization efforts down in the last years, only one expert confirmed this claim. Interestingly, not the left wing parties but the conservatives are seen as retarding further privatization project. The public sector, consumers, as well as the labour force have been commonly identified as the major forces in society driving the privatization process ahead. However, one expert mentioned that a few employees are afraid that a competitor might buy a firm, with the sole purpose of closing it down to get rid of a competitor.
5.4.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

In the telecommunication branch the privatization of Telekomunikacja Polska S.A. has largely been completed. A first tranche (15 percent of the capital) was sold by a public offering in 1998 raising almost US$900 million. In a second phase (2000-2001), 47.5 percent was sold to a consortium headed by France Telecom and Kuczyk Holding for US$5.2 billion. A further public offer in 2003 generated proceeds of another US$436.4 million. Finally, a last tranche of 1.94 percent was offered to domestic and international institutional investors generating revenues of almost US$110 million. All interviewees confirmed that the former incumbent Telekomunikacja Polska S.A. is now fully privatized, while at the same time respondents unanimously agreed that the Polish telecommunication market is only in theory liberalized.

Graph 13: Energy groups in Poland

In March 2006, the Polish government approved a new energy sector strategy that created four energy groups, with the aim to privatize them later on through initial public offerings (IPOs). The biggest group is Polska Grupa Energetyczna (PGE), which combines elements of Poland's national power grid Polskie Sieci Elektroenergetyczne (PSE), the power plants BOT and Dolna Odra, and eight power distributors in the central part of the country. Apart from the other three Polish energy groups, Vattenfall and RWE are the first foreign energy providers operating in Poland. During the time of the interviews, every single entity was working regionally independent of the others (see graph). For this reason all of the respondents stated that there was neither progress in the privatization of the energy groups, nor did any liberalization of the market take place until recently. Since fall 2007 however energy providers are allowed to operate beyond the artificially created borders, which is a development that will obviously contribute to a more competitive energy market within Poland’s borders.

In 2005 there were 603 enterprises operating in the Polish water supply sector. Among them were 289 enterprises subject to governmental budgets, eight auxiliary corporations, 294 limited liability firms and twelve stock companies. Privatization was accomplished in the case of 29 limited liability corporations. Stocks of three public companies were partly sold. This impression was commonly shared by all of the interviewees, stating that privatization was on track but is far from being perfect.
With regard to the gas market, there is unanimity among the experts that the former incumbent is barely privatized and that a liberalization of the market has not yet taken place. In 2005 a 15 percent stake of the gas exploration and distribution company PGNiG was sold. The IPO generated revenues of more than US$800 million.

As a result of the interviews four out of five experts confirmed the notion that the Polish government is influencing privatized companies. As in other countries interviewees claimed that social links as well as the strategic placement of people in the board of directors was a key method to exert pressure on formerly state-owned firms. The influence through ownership rights had a similar weight in the opinion of the respondents. Only one interviewee mentioned that golden shares still play a role.

To sum up, the recent situation in Poland can partly be explained by the government pursuing nationalist policies, with the aim to create a Polish National Champion under the control of the state. It is therefore not surprising that all of the respondents identified the creation of National Champions as hampering privatization efforts. The majority of the experts argued, that concerns about the security of supply have a negative impact on the denationalization of firms. Finally, there was unanimity that the consolidation of the national budget was a major objective in the privatization process in the past.

As regards the type of shareholder most suitable to manage a privatized company, many interviewees claimed that foreign investors are certainly advantageous. This claim was made since most experts expected foreigners to promote the corporate governance structure and the human capital of the respective firm as well as its prospects to generate additional funds. Know-how transfers from companies like Vattenfall and France Telecom have been mentioned as positive examples. Hence it is not surprising that none of the experts wanted to limit the influence of foreign investors in Poland, while some caution was mentioned in the case of Gazprom. Three out of five interviewees claimed that privatized firms have better corporate governance standards.

When asked whether the network infrastructure should be separated from the service provision, all but one respondent confirmed this statement. The gas and electricity sectors were mentioned as positive examples for dismantling. It is important to note that the majority of the experts hesitated to recommend a privatization of the network, indicating that private firms might not have the right incentives to make the necessary investments.

Finally, all respondents agreed that regulatory authorities should not only be transitory but long-standing institutions. The major argument was an ordo-liberal one, namely that there will always be tendencies towards concentration through mergers and acquisitions. As regards the current effectiveness of these institutions, the regulatory authority was seen to work rather successfully in the telecommunication sector, while in particular in the gas market it is less effective.
When discussing the public good character of utility providers and ethical questions as regards the privatization process, most of the respondents addressed security and safety issues. In particular the privatization of the network was not regarded as being advisable.

There was a large disagreement among the interviewees as to whether foreign companies face operational difficulties or financial entry barriers when accessing Polish markets. While in the gas and electricity sector there is a fixed amount of licenses that companies can obtain to trade energy or provide gas, there is apparently no competition to buy such a license. Other practical problems have been mentioned, for instance the requirement to store a certain percent of the capacity, to name just one. Two of the interviewees stated that many foreign investors do not have a particular interest in entering the market, as too much investment would be needed to operate a business and expected revenues might not fully compensate for this.

5.4.4 Winners and Losers of Privatization

Not only the interest groups pushing privatization projects in Poland ahead are unlike the ones in Western Europe, also the beneficiaries of the process are apparently different. Apart from one respondent who did not make a clear statement, all experts agreed that privatization was beneficial for the employees of privatized firms. They profited, according to the statements made, primarily from the allocation of free shares and the payment of higher wages. Moreover, in the course of a social pact, investors and the union negotiated employment guarantees. Laid-off workers got “golden handshakes” granting them very generous compensations. According to the interviewed experts, the losers in society are workers who stayed in the public sector. Most of the respondents claimed that the public as a whole benefited largely from the privatization of formerly state-owned enterprises. However, one expert indicated that in the case of Bank Pekao S.A. the government’s proceeds from the sell-off are now the annual profits of the firm, which has created some doubts on how privatization was actually implemented.

5.4.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

Apart from the fixed line telecommunication sector and to some degree the electricity market, real competition has been negligible in the four sectors we have so far discussed. The two branches just mentioned were also indicated as the ones where former state-owned enterprises have exhibited the largest improvement in their service quality. According to the experts, price changes have resulted from international price trends, but are not the outcome of the privatization of state-owned firms. It was furthermore indicated by the interviewees that the competitiveness of the former incumbents is now mainly due to the ownership of the network.
The business efficiency of the firms improved, according to the respondents, only in the case of Telekomunikacja Polska S.A.

5.4.6 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

Poland is without doubt a special case as regards privatization – the unions are in support of privatization, while nationalist interests in the government attempt to prevent it. Employees of firms which did not take part in the privatization process are widely seen as the losers in society. Although none of the respondents claimed that privatization was a failure, only half of the interviewees indicated that it was a clear success. Privatization efforts in Poland have not been limited to the utilities already discussed. According to the experts, there are also private universities, schools and hospitals. Attempts were made to privatize even certain parts of the military sector. It was argued by the interviewees that further progress has to be made in the area of coal mining, banks and the stock exchange. While previously only revenues from IPOs mattered, today the Polish state has become more and more concerned about the profits a state-owned enterprise might generate, especially if it is capable of becoming a national champion. Although it may be surprising for some liberal economists, it has been shown in the literature that this pursuit can indeed increase aggregate output and welfare in the European Union (Sinn 2003).

5.5 Evaluation of Privatization Issues in United Kingdom

In the case of the United Kingdom more interviews were conducted since it was assumed that a wider range of information due to the long lasting experience and pioneering role could be gained. Among the interviewees were representatives from the competition authority, trade unions, academia, the consumer protection alliance, the public sector as well as the Institute for Economic Affairs. In total eight experts were interviewed.

5.5.1 The Current State of Privatization

When the Labour government arranged the sale of some of the state’s shares in British Petrol in the early 1970s, this sale was solely enforced by budgetary pressure and did not reveal a belief within the government that state industries should be privatized. In fact, the same Labour government nationalized two other sectors at this time: aerospace and shipbuilding. Only with the election of the Thatcher Government in 1979, did a fundamental strategy change occur within the government towards the privatization of state-owned enterprises. Revenues from privatization reached a peak in the early 1990s. When in 1997 a new Labour government came into power – despite promises to reverse at least some of the privatizations
this government implemented its own, though much smaller-scale privatizations, especially in the form of public-private partnerships (Parker and Hartley 2003). As a result, all the respondents claimed that the privatization of the four utilities that were discussed is now fully accomplished. With respect to the liberalization of the four sectors, nearly half of the experts indicated that the markets were absolutely open, with the one exception of the water sector. The reason that a more laissez-faire policy is hard to establish here is mainly technological. Since the privatization process in the United Kingdom is largely over, much can be learned from successful projects but also the failures that have been made so far.

The privatization of British Telecom (BT) started in 1984 with the sale of more than 50 percent of the shares. The remaining state holdings in the company were sold in 1991 and 1993. All of the experts agreed unanimously that BT is fully privatized today. Apart from two respondents, all experts agreed that the landline telecommunication market is very much liberalized.

The privatization of British Gas (BG) started with the 1986 Gas Act, which initiated the privatization of the company through the issuing of shares on the London stock market. While all but one expert claimed that BG is fully privatized, three out of eight experts doubted that the market is fully liberalized today. The 1990s led to a so-called dash for gas, during which the use of coal was reduced in favour of gas consumption. This trend was aggravated by the privatization of the National Coal Board and the Central Electricity Generating Board. Competition within the energy markets was facilitated not least through the availability of cheap gas from the North Sea. As a result all experts found the energy sector to be fully privatized; in terms of market liberalization, a majority agreed that this was the case.

Graph 14: Current state of privatization according to British experts/stakeholders

<table>
<thead>
<tr>
<th>Utility</th>
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<td>Fixed telephone</td>
<td>5</td>
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</tbody>
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1 = completely state owned; 5 = entirely privatized

Graph 15: Current state of liberalization according to British experts/stakeholders

![Graph of Privatization of Market]


5.5.2 Present Driving and Retarding Forces

A majority of the experts claimed that political parties or interest groups did not slow the privatization process down in the last years, while three interviewees stated the opposite. According to the opinion of the later, consumers and unions stopped the privatization in the case of Royal Mail and the National Health Service (NHS). The arguments that were put forward in these two instances have to do with safety and universal access as well as the loss of jobs and the national heritage.

5.5.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

Half of the respondent argued that the government influences in one way or another privatized firms. Almost all of them agreed that pressure is exercised through regulators or law. When it comes to market entry barriers for foreigners, none of the experts found neither operational nor financial market entry barriers established in the United Kingdom. When asked whether any type of investor appears to be less suitable to manage a privatized company, concerns were stated with regard to foreign public investors – in particular Gazprom, Electricité de France and Gaz de France were mentioned. The reason for this attitude was that some experts feared that a foreign investor cannot be made accountable if it does not fulfil a contract. Other interviewees claimed that a particular type of investor would not be more or less desirable as long as there are many competitors. For this reason all but one respondent indicated that foreign investors should not be constrained in any way, primarily as such a policy is regarded as unrealistic in Great Britain. The majority of the respondents further noted that the corporate governance of companies remarkably improved after privatization. However, two of the experts stated the opposite, namely that not much has changed. While the former group claimed that the transparency has improved, proper accounts have been published and firms
now state a clear objective, one interviewee argued that the transparency of the firms has worsened.

As regards the final question of this section of the questionnaire, which focused on whether the experts support or object to the separation of the network infrastructure from the service provision, there was no clear-cut answer to this issue. Though most of the experts wanted the network to be unbundled, concerns were expressed in the case of railway service providers and the Network Rail Infrastructure Ltd. as well as private water providers. Most of the interviewees argued that the unbundling and the consequent privatization of the network providers was a disaster in the case of water and railways. By relating unbundling to privatization most experts stated, that if accountability was missing and the right incentives to invest in the infrastructure were not established, the unbundling of network industries in all sectors is doomed to failure. Although the gas, electricity and telecommunication sector were mentioned as positive examples, where the unbundling was rather successful in the United Kingdom, the disappointment in the case of water and railway was mentioned again and again. As prime reasons why the unbundling and the subsequent privatization of the network infrastructure did not work, the following two were named. First, it was stated that simply too many interests were involved and consequently there was and is no clear responsibility regarding investments. Secondly, it was argued that in the case of Railtrack many contracts were made by accountants, who were more concerned about the legal agreements than about the incentive structures that resulted from them.

With regard to the time frame a regulatory authority should have, the opinions of the experts largely diverged. Some of the interviewees stated that in the case of natural monopolies competition would never be self-enforcing and furthermore a regulator is needed to set-up certain contracts. Others mentioned the economy literature, according to which bureaucracies have a natural tendency to expand and continuously engage in activities in new areas. Overall there was no agreement whether regulators in the United Kingdom work effectively or not.

5.5.4 Winners and Losers of Privatization

As regards beneficiaries and losers of the privatization process in the United Kingdom, the interviewees stated that the financial sector and the large consultancies were the largest winners. They gained because of the huge mergers and acquisitions as well as technical assistance projects. Surprisingly, not one single expert indicated that the employees benefited from the privatization of the utility sector, some, however, clearly stated that this group has as a result of the developments in the last three decades. The arguments that were put forward not only mentioned that there was a net loss jobs but that in some cases pay was worse and lost job security lower. On the contrary there was a broad consensus that shareholders, senior managers and consumers benefited from the privatization of the large utility providers. One interviewee mentioned that the unions were big losers as the degree of unionization degreased.
from more than 50 percent in the early 1980s to less than one fifth of the active labour force today.

As a corrective measure a windfall tax was implemented by the Labour government in 1997. The tax was aimed at the excess profits of the privatized utilities and reflected the belief of the Blair government that the “family silver” had been sold too cheaply. Among the firms that were affected are the British Airports Authority, British Energy, British Gas, British Telecom, National Power, Northern Ireland Electricity, Powergen, Scottish Hydro, Scottish Power and Railtrack, the regional electricity companies and the privatized water and sewerage companies.

5.5.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

The consequences of the privatization process as assessed by the British experts are relatively straightforward. Apart from the water sector nearly all respondents stressed that competition is indeed in place in the utility sectors. In the gas, electricity and fixed telecommunication sectors the business efficiency of the former incumbent improved and prices plunged after privatization took place. Nevertheless, many of the experts claimed that these improvements are mainly due to the regulation of the market, which established competition, and are not the result of privatization process as such. The opinions expressed are also in line with Parker (2004), who argued that the liberalization of the markets led to the improvements in prices and efficiency and that it was not the privatization of assets alone. Overall there was a broad agreement among the respondents that privatization led to a significant improvement in the service quality that utility providers offer today.

The respondents disagreed largely about ethical issues as regards the privatization of the four utilities that have been discussed. However, the sector that was most distinguished from the others is water supply. Some experts mentioned that it is an essential good that should respond to public needs and not to market forces, if the two are in conflict. Apparently there are regulations in place to prevent poor individuals from being cut-off from electricity, gas or water if they are unable to pay their bill during the winter.

5.5.6 Public Opinion towards Privatization

Concerning the current debate on privatization in the United Kingdom, experts agreed that three topics are predominant in the public debate. These are consumer welfare, efficiency and economic order. According to the statements made, the British society is concerned about the National Health Service being bought by a foreign investor, the safety of the rail system and the accessibility of the utility providers, especially if these are not domestic firms. Finally
none of the experts mentioned that employment is an issue, while three have been explicitly stated that it is not.

5.5.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

In retrospect, almost all British experts maintained that privatization was a success in the United Kingdom, while only one interviewee contradicted this claim strongly. Nevertheless, all interviewees agreed that the implementation of privatization went wrong in the case of railways and water supply, but was rather successful in the case of electricity, gas and telecommunication. As a result of the disastrous Railtrack privatization, half of the respondents stated that the rail network should be re-nationalized. Some others claimed that this should also occur in the case of water supply and hospital cleaning. The experts further suggested that Royal Mail, parts of the military as well as real estate and buildings owned by the state should be privatized in the near future. One respondent mentioned that the welfare state in general should take further steps towards privatization.

5.6 Evaluation of Privatization Issues in Germany

In the case of Germany interviewees represent the following stakeholders: industry, academia, regulatory authorities, consumer associations and the public sector. In total eleven face-to-face interviews were carried out.

5.6.1 The Current State of Privatization

Germany officially started the privatization process in 1983, when the CDU-CSU/FDP coalition led by Helmut Kohl came into power. In 1983, public enterprises accounted for 9.6 percent of GDP value added. Between 1986 and 1989 the government started with the sale of shares of the automobile producer Volkswagen, the energy and chemical firm VEBA and the airline Deutsche Lufthansa. Since 1989 the German postal and telecommunications sector has been increasingly liberalized. The former postal service was split into three parts: Deutsche Post AG, Postbank AG, and Deutsche Telekom AG. After the fall of the Berlin Wall and the collapse of the East German Communist regime in 1989, the policy agenda of the Federal Republic changed. The Trust Agency (Treuhandanstalt) was established to head the privatization of the nearly 8,000 formerly state-owned enterprises in East Germany. In 1994 Kohl formed his fourth government, in the middle of economic difficulties due to recession and unexpected costs of unification. The privatization process gathered momentum during the second half of the 1990s. In 1996 revenues of privatization increased about 89 percent with respect to the previous year, totalling over US$13 billion, mainly raised through the public offer of 26 percent of capital of Deutsche Telekom. In the subsequent two years the process
slowed down, especially in the electoral year 1998 that saw Gerhard Schröder come into office with a coalition of the SPD and the Green Party. But it was under the government of Gerhard Schröder that the revenues from privatization reached top values since the beginning of the privatization process. The revenues accounted for around US$20 billion both in 1999 and 2000. Among the most relevant transactions of this period that mainly involved the privatization of utilities were the two partial sales of Deutsche Telekom, the initial public offer of Deutsche Post, and the sale of Berliner Wasserbetriebe water company. After these privatization milestones the process decreased abruptly, as was the case in other European countries.

According to the interviewed experts, the current extent of privatization and liberalization of utilities in Germany has resulted in different outcomes depending on the sector. On the one hand, all interviewees agree that the privatization and liberalization of the telecommunication sector has already achieved a very high level. Currently, the German government still has a direct stake of 28.33 percent in Deutsche Telekom AG. On the other hand, there is nearly a consensus among the experts that the water supply has neither been privatized nor liberalised to a great extent so far due to the natural monopoly character of the utility. Questioned about the current state of privatization in the gas sector, the interviewees expressed the opinion that the liberalization and privatization of the gas sector has only seen modest progress. Most of the interviewees consider the electricity market to be more privatized and liberalized than the gas market. However, competition is still limited in the electricity sector due to the oligopolistic market structure and the regional dominance of big utility providers such as EON, RWE, Vattenfall and EnBW. Furthermore, local distribution in the gas and electricity sector is still mainly held by the public authorities.

Graph 16: Current state of privatization according to German experts/stakeholders

<table>
<thead>
<tr>
<th>Utility Type</th>
<th>Privatization Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity supply</td>
<td>3.1</td>
</tr>
<tr>
<td>Water supply</td>
<td>1.4</td>
</tr>
<tr>
<td>Gas supply</td>
<td>2.0</td>
</tr>
<tr>
<td>Fixed telephone</td>
<td>4.4</td>
</tr>
</tbody>
</table>

1 = completely state owned; 5 = entirely privatized

5.6.2 Present Driving and Retarding Forces

According to our respondents, the political parties have tended to slow down the privatisation efforts in recent years. Moreover, two thirds of the experts questioned are of the opinion that political parties have hindered the progress of privatization and liberalization efforts. However, the German experts disagreed with regard to the attitudes towards privatization and liberalization of the respective political parties in Germany. On the one hand, four interviewees stated that the parties on the left, mainly the SPD and the Green Party, have not been in favour of liberalization. On the other hand, two experts emphasized explicitly that neither the trade unions nor left-leaning parties have been a hindering force of the privatization process. Interestingly, only two out of the eleven consulted experts argued that the conservative parties have been supportive of liberalisation. An interesting perspective was given by two experts who stated that support of the privatization process is not a question of being more leftist or centrist but varies distinctively between the different political administration levels. In fact, municipalities and lower levels of the administration seem to be more critical towards privatization than higher levels, especially the federal government of Germany.

5.6.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

Most interviewees affirmed that the government still influences the former incumbents. According to the experts, it is important to stress that the government not only has a strong influence on companies that underwent a formal privatization, in which case only the legal form of a company changes from a public entity to a private entity, but the state remains the main shareholder and keeps full control over the company, but that this is also true for most of the material privatizations, where the actual ownership is handed over to the private sector. The experts expressed the opinion that the state retains significant influence over the companies through informal networks between politicians and the private sector and the
appointment of former politicians as members to the board of directors. According to some experts voting rights are also a major source of influence over privatised companies. Furthermore, subsidies are used to influence companies in the sector of public transportation, especially the railway industry. However, according to the interviewees, subsidies are not a big issue in the industries discussed above.

When asked about the ability of foreign investors to invest in the privatized incumbents, nearly all of the respondents argued that investors already have free market access to the telephone sector. Regarding the electricity sector the opinion of the experts diverged. Most interviewees expressed the opinion that although no formal barriers exist for foreign gas and power suppliers to enter the market in Germany, there are currently still problems which are retarding possible market entry and therefore hinder competition. One expert mentioned capacity shortages in the international electricity grid as such a problem. However, another expert argued that domestic investors are facing the same entry problems as foreign companies. Finally, a third expert sees present competition improvements due to a better performance of the regulatory authority, thus enabling the entry of competitors into the market.

When questioned about their opinion regarding different types of investors that might hold a 25-percent stake or more in the former public monopolist, the interviewees stated that this topic is highly controversial. Especially big foreign enterprises that are de facto under control of foreign governments evoke concerns. One expert mentioned explicitly the Russian enterprise Gazprom as an example in this context. The experts expressed concerns that such foreign enterprises might undertake their investments with political interests in mind and not only out of economic considerations. Thus, the dependence of Germany on other countries could grow. With regard to private foreign enterprises the interviewees expressed less concern. One interviewee argued that privately held foreign companies will not abuse their stake in the former incumbents to exercise political pressure because in this case they would pay a high financial price. However, according to another expert, a major concern is the possible abuse of hidden reserves by the foreign company as a means to generate fast profits. According to one expert railway tracks could prove to be such a hidden reserve and therefore have to be dealt with great care in the privatization process. Moreover, the experts argued that foreign investors can have a positive impetus on the German economy. A positive effect of the engagement of foreign companies in the former incumbents is the possibility of a transfer of know how and managerial skills. Furthermore, the engagement of big international providers in the German utility sector can lead to synergy effects and a higher level of efficiency.

Nearly all experts claimed that the privatization of network services should be separated from the privatization of the network infrastructure. However, two of our interview partners expressed their concern due the negative experience of the railway privatization process in the
United Kingdom and due to security concerns. According to the interviewees, the main positive aspect in favour of the separation of network infrastructure and service is the improvement of competition. Concentration of both infrastructure and service in the hand of one company weakens competition as the owner of the infrastructure can impose high taxes for the use of his infrastructure on his competitors. Additionally, integrated companies have a competitive advantage compared to pure service companies because they obtain lower credit rates due to a higher capital stock. With regard to the most frequently named example the German railway company “Deutsche Bahn AG”, many experts recommend keeping the railway system in the ownership of the state. If the infrastructure is privatised, the point of view of almost all experts is that the existence of a regulatory authority is absolutely necessary to protect competition. According to the interviewees the performance of regulatory authorities in enforcing competition varies across the different sectors. The experts consider that the regulatory office does a good or very good job in the telephone market. However, the regulatory authority is said to ensure competition only partly in the electricity and gas sector. Two experts made the suggestion of integrating the regulatory authority (in Germany “Bundesnetzagentur”) in the general competition authority (“Bundeskartellamt”). Others argue that it would be recommendable to exercise the regulation from the European level, as national regulatory offices tend to privilege former incumbents against their foreign rivals. Finally, this part of the interview was concluded by asking about the public good character of the sectors. Almost all our interview partners concur that the security of supply of water must not be compromised. The public responsibility to ensure the supply of electricity and gas is not considered as crucial as the water supply. According to our experts the telephone sector is the least sensitive product as more substitutes are available. Another expert argued that all the services can be offered by private enterprises while other interviewees are concerned about a deteriorating supply situation due to the privatisation efforts. Deutsche Bahn, which has shut down several railway lines, was mentioned as an example for a deteriorating supply situation.

5.6.4 Winners and Losers of Privatization

The interviewees were asked whether the privatization of the utilities was beneficial or harmful to individual parts of society in Germany. The opinions of the interviewees differ regarding the consequences of privatization on the employees. On the one hand, many experts stated that the situation of the employees has deteriorated due to job reductions and more pressure in the workplace. On the other hand, three experts claimed that employees are beneficiaries of privatization. One expert especially emphasized the positive, long-term effects of privatization for employees. Furthermore, the majority of our interview partners concur that managers have profited from privatisation. Surprisingly even more, in total nine out of the eleven experts, argued that consumers have benefited from privatisation, especially due to the price reductions in the telephone sector. One expert stated the loss of the market share of Deutsche Telekom as an example where shareholders clearly lost. Regarding the taxpayers, two experts hold the opinion that if the German railway were privatized according
to the current strategy the state and consequently the taxpayers would lose due to the high amount of sunken investment in the infrastructure. In spite of the fact that the privatisation process has created beneficiaries and losers, the German government has not been very active in equilibrating these effects. The German government has not created a universal fund to guarantee universal service provision, it is only giving public subsidies, e.g. in the sector of public transport. However, one expert explained that job guarantees have been established in some former public enterprises. On the other hand, two interviewees explicitly expressed the opinion that public action to help losers of privatisation wasn’t necessary.

5.6.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

When asked about the consequences of privatisation and the performance of former incumbents, nearly all of our interview partners stated that efficiency has improved in the telecommunications sector. Moreover, service has improved and the prices of the former monopolist Deutsche Telekom have decreased considerably through privatisation, although this might to a large extent be due to technology effects and not due to the privatisation efforts. However, the question of whether Telekom is already competitive with regard to prices is much more controversial. More than half of the interviewed experts doubted the competitiveness of Telekom in the domain of prices as well as in the domain of its services.

With regard to the gas and electricity supply the situation described by the experts is completely different. Although efficiency of the privatised enterprises might have grown, only two persons stated that electricity prices of the former public monopolists have fallen. Indeed, the interview partners mentioned that due to commodity price effects and changes in energy taxation the question is hard to answer, but the general perception was that prices might have risen due to the privatisation of these sectors. With reference to the quality of service of the former incumbents the situation is similar, with about fifty percent of the experts affirming service improvements.

With regard to the topic of corporate governance, nearly two thirds of the experts think that the corporate culture has improved in the former incumbents. However, the interviewees stated that the improvements in the management and corporate culture have rarely been fundamental. According to one expert, management incentives should be adapted in order to change management priorities from short-term success to long-term growth and profitability.

5.6.6 Public Opinion towards Privatization

The arguments put forward by the opponents of privatisation according to our experts are numerous and usually include the “public-goods character of utility services”, the aggravation of services quality, the reduction of jobs, low salaries and harm to the environment. The interviewees expressed the opinion that the German public is very concerned about the security of supply of the former incumbents. The power breakdown in the winter of 2005/06,
which was viewed by the public as being related to the privatisation process, was given as an example that triggered concerns about the security of supply in the broad public. Furthermore, a second argument that is often brought up by privatisation opponents seems to be the desire within the government to create strong national champions. In that regard the opponents still consider the state to be more competent and its influence as a necessary precondition for the creation of national champions. According to the interviewees, the privatization of the utilities was mainly driven by the need to consolidate government revenues through the sale of public enterprises and through a possible increase of future tax revenues as a consequence of the improved efficiency of the former incumbents.

5.6.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

In spite of their own reservations against privatisation and liberalisation projects, the majority of experts think that the general feeling within the public in Germany towards these topics is positive. However, as one expert stated, a problem from the point of view of the public is that the advantages of privatisation are diffuse, while its risks, like mass dismissal of employees, are visible at once. According to the experts that were interviewed, the prime issue in German society concerning privatization is the possible loss of jobs due to privatization efforts. Furthermore, fifty percent of the interviewees argued that changes in the economic order, which are considered as damaging to the social fabric, are an important aspect in the privatization debate. Although the experts themselves regard consumers as beneficiaries of privatization, they claim that within the public many people fear a deterioration of the supply security.

The interview partners made several suggestions with regard to privatization policy in the future. An important topic is the need for the former incumbents to become more transparent. One expert stated the electricity price system as an example of a lack of transparency. Furthermore, ongoing steps in the European harmonization process are needed. One interviewee favoured the creation of an European energy authority, which could replace the national survey organisations. Moreover, the experts agreed that it is the duty of the state to impose supply and quality standards. Questioned about the future prospect of privatization and liberalization projects in Germany, the experts regarded the privatization of the German railway to be the hottest topic. In general, most of the German experts agreed with railway privatisation. However, the experts did not concur on the question of whether the infrastructure should be privatized or remain in the hands of the government.

5.7 Evaluation of Privatization Issues in Austria

Three interviews were carried out, all of them with specialised experts from academia (of two universities and one independent research establishment).
5.7.1 The Current State of Privatization

Until the 1980s, the share of the state-owned sector in the Austrian economy was larger than in most European countries. Historically this can be attributed to the post-war situation (1945 Soviet occupation and later neutrality status negotiated with the Soviet Union). Between 1946 and 1947 the Austrian government implemented two nationalization programs which brought the key industries, including utilities and the financial sector, under state ownership. In general, the state-owned enterprises (SOEs) proved to be profitable enterprises until the mid-1970s. However, due to the strong political impact on management positions and increasing international competition, the SOEs became an increasing financial burden for public budgets. In the 1980s the conservatives (ÖVP) took over the government and initiated a large scale privatization programme, first in the industries al sectors and later in the other sectors. Trade unions and partly the Socialist Party publicly opposed the programme but in many cases tolerated the privatization activities. In preparation for Austria’s accession to the EU and under the coalition government of the conservatives and the liberals (ÖVP/FPÖ), privatization was intensified. Privatization was largely implemented by a public holding, the Austrian Industrial Holding AG (ÖIAG). However, especially in the utilities sector important enterprises remained under regional and municipal control.

Today, privatization of the industrial and financial sector can be considered completed. The new socialist government has no further privatization activities in its program, although sales of remaining public Telecom shares as well as of Austrian Airlines may take place some time in the future.

The privatization process in Austria included laws that required the adequate consideration of employees and the national interests of Austria. No major social or political conflict problems were observed during the privatization activities.

All three interviewees confirmed that in Austria practically no major conflicts could be attributed to the privatization process. The secret for this, they explained, is the political and interest group “consensus culture” which all stakeholders adhered to. The experts stated that there was a huge difference between the formal structure of the utilities and the existing informal structure that dominates the way day to day business is conducted. Consensus building and strategic policy-making are still important political factors and are generally supported by stakeholders and the public. However, according to the consulted experts some liberalization problems do remain and some stakeholders expressed considerations regarding improved regulation.

As far as the utilities are concerned, the experts unanimously stated that the water supply should not be privatized and no major stakeholders favour such a development. They also pointed to the fact that the electricity supply is widely under regional control, and some regional authorities are very resistant to privatization (e.g. in Niederoesterreich much more
than in Vorarlberg). On regional levels, they pointed out that policies towards privatization do not necessarily follow national party lines.

Graph 18: Current state of privatization according to Austrian experts/stakeholders

![Graph 18: Current state of privatization](image)


Graph 19: Current state of liberalization according to Austrian experts/stakeholders

![Graph 19: Current state of liberalization](image)


### 5.7.2 Present Driving and Retarding Forces

Liberalization requirements at present are being slowed down by vested interests of the public sector and by regional political structures. The experts stated that there are currently no major driving forces that foster further privatization or liberalization efforts. At the moment the present socialist government is abstaining from any action in this field. According to the experts, there is presently not much articulated need to take up privatization and liberalization issues, neither in political groups nor in the media. Security of supply is a wide-spread argument for refusing further action and often negative privatization experiences in Britain and the US are quoted in support of the reluctance towards further steps towards privatization and liberalization. The experts themselves do not see important needs for further privatization either. They stated that further progress towards a more competitive market structure is most

38
likely to deliver positive results. However, they feel that the general public does not seem to be very concerned about this.

### 5.7.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

Liberalization and competitive structures have been, according to the interviewees, successfully achieved in the formerly state-owned industrial and financial sectors. However, this does not hold for the utilities sector. The experts stated that it is important to distinguish between large scale users of utilities and the consumer households as well as SMEs. Large scale enterprises are not dependent on individual national utility providers (except water); due to their large volume of consumption they can use international competition structures and choose from a variety of providers. Especially in the gas and electricity supply, Austria is split into two market systems: On the one hand, consumer households and SMEs face a monopolistic market structure, on the other hand, large scale enterprises reap the benefits of a competitive market structures. This may also explain why the enterprise stakeholders and their lobby organizations in Austria are not a driving force for liberalization at present. Monopolistic structures, therefore, do exist for the “small citizen” but not for the powerful utility users. Furthermore, trade unions, explain the experts, are more interested in employment privileges than in de-monopolization. Un-bundling of physical nets and service operations is considered important but in cases of implementation this was not effectively achieved as far as more competition is concerned. The service operators managed to indirectly control the net operators.

There are no outspoken or formal investment policies in Austria as far as types of domestic or foreign investors are concerned. But Austrians, all three interviewees agreed, are very cautious when it comes to foreign dependence. Informally and very much so on regional levels, a strong political control prevents “too much” foreign influence in privatized enterprises. This, they state, is in accord with practically all stakeholders.

However, investors from EU countries are preferred to non-EU investors. One interviewee stressed that we currently face EU electricity market that “paradoxically” is not regulated EU wide but by each individual country. As a result the experts explained that the country currently faces undesirable structural distortions and heterogeneous competition situations within the EU.

Austria, of course, like other countries, has introduced sector-specific regulatory agencies. However, the experts claim that these are not independent since they are controlled by the Ministry of Economic Affairs, which in turn is affiliated with SOEs or formerly SOEs’ interests. Furthermore, many political appointees are part of an informal network with the former SOEs. The sector-specific regulatory system, according to one expert, has an
additional deficiency. Due to its very heterogeneous structure, regulations become weak and less transparent. The expert, therefore, pleads strongly for a more uniform regulatory framework. All interviewees stated that regulatory authorities have to be permanent institutions in the utilities sector (at least for the foreseeable future).

5.7.4 Winners and Losers of Privatization

The “Austrian Model”, with its inherent focus on social partnership and consensus, as the interviewees named it, has improved the outcome of the privatizations significantly for employees. As a result the employees cannot be considered to be losers of the privatization efforts. In some cases privatizations had negative outcomes on some parts of society, for example, on politically appointed managers or on consumers, due to deficiencies in the competitiveness of the energy sector. Winners are undoubtedly the government, due to a positive effect of the privatization on the state’s budgets as well as the taxpayers. In the utilities sector, telecom supplies improved and prices fell considerably. Telecom users have definitely been beneficiaries of the privatization process. Furthermore the business community and especially large-scale enterprises have benefited. But as far as energy is concerned, the SMEs and household consumers were the losers, according to the views of our interview partners.

5.7.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Price Levels and Services

The unanimous judgement of the three interviewed experts was that the internal efficiency and general competitiveness of formerly SOEs has improved due to the privatization efforts. Furthermore, privatizations have resulted in better corporate governance. However, this has not necessarily led to competitive and efficient market structures for the user of utilities – this is especially true for ordinary consumer and small entrepreneur with regard to energy. Moreover, telecom services have improved but the experts had reservations regarding gas and electricity. No change (but also no privatisation) occurred in the water supply sector.

Austria shows a typical picture regarding the outcome of privatizations on prices. Prices fell for telecom services, initially probably also for gas and electricity but re-monopolization of privatized or partly privatized firms reversed this trend, according to the informants. Political networks with former SOEs at various levels prevent competitive market structures for households and small enterprises.
5.7.6 Public Opinion towards Privatization

According to the experts, privatization in Austria has become a very minor issue in the media and the public discussion. Most projects have been completed and the general attitude is “be careful with further privatization, there are bad examples in England and the USA”. There is general agreement that water supplies should not be privatized. Privatization in industries and banks is widely accepted and generally considered a success. The same is true for the telecommunication sector. Austrian citizens do not want to become dependent on enterprises or investors abroad, probably because Austria is a small self conscious country and people consider it to be highly susceptible for foreign intervention. This attitude, of course, is detrimental for creating more competitive structures in the energy supply sector.

5.7.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

All three experts agreed that privatization in Austria was a success by and large. It is the energy sector which has only been a partial success and has partially created new problems. In general, they stated unanimously that Austria is an independent country and “proud” of its independence. There is a national consensus that independence must be the primary concern – also in privatization programmes. On this matter the Austrians are not willing to change their position. Apart from this the experts support a new impetus for more EU harmonization of the regulatory frameworks especially within the utility sectors. The interviewees regret that internally Austria lacks driving forces that would foster the creation of an effective competitive structure in the energy sector.

5.8 Evaluation of Privatization Issues in Italy

In six interview events nine individual partners participated. They represent academia (4), private finance institutions (3), public finance institution (1), the competition authority (1) and an enterprise association (1).

5.8.1 The Current State of Privatization

Italy’s economy has traditionally had a strong public sector. The state managed its various SOEs through its industrial holding Instituto per la Riconstruzione Industriale (IRI). The IRI played a crucial role during the economic boom years of the 1950s and 1960s. The states field of activity through its SOEs involved nearly all branches of economic activities, but it was especially strong in banking, insurance and manufacturing.

After the success of SOEs through the 1960s and 1970s the state-owned enterprises started to experience difficulties from the 1970s on and increasingly became the source of production
inefficiencies and misallocation of resources. The SOEs lacked incentives to operate efficiently and failed to react to the changes in their respective markets. This development has largely been attributed to the fact that non-economic goals such as the preservation of jobs and sustaining investment levels were put above corporate policy considerations in the public enterprises. As a result Italy faced a vast and very deficient public sector. In 1992 the three main conglomerates (IRI, ENI, and EFIM) employed over half a million workers altogether.

In 1991 the state owned twelve out of the twenty largest Italian non-financial firms. At the same time, about 90 percent of total financial investment and 80 percent of total deposits were accounted for by public credit institutions. Due to the pressure on the country’s budget, Italy became one of the first European countries that followed the British economic policy of divestiture. However, despite some consolidation during the 1980s, the financial position of the state’s industrial holdings (IRI, ENI, and EFIM) further deteriorated. The situation became critical for EFIM and the non-financial section of IRI. EFIM’s net financial debt in 1991 was twice that of net sales, resulting in a total loss of its own capital, prompting its liquidation in July 1992. In the light of this development Italy started a very ambitious privatization by beginning a long-lasting process of denationalisation of IRI. Until today, Italy has raised over US$160 billion (in constant 1995 prices) through privatization proceeds since it initiated its divestiture process in 1985. Moreover, Italy has achieved the largest amount of privatization revenues among all European countries (excluding the United Kingdom), representing 19 percent and 8 percent, respectively, of total revenues and transactions. The privatization efforts began during the 1980s with scattered sales. The first large scale privatisations date back to 1992 with the sale of the IRI’s subsidiaries Sirti, STET and Alitalia. The process gained momentum under the increasing pressure of the European Commission against state aid to ailing firms, and the need to meet the Maastricht convergence criteria. In 1992 the goals of the privatization process were defined by the Amato government:

- improve corporate efficiency
- increase the degree of market competition
- widen financial markets and promote the internationalisation of the industrial system
- increase fiscal revenues and reduce public debt.

Italy pursued a more flexible approach towards privatization than most of the other EU countries by granting the management of IRI and ENI a high degree of autonomy over the operational restructuring process of their holdings and subsidiaries. Furthermore, in 1993 in order to ensure a high degree of transparency of the privatisation process, the Comitato Permanente di Consulenza Globale e di Garanzia, consisting of the General Director of the Treasury and four independent experts, was established. In 1993 and 1994 three major banks – Credito Italiano, Istituto Mobiliare Italiano and Banca Commerciale Italiana – and INA, the second-largest insurance company, were sold via public offers. Between 1997 and 1999 privatisations accelerated dramatically. Major transactions included:

- the sale of 12.5 percent of capital of ENI in 1997 and 1998, worth over US$7 billion and US$6 billion, respectively;
- the public offer of Telecom Italia – 44.7 percent and around US$11 billion raised
- the sale of Banca Nazionale del Lavoro in 1998;
- a private sale in November 1999 of Autostrade and a subsequent public offer of 57 percent of its capital in December
- 1999 privatisation of ENEL – the electricity giant – that, albeit partial (32 percent of capital sold) was the world’s largest initial public offer (IPO) at that time (over US$17 billion).

In June 2001, following the electoral success of the centre-right coalition, Prime Minister Berlusconi announced the intention to further pursue the privatization policy. As a result, in 2003 the state sold its whole stake in Telecom Italia. In 2004, the government divested parts of its (indirect) holdings in SNAM Rete Gas, a subsidiary of ENI that owned the gas network distribution system, and in Terna (ENEL’s company with ownership of the electricity grid), through a successful IPO. In October 2004 the MEF successfully completed the huge follow-on global offering of nearly 20 percent of ENEL share capital. The issue, comprising a large retail tranche and a placement to domestic and international institutional investors raised some US$9.5 billion, representing the largest deal in the world of its kind in the previous four years. In 2005, ENEL sold to Cassa Depositi e Prestiti (CdP) a 30 percent stake in Terna and in March a further 14 percent via an accelerated transaction. In July 2005, the MEF completed the fourth tranche of ENEL: a 9.3 percent stake was sold, generating proceeds of over US$4.9 billion. The ENEL’s US$15 billion sale of its telecom subsidiary Wind to Weather Investment, which closed during August 2005 after an extended struggle between competing bidders, was the largest privatization transaction in Europe for the second semester of 2005. In Italy as in most countries, privatization policies are strongly influenced by the ruling parties and coalitions. A specific aspect of Italy’s privatization is the impact of a few families that control large investment shares of the country, which means that these families must be considered important stakeholders of the privatization process (operating more in the background). In general, Italy follows strong formal restrictions to maintain public control. The Treasury holds “golden shares”, and more importantly private shareholders are not permitted to combine their holdings (thereby increasing their voting power). Furthermore, no single shareholder is allowed to have more than 3 percent of the shares in the utilities. ENEL managed to control most of the electricity operations (generation, wholesale, dispatching). In the gas sector, although legally unbundled, a separate company of the ENI group owns and manages the network, enabling ENI to control large portions of the market in practice.
Graph 20: Current state of privatization according to Italian experts/stakeholders


Graph 21: Current state of liberalization according to Italian experts/stakeholders


5.8.2 Present Driving and Retarding Forces

The nine interviewees unanimously judged the telecom sector (including fixed telephone) to be the most advanced sector regarding privatization and liberalization efforts. They also stated that improvements in the liberalization of the electricity supply have been made. However, assessments changed when asked about the privatization progress in the remaining utilities. The gas and water sectors were considered the least privatized and liberalized. The experts pointed out that the liberalization of the gas sector has been fostered legally, but that this has not yet been transferred into practice, since the shortage of pipelines and the existence of one degasification plant only, owned by ENI, provides the company with a technical dominance that can be seen as a means to establish monopolistic structures. In addition, major shares of gas and water supplies are often held by public local authorities, which are not interested in losing control over these important assets. Moreover, the position of former incumbents is judged to be strong in all utility sectors.
The interviewees expressed the opinion that in Italy the major privatization activities are finished. However, the experts stated that some fields of activity remain. The government may still sell its remaining stake of ENEL and ENI shares, and relevant reforms for privatization at the local authority level are currently being discussed. Furthermore, the state may sell its remaining shares in Alitalia. Finally, the experts demanded more transparency regarding the price setting system in the telecommunication sector.

Currently, the driving forces behind privatization efforts are the public revenue institutions as well as some media (and the respective political forces behind them), which suggests corruption and nepotism in public enterprises and thereby creates a widespread attitude that the government should withdraw from business activities.

But there are also strong forces retarding privatization efforts, such as local authorities, labour interest organizations, vested interests of the public and incumbent sectors. Somewhat unclear is the position of the “big families” who often exercise business activities irrespectively of public or private ownership. Once business privileges are established these stakeholders will (and do) carry out influence to keep structures unchanged as regards these privileges. Since these important family-based business systems have a stake in politics and parties as well, influence, at least to some extent, can be directly exercised through the government. In Italy consumers are considered to be a weak power group regarding their capacity to articulate their interests.

5.8.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

Despite a legal framework that is judged to be quite liberal, the interviewees rated as particularly serious the problems regarding the competitive structure of the former incumbents, as reality differs to a great extent from the liberal framework. In fact, in the gas, water and electricity sector monopolistic structures are a dominant feature. Even in the telecommunication sector, the “last mile reach” and the strong market position of the former incumbent have resulted in the implementation of price policies unrelated to free market structures. Furthermore, a situation also observed in some other countries was mentioned, namely that large-scale users of utility services face a different, much more competitive market structure, compared to smaller users. The reason for this, the experts explained, is their strong negotiating power. The experts stated that prices for big users have decreased due to privatization. However, except for prices of telecom services, which have decreased due to privatization (but also due to technical innovation, as some explain), this has not been the case for small users.

Experts expressed the opinion that networks after unbundling should remain under public control. In fact, this attitude was comparably strong. Obviously, the majority of the
interviewed specialists were very sceptical about the maintenance and management policies if completely privatized.

Practically all experts agreed that privatization resulted in an improvement of business efficiency in all utilities sectors, except for water. Water systems in some areas are in a very poor state and services have significantly deteriorated. However, not much privatization has taken place in the water sector yet.

When questioned about the current policies regarding foreign investment in the former incumbents, most experts stated that due to the 3-percent rule (not allowing one investor to acquire more than 3 percent of a company’s shares), Italy’s utility sector is judged to be protected from foreign investment. Therefore, foreign investors are not considered a “danger”. In reality this prevents foreign investment on a larger scale. Furthermore, foreign companies face operational difficulties if they access potential clients directly. This is especially true for the gas, electricity and water sector. The experts stated that private strategic domestic investors are highly desirable, but most of the experts believe that the current system, in which licences for private operations are granted for a certain period, is highly problematic. The experts pointed to the fact that this system is detrimental for maintenance, once the contract period is nearing its termination. They recommended that this system be abolished.

Italy, like all other investigated countries, has established regulatory authorities. Moreover, the interviewed experts see a strong need for regulatory authorities and feel that they should be permanent institutions. In this matter there was a high degree of consensus. However, the judgement of their actual role in regulating the utility sector was quite negative. “Weak”, “in-experienced”, “large enterprise owners have a stake in the authorities”, “politically infiltrated”, “media often are owned by companies and therefore do not exercise a watch-dog function towards their owner companies” were some of the comments on the ineffectiveness of the regulatory institutions, in the opinion of the queried specialists.

Some experts explained that it could be an advantage if the EU harmonized regulations to a certain extent, not leaving this important issue to the discretion of each individual country.

5.8.4 Winners and Losers of Privatization

When asked about the outcomes of privatization for the different stakeholders, a mixed picture was drawn by the experts. The general attitude was that the ordinary consumers had not benefited from the privatization of the gas, electricity and water services. Agreement was unanimous that privatization brought great relief to the public budgets. Furthermore, there was no dispute that shareholders, taxpayers and “old” managers (many of whom received golden handshakes) as well as “new” managers (by new opportunities) were winners. However, the opinions diverged regarding the effects of privatization on labour. The majority
of the interviewees considered employees to have suffered from privatization. Nevertheless, some experts explained that, in the long run, new employment opportunities were created by privatization, benefiting labour in general (not necessarily the same persons who were employed in SOEs). Furthermore, it was explained that the strong trade unions prevented most of the major problems for the employees. According to the experts, the “private business sector” in general (and the big industrial families), besides the finance ministries, were considered the main beneficiaries of the privatization process in Italy. Finally, the local authorities gained power through participation in financially rewarding privatization activities.

5.8.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Services

Most of the impact has already been described in the previous chapters. The privatized sector has improved in terms of efficiency and corporate governance, but this improvement has led to an unbalanced benefit distribution in favour of government and capital owners (investors). Largely monopolistic structures, “infiltrated by politics”, remained or were established on a privatised basis. As in some other countries, the first phase of privatization (mostly non-utilities – financial institutions and manufacturing) was successful; the later stages led to monopolistic developments, especially in the utilities, and were not considered successful.

5.8.6 Public Opinion towards Privatization

This situation as described above is reflected in public opinion, according to the interviewees. But all interviewees answered that the advantages outweigh the disadvantages. One expert said that privatization created a major positive break in Italy’s culture, recognizing that business is basically a private and not a public responsibility. At present the public is “tired” of privatization and not interested in it any longer.

5.8.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

The main negative attributes of privatization in Italy are monopolistic structures in the private utility sector, no capacities of regulatory bodies to enforce liberalization, lack of public control due to the fact that media are owned by groups which “should be controllers” and due to biased benefits in favour of government and capital owners/large investors.

Privatization as a concept is highly appreciated by the interviewees, but measures to improve the situation in Italy are difficult to recommend. Negative structures are deeply entrenched
and very hard to change. A stronger impact of the EU on regulation (harmonization and enforcement) was strongly suggested by a majority of the interviewed specialists.

5.9 Evaluation of Privatization Issues in Greece

In three interview events four partners took part, two from a consumer organization, one from a government institution involved in privatization and one from an independent think tank.

5.9.1 The Current State of Privatization

Until 1973 the public sector in the Greek economy was relatively small. However, after the military dictatorship fell and the democratic Republic was restored in 1974 the new government embarked on a decisive policy of involvement of the state in the main economic sectors. Triggered by the oil crises of the 1970s, Greece’s economy went into recession. As a result key sectors of the economy faced financial distress. The government of Karamanli fought the crisis through the nationalization of many important companies including Olympic Airways, Aspropyrgos Refineries and the Commercial Bank of Greece. A second wave of nationalization swept the country in the period between 1981 and 1985 under the first Socialist government of the Panhellenic Socialist Movement, which led to the creation of the Organization for Reconstruction of Enterprises (IRO) in 1983. The goal of the IRO was the restructuring of the highly indebted firms by nationalization and the creation of new firms in dynamic sectors of the economy, as well as further involvement of the state in other industrial sectors. The IRO nationalized firms in important industrial sectors including manufacturing and ship construction. In 1986 the SOE sector’s value added was worth more than 17 percent of GDP.

However, from 1985 on the public enterprise sector started to become a financial burden for the state as many SOEs were in fact loss makers. The public finance situation became very serious, which finally led to a change in government. The conservative New Democracy Party won the elections of 1990. The new government saw privatization as the main policy objective, and issued a list of firms to be privatized. The initial stage of the Greek privatization program mainly involved the enterprises belonging to the IRO. The Greek government adopted a statist, interventionist strategy in implementing privatization, not basing policies on consensus solutions but on state control (relying on models from France and Britain). It established an Interministerial Privatization Committee (IPC) comprising the ministers of national economy, finance and industry. A new framework law was devised in 1991 which empowered the IPC with full executive power. Quick privatization results was the core objective. Careful preparations were neglected (e.g., not a policy of first restructuring companies and then selling them). The first transactions date back to 1991 and 1992 with the complete sale of the Olympic Marine shipping company, the Bank of Chios, and of Elvim
(Heracles Gen Cement). However, the implementation of this first wave of privatizations showed extreme weaknesses. There was not only strong opposition from the opposition (PASOK) and the trade unions, the statist orientation combined with interministerial-administrative inability to carry out the tasks led by and large to a failure of the first privatization programme and again resulted in the fall of the government in 1993. The Socialist party PASOK led by Papandreou took over and reluctantly continued privatization programmes. Re-elected only once in 1996 and after Greece was admitted to candidacy in the EU Monetary Union, the government again accelerated privatization. From 1996 onwards the utilities sector became a main focus of privatization policies.

The privatization process has continued until now with major sales of government shares in the banking sector, telecom and the Postal Savings Bank.

Although privatization revenue targets were achieved, the privatization process in Greece is widely judged to be problematic. It has the reputation of being a centre for corruption, nepotism, and political interventions. It is characterized by largely monopolistic structures with primarily private – public/administrative – political (illegitimate) networks for business decision-making, management appointments and investment policies.

Graph 22: Current state of privatization according to Greek experts/stakeholders

<table>
<thead>
<tr>
<th>Service</th>
<th>1 = completely state owned</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 = entirely privatized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity supply</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water supply</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas supply</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed telephone</td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

5.9.2 Present Driving and Retarding Forces

According to the four interviewees fixed telephone (and telecommunications in general) have been privatized and liberalized to a much greater extent than gas, water and electricity supply. In gas supplies some more recent privatization activities have taken place.

The question of who is driving and who is retarding the privatization in Greece cannot be easily answered because, as some explain, consumers may object to an unsuccessful privatization and support one which leads to better services and lower prices. Since in Greece consumers in the utilities sector have not gained, in many cases even lost, they are not a driving force. The labour-oriented political organizations have objected strongly to privatization in the past but not so at present. The political left has realized that even with privatization vested interests can be secured. The government and the ruling political parties have been very successful in securing control of privatized utilities. They control the appointments of managers and to a large extent they decide on domestic or foreign investors.

The EU was definitely a driving force during the preparation for accession but fiscal interests and to a limited extent the private interest groups from the business section (Federation of Greek Industries) also played a role.

There are many retarding forces, which can be summarised as the vested interests of the public sector (employees, managers, unions, part of the government) and also a large portion of consumers who object to further privatization due to bad experience.

At present, there is agreement among those interviewed that retarding forces come from a wide spectrum of interests and reservations. Driving forces may be very limited and centre around fiscal interests and new investment opportunities for certain investor groups who expect “privileged” access to national assets due to political connections. Since the privatized

Graph 23: Current state of liberalization according to Greek experts/stakeholders

or partly privatized sectors show to a large extent monopolistic structures, profits of privatized firms can be very attractive for investors.

One interviewed expert pointed out that Greece has a long culture of industrial protection and this may also be a reason for the reduced commitment to thoroughly liberalize markets.

However, despite many negative comments as regards liberalization, it was also stated that privatization in the non-utilities industrial sector was rather successful in terms of generating more competition, relieving public budgets from financial burden and making enterprises more dynamic.

But present privatization as well as liberalization is hampered seriously by the vested interests of the public sector.

5.9.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

As in a number of other EU countries, liberalized and rather satisfying competitive structures have been achieved by privatization in the non-utilities sectors. In Greece all four utility areas are judged to have deficits as regards competition – somewhat less in telecommunications but more in water, gas and electricity supply.

Many examples were reported of monopolistic structures being misused to reduce services, to increase prices or avoid investments with a potential to reduce the ease of government interventions.

In Greece it was reported that there is no articulated policy concerning types of investors. Personally the interviewees expressed preference towards institutional long-term investors from EU countries but they also said that in Greece generally there are no reservations about capital from Arabian countries or American pension funds. Greece is very liberal in this respect. One expert explained that in the case of utilities the present government is not interested in strategic investors at all.

The interviewees generally agreed that networks should be separated from operations. But as in other countries some were cautious. Separation, they felt, does not necessarily mean privatization. In certain cases it may be better to keep the physical networks under public control. And as in other countries bad examples of straightforward privatization from Great Britain were quoted.

Regulatory authorities do exist in Greece. They have been established rather recently (not longer than 8 years ago), but they are not considered independent and strong. One reason, it
was said, is because the presidents of the heads of authorities, including the more important Competition Committee, are government appointees and therefore not independent. A high politicization can be observed as regards regulatory activities. Two experts criticized that the representation of societal interest groups in regulation decision making is completely absent and in addition, regulatory decisions are not transparent.

The importance of regulation in the utilities sector was not questioned by anybody. But strong (empowered by law) independent bodies is required according to all the experts. Two interviewees said that with the stronger EU harmonization of regulations and some pressure from Brussels things could be improved.

In summary, the regulation of privatized firms in the utilities sector was considered necessary but the actual situation as regards regulation was judged to be unsatisfactory.

### 5.9.4 The Winners and Losers of Privatization

In Greece as in most other countries privatization produced similar winners and losers. But since public employment is very highly esteemed in Greece, more than in most other countries, privatization was felt by the employees of former incumbents to be very harmful. Social status, employment protection and other privileges common in public sectors were considered to be reduced or lost. Another Greece-specific attribute of privatization is the very negative judgement by consumer interest organizations indicating that an important part of consumers had serious complaints about privatization effects. Two interviewees pointed out that privatization created monopolistic or semi monopolistic structures that were extremely detrimental for SMEs. Many had to close down and many jobs were lost in certain sectors and regions.

### 5.9.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Services

One of the major problems of privatization in Greece is the lack of factual liberalization. One expert called liberalization in Greece “fake” liberalization. Generally the interviewees did not feel that enterprise competitiveness in Greece had been strengthened much by privatization in the utilities. In the telecommunications industry competitiveness had been increased although consumer organizations complained about bad services. The experts agreed that the network infrastructure should be separated from service operations. But they warned that this process required great care.

The majority regretted that efficiency, corporate governance and service performance have not improved much in the utilities sector as a result of privatization. A good number of cases were named where the situation had even deteriorated as a result of privatization.
Surprisingly privatization in the utilities had little or no price-reducing effect, according to the experts. Even in the telecom sector very little price reduction was perceived after privatization. Of course, as in other countries the interviewees saw the utility sector as a public good. No one opted for unregulated liberalization. But the way privatization in Greece is handled, some said, abuses public goods in political and private/personal interests.

5.9.6 Public Opinion towards Privatization

According to the interviewees’ interpretation of public opinion, there is a widespread uneasiness felt about privatization. Major concerns are in order of importance: employment issues, economic efficiency, public finance and consumer welfare. They explained that although consumers were hit by negative effects most severely they often were not aware of the direct relation to privatization. Even most media were more interested in scandal stories than in enlightening the public about causes and effects on a scientific or rational basis. The final question as to whether privatization in Greece was generally judged to be more of a success or more of a failure was answered by two to be more of a failure and by two to be more of a success. The two positive judgements came from civil servants, the two negative ones from consumer representatives.

5.9.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

The general evaluation of the privatization process in Greece showed a range from negative to slightly positive. Of the countries analysed this judgement was among the worst. The reason given by the experts were “mismanaged” privatization, deep political entrenchment, and above all the monopolistic structures of privatized sectors (relating to utilities).

There was a strong demand for more EU interventions, especially harmonization of regulations within the EU, a retreat of the government and politics from the privatized former SOEs and a change of awareness in the electorate, who should function as conscious voters and controllers of public affairs as well as more conscious purchasers of media products.

5.10 Evaluation of Privatization Issues in Hungary

In the case of Hungary interviews with four experts were conducted. The interviewees came from the following fields: academia (3), an independent think tank and a public privatization agency.
5.10.1 The Current State of Privatization

After the Second World War Hungary was occupied by the Red Army, which resulted in the birth of the Hungarian People’s Republic. The new regime established a centralized planned economy, which led to a complete nationalization of properties, industry and the financial sector. In the 1970s Hungary adopted a reform of its economic policy, known as the “New Economic Mechanism”. The newly implemented approach favoured a less centralized approach of managerial decisions, established profit as a primary goal of SOEs and broke with the total planned economy. However, Hungary’s public sector still accounted for more than 85 percent of the Hungarian economy when the Socialist system collapsed in the year 1990. As a result of the NEM policy the initial conditions in Hungary regarding the private sector were better than in other East Block countries. Nevertheless, the Antall government opted for a centralized approach in the transition of the Hungarian economy towards a market-orientated economy. One of the first measures of the Antall government was the establishment of the new State Property Agency, which was responsible for the restructuring and privatization of enterprises in accordance with their managements, and the Hungarian State Holding Company. The privatizations efforts during the first two years (1991–92) must be characterized as limited. The process gained some impetus during the years 1993 and 1994. However, of the total of about 1800 SOEs that had been found eligible for privatization in 1990, little more than a third were privatized between 1990 and 1994. Some of the bigger divestitures of that period include the public offer of 25 percent of the chemical producer Gedeon Vegyeszeti Gyar in 1994 and the sale of 49 percent of Tungsram.

A milestone for the divestiture of SOEs came with the passage of Act XXXIX/1995, the so-called Privatization Act which was implemented by the Horn government as one of the corrective measures of the so called “delayed shock therapy”. The Privatization Act laid out a new legal framework for divestiture. The process of divestiture thus entered a new, more dynamic, period between 1995 and 1997. Especially the partial divestitures of utilities, previously excluded from the process, marked this new cycle. In 1996 telecommunications giant Magyar Tavkozlesi Rt. (MATAV) was sold to an international consortium formed by Deutsche Telekom and Ameritech International. In terms of revenues the year 1997 marked a record year for Hungarian privatizations as a result of the secondary offering of Richter Gedeon and the IPOs of RABA (mechanical) and MOL Rt. (oil), as well as the sale of Országos Takarékpénztár (credit). Despite the huge revenues generated through the sale of SOEs the privatization process came to a halt, triggered by the unsuccessful privatization of the national airline Malev and the postponement of the sales of controlling shares in chemicals producer Hungaropharma, Antenna Hungaria (telecommunications) and Dunaferr (building materials). In fact in 2000 Prime Minister Orbán announced that the privatization efforts were finished because the public sector had reached the size of other Western European Countries. The elections of April 2002 brought the Medgyessy government into power, which was dedicated to continuing the divestiture of SOEs based on the conviction that the private sector was more efficient than the state. This marked the beginning of a new
wave of privatizations. According to the interviewees, the privatization of the electricity market has not been accompanied by the creation of a competitive market structure. As a consequence the energy sector is currently dominated by local monopolies that dictate the prices. Therefore, a big topic in the current debate is the question whether the liberalization of the retail business in the electricity sector, which is scheduled to begin in 2008, will lead to a drop in energy prices. According to the experts, the privatization and liberalization of the telecommunication sector is largely completed and has delivered reasonable results. The gas market has not been liberalized so far but the current government plans to open the gas market in 2009.

Graph 24: The current state of privatization according to Hungarian experts/stakeholders

![Graph 24: The current state of privatization according to Hungarian experts/stakeholders](image)


Graph 25: Current state of liberalization according to Hungarian experts/stakeholders

![Graph 25: Current state of liberalization according to Hungarian experts/stakeholders](image)


### 5.10.2 Present Driving and Retarding Forces

According to one expert, the political left has been slowing down privatization efforts over the last few years. However three experts claimed that the political left and the liberals have been a driving force in the process of privatization and liberalization, whereas the conservatives
and the consumers have blocked further action. The main arguments that were brought forward by the opponents were based on the security of supply, creation of national champions and the public good character of certain utilities, whereas the proponents of privatization stressed the positive impact that privatizations have on the national budget. Furthermore, the experts pointed out that it has proven difficult to get support for further privatization and liberalization projects in the general public because of a recent surge in prices (energy). Opponents of liberalization claim that foreign investors benefit from the rising energy prices and withdraw their profit from the country.

5.10.3 Liberalization and Competition, Investment Policies and Regulatory Interventions

The experts pointed out that liberalization efforts have not led to the creation of competitive markets for utilities. Especially the gas and the water and electricity markets are not competitive. The gas market has not yet been liberalized but the current government plans to open the gas market in 2009. The majority of experts disagreed when questioned if the state continues to influences the former incumbents. According to one expert the state still influences former incumbents. This is achieved by appointing people to the boards of directors, subsidies and voting rights. When questioned which kinds of investor are suitable as large investors in the former incumbents, one expert named foreign or domestic strategic investors as well as institutional investors to be most suitable. Another expert claimed that a large foreign private investor (> 25 percent) is most suitable for a stable and successful privatization process. Furthermore, according to the experts, major domestic private investors that hold more than 25 percent are seen as critical. Despite liberalization efforts, foreign companies still face operational difficulties if they want direct access to clients in the gas, water and electricity sector.

All Hungarian experts were in favour of a separation of network services from network infrastructure. However, one expert explained that for railways the network should not be separated from the services. Furthermore, the separation of network and services is not advisable in the gas and water sector due to the natural monopoly character of the good. Even in the electricity sector one expert explained that the separation might not be advisable since it could lead to an overcapacity of the network (inefficient). The regulatory authorities are indispensable not only for safeguarding competition but also to ensure that sensitive political issues are taken care of, explained one interviewee. However, the regulatory authorities do not work effectively in the water and electricity sector and therefore fail to ensure strong competitive structures.
5.10.4 Winners and Losers of Privatization

According to one expert, the government catered to specific interest groups during the privatization process. He explicitly stated that foreign investors have been favoured in the process and should be regarded as beneficiaries. In fact the expert claims that the taxpayers have lost out because the government sold shares of the former incumbents at a low price to foreign investors. Regarding consumers, the experts explained that they feel that privatization has brought about a surge in prices. Therefore, consumers regard themselves as the losers of the process. However, most experts in fact agreed that the prices would have risen even more drastically if the incumbents had not been privatized. The main beneficiaries of privatization have been the managers due to a strong rise in their pay as well as shareholders who have profited from rising stock prices. Employees were granted relatively long job guarantees by law. Nevertheless, one expert explained that employees lost because the new private owners did not act in accordance with the job guarantees made by the government. Furthermore, the state subsidizes (accounting for 0.5 percent of GDP) the gas sector heavily, as gas is the country’s most important and sensible source of energy.

5.10.5 Impact of Privatization on Enterprise Competitiveness, Efficiency and Corporate Governance as well as on Services

According to the Hungarian interviewees corporate governance and the quality of services have improved throughout all sectors due to the privatization of the former incumbents. In fact one expert stated that the privatization discussion alone has improved the service mentality of providers. The prices for goods and services provided by the former incumbents have not decreased, although it is very difficult to disentangle the effects of general price increase from prices decreases due to privatization. Privatization led to efficiency improvements in the telephone and gas sectors. However, the electricity sector and the water supply have not significantly improved their overall efficiency. However since the water sector has not yet been liberalized, Hungary currently faces a market structure that is dominated by local monopolies that set the prices in their respective markets.

5.10.6 Public Opinion towards Privatization

According to the Hungarian experts, the main privatization issue has been the recent surge in energy prices. Therefore, a big topic in the current debate is the question whether the liberalization of the retail business in the electricity sector, which is scheduled to begin in 2008, will lead to a drop in energy prices. The public seems to be most concerned about an increase in prices and the security of supply. Many doubt that possible efficiency gains can compensate for a possible decline in supply security. Currently the privatization of the water sector is a hot topic in the public discussion (new ownership program). However, one expert explained that water supply is a very sensitive issue and the public seems to be very sceptical.
about water privatization. One expert explained that since mass privatization has come to an end a lively discussion about future PPP (Private, Public, Partnerships) projects has begun.

5.10.7 General Evaluation of Privatization and Proposals for Improvements by Interviewed Experts

According to the experts, the general evaluation of privatization is twofold. Most experts including our interviewees judge privatization to be more or less a success. They indicate that the former incumbents in general perform better, service levels have improved, and prices have risen less than they would have without privatization. However, the former incumbents are still not competitive compared to private rivals and liberalization efforts have not resulted in competitive utility markets. Furthermore, the experts expressed the opinion that the regulatory authorities have not succeeded in fostering competition in the gas water and electricity sector. Still despite the ongoing problems, experts think that the privatization of the utility sector has led to overall welfare gains. This judgment however is not supported by the general public. Especially consumers seem to be very sceptical about any further moves towards privatization. This can be explained partly by the fact that consumers blame privatization for the recent surge in energy prices. There are arguments that privatization has increased differences in income distribution (GINI coefficient deteriorated). Thus, income inequality is partly seen as a result of privatization. According to the experts, forces that might drive future privatization are the high level of national deficit, the need to capitalize companies and improve their competitiveness. Regarding future privatization projects, the experts stressed the importance of creating competitive markets and capable regulatory mechanisms. Future privatization efforts should focus mainly on the railway and the health and education sectors, according to one expert, with the railway as first priority.
6. General Conclusions

Although all the countries in this study display individual characteristics as regards privatization, a number of more general conclusions can still be drawn from the surveys and interviews. The conclusions will focus on the following issues:

Methodological Aspects

Additional value for information gathering was gained by the approach of conducting explorative surveys and interviews.

The formal surveys (standardized and mailed questionnaires) provided a brief overview of present, country-specific privatization issues. In addition, it helped to identify countries that were of interest for further analysis as well as competent and willing partners for later in-depth interviews.

The method of conducting semi-structured, in-depth and face-to-face interviews produced the best additional value in information gathering. Specifically:

- very up-to-date information
- in-depth information on problems (background, causes, dynamics of the policy-making process, solutions under discussion, etc.)
- explorative information on new issues (not or not well-known before)
- insight into sensitive issues (which most interviewees would not be prepared to put in writing; anonymity was guaranteed for all face-to-face interviews)
- clear personal attitudes and value judgments (which the interviewees would be reluctant to formulate in writing).

A methodological problem was seen in the selection of target groups for the interviews. The selection criterion was willingness to participate and competence in terms of knowledge (theoretical analysts) or own involvement in the privatization process. The participants thus represented academically qualified analysts as well as stakeholders in the privatization process, the later composed mainly of public administrators as well as consumer, labour and enterprise representatives. It was evident that the most informed group came from the scientific community. Theoretical analysts as a rule can best assess the interest groups’ positions, the policy dynamics, associated problems and other related issues. During the interviews representatives from the public sector often provided good information on the technical details but were very careful not to violate public loyalties or to negatively assess other stakeholders. Representatives of the interest groups often expressed very clear positions, which, however, were also revealed by the theoretical analysts (usually a bit less pointed and often in a larger explanatory context). Of course, some additional information could be gained through interviewing interest group representatives. But information provided by the analysts...
often outperformed other information sources in terms of analytical capacities and contextual views.

The conclusion is that when gathering information on complex social and political issues – such as judgments on the impact of privatization – expert interviews among the relevant scientific community are a very useful methodology for obtaining adequate information. Interviewing stakeholders can play an important supplementary role.

Sometimes the results of the interviews in one country showed contradictory judgments that were not based on different interest positions. Most of these contradictions could be explained. For example, judgments on liberalization in the energy sector diverged considerably due to the fact that in many countries liberalization was achieved for large-scale energy users but not for the smaller consumers. Another conflicting outcome was the judgments on the effects of privatization on employment. In the short term the effects were sometimes said to be negative; in the long term, however, neutral or positive. Statistical compilations do not reflect these distinctions since they were not anticipated in the questionnaire framework. It was the explanatory (discussion) part of the interviews that helped clarify such conflicting statements.

The Current State of Privatization

Some interviewees distinguished clearly between the earlier privatization of non-utility industries and services and that subsequently of the utilities sector. The non-utilities sectors in most cases were judged to have been successfully privatized and most of the projects were seen as completed. Similar judgments were made as regards the telecom sector. But privatization of the energy sector as well as the water sector was considered to be more or less halted in many cases. Water services, most interviewed experts and stakeholders agreed, should in view of the perception of the vast majority of people not be privatized at all or at least be kept under close public control.

Many stated that the big issues of privatization at national levels are considered to be over and the main privatization issues have shifted to the level of the regional authorities.

But major problems remain regarding liberalization at national levels, especially in the energy (electricity and gas) sectors. Here little or no progress has been achieved. On the contrary, in the majority of countries many experts and stakeholders criticized the fact that monopolization processes took place after privatization and new public-private monopoly conglomerates have come into existence as a result of privatization. The issue of controlling monopolies by unbundling ownership of operations and of physical infrastructures or by the introduction or empowerment of regulatory authorities are on the agenda but in most cases little or no effects can be seen in reality.
Since privatization of water services is rejected nearly everywhere, the liberalization of the energy sector remains the core problem of the future in Europe.

**Driving and Retarding Forces**

Generally, fiscal problems, which in the context of globalization have tremendously increased, as well as the membership option for the Euro Zone were judged most often as having been the core driving forces for privatization. In addition, economic-growth considerations and a general view that governments should withdraw from business sectors that can be run more efficiently privately were factors that favoured privatization policies. Consumers expect lower prices and better services, but labour representatives associate the efficiency argument with a loss of privileges for employees in public enterprises (not mentioned in Germany) as well as a loss of employment. In former socialist countries, a large-scale and unprecedented transformation of the economic order was considered a key instrument for overcoming the economic deficiencies and distortions created by the socialist system and for opening a new road for social, economic and political development within a globalised world.

At present, this pattern of driving and retarding forces has changed. The more sceptical views on privatization have increased substantially. The energy sector (partially similar situations are related to railways, health and education) has played a key role in this development. Consumers are very dissatisfied with the energy price developments and to some extent even with the services. They attribute the cause for the latest, tremendous price increases to privatization. And they are quite well informed about the bad experience in the U.K. regarding the unbundling of networks from operations (at its early stage). Consumers are also voters at elections and, therefore, the politicians must take the concerns of their electorate into consideration. The mass media point continuously to the liberalization problems of the energy sectors and in a number of countries critics state that privatization in the energy sector has led to an “unholy” private-public monopoly alliance that is not transparent and is seen as a threat to the ordinary consumer. Some refer even to a new system of “state capitalism”.

A good number of the interviewees pointed to this change in attitudes and many recommended more EU intervention activities to reduce the monopoly and transparency problems in the energy sectors. At present they argue that the EU is the only significant potential driving force for liberalization (in a harmonized way, as was often suggested). The majority of consumers would greatly appreciate such an EU initiative. Widespread image deficiencies of the EU among European consumers could be reduced by such a consumer benefiting strategy.
Liberalization and Competition, Investment Policies and Regulatory Interventions

Generally, privatization has had a positive impact on the liberalization of the economy and on intensifying competitive structures; here there was broad consensus among the interviewed. Water services, according to a majority of interviewees, should remain communal or under close public control. The natural monopolies in the water sector are more or less accepted and not considered a serious problem. The key competition problem remains the energy sector. Unbundling in principal is accepted as one way to reduce this problem. However, a surprisingly large number of experts and stakeholders warned against the privatization of networks. They argue that networks should be separated from the operators, but they should remain under public ownership. Most interviewees are very concerned with maintenance and investment problems if networks are privatized. They do not see that there are viable incentive systems to encourage private owners to invest appropriately instead of exploiting the infrastructure to the greatest possible extent. This view is often shared by the mass media, and has thus become a widespread attitude among people.

In nearly all countries regulatory instruments to enforce competition have failed or have brought only unsatisfactory effects, according to many of the interviewed experts.

Strong and often nontransparent informal systems prevent effective regulatory interventions. Unfortunately government interests, in some countries at least, are said to support weak regulations, motivated by high revenues, national champion strategies and a fear of too much international influence.

Regulation in case of natural monopolies has uniformly been accepted as necessary and as a permanent requirement. Some experts argued that additional instruments, such as a wider international integration of networks (in numbers, owners and diversity) could improve competition as well. Here again this is seen as an important function for the EU.

Winners and Losers

In the above, conclusions have been made indirectly as to the winners and losers. In a few countries no direct losers of privatization were identified (besides those who had vested interests in the state-owned enterprises). Especially in countries with a political consensus, culture no significant employment problems, even in the short run, have occurred in the context of privatization. Other countries faced labour problems in the short run. In all countries the economy and public finance undoubtedly benefited. The experts agreed that in the non-utilities sectors, even consumers benefited considerably. It is the energy sector which, in the view of experts and stakeholders (and what they believe the people feel), led to large scale losses for consumers.
Winners in some countries were some “big businesses” and/or “big business families” who now dominate key sectors of the economy and even, to varying extents, industrial policy.

*The Impact on Enterprise Competitiveness, Efficiency and Corporate Governance*

There is only one country case where representatives of interest groups assessed that competitiveness, efficiency and especially corporate governance has deteriorated as a result of monopolization, party-political “participation” and an erosion of ethical standards among privatized businesses.

In general, however, privatization has been seen as a very viable instrument to improve competitiveness, enterprise efficiency and corporate governance. To be sure, there are the problems with the energy sector. But the interviewees sometimes distinguished between international and domestic competition. International competition has also improved in this sector, but domestic competition has been hampered, by monopolistic developments, as has often been pointed out.

Most experts agreed that in state-owned enterprises, corporate governance was much worse, irrespective of sectors.

Privatization has helped intensify competition and induced innovation and productivity increases in most sectors. Price levels have been reduced, at least in relative terms, and services improved in many cases. This is most visible in the telecom sector but not so visible in many other sectors. Consumer, however, are strongly affected by energy prices and, therefore, react sensitively if prices rise beyond obvious justification.

*Public Opinion towards Privatization*

To sum up what has already been said, public opinion has undergone changes regarding privatization. At present, much more sceptical views can be observed, according to the interviewed experts and stakeholders. Problems within the energy sector and privatization discussions regarding networks are seen as causes for the widespread public reservations.

*General Evaluation and Proposals by the Interviewed Experts and Stakeholders*

Although the surveys and interviews showed significant variations in attitudes and judgments regarding privatization within and between the 9 selected EU countries, some general tendencies in judgments about the effects of privatization and proposals for future policies can be observed.
These general tendencies are:

- Past privatization in Europe has been – generally speaking – a success, with some deficiencies, however.

- The earlier, non-utilities industrial and services privatization activities as well as that of the telecom sector have been successful in terms of growth stimulation, enterprise efficiency and consumer benefits. This is a widespread opinion not only among experts and stakeholders.

- Loss of jobs has not been a major problem as a result of privatization in most countries. Especially in countries with a consensus approach (“consensus culture” as some named it) practically no employment problems or labour generated conflicts could be observed.

- In the utilities sector, water services were generally considered not to be feasible for privatization or at least not unless close public control and the meeting of investment requirements were guaranteed. Thus, lack of privatization was not considered to be a problem here.

- The big problem sector is energy (especially gas and electricity) where in the view of most interviewees monopolistic, nontransparent developments have taken place. Consumers – according to the experts – feel that they have been seriously affected by these developments and, therefore, widespread negative attitudes towards further privatization can be found here.

- Regulatory authorities, even in countries where they have adequate formal competence, are weak instruments in fighting monopolistic structures. They have failed on the whole, it was argued, in preventing such structures. Often national policies lend informal support to monopolistic tendencies in their aims to strengthen key national enterprises faced with international competition.

- Unbundling of operations and infrastructure is seen as a potentially useful instrument for promoting competition. But many experts and stakeholders have strong reservations with regard to infrastructure privatization. Patterns of public ownership or at least close public control are preferred. Lack of investment incentives and an adequate service orientation among private owners are the major arguments.

- The interviewees clearly and unanimously favour permanent status for the regulatory authorities in sectors where natural monopolies exist, although this anti-monopoly instrument was judged to be weak throughout Europe. Informal business and political alliances are usually much more effective than these relatively weak Institutions. In addition, the regulatory Institutions within one country often follow different policies; between the countries there is a great diversity of regulations creating heterogeneous and often conflicting conditions. Some experts questioned the fact that the EU pursues European energy policies but regulations remain an area of national competence.
A common statement was that privatization is no longer a key requirement but the stalemate in liberalization and de-monopolization especially in the energy sector was considered to be of high policy relevance. Since national governments in most cases are not felt to be very effective, strong recommendations were made that the EU take on more responsibilities. In particular three activity areas were specified:

- to promote (on large scale) a much stronger European integration of physical infrastructures in the energy sector in terms of numbers, technical systems and diversity of ownership,
- to enforce separation of networks from operations (unbundling) but to leave the networks in public ownership or at least to guarantee close public control and
- to enforce European-wide homogeneous regulatory systems for preventing monopolistic structures (especially in the energy sector) under European (and not national) control.

Consumers in Europe, and this is a conclusion of the authors of the study, would appreciate if the EU took more initiative in these fields. If it did, the EU would improve its image of being beneficial to consumers (and voters).
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Appendices (3 questionnaires)

Privatization In-depth Interviews / List of topics

1. Introduce yourself and the Ifo Institute (hand over a brochure from Ifo)
2. Give details on the research project and consortium (in particular FEEM)
3. Explain that research results will be used to inform future EU privatization policies

Current state of privatization and liberalization

1a. In which of the following sectors have the former state owned enterprises been more extensively privatized? Give an assessment on a scale from 1 to 5, where 1 indicates "very little" and 5 "nearly 100 percent". (Discuss)

- 1. Fixed telephone
- 2. Gas supply
- 3. Water supply
- 4. Electricity Supply

1b. … and which of the following sectors have been more extensively liberalized in your country? (Is easy market entry guaranteed?) Give again an assessment on a scale from 1 to 5, where 1 indicates "high entry barriers" and 5 "easy entry". (Discuss)

- 1. Fixed telephone
- 2. Gas supply
- 3. Water supply
- 4. Electricity Supply

2. What are the main privatization issues at present in public discussion?
3. Would you generally agree or disagree that the government in your country still strongly influences privatized companies? (Discuss)

agree ☐ disagree ☐

If you agree, do you think that this influence is mainly exercised through:

1. Banks ☐
2. Golden Shares ☐
3. Ownership/voting rights ☐
4. Subsidies ☐
5. Appointing people in the board of directors ☐
6. others (specify) ☐

4. Would you generally agree or disagree that pressure from political forces or interest groups was slowing down liberalization efforts in your country during last years?

agree ☐ disagree ☐

If you agree, which have been the retarding and driving forces/interest groups?

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<td>1. Political left/Labour</td>
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<td>2. Conservatives/Nationalists</td>
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<td>3. Populists/Consumers</td>
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<td>4. Vested interests of the public sector</td>
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<td>5. others (specify)</td>
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Which arguments did they put forward?

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<td>2. Creation of National Champions</td>
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<td>3. Government Revenues</td>
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<td>4. Public Good Character of Sector</td>
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<td>5. others (specify)</td>
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How was liberalization implemented?

5. Who are the main beneficiaries and losers from the privatization process in your country? (Discuss)

- beneficiary
- loser

1. employees
2. consumers
3. shareholders
4. taxpayers
5. managers
6. others (specify)

6. What is the government’s position with respect to beneficiaries and / or losers? (Did the government implement corrective measures?)

7. Considering the privatization experience of your country, which of the following types of investors are less suitable to manage a privatized company? (Discuss)

- Retail investors
- Domestic major investors (>25% ownership)
  - Private
  - Public
- Foreign major investors (>25% ownership)
  - Private
  - Public (e.g. government funds)
- others (specify)

8. Would you recommend any measures to limit the influence of one of these investors?

- Yes □
- No □
9. Would you agree or disagree that privatized firms in your country have better corporate governance? (Relationship between stakeholders and management – Discuss)

agree □ disagrees □

Now we would like to discuss the pros and cons of the separation of network services from the network infrastructure.

10. Would you generally agree or disagree that the privatization of network services should be separated from the privatization of the network infrastructure? (Discuss)

agree □ disagree □

Are there positive examples in your country? If yes, in which sectors?

Explain

11. What are the main regulatory authorities in your country?

1. Fixed telephone ........................................
2. Gas supply ........................................
3. Water supply ........................................
4. Electricity ........................................
5. General (if) ........................................

12. Are regulatory authorities in the long term necessary to enforce competition or should they only be established as transitory bodies? (Discuss)

long-standing □ transitory □
13. Are regulatory authorities working effectively to enforce competition within sectors? Give an assessment for the respective agency on a scale from 1 to 5, where 1 indicates “very poor enforcement potential” and 5 “very strong”. (Discuss)

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<td>Electricity Supply</td>
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Remarks:

Consequences of privatization

14. On a scale from 1 to 5, where 1 indicates no competition at all and 5 indicates a completely competitive sector, how much competition do the following branches show? (Discuss)

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15. Has the business efficiency of firms in the following sectors generally been increased after privatization?

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<th>Yes</th>
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<td>Fixed telephone</td>
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<td>Gas supply</td>
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<td>Electricity Supply</td>
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16. Did prices of the former incumbent (SOE) decrease after privatization? And if so are they competitive compared to private rivals?

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<tr>
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<th>price decrease</th>
<th>competitive</th>
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<td>Fixed telephone</td>
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<td>Yes</td>
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<tr>
<td>Gas supply</td>
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<td>Water supply</td>
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<td>Yes</td>
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<tr>
<td>Electricity Supply</td>
<td>Yes</td>
<td>Yes</td>
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</tbody>
</table>
17. Did the service of the former incumbent (SOE) improve after privatization? And if so, is it competitive compared to private rivals?

<table>
<thead>
<tr>
<th>Service improvement</th>
<th>Competitive</th>
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<tbody>
<tr>
<td>1. Fixed telephone</td>
<td>Yes</td>
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<td>2. Gas supply</td>
<td>Yes</td>
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<td>3. Water supply</td>
<td>Yes</td>
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<td>4. Electricity Supply</td>
<td>Yes</td>
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18. To what extent should certain sectors have a public good function / provide a public good? Express your personnel opinion on a scale from 1 to 5, where 1 indicates “no public good function required” and 5 a “strong public good function required” (Discuss ethical issues).

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<th>Sector</th>
<th>Scale</th>
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<td>1 2 3 4 5</td>
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<td>1. Fixed telephone</td>
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<td>4. Electricity Supply</td>
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Remarks:

19. Coming back to the price issue, have prices of privatized firms currently decreased or increased, ignoring the price changes that are due to international price trends?

<table>
<thead>
<tr>
<th>Price decrease</th>
<th>Price increase</th>
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<td>1. Fixed telephone</td>
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<td>3. Water supply</td>
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<td>4. Electricity Supply</td>
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</table>
Other issues concerning liberalization

20a. Do foreign companies face operational difficulties directly accessing clients in the following sectors?

1. Fixed telephone  Yes  No
2. Gas supply  Yes  No
3. Water supply  Yes  No
4. Electricity Supply  Yes  No

20b. Which sectors in your economy are still protected from financial market entry by foreign firms? Give a personal opinion on a scale from 1 to 5, where 1 indicates nearly free market access and 5 a completely closed sector. (Discuss)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Scale</th>
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<td>1. Fixed telephone</td>
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<td>4. Electricity Supply</td>
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Remarks:

21. Have any measures – like universal service funds – been taken to guarantee a universal service provision? And if so, in which sectors do they apply and which measures have been taken? (Example: Federal Communications Commission in the USA – Goal is to promote the availability of quality services throughout the Nation to all consumers)

22. Major concern of the public opinion as regards privatization at present in your country (Provide a ranking).

1. Employment
2. Consumer welfare
3. Public finance
4. Economic efficiency
5. Economic order
6. others (specify)
23. Recommendations for future privatization and/or increase of government control activities

- general

- regarding
  Health
  Education
  Railways

23. Which (national) interests / forces might prevent / strengthen future steps towards privatization?

24. Is there a general feeling in your country that privatization until now was more of a success or more of a failure in your country? (Discuss)

   success  ☒  failure  ☐

Remarks:

Thank you very much for your cooperation!
To be filled out after the interview has taken place!

Which interest (in tendency or stakeholder position) did the respondent basically represent? (Judgment of interviewer)

☐ 1. neutral / academic
☐ 2. labour
☐ 3. government
   ☐ public finance
   ☐ state owned enterprise
☐ 4. private sector / firms
☐ 5. consumer
☐ 6. others (specify) ........................................
ifo Manager Survey on Privatisation  
January 2007

1) Has your company had experience with privatisation?  
For questions 1a) - 1d) please name the most important country and most important sector for your company.  
(+ positive side, 0 undecided, - negative side)

In Germany  
a) With customers?  

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<th>Yes</th>
<th>No</th>
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<tr>
<th>Sector (No.):</th>
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Abroad  

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<tr>
<th>Yes</th>
<th>No</th>
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<th>Country:</th>
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<th>Sector (No.):</th>
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b) With suppliers?  

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<tr>
<th>Yes</th>
<th>No</th>
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<th>Sector (No.):</th>
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<th>Sector (No.):</th>
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c) In the use of infrastructure and services?  

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<th>Yes</th>
<th>No</th>
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<th>Sector (No.):</th>
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<th>Sector (No.):</th>
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d) Has your company had significant problems with cross-border mergers and acquisitions where state-owned firms were involved?  

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<tr>
<th>Sector (No.):</th>
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</table>

3) Was or is the access of your company to important foreign markets hampered on account of insufficient privatisation in the country involved?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<th>Country:</th>
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<tr>
<th>Sector (No.):</th>
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d) Should privatisation be continued further from the perspective of your company?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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If yes, in what sectors?  

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
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<tr>
<th>Sector (s) [No.]:</th>
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<th>Country:</th>
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<tr>
<th>Sector (s) [No.]:</th>
<th></th>
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</table>

5) Should the EU privatisation regulations be more strongly harmonised (centralised) or placed more under national regulation competence (decentralised)?  

<table>
<thead>
<tr>
<th>Stronger harmonisation (more centralised)</th>
<th>Stronger national competence (decentralised)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

6) Would you be prepared to let Ifo staff interview you on one (or more) of the above questions by telephone or by e-mail? If so, please give us your  

<table>
<thead>
<tr>
<th>Telephone number:</th>
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<tr>
<th>Email:</th>
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Please return by fax: 089 / 9224-1463 or -1235
Manager Questionnaire in German Language (Original Version)

ifo Managerbefragung „Privatisierung“
Januar 2007

1) Hat Ihr Unternehmen Erfahrung mit Privatisierung?
Bitte bei den Fragen 1a) - 1c) das für Ihr Unternehmen wichtigste Land und den jeweils wichtigsten Sektor benennen. (* eher positiv, 0 unentschieden, - eher negativ)

In Deutschland
a) Bei den Kunden?
☐ ja und zwar -> Sektor (Nr.): __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ __ 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Please return the questionnaire by January 31, 2007

### Survey on Privatization

1. In general, would you say that consumer prices, wages, value of shares, employment, consumer choice for the following sectors have changed as a consequence of privatization / liberalization / regulation in your country? (+ increase - no change - decline)

<table>
<thead>
<tr>
<th></th>
<th>fixed telephone</th>
<th>gas supply</th>
<th>water supply</th>
<th>electricity supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer prices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality / consumer choice</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. How do you evaluate in general...

<table>
<thead>
<tr>
<th></th>
<th>very positively</th>
<th>positively</th>
<th>neutral</th>
<th>negatively</th>
<th>very negatively</th>
</tr>
</thead>
<tbody>
<tr>
<td>... the role of the state and other public bodies as shareholders in enterprises of your country?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>... takeovers of domestic companies operating in strategic sectors (energy, utilities, defense) by foreign firms?</td>
<td>[ ]</td>
<td>[ ]</td>
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<td>[ ]</td>
</tr>
<tr>
<td>... the outsourcing of the provision of public goods and services to the private sector?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
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<tr>
<td>... sector specific regulations?</td>
<td>[ ]</td>
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<td>[ ]</td>
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</tbody>
</table>

3. Do you think...

<table>
<thead>
<tr>
<th></th>
<th>yes</th>
<th>no</th>
<th>undecided</th>
</tr>
</thead>
<tbody>
<tr>
<td>... that privatization played an important role in improving the corporate governance in your country?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>... that international mergers involving domestic state owned companies are hampered by your country's government?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>... that Golden Shares (special shareholder rights) represent a hurdle to capital flows in Europe?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Would you change your opinion if the acquirer is from an EU member state?</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
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</tbody>
</table>

4. How do you assess the risk of political interference in transnational mergers?

<table>
<thead>
<tr>
<th></th>
<th>high</th>
<th>moderate</th>
<th>low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would you permit Ifo privatization experts to interview you on this issue? If yes, kindly provide:</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

Tel. No.: E-mail:
Survey on Privatization

Dear Colleague

The Ifo Institute is working on a European policy advice and research project on the perceived advantages and disadvantages of privatization, particularly in the areas of fixed telephones, the gas, water and electricity supply. The intention of the project is to advise EU authorities on future policies. For this study, we have designed the attached short questionnaire. As you are among the group of economists that regularly receive our CESifo publications and so may be interested in policy advice issues, I am writing today to ask you a favour.

We would be very grateful if you could spend a few minutes to complete this questionnaire and return it to us before the end of January 2007. In return, we will provide you with the survey results and analysis in spring next year.

In case you have special interest in this topic, we would also ask you to provide us with your telephone number and e-mail address (last item of the questionnaire) so we can contact you for some further questions.

Sincerely yours,
Dr. Gernot Nerzbach
Editor of the Ifo World Economic Survey
and Head of Ifo Industrial Branch Research

Please return the questionnaire by January 31, 2007
Authors

Dr. Gernot Nerb is head of industry branch research at Ifo and editor of Ifo`s quarterly world economic survey (WES).

Prof. Dr. Siegfried Schoenherr coordinates international projects on behalf of the Ifo Executive Board.

Mr. Bennet Schroeder is doctoral student in the field of privatization at the University of Vienna.