

**Transforming public enterprises:
Inward and outward FDI in the manufacturing and network industries.
“From ugly ducklings to swans”
Globalisation – NPA –SPA – Spain is different**

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Introduction

Among the legacies of the Franco dictatorship was a bankrupt public enterprise sector. Most of these enterprises were in the manufacturing sector and had been placed under the control of the *Instituto Nacional de Industria* (INI), a holding created in 1941 in the aftermath of the Civil War. Like the IRI in Italy, the INI had autarkic aims. During the democratic transition, between 1976 and 1986, the situation of, and the prospects for, state-owned enterprises, further deteriorated.

However, the Spanish public enterprise sector was not as large as has been considered by certain scholars and commentators. At the beginning of 1980s, Spain had a relatively small public enterprise sector in comparison with the EC-EU average, but, within this, there was a relative large industrial public sector. Moreover, many Spanish utilities and network industries were totally or partially privately-owned. These characteristics rendered Spain an exception rather than a rule in the EC/EU. Spain's pattern of industrial specialization and private network services would have consequences during the privatisation and internationalisation of the Spanish public enterprises from the 1980s.

In the post war period, most Western democratic European countries adopted a model of economic regulation based on public enterprises in utilities and network services with the aim of providing public services such as transport, communication, water and electricity. Social regulation based on the Welfare State aimed to provide social services such as education and health (Flora 1986, Comín y Díaz 2005). Admittedly, there were important differences among the democratic countries in terms of economic and social regulation. The differences, however, were much more dramatic in the non-democratic countries where there was a lack of public and social services, and an under-performing Welfare State.

During the democratic transition (1976-1986) there were four key factors that helped bring about a change in politicians' attitudes towards public enterprises.

1. The severity of the industrial crisis which began in 1975
2. The change of government with the coming to power of the Socialists from 1983.
3. Spain's accession to the European Economic Community in January 1986 (Europeanization).
4. The shift in ideological and international politics (neoliberalism and globalization).

Firstly, the industrial crisis affected both public and private enterprises. The government used public enterprises as an anti-cyclical instrument (obliging them to invest and hire workers to avoid increases in unemployment). The INI also absorbed many bankrupt enterprises during the years of crisis, worsening the public sector situation even more. In the period of democratic transition, new promises for building a Welfare State were made. Loss-making public enterprises were an unsustainable burden on the budget, and interests began to think about getting rid of them.

A second factor was that, from 1983, the Socialists were able to confront the policy of industrial reconversion, whereby public enterprises would undertake a key role by transforming themselves into large industrial groups fusing with other national private enterprises, and, in particular, with multinational private enterprises. The industrial policy of the Socialists sought industrial concentration in order to forge competitive and efficient industrial enterprises. From this perspective, they started to sell public enterprises to private groups from the same sectors. At the same time, the reorientation of industrial policy forced the government to reconsider the role of some public enterprises that had neither industrial objectives, nor public service objectives.

Thirdly, accession to the EU intensified the liberalising tendency of the Socialist government, forcing the opening up of the Spanish economy, and the end of public monopolies and subsidies to public and private enterprises. Accession allowed the Socialists to implement some industrial and fiscal policies, and they enjoyed using Brussels (Europeanization) as the excuse for imposing these solutions which had previously been impossible due to business and labour pressures.

The fourth factor was the new ideological distrust of public enterprises and a corresponding appeal to privatisation. The Socialists' manifesto used to win the elections at the end of 1982 did not contain plans to privatise. On the contrary, it stressed the need to nationalise some of the public services (such as electricity) and financial services (such as banking), which had already been nationalised in the post-war period in other European countries, but had been left in private hands during the dictatorship.

However, the Socialists began to change their attitude towards public enterprises after the 1981 Mitterand-led French government failures and the 1985 Cavaço da Silva reversal from the 1976 Revolutionary Constitutions that established that nationalisation was an "irreversible achievement of the working class". This was compounded by the new pro-privatisation fashion coming from the UK, the US and international organizations. Under these conditions, the privatisation and the internationalisation of the Spanish enterprises was a simultaneous process.

The internationalisation of the public enterprises occurred in two main ways:

- First, with the ample foreign direct investment (FDI) in Spain, which had already begun in the 1970s, but had been accentuated since 1985, triggered in part by the crisis from 1975. Part of this inward FDI consisted of the acquisition of enterprises put for direct sale by the government, which implied that the former public enterprises were bought by foreign companies and entered international markets. The sale of public enterprises abroad occurred principally in the industrial sector, where public enterprises could not survive without being bought by multinational enterprises (MNE) or at least, without having technological and strategic partners. This type of internationalisation will be studied in the first part of this paper.
- Secondly, via expansion abroad (outward FDI), both private and public Spanish enterprises became internationalised. Previously, this had not been necessary, because they had been inward looking and protected domestically. Some privatised enterprises providing public services elected foreign investment in order to be competitive in international markets as well as at home. This internationalisation was possible because the policy of privatisation in Spain opted to create some national champions, selling controlling shares to Spanish institutional financial investors, which, sometimes, had to allow in a foreign technological partner or sign trade and strategic alliances abroad. This transformation of former public enterprises into multinational companies is analysed in the second section.

II. Spain in Europe: From the Industrial State to the Welfare State. The role of private network industries.

The development of the public enterprise sector and Welfare State have been uneven and asymmetrical across the EU. In those countries which experienced long dictatorships, such as Greece, Portugal and Spain, there was a failure to develop either a strong Welfare State or significant networks of public enterprises in public services and network industries. In contrast, other countries, including Sweden, Denmark, the Netherlands, Belgium and Luxemburg, developed a strong Welfare State under a democratic government, but did not, at the same time, experience a corresponding growth in the public enterprise industrial sector

In Spain, as in other EC-EU countries, specific industrial companies were created and/or controlled by the State for fiscal purposes, such as the tobacco and alcoholic drinks industry in Austria, France, Germany, the Nordic and Scandinavian countries and Portugal. The government also undertook the management of various manufacturing activities, or nationalised industrial companies, based on arguments such as market failures, natural monopoly, economies of scale, scope and networks, promoting strategic activities, defence and security and so on. This affected different sectors, including steel making, metallurgic industries, shipbuilding, automobiles and sugar.

When countries embarked on the reform of the public enterprise sector during the 1980s, by encouraging it to follow private criteria, Spain followed suit. This was achieved, on the one hand, through the reorganisation of the public enterprise sector. Limited societies with majority State-ownership were established, in various cases, under the control of one or more holdings by public participation (as in Austria, Belgium, Finland, Greece, Italy and Sweden). On the other hand, private management criteria was introduced through vertical and horizontal integration in order to promote competition between new firms, through cleaning up and diversifying the portfolio of stake-holding. The proportion of employment in industrial activities increased as a result of the financial crisis and the bailout of bankrupt private firms during the 1970s. The main countries with 'expansive' public enterprise sectors (France, Italy, Greece, Portugal, Austria and Finland), were also the main countries with the large industrial sectors. However, this 'industrially expansive' group also included Spain, which, paradoxically, as has been seen, had a minimum proportion of public enterprises that provided public services or services of general interest (EU 2004), such as water, electricity, gas, transport and communications.

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Table 1. Percentage of employees in manufacturing enterprises with public participation in selected European countries.

	1970-73	1974-77	1978-81	1982-85	1990	1995	2000
Belgium	0	0	0	0	2	2	2
France	4	5	11	17	13	6	3
Germany	5	5	4	4	1	1	2
Greece	1	1	3	6	1	3	2
Ireland	3	3	3	3	1	1	0
Italy	8	10	9	11	10	6	2
Netherlands	3	3	3	3	2	0	0
Portugal	2	15	14	12	7	1	0
Spain	7	7	10	6	4	4	1
UK	14	15	16	14	1	0	0

Table 2 Percentage of employees in Transport and Communications enterprises with public participation in selected European countries.

	1970-73	1974-77	1978-81	1982-85	1990	1995	2000
Belgium	70	55	60	65	64	55	49
France	64	61	60	60	59	61	57
Germany	76	82	88	87	70	44	47
Greece		34	42	43	45	37	37
Ireland	89	85	87	84	80	93	59
Italy	60	63	67	73	81	88	63
Netherlands	40	41	47	46	44	13	11
Spain	38	42	49	36	32	28	24
UK	65	62	67	63	32	22	16

Table 3. Percentage of employees in Energy (Electricity, Gas and Water) enterprises with public participation in selected European countries.

	1970-73	1974-77	1978-81	1982-85	1990	1995	2000
Belgium	16	17	19	19	24	24	22
France	74	81	85	85	79	75	75
Germany	29	34	27	21	60	43	51
Greece	16	17	39	56	62	66	53
Ireland	71	69	70	72	71	67	73
Italy	72	80	82	83	85	59	41
Netherlands	26	25	25	27	71	72	64
Spain	28	29	31	35	41	17	6
UK	97	99	98	99	67	13	9

Spain can be clearly included in the group with a small public enterprise sector, which also includes the Benelux and Scandinavian countries. These countries, at least from the beginning of the 1980s, had less state ownership, and this is reflected in the percentages, which are less than half of those of the first group. The British case was exceptional during the 1980s, because it was the first to undergo a drastic transition from being an 'expansive' case to being a 'minimalist' one. It is in the 1990s that the results of privatisation or denationalisation are apparent across the EU. The most extreme cases arose in the UK, Spain and the Netherlands (and, to a lesser extent, Portugal), where percentages were reduced significantly. Indeed, they reached minimum levels during the processes of privatisation during the 1990s, though with different timescales. In Spain, the process was intense in the second half of the 1990s while, in the UK, the process had already stagnated by this time. The differences between the indicators of countries and groups were maintained throughout the 1980s, and these were significantly reduced in the 1990s when privatisation was implemented by most countries. The "downward convergence" trend can be seen in the standard deviation in the sample, which rose slightly between 1982 and 1991 (indicating divergence among countries from 0.051 to 0.055), but fell thereafter (from 0.055 in 1991 to 0.035 in 1999). These results could be interpreted as a harmonisation of public enterprises due to restructuring in anticipation of the single European market.¹

Table 4 Average impact of salaried employees, of gross added value and of gross capital formation of public enterprises in the non-agricultural merchantable economy of the EEC-EU (1982-2000).

Country	1982	1985	1988	1991	1995	2000
UK	16.2	12.7	7.4	4.4	2.7	2.3
Spain	12.0	12.0	10.0	9.0	8.0	4.1
Netherlands	9.0	9.0	9.6	7.5	6.8	4.6
Luxemburg	7.5	7.1	7.2	6.4	6.4	5.7
Denmark	12.0	11.4	11.9	11.5	9.7	7.9
Belgium	12.1	11.1	12.0	11.0	11.6	10.9
Germany	14.0	12.4	11.6	11.1	10.7	10.9
Ireland	15.1	15.3	14.4	12.3	11.8	10.1
EEC-EU	16.4	15.3	13.3	11.8	10.4	9.0
Italy	20.0	20.3	19.0	18.9	14.2	9.6
Greece	22.3	23.2	20.8	20.2	15.4	14.2
France	22.8	24.0	18.3	17.6	14.7	11.8
Portugal	23.9	22.7	24.0	20.7	12.3	8.5
Austria	29.2		27.0	16.9	13.3	12.0
Sweden	18.9				12.9	13.1
Finland	23.5				17.6	10.9
StDv. EU-15				0,054	0,039	0,035
StDv EEC-12	0,051	0,056	0,053	0,055	0,038	0,036

III. The privatisation and transnationalisation of state-owned enterprises

The programme to privatise and transnationalise state-owned enterprises from 1983 can be divided into two main stages, which correspond roughly to the governments of the Socialist party (PSOE) and the Popular Party (PP). Although these two governments pursued different policies, there were also elements of continuity in the sense that the PP's policy of total privatisation would not have been implemented at such speed and with such dynamism if it had not been for the PSOE's policies to clean up the public sector and implement partial privatisation programmes.

Privatisation and transnationalisation under a Socialist Government in the 1980s: third way or straight ahead politics?

In the first stage, between 1983 and 1995, the PSOE governments reorganised and cleaned up the public enterprise sector, improved its management, and implemented a degree of privatisation that was euphemistically referred to as 'de-investment'. This new policy was consolidated when the Spanish accession to the EEC took place in 1986. Accession also forced public enterprises to confront challenges, which had been postponed, in order to adapt to the requirements of deregulation. For instance, some of the public monopolies (such as Campsa, Tabacalera, Telefonica, Iberia, Renfe, Correos) had to be opened up to competition. In addition, there were sectors whose subsidies had to be cut (Hunosa and the entire steel industry). Privatisation was not implemented according to a systematic plan, but in a more *ad hoc* way. As in other countries, this process was not implemented directly by the government, but by the holdings or enterprises themselves, either with the support of, or by order of, the ministry to which the enterprise belonged. However, sometimes a lack of coordination led to contradictory policies.ⁱⁱ

The first objective of the privatisation programme undertaken by the Socialists was to promote industrial recovery by: 1) making the public enterprise sector profitable by eliminating loss-making businesses; 2) selling off enterprises that were not deemed to be of strategic interest, such as Textil Tarazona, Marsans (travel agency) and Entursa (tourism); 3) ensuring the sustainability of companies which could not be made competitive as public enterprises, because they lacked the economies of scale, technology or commercial networks, by selling the whole enterprise to multinational companies (as occurred in the cases of Secoinsa, SKF, SEAT and Enasa) or merging them through cross shareholding in order to gain technological partners and business alliances with other companies (Repsol); and 4) promoting the policy of reindustrialisation by favouring business concentration, as in the cases of Enfersa and Inisel. In most cases, privatisation was total in the sense that the enterprises passed from public to private control.

Between 1985 and 1994, the INI earned from enterprise sales some 2.54 billion dollars but it had spent 3.18 billion dollars on cleaning up the public enterprise sector. In most of the larger cases of privatisation, the buyers were foreign companies, since they were the only ones which had the technological, marketing and management know-how to ensure the survival of the privatised enterprises.

The second objective of privatisation during this period was of a financial nature and included: 1) reducing subsidies to loss-making enterprises; 2) forcing public enterprises to become self-financing; 3) finding extraordinary income to eliminate the budgetary deficit. In order to achieve these objectives, initial public offerings were placed of capital of the most profitable public enterprises. The purpose of this was to introduce discipline and external control in business activities, through stock market quotation and the introduction of private shareholders. However, in all of these stock market sales, public holdings remained majority shareholders as they were not prepared to lose control of the enterprises. Thus, we could describe this as partial privatisation, good examples being the sale of shares in the stock market of enterprises of the INI group (Gesa, Endesa, Ence), Repsol and Argentaria.

From 1994, privatisation started to be considered from a broader perspective. The Ministry of Industry proposed that privatisation be used as an instrument of industrial policy, that anticipated the participation of both national and international partners in public enterprises, with the idea that they would constitute a 'hard core' of private shareholders that supported the established business policy of the company. In the same year, the Ministry of Economy and Finance anticipated in the Budget a privatisation plan aimed at reducing the public deficit and fulfilling the EMU

convergence criteria. The results were the partial privatisation of Argentaria (1994) and Repsol (1995). In March 1995, a law was approved that regulated 'a legal framework in the case of disposal of public participation in certain enterprises'. This allowed for the sale, dissolution, split or merger of public companies by a decree, whenever the sale was over 5 per cent and the public participation in the enterprise remained under 15 per cent. In this privatisation law, for the first time, the use of 'golden shares' was regulated. In order to continue the slimming down of the SPE and to help the privatisation of profitable enterprises, in June 1995, the plan of 'structural simplification' of industrial groups was passed. On the one hand, the State Society of Industrial Participations (SEPI) was created, as a shareholder of Teneo and REPSOL. SEPI assumed responsibility for the INI's debt, which was estimated to be around 2.2 billion dollars.ⁱⁱⁱ On the other hand, the Industrial Agency of the State (AIE) was created and this took over loss-making enterprises from the old INI, that is, belonging to the naval sector, the steel making (CSI), mining companies, particularly Hunosa, and defence industry companies. As a consequence, the INI and the INH formally disappeared on 20 June 1995.

Sector <i>Company</i>	Transactions				Value Percentage
	1985- 2003	1997- 2003	1986- 2003	1996- 2003	
Energy	15	6	19721	12354	38.4%
<i>Endesa</i>	4	2	12502	10794	24.3%
<i>Repsol</i>	5	1	5652	1170	11.0%
<i>Gas Natural ENASA</i>	2	0	669	0	1.3%
Telecoms	5	4	9345	8242	18.2%
<i>Telefónica</i>	3	2	8078	6978	15.7%
<i>Retevisión</i>	1	1	1208	1208	2.3%
Transport	10	8	5710	5678	11.1%
<i>Iberia</i>	3	3	1507	1507	2.9%
<i>EN Autopistas</i>	1	1	3277	3277	6.4%
Bank and Finance	10	5	6504	2644	12.7%
<i>Argentaria</i>	4	1	5961	2298	11.6%
Manufacturing	36	14	8819	5582	17.2%
<i>CSI</i>	2	1	2609	832	5.1%
<i>Tabacalera</i>	1	1	1808	1808	3.5%
<i>CASA</i>	1	1	411	411	0.8%
Other services	9	9	1316	1316	2.6%
Total	85	46	51416	35815	85.1%

Total privatisation and the consolidation of national champions in the roaring 1990s.

The arrival of the PP to power in 1996 brought about profound changes in the policy towards the public enterprise sector. The PP's total privatisations changed not only the degree of privatisation but also the ideological approach to it. It was considered that the public enterprise had no role in the global economy and the process of EU integration, thus, there was no need to keep a public enterprise sector and it needed to be dismantled. It was believed that putting public enterprises in the hands of private initiative would also render them more efficient.^{iv} In order to better coordinate this process, the public enterprise sector was reorganised and all the industrial public enterprises were combined, including those belonging to the AIE and SEPI. Other important changes emanating from the policy of total privatisation were: 1) the policy of privatisation was coordinated by the government; 2) privatisation was managed by the holding agencies of enterprise shares, that is, SEPI and SEPPA; 3) privatisation was implemented following principles of transparency, publicity and open competition, for which an independent organism called Privatisation Advice Board (CCP) was created

and; 4) a timetable was set for the privatisation of all public enterprises to be undertaken by 2001, with the exceptions of railways (Renfe), public broadcasting (RTVE), Hunosa, Figaredo, and the postal service (Correos).^v The main objective of privatisation was to improve economic efficiency in general, so the privatisations had to be accompanied by market liberalisation, the continued survival of the enterprises and the maintenance of jobs.

Public offerings formed the chosen route, making up about three quarters of privatisation income. Public offerings after 1996 were different from those previously experienced, which, however, corresponded to innovations used in other European countries; on the one hand, there was greater participation of individual shareholders as institutional shareholders became less important,^{vi} on the other, the system of open competition in the choice of financial advisers, global coordinators and evaluators, allowed the reduction in the charges paid for these financial assessors. In addition, auctions were used, ranging from restricted invitations to tender, to universal invitations to tender, direct sales and even public offerings.^{vii} In general terms, the desired objectives were reached: the State shed its participation in the privatised enterprises; the viability of the privatised enterprises was assured, as well as industrial plans and the jobs. As a consequence of the PP's total privatisation, the public enterprise sector practically disappeared in all the areas in which its presence had been key, such as telecommunications, electricity, petroleum, natural gas and steel.

The main problem about total privatisation is that, despite the intention, privatisation of public monopolies took place before the markets were liberalised, which could be compared to other EU countries such as the UK. The result was that public monopolies were replaced with private monopolies, such as in the case of gas, or by oligopolies with enterprises in dominant positions, which abused their position by avoiding effective competition. This occurred in sectors including oil distribution, electricity, air transportation, telecommunications and tobacco. One of the main challenges that the government faces is the introduction of effective competition in these sectors through legislation and regulatory bodies and the defence of competition.^{viii}

Privatisation was a watershed for business power in Spain. Firstly, the initial structure of shareholding property of the privatised public enterprises reflected the interests of the government to favour the incorporation of individual shareholders, that is, to promote popular capitalism. Secondly, the shareholding structure of privatised enterprises has been affected by the significant proportion of shares bought by international institutional investors. Thirdly, it was the large national financial entities who benefited most from privatisation, not only by obtaining large shareholdings, but also because they were awarded the control over companies through golden shares and administration boards. In addition, large banks and savings banks also established cross-shareholdings, which allowed them to control the sectors that had until recently been managed by the public sector.

Privatisation consolidated a shareholding structure that gravitated around the two pairs of banks: Banco de Bilbao Vizcaya (that merged in October 1999 with Argentaria) and La Caixa, on the one hand, and Banco Central Hispano and the Banco de Santander (which merged in March 1999) on the other. Each of these groups of financial institutions had significant ownership in the petroleum, gas, water, electricity and telecommunications sectors. Privatisation contributed to reinforcing the already stable links between banks and industry.

IV. The internationalisation of public enterprises.

IV.1. Inward FDI: the acquisition of public enterprises by foreign MNCs.

The internationalisation of some industrial public enterprises was imposed by social and electoral pressures, making it practically impossible to close them down. Indeed, one of the priorities in the privatisation process in Spain has been to ensure the brand-name of companies survives, as well as guaranteeing employment. For these reasons, industrial and investment plans presented by the companies acquiring the enterprises have been more important than the money offered.

These industrial enterprises found themselves in a delicate financial situation with Spain's opening up to imports, since they were simply not competitive enough. Not only did they have negative prospects, they were facing a difficult financial situation, most of them being loss-makers for diverse reasons. Some of them, in addition, had always depended on foreign technology, sometimes via the transfer of patents or foreign technology, other times with the participation of large multinationals in public enterprise capital, such as minority INI partners. In summary, Spanish governments from 1985 perceived that the only strategy for survival of these public enterprises was to sell them off to foreign firms. That is, the survival of public enterprises could only be affected through their sale to international companies.

This is only an apparent paradox, because the multinationals bought the privatised enterprises for their worth: in other words, the State sold them for a negative price, because it had had to spend enormous amounts on cleaning them up, rescuing them from bankruptcy, subsidising them (before or after the sale), and financing redundancy packages. In reality, this was the "American" way to save companies in crisis, that is, via direct and indirect aid to a private enterprise or via privatisation.

What the Spanish state spent (on dowries to make the public enterprises possible suitors) increased to such enormous amounts that the income for subsidies was greater than privatisation income. These privatisations were accomplished, generally, through direct sale, the processes of selection varied but their transparency always left much to be desired, which is logical in these commercial and business operations. The negotiations about these sales were, generally, long and complicated. In the selection of the buyer, political questions or guarantees of future contracts or concessions by the State were dominant.

The most important industrial sectors involved included automobile (SEAT y ENASA), equipment (La Maquinista Terrestre y Marítima y Atienza), ball bearings (SKF y CSA), electronics (Secoinsa), aluminium (Inespal), steel (Aceralia y Sidor), mining (Minas de Almagrera y Potasas), aeronautics (CASA), and the military industry (Santa Bárbara).

IV.2 Making National Champions in Network Industries

The enterprises in this group were not privatised on the grounds that they were loss-makers or were unviable commercially, rather, these were large public service network enterprises that were usually profit-making, unless they made occasional losses due to

the economic situation or the policy of tariff fixing (to control inflation). These companies were known as the “jewels in the crown”.

In fact, during the first phase of privatization, during Socialist governments, it was not considered to totally sell these enterprises. The strategy was to sell shares to obtain income to balance the budget or finance investment into the public enterprises themselves, or cover the losses of the unprofitable enterprises. This was partial privatisation with strictly financial aims, in which the public enterprises would remain public overall, since the State would retain enough capital to control them.

The sale of these shares was accomplished via PO to list on the stock market. To increase the market value of these firms, certain operations of acquisition and mergers of companies was accomplished, as well as their profound reorganization, as well as management techniques. In this way, the idea was to introduce some kind of market capital discipline into the enterprises, as well as establish a better management system.

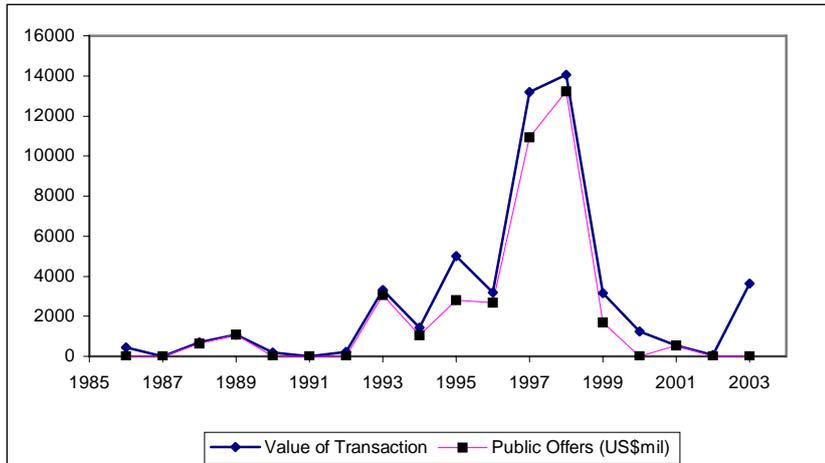
In these privatisations, a nationalistic policy was used, with the aim of privatising without denationalising. The idea was that the enterprises would remain in State hands as large Spanish enterprises. To this end, some institutional tranches were reserved for select financial groups and Spanish companies, with which special prices were agreed, in exchange for the guarantee of remaining an investor for a usually long period of time. With the acquisition of shares, these private groups gained positions in the administration boards of companies being privatised, to the point that they ended with total control. From 1996 the PP government developed a “total privatisation” programme for all the public enterprise sector.

The PP policy was a drastic change in the policy of privatisation. No longer were large public enterprises considered necessary as public services. The State must limit itself to a regulatory body in these network services. Within the liberalization policy, it was considered that it made no sense that the State continued to be involved as an entrepreneur, so the enterprises should be privatised. What did not change, however, was the nationalist strategy, since this aimed that privatised enterprises would remain in Spanish hands. To avoid these fell into the hands of foreign interests, the government reserved the control of these enterprises via a golden share, by which the State had to authorise certain operations, such as the sale of a percentage of capital, or the closure of the enterprise, using its power to veto. The “total” privatisation of these companies meant that they remained in Spanish hands via *nucleos duros* and where the directors of the enterprises were nominated by the PP government. With freedom to act, these privatised enterprises decided to diversify their operations and markets, sending large amounts of funds to investment in foreign markets, mostly in Latin America and Europe, and into activities with little or no connection to their main activity.

The lack of experience of the managers of the traditional sectors in the new activities implied a risk as well as the possible abandonment of their traditional services.

The cases of these privatisations that created national champions were the following. Endesa in the electricity sector, REPSOL y Gas Natural in the petroleum and gas sector, Telefónica and Retevisión-AUNA in telecoms, Iberia in air transportation, Tabacalera in the alimentary industry, and Argentaria (fused with BBV Banco Bilbao Vizcaya) in banking.

**Spain:
Privatisation proceeds 1986-2003 (Total an Public Offers, US\$ M)**



1. An examination of privatisation and internationalisation in Spain can be summarised by analysing ten enterprises which account for 85 per cent of the total. Indeed, four of them are dominant (Endesa, Telefonica, Repsol and Argentaria) making up two thirds of the total. These firms and some of their participating companies, such as Gas Natural by Repsol or Retevision by Endesa, are the more relevant cases of “outward looking” transnationalisation of Spanish MNEs in the EU and worldwide.

2. The number of privatisation operations was similar in both periods (1985/1996 and 1997/2003) but the proceeds of the first period represented only a 30 per cent of the total. Most of the proceeds of the main companies can be explained by a few operations since 1997, when the PP was in government and the stock markets were outstanding, such as Endesa, Telefonica, Retevision, Iberia, Tabacalera and CASA. These results could be attributed to both effects, an ideological determination and a favourable financial situations in the international stock markets.

The privatisation of some of the larger enterprises was developed before 1997, when the PSOE was in power and culminated in the second phases, such as in the cases of Argentaria, Repsol, Gas Natural-ENASA, CSI, SEAT, EFERSA, INESPAL.

Company		value US\$M	% Sale	Offer
Endesa	31-May-88	651	0.0	PO
	01-Jun-94	1057	6.7	PO
	20-Oct-97	4390	25.0	PO
	09-Jun-98	6404	33.3	PO
		12502	2,95	
Telefonica	02-Oct-95	1104	12.0	PO
	17-Feb-97	4260	20.9	PO
	03-Apr-98	2714	0.0	PO
		8078	0,0	
Repsol	21-Apr-89	1076	33.5	PO
	31-Mar-93	715	11.5	PO
	10-Apr-95	1602	19.0	PO
	05-Feb-96	1089	11.0	PO
	28-Apr-97	1170	10.0	PO
		5652	0,0	
Argentaria	10-May-93	906	23.7	PO
	16-Nov-93	1445	20.4	PO
	25-Mar-96	1315	22.8	PO
	16-Feb-98	2295	29.2	PO
		5961	0,0	
Iberia	29-Apr-99	1116	30	PS
	17-Mar-00	392	10	PS
	01-Apr-01	435	53.9	PO
		1942	5,4	

3. As we have shown elsewhere (Clifton, Comín & Diaz 2003), as result of the Single Market Programme implemented since the 1980s, most of the privatisation transactions were the activities opened up to competition such as manufacturing and financial service, such as Tabacalera, CASA or Argentaria. Additionally, in Spain, the process of restructuring for such objectives included companies operating in networks industries that anticipated the transformations Endesa, Respol, Gas Natural, Telefonica, Retevision-AUNA and Iberia.

ENDESA (Empresa Nacional de Electricidad S.A.)

This enterprise was founded in 1944 during the autarky period of Franco's dictatorship and belonged to the INI (Instituto Nacional de Industria). In 1972, this was merged with Hidrogalicia, but it was in 1983, during the first Socialist government, that the company started expansion and consolidation via the acquisition of stakes in other regional electricity companies. Enher, Gesa, Unelco and Encasur, and ERZ became part of the company. At this time, ENDESA was still a public enterprise which shares belonged to the INI.

The process of the privatisation of ENDESA started gradually in 1988, during the second Socialist government and after the EC accession. In this year, the state reduced slightly its share to 75,6 launching an IPO and the company was listed on the NYSE for the first time.

Between 1991 and 1993, Endesa experienced its second national expansion via horizontal acquisitions of 87,6% of Electra, 40% of FECSA, 24,9% of NANSÁ, 61,9% of CARBOEX and 55% of Hidroeléctrica de Barcelona. Moreover, in this period, its internationalisation commenced with a take-over of Electricidad de Argentina and Yacylec in 1992. This was followed by the Portuguese Tejo Energia in 1993 and greenfield investment in Compañía Peruana de Electricidad and DistriLima.

In 1994, Endesa launched a second PO, but the state still held 66,9% of capital. In this year, its capital diversification started with the purchasing of 11,8% of Sociedad General de Aguas de Barcelona and, one year later, 7,2% of Airtel (Spain's second largest mobile phone company) as a result of an agreement with Banco Central Hispano. This also meant its expansion in Edenor of Argentina (an electricity distributor). Three years later, ENDESA led a consortium for the second largest fixed telecommunication operator, Retevisión, and continues its Latin American adventure by a share in Enersis of Chile.

In 1997 and 1998, during the new right wing government, ENDESA became a private company when it launched two significant public offers for one quarter and one third of the capital, while the State reduced its participation to 2,95%.

Thus, since 1988 ENDESA has been transformed from a local, public enterprises to a global multinational amongst the world's four biggest electrical companies. It has participation in the generation, transportation and distribution systems in 12 countries in Africa, America and Europe. Nevertheless, ENDESA keep its core activities in Spain and it is still the largest domestic power supplier (45% of power generation, 40% of the distribution and 50% of the turnover in 2002 and 2003).

ENDESA has diversified its activities and is exploiting network competitive advantages in water treatment, gas distribution and telecommunications. It has been the leading investor (30% of the capital) in AUNA, the second global telecom operator in Spain, with Banco Santander Central Hispano (23%), Unión Fenosa (19%) and ING Bank (10%).

European Liberalisation in Electricity, Telecommunications and Air Transports.

In the 1990s, the EU deregulation and liberalisation policies has direct consequences privatisation and FDI, in particular merger and acquisitions (M&A), of public enterprises. As part of Single Market Programme launched in 1980s for manufacturing and financial services, the liberalisation of network services such as telecommunication, electricity and gas market started in the second part of the 1990s. In December of 1996 it was draw up the Electricity Directive by the European Commission that require each member state to open gradually its market to competition to a minimum 33% by 2003 and restricted the generation by a single company to 50%, most of the countries opted for partial (Italy, Portugal, the Netherlands and Italy) or total liberalization (Finland, Germany, Sweden and UK) and, with the exception of France, in liberalisation has reached a 70%. This market liberalisation has direct consequence in the strategies of the electricity companies though transnational M&A.

Many government have promoted the creation of “national champions” to protect their domestic markets and also to expand their market shares abroad. In the EU electricity market new leaders MNE have emerged in the 1990s, such as EDF in France, RWE and Eon in Germany, ENEL in Italy, Wattenfall in Sweden and Endesa and Hiberdrola in Spain. As result of market liberalisation and corporate transnationalisation many companies has been relocatin abroad, EDF is the main London supplier of electricity and Wattenfall is the third German supplier of electricity.

Government ownership of public telecommunication network operators and new entrant share, 1992-2003

PTO	Telekom Austria AG	Deutsche Telekom AG	Belgacom	TeleDenmark	Telefonica	Sonera	France Telecom	OTE	KPN Telecom NV	Telecom Eireann	Telecom Italia	PT admin. Lux	Telecom Portugal	BT	Telia
State ownership 1992	100	100	100	89	35	100	100	100	100	100	50	100	100	22	100
1995	100	80	50	51	21	100	80	92	45	80	62	100	51	1	100
1998	100	61	50	-	-	100	62	65	44	80	5	100	25	-	100
2003	47.8	42.8	50	-	-	53.1	56.5	33.8	34.7	--	3.5	100	6.6	-	70,6
Access line m share new entrants 1998	0.2	0.5	0	0.9	0.5	0.5	0	0	0	0	0	0	0	14.3	0
2003	7.1	3.0	0.1	12.0	5.2	4.9	0.5	0	15.0		1.0	0.9	2.2	19.8	0.1

Internationalisation of main Public Telecommunication Operators in the EU 1999-2001

Company	State participation		Major shareholder		Foreing revenues as %			Total Revenues USD m	Accces Lines	Mobile subscirb
					1999	2000	2001			
Deutsche Telekom	43+20	KfW Bank			8.5	19.1	27.3	43.1	30.3	66.6
France Telecom	61				13.3	25.8	35.8	38.4	34.2	43.2
BT	0				7.1	26.0	24.7	31.6	29.1	
Telecom Italia	3,5 (GS)		54,99	Olivetti	5.9	13.2	13.6	27.5	27.4	24.0
Telefónica	0 (GS)				58.1	43.4	38.3	27.7	45.0	16.7
KPN Telecom	43 (+SS)				9.5	15.0	22.0	11.5	6.6	13.7
Tele Danmark	0		41,6	SBC	41.8	45.6	54.2	6.5	4.7	6.3
Telia	70,6				10.3	14.0	19.0	5.5	6.5	4.9
Telecom Portugal	0 (GS)		6,25+3,5	Telefónica , BT	8.8	31.9	24.5	5.1	4.3	3.9
Sonera	53,1				5.0	7.4	6.8	2.0	0.8	2.5
PT Austria AG	75		25	Telecom. Italy	-	3.8	7.1	3.5	3.2	2.9

Elaboración propia: En base información de las empresas y el regulador europeo de telecomunicaciones (2004)

i The decline of public enterprises in the 1990s would be even more dramatic if we considered, from 1991, the contributions of production, employment and investment in eastern Germany after integration. This was only registered in 1999 while in 1995 the indicator of Germany was over 14 per cent (Clifton, Comín y Díaz 2003, 2004, 2005a and b, Comín and Díaz Fuentes 2001, 2004).

ii See Comín (1999 and 2004a and b), Comín, Martín Aceña and Jiménez (1992), Jiménez (1994), de la Dehesa (1992) and Montoro (1991), Carreras, Tafunell and Torres (2000).

iii It was thought the SEPI could be listed on the stock exchange in 1996, but this did not occur due to the changes in the direction of privatisation policies by the PP.

iv See Comín and Martín Aceña (2002).

v See OECD (1998). Megginson and Netter (2001)

vi Individual shareholding was overlooked in the sales of Gas Natural (1996), Aldeasa (1997). See Cuervo (1998), Gámir (1998) and Mañas (1998).

vii According to the OECD (2002)

viii See Lasheras (1999).

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