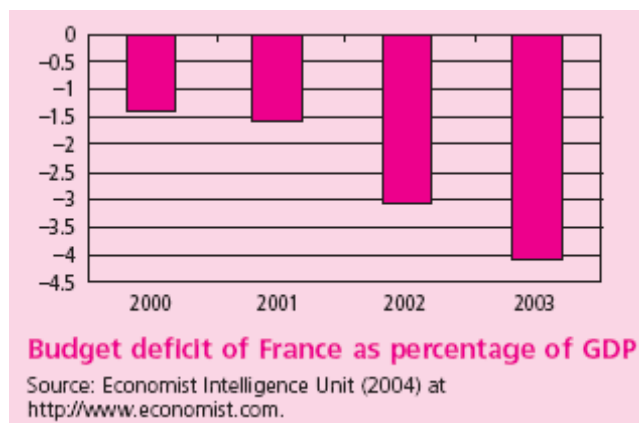


## National champions in France

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

The strong role of the state in the French economy has been a feature of French capitalism. Large enterprises either wholly or partially owned by the state operate in numerous sectors. They cover a range of industries, including electricity, gas, telecommunications, railways, motorways and lotteries. Under pressure from the EU and other EU member states, a programme of privatization has been proceeding slowly, but has met stalwart resistance from employees and their trade union representatives, who see risks to jobs and conditions in further market reforms. Similarly, the liberalization of the electricity and gas markets, required by EU directives, has proceeded slowly and only to the minimum degree required by the legislation. While criticisms of the French government for its lukewarm embrace of market liberalization have mounted, so too have problems for the French finance ministry in controlling the growing budget deficit, as shown in this figure.



Nearly one in every four employees in France works in the public sector. Civil servant status brings them job security, generous pay and pension packages which private sector employees do not enjoy. As a consequence, wages and pensions of public sector employees account for almost half of government spending in France. Electricité de France (EDF), the state-owned power utility, would be the most significant privatization to date. However, plans to privatize it have been set back due to resistance from employees, including industrial action. Reform of EDF's pension system, agreed by the three major trade union federations in 2002, was surprisingly rejected by members in a ballot, revealing the depth of grassroots concerns over reform. Tentative steps were taken in 2004, when 30 per cent of the electricity market for non-residential users was first opened to competition. This means that businesses can now shop around for their electricity supply. Also in 2004, EDF, and Gaz de France were converted from state entities to companies. This latter move would pave the way for a percentage of their capital to be sold off to private shareholders, but a large sell-off is not envisaged. The finance minister said at the time: 'one could well imagine the state remaining a 100 per cent shareholder for years: nothing says the state needs to cede its stake' (Graham, 16 June 2004).

EDF has pursued an aggressively expansionist strategy in world energy markets, acquiring sizeable stakes in energy companies throughout Europe, as well as in Latin America and China. Not surprisingly, it has faced criticism for taking advantage of liberalization in other markets, while its own dominant domestic position remains intact. For example, its purchase of 18 per cent of Italoenergia of Italy attracted criticism in Italy and, because of the perceived French invasion, EDF's voting rights were reduced to two per cent.

For the French government, privatizations present opportunities to raise much-needed funds in the face of worrying budget deficits. France has exceeded the eurozone limit of 3 per cent of GDP for four years in a row, but the government has faced political pressure at home to maintain public spending at high levels, while being committed to reducing the tax burden. Meanwhile, sluggish economic growth is adding to the government's headaches. The case for privatization to bring about efficiency gains and raise funds would

seem to be compelling, but the resistance of vested interests is likely to ensure that change is piecemeal rather than radical.

Sources: Mallet, V., 'France goes on sale', Financial Times, 18 June 2002; Mallet, V., 'EdF faces rough ride in power struggle', Financial Times, 19 June 2002; Johnson, J., 'Everyone talks of independent board members and shareholder activism but no one believes it', Financial Times, 24 April 2003; Graham, R., 'France puts off privatization of state utilities', Financial Times, 16 June 2004; Economist Intelligence Unit (2004) at <http://www.economist.com>

### **Case questions**

What is the case for privatization in France?

What obstacles lie ahead for privatization plans in France?



EDF's website is [www.edf.com](http://www.edf.com)