

**THE AMBIGUOUS PARTNERSHIP: ELF AQUITAINE
AND THE FRENCH GOVERNMENT 1976-1986**

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ABSTRACT

This thesis explores the relationship of collaboration and conflict between France's state-owned oil group, the Société Nationale Elf Aquitaine, and successive governments during the critical decade, 1976-1986, before wide-scale privatisation was initiated. The group's development reflects the broader trend in government - industry relations away from *dirigisme* to market economics by both senior managers and politicians alike. Created as an instrument of government with a "national interest" mission, the group was expected to work for and with governments. This partnership was conditioned by the international nature of the oil industry. Directly exposed to the impact of the oil crisis, the group suffered from the switch made in France from oil to nuclear energy as the main source of power. This development accelerated not only the diversification of the group's product range and multinationalisation of its activities but also modified its relations with government. It remained in public ownership, but became financially independent and acted increasingly like a private company. Governments were also affected by the economic crises of the 1970s, and by France's closer integration into Europe. While Elf maximised its profits, governments relied on the oil group's wealth. This confusing combination of dependence and governments' use of their powers of ownership produced many conflicts. Yet Elf's leaders could also exploit the state link through *grand corps* networks to achieve their own goals. These ambiguities were sharpened during the decade because Elf was shifting between two modes of relationship: an instrument of government enjoying privileged links with the state and an independent private multinational. Partial privatisation in 1986 somewhat resolved the contradictions but heralded new challenges. Under the impact of the Single Market programme and GATT agreements, French governments divested themselves of powers they could no longer exercise, French firms shifted partnership with the state to partnership with foreign firms and the development of each individual firm became subject to its performance in the market.

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ABBREVIATIONS

AGIP	Azienda Nazionale Generale Italiana
ASCOOP	Association Coopérative
ATO	(Contraction of Aquitaine and Total)
BP	British Petroleum
BRP	Bureau de Recherches de Pétrole
CDF	Charbonnages de France
CEA	Commissariat à L'Energie Atomique
CEP	Compagnie d'Exploration Pétrolière
CEPM	Comité d'Etudes Petrolières Marines
CERCHAR	Centre d'Etudes et de Recherches des Charbonnages de France
CFA	Cours du Franc Africain
CFP	Compagnie Française des Pétroles
CFPA	Compagnie Française des Pétroles d'Algérie
CFR	Compagnie Française de Raffinage
CGT	Confédération Générale du Travail
CII	Compagnie Internationale de l'Informatique
COGEMA	Compagnie Générale des Matières Nucléaires
CRPM	Centre de Recherches du Pétrole du Midi
DATAR	Délégation à l'Aménagement du Territoire et à l'Action Régionale
DGE	Direction Générale de L'Energie
DGSE	Direction Générale de la Sécurité Extérieure
DHYCA	Direction des Hydrocarbures
DICA	Direction des Carburants
EDF	Electricité de France
EGOCO	European Group of Oil Companies
EMC	Entreprise Minière et Chimique
EMS	European Monetary System

ENA	Ecole Nationale d'Administration
ENI	Ente Nazionale d'Idrocarburi
ERAP	Entreprise de Recherche et d'Activités Pétrolières
FDES	Fonds de Développement Economique et Social
FLN	Front de Libération Nationale
FSH	Fonds de Soutien aux Hydrocarbures
GATT	General Agreement on Tarrifs and Trade
GEP	Groupement d'Exploitants Pétroliers
IFP	Institut Français du Pétrole
IPC	Iraq Petroleum Company
MDIS	Ministère du Développement Industriel et Scientifique
NIOC	National Iranian Oil Company
ONCL	Office National des Carburants Liquides
OPEC	Organisation of Oil Exporting Countries
OS	Organisme Saharien
PCUK	Produits Chimiques Ugine Kuhlmann
PID	Provision pour Investissements Diversifiés
PREPA	Société de Prospection et d'Exploitation Pétrolière en Alsace
PS	Parti Socialiste
PUK	Péchiney Ugine Kuhlmann
RAP	Régie Autonome des Pétroles
RPR	Rassemblement pour la République
SAFRAP	Société Africaine de Recherches et d'Activités Pétrolières
SDECE	Service de Documentation Extérieure et de Contre-Espionnage
SEA	Single European Act
SEREPCA	Société de Recherches et d'Exploitation des Pétroles du Cameroun
SIP	Société Industrielle des Pétroles
SN Repal	Société Nationale de Recherches du Pétrole en Algérie
SNEA	Société Nationale Elf Aquitaine
SNPA	Société Nationale des Pétroles d'Aquitaine

SNPLM	Société Nationale des Pétroles du Languedoc et du Midi
SOFREA	Société de Financement Régionale Elf Aquitaine
SONATRACH	Société Nationale pour le Transport et la Commercialisation des Hydrocarbures
SOVAP	Société de Valorisation des Pétroles
SPAEF	Société des Pétroles d'Afrique Equatoriale Française
SPAFE	Société des Pétroles d'Afrique Equatoriale
TIPP	Taxe Intérieure sur les Produits Pétroliers
UCSIP	Union des Chambres Syndicales de l'Industrie du Pétrole
UDF	Union pour la Démocratie Française
UDR	Union des Démocrates pour la République
UGP	Union Générale des Pétroles

INTRODUCTION

The subject of government intervention in industry is highly controversial. The extent to which government should own companies or intervene in the affairs of a nationalised industry has traditionally provoked a divergence of opinion according to ideological beliefs. Often those on the Left have argued that insofar as a public sector company is solely or partially the property of the nation, governments should control its activities in the public interest. Increasingly, however, many on the Left have asserted that ownership is not essential for control and indeed, in some cases, ownership may limit effective control. Full or partial private ownership within an effective regulatory framework has been presented as an alternative. Politicians of the Right, who have traditionally taken a more liberal view, argue that government control can only hamper a company's competitiveness. For them, the main concern of any company, state-owned or private, should be its profitability and the most efficient means towards achieving this end is for government to give those running the company the freedom to make their own choices. Some on the Right, however, argue that while public ownership can distort the allocation of resources by its effects on capital markets, states cannot abrogate all responsibilities for maintaining and supervising markets. It is in part this view which has given rise to the present trends towards the privatisation of state-owned companies and the creation of regulatory agencies, trends prevalent in all industrialised countries.

The subject of government-industry relations is particularly interesting in the context of France. France has a statist tradition, and governments have often intervened in very directive ways in the affairs of industry and the running of firms. The waves of nationalisations throughout the 20th century and the introduction of economic planning in the postwar period are just two of the more obvious examples of government intervention. By means of both these forms of intervention, governments gave the state-owned companies a steering role in the economy. As a result, the public sector in France, especially in the postwar period until 1986, was often more dynamic and played a more vital role in the economy than the private

sector. However, the growing trend in world trade and more open markets from the 1970s encouraged governments to adopt a more liberal attitude vis à vis their public sector companies. In France this led to a blurring of the public/private divide. Yet until the election of the Chirac government in 1986 French governments ran counter to this liberal trend by retaining a large public sector. Indeed, in 1982, the public sector was significantly extended.

The changing world economic situation over the last 25 years has pushed companies to become more competitive and governments to be less generous. Companies have been obliged to take responsibility for their own survival. In other words, state-owned companies, just like privately-owned ones, have been obliged to adopt tough strategies in order to survive and prosper. Control of their environment and profitability have been their most important objectives. The choices made in the achievement of these objectives are in themselves a valid subject of investigation. So too are the actors who make the choices and the motives which inspire their decisions.

The interest of this subject also lies in its focus upon the activities of a company. These are also a determining factor in the importance it acquires. That is to say, certain goods are more essential to an economy than others, so the company providing them is likely to be privileged to a greater extent than those providing less essential commodities. Nothing about a company is static, however. Its activities evolve according to the changing environment in which it operates, the needs of suppliers, of customers, of controlling institutions. A company can therefore be very different even over a decade, not just in dimension and sphere of influence but also in the nature of its activities. Furthermore, its evolution reflects a changing environment. Political, economic and social change can therefore be explored through developments which have taken place in the microcosm which is the company.

The Thesis

The thesis explores the nature of relations between a major French public sector company and governments during the critical decade, 1976-1986, before large-scale privatisation was initiated. Public sector companies were either created by government or were existing companies of which government took ownership. Ownership could be total or partial but in France was usually not less than 51%. Public sector companies traditionally came into existence because government wished to use them as instruments of national policy. They were to be found in those sectors of the economy concerned with such essential public services as defence, energy, transport or communications. Their existence frequently arose from market failure, that is, the fact that the cost of the service was not commercially viable for a private company.

Public sector companies traditionally fell into two categories: the non-competitive monopolies such as rail transport, gas and electricity, whose principal market was domestic, and those belonging to the competitive market sector, more commercially oriented, and obliged to be profitable in order to compete in an international environment. The public sector company which provides our case-study belonged to the latter category.

It was always somewhat paradoxical that a company of this type existed. On the one hand it was an instrument of national policy, and as such, expected to respond to demands made upon it by government in the national interest. In addition, while governments wanted to use the company to serve their own ends, they did not want it to be a drain on the national budget. On the contrary, they wanted it to be financially independent. On the other hand, in order to compete and survive at an international level, the company had to be profitable, and to achieve that goal, company managers would try to avoid potentially burdensome demands that national governments might wish to impose upon their company. Rather, company leaders sought to use state power, both domestically and abroad, to further the growth and profitability of the company.

Relations between government and a state-owned company of the market sector were therefore inherently ambiguous. In such companies, while the President of the Republic appointed as the chairman the person whom he thought would take it in the direction he required, after that appointment, it was the leaders of the firm who decided company strategies. There was nevertheless an on-going two-way contact between the company and government, and over certain important projects, close collaboration. Circumstances change, however. Presidents of the Republic, ministers, government officials and company chairmen are replaced. Occasions occurred when, either the company was perceived by ministers as transgressing government objectives, or not conforming to its original goals, or different ministries were seen by senior management to be obstructing company strategies. It was then that conflicts arose. Over the long term, however, although the dominant partner was frequently difficult to identify, in the case of Elf Aquitaine, there seems to have been a compatibility of objectives between managers and ministers.

Our thesis is that between 1976 and 1986, the shift in government - industry relations in France from *dirigisme* to market economics by both senior managers and politicians alike, although inevitably a tense and sometimes conflictual process remained, nevertheless, fundamentally collaborative. In this context, even the advent of a Socialist government in 1981, entailing a wave of nationalisations and restructurings affecting the oil industry, did not create a major conflict. In short, the path to privatisation and the decline of *dirigisme* began long before the Single European Act and the election of the Chirac government in 1986. The decade nevertheless marked a vital turning-point in government - industry relations in France. From being an instrument of government and enjoying privileged links with the state, the company which provides our case-study was acquiring the character of a private multinational. Moreover, for their part, governments were gradually realising that as the French economy became integrated into the international one, their ability to direct it was waning. It was this evolution which brought into sharp relief ambiguities inherent in the government - industry partnership.

The Inherent Ambiguity: Management or Government Control?

According to a high-ranking official in the company which forms our case-study, the Société Nationale Elf Aquitaine (SNEA), the problematic nature of its relations with government arose from its twofold character:

"Ce groupe a été géré un peu comme une entreprise privée mais, même si ce n'était pas toujours écrit, il avait toujours une mission d'intérêt national, même si ça a évolué, donc c'est toute la difficulté."¹

The problems associated with the subject of relations between a public sector company and government therefore stemmed from two main sources: the fact that government did not control what it owned and that governmental ideas about the concept of national interest evolved.

Let us examine initially the first point. Government was the major shareholder in the public sector company which forms our case-study, yet in general it allowed the company to decide its own strategies. Although there were extensive means of control attached to this major share, the company had considerable scope for determining its own destiny. How did this situation arise?

Although the role of supervisory institutions was to ensure that company decisions did not transgress broader state objectives, government controllers tended to support the interests of their client. In the case of the SNEA, successive French governments had an interest not only in the survival of a national oil company but in its growth. It is for this reason that the group was encouraged to expand, diversify and behave like a privately run company. Governments are concerned with broad economic, social and international questions, for example, the trade balance, the avoidance of social conflicts, regional development and good international relations. So long as company strategies coincided with government's broad aims, government not only gave top managers the freedom they needed to pursue their ambitions but actively collaborated in their realisation. Should

company plans transgress larger government objectives, as for example, when the company might wish to make huge investments abroad when it was making large-scale redundancies at home in one sector of its activities, it was then that government could obstruct the company's ambitions.

In negotiations with supervisory institutions, the company enjoyed the advantage of having the monopoly of expertise, that is, those in decision-making posts within the company could call upon people in departments who had become specialists in the different activities of the company. Supervisory ministries could not possibly match the precision of information held by the company. Moreover, there was within the company a continuity of leadership. Those involved in negotiations on behalf of the company would have been in their posts for a considerable time and would have acquired the skill to argue in the interests of the company. In France the appointment of a public company chairman must have the approval of the President of the Republic and in the history of the SNEA, two chairmen have actually been former ministers. By contrast, negotiators in supervisory ministries were much less knowledgeable and less skilled, considerably younger and keen to move from their civil service posts to more lucrative ones. As a result of all these factors, company policy tended to influence state policy.

The company had another advantage at the negotiating table, whether it was a question of responding to government demands or requesting support for its own strategies. It was the fact that the state authorities were often divided. Institutions involved in the formulation of sectoral policies frequently have opposing objectives. One typical example is that road builders in a transport ministry often clash with officials from the environment ministry. But there are also wider conflicts inherent in government. Finance ministries, for example, always have tense relations with "spending ministries". The significance of such conflictual relations is that the company can exploit these differences in its own interests.

The task of supervising the activities of a large company are complicated by size. We have already mentioned that a company's activities are not static but evolve according to the economic environment. Whereas their original role may have necessitated close government supervision, companies, as they grow, diversify their interests and these may not necessarily justify inclusion in the public sector. As a result, a company which has been created with a public service mission can be diverted through its activities towards the private sector.

Whether public or private, a company's pursuit of supplies and markets often leads it towards the internationalisation of its activities. Here also supervision by national government is complicated by the fact that abroad the company's activities are regulated by a foreign government and it will be subject to demands made upon it by that government. While supervision by the company's home government is made more problematic, a company can derive considerable benefits from internationalisation because in negotiations with national authorities it can offset domestic demands with international ones.

Whether public or private, a company's strategies for growth and the control of its environment will be identical. Diversification and internationalisation are examples of such strategies. If, as already mentioned, supervisory ministries support the interests of companies and companies themselves are a dominant force in negotiations with government, it follows that government policy can be manipulated to defend private interests. Although this situation may seem paradoxical, it is nevertheless inevitable. Increasingly, over the last 30 years the governments of advanced industrialised nations have encouraged the concentration of their industries so that they might face international competition from a position of strength. The social, economic and political consequences of strategic industries going into decline have been a constant worry to governments. The financial independence and prosperity of national industries were therefore of considerable benefit to them. Not only did prosperous public companies not impose a financial burden on the national budget but they could be used by governments to assist

failing firms, to stimulate sectors of industry, to provide employment and to industrialise regions.

During the decade with which we are concerned, 1976-1986, good relations did not always exist, however, between the top management of public sector companies and supervisory ministries. Conflicts occurred leading governments to use the powers attached to their majority shareholding in the company. The causes of such conflicts were varied. Company policies were seen to be encroaching upon broader governmental objectives. Equally, governments sometimes wished to impose on the company activities which its top management considered contrary to its interests. However, the intensity of the conflict depended on the people in decision-making posts within the company and supervisory ministries, on their ambitions, their personalities, their loyalties and how they perceived their role. External factors such as the economic situation or the proximity of elections also affected the outcome of conflicts. The result could be the veto of company decisions, the replacement of the chairman or a reorganisation of the policy process. However, the combined influence of company management and groups within government who supported their interests could be sufficiently powerful for the status quo to be preserved.

Let us now consider the second point: the way in which the evolution of politicians' concept of national interest complicated relations between government and public sector companies. This evolution affected all state-owned companies, but especially Elf Aquitaine, our case-study, because the nature of its activities made it particularly vulnerable to developments in the wider world.

In 1974 Giscard d'Estaing became president of the Republic. As a liberal, he believed in less protection for state-owned companies. It was unfortunate for the state oil group that his arrival coincided with the world oil crisis which affected the company acutely since it had also just lost its extensive Algerian assets. National consumption fell, so the company suffered in its upstream and downstream

activities, with overcapacity of its refineries at home and the high cost of exploration in new oil producing areas outside the franc zone. Moreover, the switch made in France from oil to nuclear energy as the main source of power meant that the state oil sector no longer benefitted from the privileged position it had enjoyed. The mid-1970s was also a time when the European Commission was becoming critical of any restrictions imposed by member states on the free trade of oil products within Europe, such as the 1928 legislation, still in force in France. The chosen solution to France's state oil company's financial problems was to bring in private capital by merging Elf Erap, an *établissement public**, with its rich subsidiary the Société Nationale des Pétroles d'Aquitaine (SNPA), which was then only 51% state-owned, thus creating the Société Nationale Elf Aquitaine. The chairman of Erap was strongly supported in this move by the ministers of Industry and Finance.

Giscard d'Estaing and his second prime minister, Raymond Barre, were also eager to liberalise the state oil group which they considered should be run like a private firm. This view was endorsed by their appointment of Albin Chalandon, a staunch supporter of Giscard and convinced liberal, as new chairman of the SNEA in 1977. For Chalandon, the profitability of the state oil group was a top priority. Throughout his term of office he vigorously pursued the diversification and internationalisation of the company in the face of opposition from his highly *dirigiste* minister of Industry, André Giraud, and waged a constant battle with the administration because of the burden of regulation to which public companies are subject.

With the arrival of a Socialist President and government in 1981, the state oil group was affected by their nationalisation programme. The Socialists' objective was to extend the public sector by taking complete or partial control of nine important industrial groups. French industry had suffered from the world economic crisis which had created a lack of demand and overcapacity in several areas of heavy industry. Since 1973 investment had stagnated. As a result, much of French

* A company whose capital is 100% state-owned

industrial equipment was outdated and unable to achieve gains in productivity provided by new technologies. Loss of competitiveness, lack of finance and the inability to invest were seen as French industry's main weaknesses. By taking control of these nine groups which covered sectors in difficulty as well as sectors of advanced technology, the government aimed to fulfill two ambitions: to restructure industry in such a way that state funds were directed towards the *métiers d'expertise* of each group, and to free firms from short-term financial constraints so that they could make long-term decisions for investment in new technologies. In the restructuring process the SNEA, which was in a relatively healthy position, was chosen as one of the three leaders in French chemicals and, as such, invited to take a majority share in the two plastics and petrochemical firms it had hitherto owned jointly with Total (Ato and Chloé). It was also expected to absorb the loss-making heavy chemical activities of newly nationalised Pétrochimie Ugine Kuhlmann. Government intervention did not stop here. The SNEA's chairman, Chalandon, was actually replaced for not agreeing to the terms on which Total should be compensated for its share in Ato and Chloé.

Soon after the implementation of the Socialists' nationalisation programme, the government realised that state investment funds were rapidly decreasing. Moreover, now that as a result of restructuring, certain of the newly nationalised groups were in a healthier state, they were demanding financial support to make further acquisitions. The denationalization of subsidiaries of nationalised groups was approved by Prime Minister Fabius and his minister of Finance as little as two years after the implementation of the nationalisation programme. The complex nature of Socialist policies is illustrated by its effect on the state oil group. On the one hand the SNEA was obliged to absorb loss-making chemical assets in the restructuring of industry, on the other, it was allowed to purchase the American company, Texas Gulf at a very high price. That purchase was, in fact, the biggest investment ever made by a French public sector company abroad, and it took place despite the fact that one of the stated objectives of the nationalisation programme had been to make public sector companies prioritise investment in France.

The Socialist government's behaviour developed into that of ideology accommodating to economic imperatives. The process of denationalization or privatisation was more in line with the liberal doctrines of the Centre-Right government of Chirac during the period, 1986-88. In fact, the Chirac government made the privatisation of the industrial groups and banks, particularly those nationalised by the Socialists, one of the key elements of its economic strategy. Not only would privatisation raise urgently needed state revenue, but it would give companies the liberty they needed to pursue their policies unhindered by government controls. Like the Socialists, the neo-Gaullists were also responding to economic imperatives. Although the nationalisation programme had restored health to certain companies, all had slipped between 1981-85 in the world classification of firms. The neo-Gaullists also realised that firms in which the state was not sole shareholder easily acquired the funds they needed on financial markets.

To raise revenue on international markets was a major motivation behind the government's sale of 11% of the state's 67% share in the SNEA in October 1986. This partial privatisation was really the second stage in a process which had begun in 1976 when Erap merged with SNPA, and thereby reduced the state's share in the new group from 100% to 67%. The 1986 privatisation, an evolution rather than a revolution, according to the then chairman, Michel Pecqueur, would enable the group to increase its capital in order to take advantage in the long term of interesting deals on national and international markets. The more immediate needs of the group were to make good losses caused by the drastic fall in oil prices which began in 1985 and to replace income from Lacq* and Frigg** due to be exhausted by the mid 1990s. In a wider context, this further loosening of the state's hold on the company would give it greater liberty to pursue its international strategy and

* Lacq - gas field in South West France, discovered in 1958. Managed by the Société Nationale des Pétroles d'Aquitaine (SNPA) and source of that company's wealth

** Frigg - North Sea gas field, discovered in 1971 by Elf Norway

make it less vulnerable to demands which national governments might wish to impose.

The arrival of the Socialist government of Michel Rocard in 1988 heralded an end to the policy swings of the first seven years of the decade. Not for Rocard the heavy interventionism of President Mitterrand's first term of office, nor the liberal approach of Chirac's right-wing government. Rocard and his successors, Cresson and Bérégovoy, took a more cautious and pragmatic free-market approach. There were no new nationalisations and no new privatisations. These governments, however, encouraged the trend towards greater internationalisation of French industry and facilitated public sector companies' access to private capital markets.

Privatisation ran parallel, during the decade with which we are concerned, with the growing Europeanisation of the French economy, a trend which also strengthened the market at the expense of the state. In the context of France's closer integration in the EU, two points stand out: constraints on the macro-economic policy of French governments and more competitive conditions for French firms. Firstly, the macro-economic policy of successive governments was increasingly constrained by France's membership of the European Monetary System (EMS), launched in 1979, and designed to create a zone of monetary stability in Europe. As France's dependence on trade with its European partners increased, it became more sensitive to the price of imports and exports, a determining factor in its trade balance and in the value of the franc vis-à-vis the currency of France's neighbours. Within the EMS, should a country's currency be overvalued because of high inflation, the choices open to government were to devalue or adjust domestic policy by contracting demand and raising interest rates. The necessity to maintain parity with the currencies of its neighbours imposed on successive French governments the obligation to fight inflation, reduce public expenditure and maintain the trade balance. Apart from a period of expansionary policies in 1981-82, French governments, during the decade with which we are concerned, pursued policies of budgetary constraint, low growth and stable prices.² Secondly, since France's trade

with Europe increased threefold between 1960 and 1990, French firms were increasingly exposed to competition from European firms. In addition, a more tightly-knit Europe from the mid-1970s and relaunch of European integration from 1986, in preparation for the Single Market, accelerated the implementation of EC competition policy in France. Rulings which prevented national governments from promoting domestic industries were enforced with increasing vigour. This marked an end to the privileges which public companies, such as Elf, had enjoyed, for example, those emanating from the laws of 1928, government intervention in the promotion of mergers and public procurement contracts.³ As Dumez and Jeunemaître remark,

“the European competitive norm obliged state-owned enterprise to perform in the same way as private enterprise in the context of the market. Therefore any reason for keeping such concerns under state ownership vanished.”⁴

Founded originally to provide France with secure supplies of hydrocarbons, by the end of the 1980s, the SNEA was a diversified multinational group in which the oil business was just one of its three major activities. The development of the group between 1976 and 1986, shows how governments, whatever their ideologies, also have broad national concerns which, during this decade, ensured that their public sector companies pursued strategies of growth, diversification, internationalisation and, paradoxically, independence from government.

The Lessons of Existing Approaches to Government-industry Relations

The tensions between governments and public sector corporations, identified above, have been analysed from a variety of angles. Some writers who have considered this subject take as the basis of their investigation a company or companies of the same type, whereas others focus on the industrial group, and yet others explore a whole sector of industry. Most tend to incorporate in their studies the findings from several disciplines but emphasise, according to their own specialisms - political science, sociology, management, economics, history - a

certain aspect of the question. These specialisms include public policy-making, company strategies in a national and international environment, the influence of the industrial group, the influence of company top managers, developments within a sector of industry at national and at world level or, viewed over a period of time, a whole network of factors contributing to the growth of a company.

Let us examine more closely a certain number of studies which relate to our subject of government-industry relations in the context of France's national oil champion. They can be grouped according to the broad approach adopted by their authors: those who concentrate on a progression in institutional relationships over time, those who analyse the phenomenon of leadership and those who consider the behaviour of firms vis à vis their environment.

An analysis of the world oil industry, *Le Nouvel Enjeu Pétrolier*, by an industrial economist, J-M. Chevalier, explains how the oil crisis of 1970-71 brought about a change in the world oil situation, affecting the exporting countries, the importing countries and the oil companies. For roughly the first 100 years of its existence the world oil industry was dominated by the international cartel. It was a period of rapid technical progress and therefore falling costs. Although the selling price of hydrocarbons should have fallen, the big oil companies blocked prices. It was the national oil companies, formed in Europe in the aftermath of World War II, who entered the oil market as newcomers and brought prices down. However, an increase in the demand for hydrocarbons in the industrialised world throughout the 1960s and the discovery of new high-cost zones of production (off-shore), which could be used as a reference, put the exporting countries in a position of strength in which they could demand higher prices for their crude oil. This was the context of the oil crisis of the early 1970s. The consequences have been manifold. The exporting countries chose either to cooperate with the cartel or, for the more aggressive among them, to use their hydrocarbon resources for their own industrial development. The importing countries, faced with rising costs, sought the best conditions for obtaining necessary supplies. Whereas in the pre-crisis period,

states, through their national companies, could determine the conditions in which they were supplied with oil and decide on an energy policy favourable to their own economic development, since the crisis they have been characterised by a lack of policy. They have been obliged to accept the terms obtained by their own suppliers. These can be either the private multinationals, established on their territory, or their own national companies. Whereas in the pre-crisis period, public and private interests were opposed, since the early 1970s, all companies have been subject to the same costs which are passed on to the consumer, that is, all companies, whether public or private behave in the same way.⁵

Chevalier's analysis has a bearing on our study for several reasons. Not only does it explain the world background to the oil crisis and the changes it brought, but also provides a lucid case-study of Algeria. It shows how France, in the pre-crisis period, used its new national oil companies to supply the nation with hydrocarbons in very favourable conditions to itself. The case of Algeria is a very pertinent example of the way in which the oil exporting countries turned the tables in 1970-71: they began to determine how their own natural resources should be used and dictate to the foreign oil companies the conditions in which they could exploit Algerian oil. Chevalier's study also clarifies the French post-war statist approach to industry through his explanation of how hydrocarbons form part of an importing country's energy policy and the criteria for such a policy, for example, to encourage national exploration, security of supply, relative costs. These were the very criteria which gave birth to the company which is the subject of our study. According to Chevalier's analysis, the changed world situation since the oil crisis, which encouraged public oil companies to behave like private ones because all were equally exposed to world competition, was an important factor in shaping the relations between government and industry. This is the subject of our investigation.

The study by N.J.D. Lucas, *Energy in France: Planning, Politics and Policy*, is that of the political economist. His investigation covers all branches of the energy sector in France and their development in the 20th century. Lucas stresses why an energy

policy was needed, in other words, why governments intervened in the energy sector. Primarily there was a need for supplies which a country like France lacked at certain strategic moments in its history. In addition, the different sources of energy had to be coordinated with a view to security of supply and cost. Furthermore, there was a need for a long-term view in the collective interest. It is no surprise therefore that the large energy companies were all state-owned enterprises. Lucas traces the development of relations between them through much of the 20th century. He outlines their evolution from state organised, non-competitive institutions, with purely domestic markets through the large-scale conversion to oil in the late 1950s and 1960s, up to the post-crisis situation in which there was a new perception about the uncertainties of secure oil supplies, less state protection for all, greater competition among the institutions and the rapid development of nuclear energy. In all sectors of energy after the oil crisis, the prevailing preoccupation was for companies to control their environment. This implied the control of supplies, of markets, of technology and of finance. However, the future of each sector depended to a certain extent on government decisions to expand it, reduce it or allow it the freedom to be run like a private concern. For example, France's two national oil companies, because of their international associations, but especially after the oil crisis, received little government direction or state funds, whereas the CEA became what the state oil sector was in the 1950s and 1960s, that is, France's instrument for independence in energy supplies. Consequently, a large proportion of the CEA's activities were financed by allocations to the budget of the Ministry of Industry and Ministry of Defence. Yet even the CEA developed commercially oriented operations designed to generate income, for example, uranium mining, reprocessing and reactor construction.⁶

As Lucas points out in his analysis of the nature and operation of state control, governments, in a sense, wanted the best of several worlds. They wanted public enterprises to be independent of state resources, they wanted to hold on to their large shareholdings in the companies and they wanted to exercise control through government representatives on the *conseil d'administration*. As a result,

government control over the companies of the energy sector was tighter or more relaxed according to the size of the state shareholding in the enterprise and according to its need for state finance. Not surprisingly, among the controlling institutions, it was the Ministry of Finance which dominated the policy process, since it was this agency which allocated investment capital, fixed prices and it was bodies attached to that ministry which measured performance. The policy process was not a clear-cut affair, however, as Lucas demonstrates in his description of how the various agencies interacted in the formulation of policy and the planning process. For example, he illustrates on the basis of results of successive plans, that it was the demands of the most powerful enterprises which determined government policy. In addition, there were several actors with different priorities: the top politicians, President, Prime Minister and Minister of Industry who were responsible for appointments and for the organisational structure, there were the state companies which provided government with detailed information about their needs and there was the Minister of Finance whose chief role was to reduce public expenditure. It was when the priorities of all actors converged that national energy policy was most stable, as with oil policy in the 1950s and 1960s and more recently with French nuclear policy.

For the purposes of our present investigation, Lucas' study is enlightening because he underlines a definite progression in successive French governments' attitude to the oil sector. Under de Gaulle, the state oil companies were used as instruments of his ambition for independence in energy supplies. The discovery of Algerian oil provided the means to implement this super *dirigiste* policy intended to protect the French market and eliminate imports from outside the franc zone. In France, throughout the 1960s, there was a strong consensus among top politicians and company executives that cheap oil should replace to a large degree other sources of energy: gas, coal, electricity, a policy which brought great prosperity to the state oil companies. Their fortunes were radically changed, however, with the departure of de Gaulle, followed by the nationalisation of French oil assets in Algeria and the rise in crude oil prices. A fear in government circles of relying excessively on oil,

coupled with Giscard d'Estaing's view that state enterprises should be less protected, obliged the state oil company to determine its own destiny. Lucas points out how the control of their environment became their objective in this more liberal climate.

As Lucas explains, the influence of the President of the Republic on the energy sector was very strong. He appointed like-minded men not only at the head of public enterprises but also in key administrative posts to ensure that they took the sector in question in the direction he required. The paradox, which Lucas aptly underlines, then presented itself, for although the President chose men he could trust and assigned them powerful instruments of state enterprise, he thereafter risked becoming the victim of a technocratic monster he could not control. This phenomenon is particularly relevant for our study of conflictual relations between government and industry. Guillaumat, Giraud and Chalandon are all cases of trusted men who soon showed their independent minds.

A further study which highlights a progression in the fortunes and role of the SNEA, as well as the influence of personalities on its development is provided by Pierre Péan and Jean-Pierre Séréni in *Les Emirs de la République*. They trace the history of what is today the SNEA from its creation up to 1982. The authors are in fact journalists and their study is directed at a general public, so an anecdotal and somewhat romanticised view of the company's development is given. Their account is nevertheless illuminating, not only because it incorporates a range of perspectives: political events, international affairs, a changing economic environment and the behaviour of key personalities, but because it illustrates in a concrete fashion what is explained in more theoretical terms in other works, for example, the precise role of civil servants, *corps* strategies and *corps* rivalries in action and the workings of government-company collaboration. The main idea underlying the account is the growth of the SNEA to become one of France's top industrial groups. The factors contributing to its growth were its close links with successive governments - a relationship of dependence on government in the early

stages became one in which the company initiated government policy - the personality, achievements and political involvement of its leaders and the group's international dimension. Events are set in a contemporary context so the reader can appreciate the impact of national and international affairs on the company.⁷

As the studies by Lucas and Péan and Séréni show, the President of the Republic certainly influences the appointment of public sector company leaders, although he may not be responsible for their future behaviour. There is another important factor, peculiar to France, which can determine who is appointed at the head of large firms. This is the phenomenon of political élitism which Ezra Suleiman explores in *Elites in French Society*. This study deals with the identity of the leaders of large firms who mostly belong to one of the *grands corps de l'Etat*. Suleiman analyses how *corps* members accede to and maintain their powerful positions in society. Their secret lies in the academic successes gained in France's most prestigious teaching establishments, in the links between the training they receive and the *corps* in which they exercise their profession, in the capacity of the *grands corps* to transform themselves, so as to adapt to changes in society, and in the image *corps* members have of themselves and their ability to impose this image on the public at large.⁸

What is relevant for our study, and here lies another ambiguity surrounding government-company relations, is that although *corps* members are trained for state service, to which they devote the early years of their career, a large proportion then move rapidly into top jobs in the business world. *Pantouflage** has advantages to both sides. *Corps* members are attracted to the material benefits of the business world while businesses and industry value the network of influential contacts which *corps* members bring with them from previous government posts. A further phenomenon of *corps* behaviour, which reinforces the government-company link, is the fact that particular *grands corps* colonise key posts in certain sectors. For example, members of the *Corps des Mines* have traditionally occupied prestigious positions in both the administrative and industrial branches of the energy sector.

* The move from state service to a post in the private sector

Since leaders of each *corps* see its *raison d'être* in the preservation of positions it has captured and because of the constant exchanges of personnel between the government and business worlds, the result is that people with very similar background and training occupy influential positions in the public and private sectors. Suleiman's thesis is that this élite behaviour gave rise to important consequences: a blurring of the distinction between the management of the public and private sectors, brought about through a consensus in the objectives pursued, objectives of modernisation, efficiency, competitiveness and the fact that French post-war economic growth was largely achieved through the pursuit of common objectives.

The studies which concentrate on the large firm's behaviour do not do so exclusively. They also incorporate many of the approaches already reviewed, government-company interaction, an evolving relationship between the authorities and state enterprises and the *corps* dimension.

The Politics of Public Enterprise by Harvey B. Feigenbaum is a political scientist's study of French oil policy. He begins by explaining why France had a strong interventionist tradition and why public enterprise was traditionally chosen as an instrument for intervention in France. However, a central idea throughout the study is that the traditional portrait of France as a strong state is actually false because successive French governments failed to control the public enterprises of the oil industry, except in their early stages. In spite of regulation and "national champion" firms, company incentives towards growth, diversification and internationalisation led public enterprises to be at cross purposes with public authorities. This was particularly true of the oil companies which are multinationals *par excellence*. Feigenbaum demonstrates through numerous examples that public interest goals were not pursued by the enterprises specifically created to do that very thing. How did this situation arise? Although government agencies responsible for formulating oil policy existed and, like Lucas, Feigenbaum also gives a description of their functions, his analysis is more enlightening because he reveals how forces at work within the various regulatory bodies, for example *pantouflage*, *corps* incentives, the

influence of individuals, actually favoured the interests of companies rather than the regulators. This weakening of public control was reinforced by the enormous size and diversity of major oil companies' activities and the fact that oil is a world industry. A state-owned oil company's markets are international and to compete, it must behave like its rivals, the big private multinationals. The findings of the Schwartz Report of 1974 is one of the illustrations of a public firm's behaviour which Feigenbaum uses. The Report highlighted the fact that oil companies paid virtually no taxes, that they gave false information concerning prices, that they adopted anticompetitive practices and that relations between them and the administration were highly ambiguous.⁹

After drawing comparisons with oil companies and public corporations in other countries and showing how they, like their French counterparts, served state policies in their early stages but later diverged from their public interest mission as they grew larger, more complex and more profitable, Feigenbaum, by way of conclusion, poses the question: what is the state? Public sector firms are a part of the state yet their record shows that many of them do not serve the national interest. He suggests ways in which France's national oil companies might better serve the public interest. For example, in renouncing their profit-maximising incentives a whole multitude of benefits would accrue to the public. However, successive governments, whether Conservative or Socialist, have been bound to a profit-maximising ideology common to all Western economies. Although Mitterrand, when he came to power in 1981, made the nationalisation of certain key industrial groups the centrepiece of his economic strategy, the Socialists quickly learned that they would have to elicit the confidence of the business world. As a result, the operation of the public sector remained largely unchanged under the Socialists from that of previous governments. Feigenbaum's concluding comment is that while the French state was strong, in that it had a record of using its public firms as an instrument of policy in very positive ways, it was not autonomous but captured by the prevailing orthodoxy and fragmented by conflicting sectoral interests within itself.

A dominant theme in Feigenbaum's study, that of collusion between the highest echelons of government and company top management, is also the subject of *Le Complot Pétrolier* by Philippe Simonnot, formerly one of *Le Monde's* top political journalists. Highly polemical in tone, this study is based on the findings of the Schwartz report and on documents surrounding the ERAP-SNPA merger of 1977. Through these documents Simonnot exposes the malpractices of national company top management in which supervisory ministries were also implicated. Not only does he elucidate the accusations of the Schwartz report but uses the evidence of the ERAP-SNPA merger documents to show that supervisory ministers were quite unconcerned about the control they theoretically exercised in the newly formed SNEA, where the state was to maintain a 70% share. Simonnot demonstrates how the official communiqué drawn up by the ministers of Industry and Finance emphasised the capitalist nature of the operation in order to flatter and gain the approval of the private shareholders. He also shows, by means of a confidential letter sent from the *Chef de la Mission de Contrôle des entreprises pétrolières*, that the representative of the Ministry of Finance was ready to fall in line with Guillaumat's wishes that the composition of the board of the new SNEA (70% state-owned) should retain the same government representation as that of the former SNPA (51% state-owned). Furthermore, the fact that top government officials involved in the merger had no intention of submitting the project to a parliamentary vote (in contravention of Article 34 of the Constitution) because they considered that ERAP, although an *établissement public*, operated like a private company, was a further indictment against the authorities. Simonnot's documents and explanatory comments are extremely illuminating for our study of government-industry relations. Not only do they reinforce one another, but they also add weight to assertions made elsewhere, as in Feigenbaum's study, that public policy defends private interests.¹⁰

To obtain the defence of its interests by government is just one of the means by which the large firm or industrial group controls its environment. Elie Cohen and Michel Bauer, sociologists by profession, investigate many other of the firm's strategies in *Qui gouverne les groupes industriels?* Like Feigenbaum, they too

perceive the firm as capable of influencing and even manipulating government policies. Their analysis of the nature of industrial power covers the different mechanisms by which the firm structures its markets through, for example, cartels, mergers aimed at upstream and downstream integration and multinationalisation. Advantages gained must be constantly renewed, however, through mobilising scientific resources, market research and the accumulation of finance. Relations with government are all important to the large firm in the achievement of its ambitions. On the one hand, the firm can influence broad government policies, on the other, it can exploit contradictions within the state to ensure that aid from different agencies converge on its own policies. The authors see the divided state, the firm's monopoly of expertise and the continuity of its leadership as the means by which it can influence government actions.¹¹

A firm's strategies must be planned and imposed. This is the role of its leaders. Like Suleiman, Cohen and Bauer also investigate who they are and how they exercise their leadership. Their main argument is that the leadership of many large firms does not depend on ownership nor on long experience within the company. Recruited from outside, leadership usually depends on membership of one of the *grands corps de l'Etat* and on previous prestigious positions in ministerial cabinets or in the higher echelons of ministries. It is this membership of an élite group, the contacts accumulated and the negotiating skills acquired in top administrative posts, rather than by experience of the firm's activities, which legitimise appointment as leader.

Another strategy by which the large firm controls its environment, multinationalisation, is explored by J-P. Anastassopoulos *et al.* in *Les Multinationales Publiques*. For these management theorists, the public multinational is a contradiction in terms because it is subject to the demands of its home government, but for its own prosperity, it must pursue its activities in an international context. This view is somewhat abstract, however. The reality is that while belonging to the state can be an obstacle to multinationalisation, a firm's

development is also influenced by changing circumstances. In practice state policies can provide opportunities for internationalisation, that is to say, public companies are well supported by their home state in many of their activities, for example, research, public procurement contracts. What is more, in certain areas, for example, advanced technological sectors, private firms benefit as much as public firms from state aid. In addition, subsidiaries abroad, whether belonging to public or private firms, have the same objectives of profitability. The home state can nevertheless present a potential handicap to a public sector company. The key to successful multinationalisation is to make national policy coincide with company policy, that is, companies must convince home state authorities that multinationalisation is a condition of achieving state objectives, an echo of the analysis by Cohen and Bauer. The large firm's traditional arguments are that the national market is too small, that there is a necessity for industries of world scale and the search for cheaper sources of supply.¹²

Mention must be made of two further works directly related to our case-study and which provide insights into both the power of the industrial group and the role of the public multinational. Firstly, Christophe Babinet's unpublished history of the SNEA, traces the company's growth from its beginnings up to the mid-1980s. A historian by training, Babinet had unlimited access to Elf's archive, to senior managers and top civil servants. He sees Elf as one of France's few industrial successes, attributable to the company's capacity to remain linked to government but to develop its own autonomy. In his view this achievement was due both to the ambivalence of government supervisors who "played the company's game" and to the group's international activities which provided it with a multiplicity of *interlocuteurs*, especially the leaders of Francophone African states.¹³

The Franco-African dimension is the subject of the second study, in effect, a "confession" made by Loïk Le Floch-Prigent, former chairman of Elf*, during his

* Chairman of Elf 1989-1993

imprisonment for suspected abuse of funds in 1996. Although the *affaire Le Floch* took place in the years after those with which we are concerned, his revelations about the interdependence of interests between successive French governments and Elf in African states confirm that there has been a striking continuity in government - company diplomatic arrangements. Moreover, the way in which Elf seems to have assumed successive governments' foreign policy responsibilities in Africa reflects the group's role in other spheres, as both instrument of government and initiator in its own right.¹⁴

The Approach of this Thesis

The works reviewed inform our analysis of government-industry relations in the context of France's state oil group between 1976 and 1986 and provide different approaches for a case-study. None of these, on its own, is entirely satisfactory. In our investigation we shall in fact adopt an eclectic approach. That is to say, the historic, the élitist and the company-centred approaches will be combined. The focus will be closest to that of Feigenbaum in so far as it concentrates on the origins of the company, on its development from a strong statist organisation to a privately oriented multinational, on problems of government control and on government-company interaction and collusion.

The new contribution of the present study is, firstly, that while a survey of the early years of the company will be given, our investigation concentrates on a period of ten years, 1976-1986. This decade has been chosen, not only because the SNEA was created in its present form in 1976, but because both dates mark the group's evolution towards partial privatisation. Feigenbaum's research focuses for the most part on the 1960s and 1970s. Secondly, Feigenbaum's argument is directed at showing how public sector companies diverged from their national interest mission as they became more powerful. The present study will show that over the long term, there was in fact a convergence of objectives between government and the state oil sector. The concept of national interest can be interpreted in a variety of ways.

One is that the SNEA, France's top industrial group, has brought France, the French and their governments many benefits. It has provided employment both nationally and internationally and like other public sector companies, it has been exemplary in its social policies. It has made a substantial contribution to French regional development and has pioneered many technical innovations. Furthermore, it was due to the SNEA's wealth that the group was invited to absorb various loss-making chemical activities in the restructurings of 1983. In other words, the group's healthy cash-flow came to the aid of strategic sectors of French industry. In addition, the group's extensive international activities, especially in developing countries, have contributed not only to the social, economic and technological development of these regions, but also to closer diplomatic relations between these regions and France. These examples clearly show that the SNEA has a good record of responding to national concerns.

In addition to the works reviewed, our analysis of government - industry relations has been informed by a range of interviews with senior managers at the SNEA, CFP and CEA and with top civil servants in ministries and government agencies. The interviews were conducted between 1986 and 1990. All this material has been supplemented by our findings in further published works combining the approaches mentioned above, in articles from the French and British press, in specialist and trade journals and in company reports.

Our investigation is divided into six chapters. Chapter 1 surveys the background of our case-study into government-industry relations in France and identifies trends of development to which we return in subsequent chapters. It traces the growth of France's state-owned oil sector from a cluster of government-controlled firms in the post-war period to the formation, in 1976, of the SNEA, a privately-oriented, diversified industrial group and one of France's largest firms. The chapter highlights the political motives which inspired its creation and the protectionist methods used in its expansion, considering throughout the role of company leaders and government actors and interaction between them. The chapter also reviews

how the state oil group dealt with the reversal of its fortunes, produced by the loss of its Algerian assets and oil crisis of 1973, leading to the switch from cheap to expensive oil in France, more widespread economic difficulties and a less protected environment. Finally, we examine how a more self-reliant and commercially oriented company was born out of the new competitive conditions of the mid 1970s.

Chapter 2 analyses how company policy was made. It investigates the paradox that while governments established the structures and set the broad objectives, they did not manage state-owned firms which largely determined their own policies and influenced those of governments. Firstly, through a review of the institutions concerned in the formulation of oil policy, the chapter analyses the complexities of the decision-making process: the proliferation of actors involved; the conflicts between them; the fact that between 1976-86 oil policy became less coherent; the weakening of government influence in the face of greater internationalisation and privatisation of companies. Secondly, the chapter considers the nature and purposes of government control over the state oil group. Thirdly, it analyses how this control worked in practice, since the government-company relationship was not as it appeared. We consider how governments' dependence on the firm, divisions among government actors, their lack of policy for specific sectors and companies' greater internationalisation allowed senior managers to determine their own policies and largely to influence those of governments.

Chapter 3 explores in greater depth government-company interaction by examining senior managers as members of a state-created techno-bureaucratic élite. We consider the technocratic model and ask to what extent Elf's leaders have conformed to it and whether a state-created élite is appropriate to the current world of market competition and privatisation. Firstly, the technocratic model and its consequences for government-industry relations are explored. Secondly, a specific *grand corps*, the *Corps des Mines*, to which many of Elf's leaders belonged, is examined: its origins, features and mode of operation. We analyse how the success of *corps* strategies meant that in the late 1980s, the state oil sector was still one of its strongholds.

Chapter 4 analyses the government-company relationship in the international sphere. It explores the paradox of the public multinational, considering how governments supported and hindered Elf's international activities, whilst Elf, not only used the state link to expand its interests abroad, but achieved considerable autonomy vis à vis its major shareholder through the international nature of the oil business. Firstly, the chapter investigates the extent to which successive governments encouraged Elf's expansion abroad, initially to protect French interests, then to improve the international competitiveness of French firms. Secondly, it considers how, as a public company, Elf was vulnerable to the ideological and economic imperatives of governments which could handicap the firm's international expansion. Thirdly, it examines how Elf and French governments benefitted in many areas from the convergence of their interests. Fourthly the chapter explores how the international nature of the oil business encouraged Elf to behave like a private multinational and in so doing to gain considerable freedom of manoeuvre vis à vis governments.

Chapter 5 explores Elf's diversifications into chemicals and pharmaceuticals. It investigates to what extent the initiatives and long-term strategies of France's largest firms facilitated government policy. The chapter starts by considering that although Elf's early chemical acquisitions took place with little government intervention, the extent to which the group had strengthened its chemical branch by the early 1980s, enabled government to make it the centre of its chemical restructurings. Next, the chapter considers how the group's diversifications into pharmaceuticals also took place without government intervention, yet these diversifications solved many of the problems which beset governments. Finally, the chapter focuses on the conflict between Industry minister, André Giraud, determined to assert public control and the would-be autonomous chairman, Albin Chalandon, over the diversification issue.

Chapter 6 explores Elf's progression towards privatisation and shows that the process was gradual and assumed different forms. It considers how privatisation

was initiated by large companies and supported by governments of Left and Right. Firstly, the chapter examines the nature of government-company collaboration over the ERAP/SNPA merger of 1976, first official denationalization of ERAP, and highlights the measures adopted by ministers and top managers to secure the success of the transaction. Secondly, the chapter investigates how the controversial Chandon era of 1976-83 marked a further stage in the group's market orientation. Thirdly, the chapter considers the partial privatisation of Elf in the context of the Chirac government's privatisation programme of 1986-88. It explores how the motives and factors favouring the programme were applicable to Elf but that the changes were not as radical as promised, indicating that the French privatisations of 1986-88 were not as market-oriented as they appeared.

Finally, in conclusion, we both summarise and synthesise our findings, as a basis for considering the broader implications of our case-study. What light does this in-depth study throw on traditional institutional analyses of government - industry relations and the model of dirigisme? Certainly the asymmetry of the formal power distribution between state and company disguises a more complex two-way relationship. Equally the passage from public ownership to semi-privatisation represents a much less dramatic change than many have suggested.

NOTES

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1. Private interview
 2. David Ross Cameron, "From Barre to Balladur: Economic Policy in the Era of the EMS", in Gregory Flynn (ed.), *Remaking the Hexagon*, Oxford, Westview Press, 1995, pp. 117-151.
 3. William James Adams, "France and Global Competition", in Gregory Flynn, op.cit., pp. 82-110.
 4. Hervé Dumez and Alain Jeunemaître, "Privatisation in France: 1983-1993", in Vincent Wright (ed.), *Privatisation in Western Europe*, London, Pinter, 1994, p. 87.

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5. Jean-Marie Chevalier, *Le Nouvel Enjeu Pétrolier*, Paris, Calmann-Lévy, 1973.
 6. N.J.D. Lucas, *Energy in France: Planning, Politics and Policy*, London, Europa Publications, 1979.
 7. Pierre Péan and Jean-Pierre Séréni, *Les Emirs de la République*, Paris, Seuil, 1982.
 8. Ezra Suleiman, *Elites in French Society*, Princeton, Princeton University Press, 1978.
 9. Harvey B. Feigenbaum, *The Politics of Public Enterprise*, Princeton, Princeton University Press, 1985.
 10. Philippe Simonnot, *Le Complot Pétrolier*, Paris, Editions Alain Moreau, 1976.
 11. Elie Cohen and Michel Bauer, *Qui gouverne les groupes industriels?* Paris, Seuil, 1981.
 12. J-P. Anastassopoulos, et al., *Les Multinationales Publiques*, Coll. IRM, Paris, P.U.F., 1985.
 13. Christophe Babinet, *Histoire du Groupe Elf Aquitaine*, (unpublished). Paris, 1986.
 14. Gilles Gaetner, "Les dessous de l'affaire Le Floch", *L'Express*, 12.12.96, p. 68.

CHAPTER I

FROM STATISM TOWARDS LIBERALISM

The early history of the French state oil company, up to the time it became the Société Nationale Elf Aquitaine (SNEA) in 1976, was dominated by successive governments' awareness of the growing importance of oil as a source of energy and by the need for secure supplies. France does not have plentiful supplies of hydrocarbons on its territory and has therefore always been dependent on foreign sources. This dependence proved highly dangerous for national security in two world wars, forcing governments to intervene in the coordination of national supplies.

What governments chose to do was to control national supplies rather than having them controlled by outsiders. This implied control of the raw materials and of the finished products, in short, the creation of an integrated oil industry. The inter-war years witnessed successive governments' attempts to achieve this through the purchase of a substantial share in the existing private company, the Compagnie Française des Pétroles (CFP), and through legislation. These attempts were inadequate, as shown by France's relative lack in crude oil resources compared with those of Germany just prior to World War II.

A more strongly interventionist approach was favoured by governments after the war. The necessity of reconstruction convinced post-war governments of the need for an entirely state-owned industry which could be used as an instrument of government policy. The idea also conformed with the philosophy of the immediate post-war head of government, Charles de Gaulle, whose ambition it was that France should regain its position as a world power. Independence in the areas of energy and defence were prerequisites for regaining this position.

The policy of *pétrole franc* or the introduction of crude oil from the franc zone into national supplies to the detriment of imports from elsewhere was the instrument for achieving this *dirigiste* organisation of the French oil market. In addition, the law of 1928 was the weapon used by government both to sell national oil on the French market and to enable the state oil companies to build up a refining and distribution industry.

Close collaboration between government and industry brought about the partial merger of the different state oil companies in the mid-1960s. Total amalgamation was not achieved until the mid-1970s. Governments believed that this regrouping was necessary in order to strengthen the state oil sector in the face of international competition.

The oil industry is a world industry and therefore acutely vulnerable to world events. A state-owned oil company operating outside its national boundaries will naturally be seen as an agent of its home state. This can bring advantages as well as difficulties. The aftermath of the Algerian war and Algeria's accession to independence brought problems for the French state oil group which threatened its very existence. However, the large-scale programme of internationalisation pursued from the 1960s and accelerated after the departure from Algeria and the oil crisis of 1973 benefited in certain respects from French foreign policy.

Greater internationalisation made necessary by the departure from Algeria and the oil crisis actually ensured the state oil group's survival. Diversification into new activities, also a result of the world oil crisis, made good the losses suffered by certain sections of the industry. Both internationalisation and diversification meant that the group was less subject to supervision by national government. What is more, since the oil crisis, oil-producing states have taken greater control of their own production. The oil companies, whether national or international, private or state-owned, were therefore obliged to compete for contracts on the same footing and behave in a similar fashion. For their part, the governments of importing countries could no longer exploit the resources of the oil-producing countries by

means of their national oil companies. They had to rely on the oil firms to obtain the most favourable terms. These changed conditions led to a blurring of the distinction between the public and private oil companies.

Initially a collection of small companies, created by government for the specific purpose of providing the nation with secure supplies of oil and gas, France's state oil sector developed over roughly thirty-five years to become a major industrial group of national and international stature. While strong presidential support and a consensus in government gave life to the state oil sector immediately after World War II and provided it with opportunities to expand, from the mid-1970s world events and changed economic conditions, combined with a less supportive president and governments, encouraged Elf Erap to behave like any privately run company.

This chapter is divided into eight sections which examine chronologically, from the First World War until 1976, when the SNEA was created in its present form, the growth of France's state-owned oil group. Presidential support, government initiatives and close collaboration between managers and ministers dominate in the early stages, covering the sections: *The Origins; The Liberation; The Capture of Outlets; The Birth of a Group*. However, events leading to the nationalisation of French oil assets in Algeria and coinciding with the oil crisis, examined in *The Franco-Algerian Crisis*, destroyed the continuity of state policy developed since 1928. The result was a new perception about the difficulties and uncertainties of maintaining cheap and secure supplies of oil. This view, together with prevailing ideas about the need to make French firms less vulnerable to foreign competition and more self-reliant, determined the future behaviour of the state oil group and governments' reaction to it. How the company and governments responded to these new economic conditions will be discussed in the last three sections; *Internationalisation, The Crisis in Refining and Diversification, Towards Liberalism*.

THE ORIGINS

Oil did not have an important share of French energy supplies in the early years of the twentieth century and provision was in the hands of the international companies and some French-owned private importers. It was in the area of national defence that French governments were made to realise the threat posed by France's serious lack of hydrocarbon resources. The shortage of oil in World War I obliged the authorities, during the inter-war years, to intervene in the organisation of national oil supplies. The result was a mixed formula of government control and free market. Although this organisation went some way towards strengthening national suppliers and may have been adequate in peacetime, the imperatives of the second world confrontation revealed its weaknesses.

World War I

With no oil resources on its own territory, France depended on imported oil products and crude oil mainly from the USA and Russia. In World War I this dependence proved dramatic. Clémenceau's appeal to President Wilson on 15th December 1917 has become legendary:

"Si les alliés ne veulent pas perdre la guerre, il faut que la France combattante à l'heure du suprême choc germanique possède l'essence, aussi nécessaire que le sang dans les batailles de demain".¹

At the time of Clémenceau's appeal, provoked by Germany's preparations for a final onslaught, Russia was about to surrender and Standard Oil, France's main supplier, had halted its deliveries. This highly dangerous situation was to haunt the military hierarchy and permanently affect French oil policy which was characterised henceforth by a constant preoccupation with obtaining secure supplies of oil.²

The uncertainties of war aggravated France's already weak position regarding oil supplies. Unlike Great Britain and Germany, where government intervened to

support oil exploration, there was no such state intervention in France. The French oil industry consisted of a small number of private refiners and distributors dependent on imports. As for development in other areas of the industry - drilling material, transport, methods of prospection - there had been little progress.

The Inter-War Years

In December 1917 the governments of the Third Republic, who had so far relied on private initiative, were obliged to intervene. The first step was to take over the monopoly for buying and selling oil products. This initiative was achieved by the creation in August 1918 of a *Commissariat Général aux essences et combustibles*, which intervened at all stages of the industry. The officially defined role of this agency was

"étudier, proposer et provoquer toutes études propres à intensifier à la fois les recherches et la production nationale de gisements de pétrole et autres combustibles liquides en France et dans les colonies et les protectorats"³

This was the first official expression of a government resolution to organise prospection in France and French territories and it is in this decision that we see the beginnings of France's state oil sector.

For the next ten years, however, there was interminable controversy over the choice between a state monopoly or measures to liberate the oil market, and governments hesitated between the two extremes. The parliamentary debates about the 1928 law reflect deep divisions of opinion.⁴ While a free market would enable a refining industry to develop, it would also allow access by the powerful international companies.

It was the international companies which dominated the world oil industry at the time. That is to say, they controlled levels of production of crude oil and the price at which it was sold to importing countries. The 1920s was a period of overproduction, yet oil consumption was uneven, since coal was the main source of energy and the uses of oil were still limited. On account of the uncertain nature of the market, the already cartellised international companies would drive up prices to an artificially high level to ensure their own profitability. This would result in a price war, since the small and medium-sized companies feared for their survival. The next stage in the process was "dumping", when oil was sold at any price, even at a loss. Although "dumping" increased sales, it reduced profitability and this led to a further stage, also based on the cartel arrangement, in which the large companies reduced their oil production, so that they could at least sell at a profit.⁵

The Law of 1928

Given the instability of the market, many national governments attempted at the time to bring order to the chaos and gain control of their own oil supplies. In France it was the then *intendant militaire*, Louis Pineau, who devised what became known as *la loi de 28*.⁶ The main principles of the 1928 law were that the import of crude oil and oil products were to be subject to state control. That is, licences were needed for any imports exceeding 300 tonnes* per month. These licences were also subject to a time limit, 20 years for crude oil and 3 years for oil products. Established importers were granted licences for a quantity equivalent to their maximum imports over the previous 5 years. In addition, companies regulated by the law were required to supply public services as a priority, to keep reserve stocks of oil and to take on contracts deemed to be in the national interest.⁷ Thus, by means of the 1928 law, government armed itself with a legal weapon to strengthen its role as supreme arbiter over the national market.

* 1 tonne = 1000 kilogrammes.

The implications of the law were extensive. The licence system enabled government to exercise control over imports in order to impose quotas. From now on the quotas fixed by the international companies would be replaced by quotas decided by the French government. In the words of H.B. Feigenbaum the plan was a "fight fire with fire technique: an attempt to mitigate dependence on a foreign monopoly by creating a monopsonic buyer".⁸ The underlying intention was that French interests should be protected in the face of the considerable power of the international companies. French interests implied national defence and national independence. These were to be protected by maintaining, with the help of the 1928 law, a diversified range of oil supplies, while at the same time strengthening the existing French companies.⁹

The legislators were not therefore opposed to the benefits which the international companies could provide. They had devised the law as a midway solution which would avoid both the abuses of the free market and the financial and diplomatic complications of a state monopoly. In many respects the international companies' interests were also being protected, for the intention was

"to respect as far as possible their established rights so as to allow them to recoup the cost of their installations; to decide on an import system which excludes no one; in short, to fix reasonable quotas on all our suppliers."¹⁰

The 1928 law was in fact a compromise solution, not a pure state monopoly but a monopoly delegated to private importers via import licences (*monopole délégué*). As Feigenbaum points out, it was actually a political ploy aimed at preventing the state import monopoly desired by the Parliamentary Left, yet it also represented a victory for French importers.¹¹ Insofar as ten years after the institution of this legislation, France had fifteen refineries compared with two in 1928, one can conclude that the aims of the law were achieved.

State entrepreneurship

Regulation was not the only instrument used by government to achieve its ends. State entrepreneurship was also employed through the government's purchase in 1929 of a 35% share in the Compagnie Française des Pétroles (CFP).¹² The CFP had been created in 1924 to manage the Deutsche Bank's share of the Turkish Petroleum Company (later to be called the Iraq Petroleum Company (IPC) with the break-up of the Ottoman Empire), which fell to France in the San Remo Treaty. Raymond Poincaré, who headed the government in 1923, was aware that state involvement in the exploitation of these crude oil reserves would put enormous strain on the Treasury, and, being in any case opposed to state control, his idea was to find private investors. The obvious place to look was to the ten French importing firms known as the *Cartel des Dix*, who joined up with the major investment banks, especially the Banque de Paris et des Pays-Bas. Although initially the *Cartel des Dix* had been opposed to forming a single firm, since it would be more vulnerable to state control, perceptions changed when new Iraqi oil reserves were discovered. Thus the CFP was formed. Poincaré's fear that state control might frighten away private investors meant that he kept state influence to a minimum. With the 1929 recession and a drop in demand, together with a fear of "dumping" by the Majors¹³, government purchased a 35% share in the CFP. In this way, two forms of state intervention served to protect the new French oil industry, enabling it to develop in its upstream and downstream activities. State entrepreneurship secured substantial supplies of crude oil, while regulation protected the French importer distributors.

Louis Pineau was responsible for more than just the 1928 law. As a part of his scheme to give the French government greater control in the provision of its own oil supplies, he had created in 1925 the *Office National des Carburants Liquides* (ONCL) to take responsibility for the practical problems of oil exploration, for gathering data on the physical properties of regions, on the organisation of oil prospection in France and the empire and on techniques of drilling.¹⁴ The ONCL's

starting point was to carry out further studies in regions which had already shown signs of promise, that is, Aquitaine, Languedoc and Alsace in metropolitan France, North Africa, Madagascar and French Equatorial Africa in the empire. *Syndicats d'études* were formed (with help from the CFP and the *gouvernements généraux*) and associated themselves with the ONCL in the form of mixed economy companies. It was from these that the foreign subsidiaries of Elf Aquitaine were to grow.

However, shortly before World War II, apart from having drawn up regional maps, the prospection efforts of the colonial *syndicats d'études* had produced virtually nothing. Moreover, governments of the Third Republic had reduced their financial support in the aftermath of the 1929 world economic crisis. It is therefore no surprise that France was still very poorly provided for in energy supplies on the eve of World War II compared with its major opponent, Germany. An indication is that whereas German hydrocarbon resources amounted to 500,000 tonnes, France had only 40,000 tonnes.¹⁵

It is ironic that two months before the outbreak of war, a major discovery of natural gas was made at St. Marcet in the Haute Garonne, due to the exploration efforts of the Centre de Recherches du Pétrole du Midi (CRPM), created in 1937. In anticipation of the imminent conflict, the French government took 100% control of the newly discovered oil field by creating the Régie Autonome des Pétroles (RAP) on 29th July 1939. This *établissement public* would be responsible for exploiting St Marcet and surrounding area and be financed temporarily by advances from the Ministère des Travaux Publics.¹⁶ Another strand of the future Elf Aquitaine had been born.

World War II

At the outbreak of hostilities in May 1940, however, exploitation of the gas field of St Marcet had hardly begun. Although France had access to a number of sources

of crude oil, which temporarily reassured the authorities, when the Franco-German armistice was signed in June, all sources of crude oil were either acquired by the German authorities or obstructed. First in line was the company at Pechelbronn in Alsace. Although a small oil field, it was at the time the only established source of crude oil on French soil. This was taken over by the Germans in the days following the armistice. A few weeks later, on 4th July, with the ending of Franco-British relations due to the events at Mers El Kebir, France lost access to Iraqi oil and the British government prohibited deliveries of oil to French tankers in Syria and the Lebanon and sequestered the assets of the CFP. Furthermore the US suspended delivery of industrial raw materials to France, while the British naval blockade of the Atlantic cut off French subsidiaries of American oil groups from their mother companies. For France a further source of oil was Roumania where three companies had grown up, bringing together French, Belgian, British and American capital. Although the French devised a plan to sabotage their own oil installations in Roumania in order to cut Germany off from their energy supplies, it failed, and French oilmen were expelled. This marked the climax of worsening relations between France and Roumania, which was gradually transferring its loyalties to Germany. The expulsion of the French oilmen was just part of a much larger plan by which the Germans aimed to exploit the resources of the lands they conquered. A further stage was the surrender to Germany of France's shares in Roumanian oil.¹⁷

Thus in the space of a few months France was deprived of virtually all its sources of oil supply: stocks of petrol and gasoil amounted to no more than one tenth of average annual needs. Yet it is paradoxical that the Vichy period was of capital importance to the French oil industry, not so much as regards results but because it set up the legal framework and main elements of what would become in the post-war period a public oil sector.

Owing to the strategic nature of oil, although it was of minor importance in the energy balance, it was vulnerable to state intervention. In January 1941 oil became

the object of a *Comité d'Organisation*, one of the committees established to develop production programmes, acquire and share out raw material, control the running of firms and intervene in the fixing of prices. Another form of state intervention was a *Groupeement d'achat des carburants*, created in October 1941, which all buyers of fuel had to join. Most important of all these government-controlled organisations was the *Direction des Carburants* (DICA), which succeeded the ONCL in 1939. Although its influence was slight compared with that of the *Direction des Houillères* or *Direction de l'Electricité*, it had extensive powers, covering the definition and implementation of fuel supply policy, the setting up of programmes for production, import, transport and stocks, together with responsibility for controlling a whole range of areas from prospection to distribution, scientific research and teaching. It should be noted that the RAP became associated with it.

A further form of state intervention, but in this case it was aimed at obstructing German greed, was that the government asserted its rights over a vast area of South West France, spurred on by the discovery of natural gas at St. Marcet. A law of 18th July 1941 gave government the right to prospect and exploit an area of 2.8 million hectares, which encompassed the area already granted to the RAP in 1939. In November 1941 the area was handed over to the Société Nationale des Pétroles d'Aquitaine (SNPA), a company created for the purpose, in which the state had a 55% holding, the private shareholders being the CFP, St. Gobain, Pechiney, Rhone-Poulenc. In this way a further strand of the future Elf Aquitaine was created.¹⁸

The Vichy period was one of maturation for the state oil group. The major structures which would later form the Société Nationale Elf Aquitaine (RAP and SNPA) were in place, modern methods of prospection and drilling were being mastered, an oil services industry was being formed and a legal framework had been established. In addition, teams of professionals had been formed through contacts made during the hostilities and in oil exploration activities overseas. However, the pre-World War II organisation of the French oil market would not be

adequate to confront the necessities of reconstruction. Stronger government agencies, capable of coordinating and planning, would be needed in the aftermath of the war to reinforce and give direction to what had already been established.

THE LIBERATION

It was immediately after the war that the state oil companies received a major political impetus. The nationalisation of all key industries was the chief preoccupation of the *Gouvernement Provisoire de la République Française* (GPRF). Although oil did not at the time occupy a large share of France's energy sources like coal, gas and electricity, the humiliating defeat of the war, together with memories of dramatic oil shortages in World War I, convinced the post-war government that oil was a strategic product and that it was essential to have an integrated oil industry under French control.¹⁹

Driving forces

The means chosen to achieve this end was the policy of "national oil" and strong government commitment to support the industry. Both these elements are stressed in the *ordonnance* for the creation of the *Bureau de Recherches de Pétrole* (BRP), government's instrument for the implementation of a "national oil" policy.

"Du pétrole produit et raffiné en France et dans son empire est la seule solution parfaite aux problèmes d'approvisionnement du pays en hydrocarbures....."²⁰

The text of the *ordonnance* closes with the words:

"il apparaît donc essentiel de consacrer à la recherche des gisements d'hydrocarbures l'effort maximum; l'importance des crédits nécessaires en même temps que la continuité de vue absolument indispensable sont les caractéristiques de ces recherches... Seul un établissement public disposant pour plusieurs années de ressources importantes et certaines est susceptible d'apporter à ce problème une solution heureuse".²¹

It was de Gaulle, as head of the GPRF, who signed the *ordonnance* for the creation of the BRP on 12th October 1945. With his military background, he was fully aware of the strategic importance of oil. Furthermore, his ambition for France to be independent in the area of defence made him a natural ally of supporters of the policy of "national oil". It was auspicious for the future state oil industry that the newly appointed head of the DICA, Pierre Guillaumat, should be a family friend of de Gaulle and hold very similar convictions.²²

The son of General Adolphe Guillaumat, Minister of War in 1926, Pierre Guillaumat was educated at the military academy of La Flèche (Sarthe), run by his father, and then at the *Ecole Polytechnique*. Rated among the top students, he was entitled, on leaving, to join the prestigious *Corps des Mines* and then embarked on a career in the colonial service. His education destined him for posts in the *Service des Mines*, first in Morocco, then Indo-China and Tunis. In 1940, having joined the *Service des Renseignements "Air"*, based in Tunis, he was able to build up a whole network of contacts, many of whom were involved in the oil business.²³ He returned to France in 1944 with considerable knowledge and strong convictions about oil exploration. For Guillaumat, systematic prospection was the only way to achieve results and this demanded considerable sums of money, continuity and effective work teams, all of which at the time needed strong government support.²⁴ It was these beliefs which were to underpin not only Guillaumat's directorship of the DICA from 1944-1951 but also his chairmanship of different branches of the state oil sector, a career spanning over 30 years.

Working closely with Guillaumat at the DICA in the immediate post-war period were two other colleagues who were also to play key roles in the state oil companies. They were Jean Blancard and Paul Moch, both *polytechniciens* and *ingénieurs au Corps des Mines*. Referred to as "*les trois Bouddhas*", Guillaumat, Blancard and Moch were to be largely responsible for ensuring the continuity of management essential for the growth of the future state oil group.²⁵

In 1945, however, the ambition of "*les trois Bouddhas*" was not to change what existed already, but to reinforce and direct the oil activities already begun in France and its colonies. This would be achieved by means of the BRP, a completely new entity. It was to be a kind of research centre, "*le nerf de la recherche, la pièce maîtresse de cette industrie nationale à laquelle on rêve déjà.*"²⁶ Not involved directly in exploration, the BRP had the quality of a holding company and inherited public shares in a whole range of oil activities in France and its colonies.²⁷ As regards financial backing, the plan was that the BRP should be supported by public funds - accounted for in the general budget - by a share in the profits from discoveries it financed and by reimbursements for loans it made to subsidiaries. In addition, the *ordonnance* of 1945 instituted a special tax on certain imported oil products. This was to feed the *Fonds de Soutien aux Hydrocarbures* (FSH), created in 1950. Then in 1953, a form of tax exemption, the *Provision pour Reconstitution de Gisement*, similar to the American depletion allowance* was instituted.²⁸

In 1945 gaining acceptance for the idea of an integrated oil industry, supported by state funds, yet showing no obvious results for several years, demanded considerable conviction, perseverance and administrative skill. The chief tactic employed by Guillaumat and his close colleagues was to ensure the support of people of influence, primarily at the Ministry of Finance. It should be noted that in the pre-war period the Budget Department made every effort to prevent investment in oil exploration. Guillaumat therefore made a point of involving the heads of Treasury and Budget closely in the daily running of the BRP. For example, he brought together for monthly meetings his *comité spécial* at which the Treasury, Budget, Customs and *Direction des Impôts* were represented. Until his departure in 1977 all important questions were discussed by this *comité spécial* which,

* Under the depletion allowance, American companies are authorised to deduct 22% of their wellhead rent from their taxable profits (up to a maximum of 50%).

according to Péan and Séréni, was "an efficient way to defuse conflicts".²⁹

Moreover, on several occasions throughout its history, directors of the Treasury and Budget were intimately involved in the state oil group's development. One Treasury director, François Bloch-Lainé, had a seat on the board of the *Entreprise de Recherche et d'Activités Pétrolières (ERAP)*³⁰ and Roger Goetze combined for nearly ten years the post of Budget director with the chairmanship of the *Société Nationale de Recherches et d'Exploitation Pétrolières en Algérie (SN Repal)*, the BRP's main Algerian subsidiary.³¹ Another technique of involving the Finance Ministry was to appoint *Inspecteurs des Finances* to the DICA, bastion of the *Corps des Mines*.³² To this day the deputy Director of the DICA is invariably a member of the *Cour des Comptes* or *Inspection des Finances*.

This interpenetration of the worlds of government, industry and finance, apparent throughout Elf Aquitaine's history, was extremely beneficial to the group's development. We should note that in 1945, while Guillaumat himself combined the directorship of the DICA with that of the BRP and took every advantage of this ambiguity in his functions, Paul Moch combined the deputy directorship of the BRP with the chairmanship of the RAP. In the words of Péan and Séréni: "Ainsi à eux deux, Guillaumat et Moch verrouillent complètement le secteur d'Etat naissant".³³

It is therefore no surprise that for the first five-year plan (1946-1950) 56 billion francs were allocated to oil research. There was general agreement in political circles that it was money well spent and that France's dependence on foreign oil supplies should be reduced.

The policy of pétrole franc

According to the *ordonnance* of 1945, the BRP's major task was to establish "un programme national de recherches et d'en assurer la mise en oeuvre dans l'intérêt exclusif de la nation"³⁴. The task carried two important implications:

- (i) undertaking geological examinations of all the territories of *l'Union française* and prospection in regions which seemed technically and economically promising
- (ii) the use of a mixed economy formula in the development of a French oil industry

Accordingly, and in view of the extent and urgency of the task in hand, it seemed obvious to share the costs and risks with foreign companies. The USA was the most advanced in the area of oil exploration, so it was natural that the newly created French companies should seek to become associated with the Majors.³⁵ Although the first real association in Tunisia of the BRP with Shell and Gulf Oil provoked violent debates in the press and parliament throughout 1949, towards the end of the 1950s several subsidiaries, both in metropolitan France and its territories, had become associated with the Majors.

Important discoveries

The perseverance of Guillaumat's teams was rewarded by a series of spectacular discoveries throughout the 1950s, at Lacq in South West France, in Gabon, the Congo and the Sahara.

In 1951 the gas field at Lacq was discovered by one of the SNPA's teams and at the time was one of the most important in Europe with 200 billion cubic metres of reserves. Although the gas did not come on stream until 1957, due to the difficulties posed by its high sulphur content - which, ironically, would later constitute a considerable part of the SNPA's wealth - for the next twenty years it remained the chief source of finance of the SNPA and subsequently of Elf Aquitaine.³⁶

In French Equatorial Africa the *syndicat de recherches* set up there in the 1930s had begun to prospect Gabon and the Congo. The underdevelopment of the region, poor hygiene and lack of equipment, meant that even by 1945, little

progress had been made. Although the BRP took a majority share in the *syndicat de recherches*, creating the Société des Pétroles de l'Afrique Equatoriale Française (SPAEF) in 1949, a series of failures and waning investments prompted association with the Majors. Agreements were signed with Shell and Mobil in 1958, leading to modest discoveries in Gabon, but the main advantage of these associations was that French oilmen were initiated into the techniques of off-shore drilling. The Suez crisis of 1956 forced the Fourth Republic to increase their allocation of capital to oil exploration in the Gulf of Guinea and efforts finally bore fruit in important discoveries in 1956-1957 in Gabon - Ozouri, Pointe Clairette M'bega, Animba, Tchengué - and in the Congo - Pointe-Indienne.³⁷

Simultaneously, the Sahara was revealing its great reserves of oil. This region had interested geologists since the 1930s, but it was in the post-war period that prospection began in earnest. Initially it was concentrated in the Northern Sahara where some small discoveries were made. Then, thanks to the creation of the SN Repal in 1946, owned jointly by the BRP and the Gouvernement Général d'Algérie, many financial problems were overcome, due to the influence of the chairman, Roger Goetze, both with the rue de Rivoli - he became deputy director of the cabinet of Mendès-France after the war - and with the Gouvernement Général d'Algérie. Although the SN Repal experienced several years of failure at the beginning of the 1950s, its association with the Compagnie Française des Pétroles d'Algérie, the Algerian subsidiary of the CFP, resulted in the discovery of the Hassi-Messaoud oil field and Hassi R'Mel gas field in 1956 and 1957 respectively. A further fruitful association of a French state company, the RAP, and Shell resulted in another important discovery, the oil field of Edjeleh, at the end of 1955.³⁸

Oil shares

In addition to association with the Majors and the CFP, another method by which the state oil companies sought private investment was the purchase of oil shares by the public. With the creation of the BRP in 1945, efforts were made by Paul Moch,

considered to be the financial brain of the three founders, to interest the major banks in oil exploration. To little avail, however. It was only in 1954 after the discovery of oil by Esso at Parentis in South West France that oil shares began to arouse public interest. To quote Péan and Séréni, "Du jour au lendemain la France se passionne pour le pétrole".³⁹ Two months after the discovery, a financial company appeared, Finarep, in which Crédit Lyonnais and Paribas figured among the main shareholders. In the same year the SNPA's shares were quoted on the Bourse. This interest in oil shares was beneficial to several parties. For the Ministry of Finance, it eased the burden on public funds which, until then, had alone borne the brunt of exploration, the BRP was seen less in the light of a strain on the public purse, banks made profits by increasing the number of share issues and among private savers there was general enthusiasm for potential profit.⁴⁰

The combination of government support to the BRP, association with the international companies and private investment was a successful formula. The major discoveries throughout the 1950s completely changed the scale of the state oil companies' operations. By the late 1950s they were managing vast oil-producing regions of world scale. When de Gaulle returned to power in 1958, he saw that the impetus he had given to the policy of independence in energy supplies had paid off. Babinet summarises the growth of the state oil sector thus:

"partie de presque rien dans les années 50, la production pétrolière de la zone franc avoisine les 8 millions de tonnes annuelles en 1960 et double en 2 ans grâce au Sahara, pour atteindre 18 millions en 1962."⁴¹

THE CAPTURE OF OUTLETS

The logical sequence of the policy of *pétrole franc* was the development of the downstream branches of the industry. This process took place in several stages. First of all, the CFP and Majors were obliged to buy "national oil", then a public network of refining and distribution companies was created and, finally, a substantial part of the national market would be given to them. The methods used

were highly *dirigiste*. Government made use of legislation to force rival firms to cooperate in achieving the aims of the state oil sector. Notwithstanding the support the companies enjoyed with the Ministry of Industry, the task of expansion found several obstacles in its path. In addition to the fact that the state companies were late-comers to the market, they met opposition from the strong international oil groups established on French territory, from the Ministry of Finance, from Brussels and from divisions within themselves. Furthermore, the section of government committed to supporting a national oil industry, namely the DICA, had to tread a delicate path in reconciling the wishes of the different factions.

By 1958 "national oil" was flowing and the gas from Lacq was playing an important part in France's energy balance. Until now the state oil companies had devoted all their energies to exploration, but had neglected setting up a refining and distribution network. Therefore, when Algerian oil arrived, they were faced with the problem of how to sell it.⁴² The French market had been supplied by the CFP and subsidiaries of the Majors since the 1930s, so the arrival of the BRP and RAP naturally aroused their hostility. The attitude of the Majors was that they made an important contribution to French supplies, whereas the view of the CFP was that it had been created precisely in order to refine crude oil for the national market. In fact, its refining subsidiary, the Compagnie Française de Raffinage (CFR), had received from government the right to refine 25% of the crude oil destined for the French market.⁴³

The top management of the BRP therefore devised a plan of action as follows: first they aimed to saturate the national market by replacing oil from the established French suppliers by oil produced by the state companies and, second, to prepare to export. However, "national oil" came at just the wrong moment. The Suez crisis convinced the oil-importing countries of Western Europe that there were considerable risks attached to obtaining their supplies exclusively from the Middle East. Furthermore, two new suppliers, Libya and the USSR, had appeared on the world scene as formidable competitors to European refiners. In addition, the USA

had limited its imports of oil, which virtually amounted to shutting out the European companies from a market which represented 60% of the free world. Moreover, other European countries, for example, Italy, Germany, Belgium, had also created state oil companies and, like France, were seeking to sell oil on the European market, which was fast becoming saturated.⁴⁴

The weapon of "devoir national"

Insofar as the RAP and BRP would need several years to create a refining and distribution network from nothing, the best solution was to use the capacity of refiners already established in France, those of the CFP and Majors. However, this was not acceptable to either party for a variety of reasons. For the CFP, its own Middle East production already exceeded the capacity of its refineries and distribution network. It ran the risk, should it attempt to reduce production, of being prevented from exploring in those countries which now actually wished to increase the quantities of oil extracted. The CFP also ran the risk of sanctions from its international partners and of jeopardising the privileged links it had built up with them.⁴⁵ For the international groups, Shell, Mobil, Esso, BP, but also the CFP, oil produced by the French state companies was more expensive than Middle East oil, less well adapted to their refineries due to its low sulphur content and, in addition, it deprived them of their *rente minière* - the profit realised on the price at which they bought crude oil from their production subsidiaries and sold it to their refining subsidiaries.⁴⁶

It was for these reasons that initial talks with the CFP and Majors broke down. The negotiators of the state oil companies were obliged to take stronger measures. Through contacts at the Finance Ministry, the Elysée and the DICA and the support of Jean Marcel Jeanneney, Minister of Industry, the CFP and Majors were obliged to buy oil produced by the state companies.⁴⁷ The weapon used was Article 3 of the 1928 law, which imposed on holders of import licences

"l'exécution de contrats d'intérêt national pour l'acquisition de pétrole brut, de produits dérivés et succédanés, et la fabrication dans leurs

usines de produits d'origine pétrolière utiles à l'économie générale du pays."⁴⁸

Thus, importers were obliged not only to buy considerable quantities of national oil but also to refine them.

Confirmation was obtained from the Conseil d'Etat that the contracts were in fact in the national interest, with the proviso that all companies must be treated in the same way in implementing the law. According to Article 3, the volume of crude oil each company should buy was determined by its position on the French market. As a result, the CFP and Majors were obliged to buy quantities of crude not exceeding 30% of their outlets. Regarding the price at which they bought national oil, this was also determined by the company's position on the market, by the quantities imposed, by the quality of the oil, and by the price at which the foreign refining subsidiaries were supplied with crude oil by their mother company.⁴⁹

It should be noted that decisions about quantities and prices were not imposed in an authoritarian way. Both the DICA and companies wished to avoid conflict. The DICA was fully aware that the international groups controlled 60% of the French refining and distribution market, whereas the international groups were conscious of their weak legal position. Moreover, the CFP was well aware of the strength of support enjoyed by the state oil companies at the Ministry of Industry and the Elysée and that a battle with the administration might put it at a disadvantage.

The necessity for an integrated group

Although the state oil companies were successful in selling their crude oil by means of the *contrats d'intérêt national*, this was only the first step. In the long term it was essential for them to have a completely integrated industry. The reasons were numerous. The price at which the Majors bought "national oil" was lower than the price at which they supplied their own refineries with their own crude oil. This constituted a loss for the state companies. In addition, the 1928 law with its

licensing and quota system was in conflict with the Treaty of Rome. Article 37 of the Treaty anticipated the gradual removal of state monopolies. Furthermore the Majors would soon acquire licences for Saharan exploration themselves and at that point they would no longer buy from the state oil companies.⁵⁰ The necessity for a vertically integrated state oil group was also obvious to the French administration as well as to the state producers. According to one of Babinet's sources: "C'était l'idée naturelle, évidente, que des producteurs importants ne peuvent être indéfiniment producteurs sans être aussi raffineurs."⁵¹ Consequently the project for a Société Industrielle des Pétroles (SIP), created jointly by the BRP and RAP, obtained the support of the Minister of Industry, J-M Jeanneney, with the proviso that a single, united group should be formed, not a host of small refining companies competing with one another. In addition there would be no question of reducing the CFP's share of the refining-distribution market to make way for the new group. The relationship with the CFP should be one of *saine concurrence*.

The DICA's task was not an easy one. It was committed to supporting the state companies' efforts to build up a refining-distribution group, while simultaneously recognising the important contribution of the international oil groups to French supplies and protecting the CFP. This company was already in possession of an oil industry of its own and was indispensable to France. The DICA's task was further complicated by de Gaulle's foreign policy, opposed to NATO and to an understanding with the Majors, yet favouring a rapprochement with the Arab countries and the developing world.⁵²

The nature of the future SIP was the object of much deliberation, but the solution finally retained showed two dominant characteristics, which revealed the preoccupations of the administration. On the one hand, it was essential that the new group form a united whole. The reasons were that, in the immediate post-war period, a host of companies had appeared at the initiative of the RAP and BRP. Certain companies which had made important discoveries, for example, the SNPA and SN Repal, had become very rich and aimed at a considerable degree of autonomy from the BRP, which consequently had difficulty controlling them.

According to one of the SN Repal's geologists: "Le BRP ne commandait pas véritablement ses filiales... Elles restaient très indépendantes, refusaient toute coordination."⁵³ The second characteristic of the new organisation was that it should be a state group, whose policies would "automatically conform to instructions from government".

The Union Générale des Pétroles

The new group became effective on 14th November 1960 under the name of the *Union Générale des Pétroles* (UGP). According to the official communiqué, it would consist of "des participations égales de la RAP et de la SN Repal et d'un groupement de sociétés ayant également atteint le stade de la production, telles que la SPAEF" and would ensure, in conjunction with private oil groups, the transport, refining and distribution of oil from the franc zone.⁵⁴ By way of reconciling the interests of all parties the communiqué underlined, on the one hand, that oil produced in the franc zone by national companies should also be used and sold in the franc zone, on the other, that a sufficient part of the French market should be left for the CFP and international groups, whose investments had already given France a modern and well-adapted refining and distribution industry. The communiqué incorporated three important points concerning the nature and role of the UGP. First, the new group would not be privileged in any way, but compete on an equal footing with other companies. Second, it would acquire a majority share in the transport, refining and distribution activities of Caltex⁵⁵ amounting to no more than 4% of the French market. Third, the various refining and distribution groups in France were invited to make agreements with the state oil companies, so that each year a reasonable share of French oil supplies should be made up by oil produced in the franc zone.

There were, however, numerous obstacles to the UGP's development. First of all, among the refining and distribution companies in France, the most successful had already been acquired by the CFP, whereas those prepared to be taken over by the UGP usually had specific difficulties and saw their survival in being bought up by the state group. The example of Caltex was a case in point.⁵⁶ In addition, the CFP,

naturally opposed to the UGP's existence, since it had itself been created twenty-seven years earlier to fulfil the same role, made every effort to obstruct the new group's attempts to gain a share of the refining-distribution market. The national press of the day, no doubt backed by the CFP and Majors, also added fuel to the controversy:

"Pourquoi engager des fonds de l'Etat pour créer un nouveau réseau de distribution de l'essence et du fuel alors que cette distribution est faite jusqu'ici avec une progression de moyens qui donne toute satisfaction aux usagers?"⁵⁷

A more dangerous obstacle was the Ministère de l'Economie et des Finances. Even before the creation of the UGP, Antoine Pinay, Minister of Finance from January 1959 to January 1960, considered the structure of the new group too statist and opposed the views of J-M Jeanneney. Tension rose from 1962 when Valéry Giscard d'Estaing was appointed Finance Minister. Opposed in principle to public sector companies, Giscard d'Estaing expressed his disapproval of this new extension to the state group in the following terms:

"C'était une création fâcheuse au moment où la France avait une souveraineté totale au Sahara; elle devient plus dangereuse et inutile encore à l'heure actuelle. Je pense qu'il est indispensable qu'un seul groupe pétrolier (la CFP) défende les intérêts de l'Etat français."⁵⁸

A further obstacle to the UGP's expansion was the rivalry which existed among the different companies composing the group; RAP 33.3%, SN Repal 33.3%, GEP⁵⁹ 33.3%. The GEP brought together four of the BRP's producing subsidiaries; SNPA 40%, SPAEF 40%, CEP⁶⁰ 15%, PREPA⁶¹ 15%. It was a device to allow the BRP to become involved in industrial activities. The conflicts arose from the fact that certain companies were resentful that their share of the new firm was not proportionate, either to the position they occupied vis-a-vis the BRP or to their wealth.

Conflicts were to some extent resolved by the system of a rotating chairman and by the DICA. Regarding the system of chairmanship, the heads of the three companies holding shares in the UGP, Paul Moch for the RAP, Roger Goetze for the SN Repal and Jean Blancard for the BRP, were to take turns as chairman. In the event it was Pierre Guillaumat, not Roger Goetze, who succeeded Paul Moch, the UGP's first chairman. For its part the DICA went to considerable lengths to make sure that conflicts did not become politicised. A former official described the role of the DICA in the following terms:

"Dès cette époque, probablement au contact des groupes internationaux, nous étions très conscients de la nécessité de ne pas malmenager les diverses personnalités, d'autant qu'il y avait aussi des intérêts privés. Nous avons donc veillé à ne pas provoquer de conflits ou, en tout cas, à ne pas les laisser se pérenniser. Car nous savions que si ces conflits devenaient trop violents, ils risqueraient d'être arbitrés par le pouvoir politique. Très proches des sociétés elles-mêmes, nous pensions comme on peut le penser encore aujourd'hui, que toute interférence politique était nuisible dans ce domaine. En d'autres termes, nous avions le souci de régler ces affaires en famille."⁶²

The UGP's attempts to expand

The leaders of the UGP had rapidly to find outlets for the oil produced by the state exploration companies and, simultaneously, to learn about the refining-distribution profession on the job. Consequently, they went about the task in a somewhat disorganised fashion, buying up whatever they could find. In the area of distribution, by 1962, their acquisitions amounted to seven or eight small companies representing about 8.5% of the market. Unfortunately, these companies had only local distribution networks, not in large urban centres but in rural areas. Moreover, in attempting to expand, they encountered all kinds of administrative regulations regarding the location of petrol stations. They also discovered that the structure of the oil market hardly favoured UGP's expansion. Saharan oil was rich in petrol, gasoil and domestic fuel but poor in heavy fuel, and it was the consumption of the latter which would triple in the years ahead.⁶³

In the area of refining, the situation was similar. The only refineries available for takeover were old and poorly situated, so that two years after the UGP's creation, they amounted only to 4% of the refining market. The solution was for the UGP to have its own refineries, located not on the coast next to large ports, according to the established view, but inland, close to important centres of oil consumption, that is, large cities, power stations and petrochemical complexes. This would reduce transport costs and ensure useful outlets. This reasoning explained the choice of refineries at Gargenville, Grandpuits - Paris region - and Feyzin - near Lyon - built in the 1960s. The refinery at Feyzin, completed in 1966 and one of the largest in Europe to operate according to the steam-cracking process, became the motivating force of the company created through UGP's merger with La Mure Union, an old-established refining-distribution company near Grenoble. Since La Mure had contacts with the chemical industry of the Rhône-Alpes region, this association allowed the UGP to expand into the important area of petrochemicals.⁶⁴

The Leblond decrees

Although the state companies' efforts to expand their refining-distribution sector were partially successful, the above-mentioned obstacles prevented them from developing as much as they wished. Furthermore, the sources of the UGP's crude oil supplies, for the most part, the Sahara, imposed some lack of flexibility on the company.

According to Babinet:

"Constituée pour écouler le brut franc, essentiellement celui du Sahara, un brut léger - l'UGP manque de souplesse. Elle ne peut, comme d'autres compagnies, se livrer au véritable commerce international du pétrole, jouer sur les différentes qualités des bruts, mettre à profit tout ce système d'échange, poumon d'un raffinage bien équilibré."⁶⁵

In fact, the leaders of the UGP felt entitled to the same privilege as the CFP, a 25% share of the market. However, conscious of the opposition from several quarters, they would have been content with a 15% share. It was this percentage which Paul Moch proposed in discussions with leaders of the *Union des Chambres Syndicales de l'Industrie du Pétrole* (UCSIP) in 1962. The reply, however, was negative.

Knowing the support they enjoyed at the DICA, it was to this department that the leaders of the UGP next appealed. The director of the DICA, Maurice Leblond, was committed to the expansion of the UGP, but was not prepared to arouse the hostility of the Majors and the CFP. The presence on the French market of Shell and BP, important European companies, complicated the matter, since an attempt to cut their share would provoke the wrath of the European Commission. Leblond, again making use of the 1928 law and its system of *autorisations spéciales*, proposed increasing the UGP's import quota - which determined companies' share of the market - and reducing that of other companies. His proposal involved raising the quantity of imported oil for all groups, but increasing the volume allowed to French and European companies more than that to American companies. Leblond took advantage of the renewal date for licences in 1963 and executed his decision in what appeared to many to be a very authoritarian fashion. The decrees of February 1963 renewing the A13* licences fixed the share of French companies at 61.3% - as against 49.6% previously - and reduced the foreign groups' share to 38.7% - as against 50.4%. In this way the UGP was given a 14.5% share of the market.⁶⁶

The decision provoked a furore in many circles; in the press, at the *Assemblée Nationale*, in London and Brussels where the Hallstein Commission recommended to France: "the same treatment for all companies and a general increase of import quotas for crude oil and oil products."⁶⁷ The international companies appealed to the Conseil d'Etat requesting it to ask the European Court in Luxembourg whether the Leblond decrees were an infringement of Article 37 of the Treaty of Rome,

* Import licences valid for 13 years.

which obliges member states to reduce their monopolies. The affair went no further, as the Majors' case contained a small defect, namely that Article 37 requires only EC member states to "adjust state monopolies progressively".

The atmosphere was nevertheless intolerable. Prime Minister Pompidou could not allow it to continue. The state oil companies had everything to lose from the bad feelings which existed between them and the Majors, especially at a time when the progress of events in Algeria created a very real possibility of their having to leave the franc zone and set up in Canada, the USA or Nigeria. On four occasions, from Autumn 1963 to Summer 1964, Pompidou received the chairmen of the foreign companies at Matignon to reassure them of the importance he attached to their presence in France.⁶⁸ They also received an official letter stressing France's interest in cooperation with the international groups, but also clarifying how the 1928 law should be interpreted. The gestures of reconciliation continued. Inaugurating two refineries near Strasbourg in October 1963, in which the UGP, the CFP and the international groups were associated, Pompidou stressed the importance of solidarity among European oil companies:

"Les producteurs, raffineurs et distributeurs qui exercent leur activité en France doivent chacun avoir la possibilité de développer leurs activités dans un esprit de concurrence loyale, avec pour seule limite le respect de l'intérêt général."⁶⁹

Other acts of reconciliation were that Esso was allowed to construct a refinery at Fos-sur-Mer while Shell, BP and Esso were allowed to build a pipeline for finished products linking the Mediterranean and the Rhône. In addition, Esso's application to explore in the Gulf of Gascony, previously blocked by the DICA, was authorised. In return, the state oil companies were allowed to associate with the Majors in exploration of the North Sea, although their initial request in 1961 had met with a humiliating refusal. The final mark of reconciliation between the UGP and Majors was UGP's acceptance as a member of UCSIP.⁷⁰

The last stage in the battle against the Majors was the abrupt dismissal, in the summer of 1964, of the director of the DICA, Maurice Leblond. Although he had done no more than execute government directives by publishing the decrees, someone had to pay for the controversy created.

The state oil companies' early development of downstream branches of the industry reveals the effectiveness of the government-company partnership. The pursuit of common objectives by government and the state-owned oil companies was a successful formula in overcoming a range of tough obstacles. It should be noted that the climate of the early 1960s was also favourable to this nationalistic approach to industrial policy. De Gaulle's ambition to turn France into a major economic and industrial power entailed strengthening certain firms in order to give them a better chance to do battle in the international market. The firms chosen, or "national champions", as they were called, were those whose activities were strategic for national independence.⁷¹ It is therefore no surprise that the top managers of the young state oil sector, committed to the survival and growth of an oil industry under French control, should have been able to obtain the support they needed from those sections of government responsible for the industry. This support could not be limitless, however, since there were other oil companies operating in France, whose contribution government valued, and whose hostility would be harmful to the French national companies outside France. Hence the double role which government had to play in increasing the state oil sectors's share of the domestic market, while simultaneously granting opportunities to the international companies to expand within France.

THE BIRTH OF A GROUP

The determination to create an industrial group capable of defending itself in the international arena and a strongly *dirigiste* approach adopted by government supervisors responsible for the oil industry are again obvious in the next stage of the state oil companies' growth, namely their reorganisation and partial amalgamation towards the totally integrated status they achieved in the mid-1970s.

It was André Giraud who replaced Maurice Leblond as director of DICA in December 1964. He had not been involved in the running of the state oil companies, so could adopt a more objective view than his predecessors, Pierre Guillaumat and Jean Blancard, who had combined the directorship of the DICA with responsibilities within the BRP. Giraud was struck by a number of weaknesses in the state oil companies. First, the future of France's oil relations with Algeria was uncertain. It was therefore important that the state-owned companies establish themselves outside the franc zone. To this end, it was essential that they should not be seen in conflict with the international oil groups. Second, the multitude of subsidiaries created by the BRP and RAP and the tendency of a number of them towards autonomy⁷² meant that there were numerous decision-making centres and a consequent inefficiency regarding the circulation of money and distribution of manpower. Third, the use of private capital should be better controlled because, until then, not only had the results of private investment been uneven, but its intervention could hinder policies decided by government. In Giraud's view, the state oil companies should be reorganised in order to achieve greater unity of control and more efficient use of finance and manpower. This implied the merging of the BRP and RAP to form an integrated group which would be capable of defending itself in the highly competitive world oil industry.

On the basis of Giraud's observations of the workings of the state companies, new aspects of a national oil policy would emerge which would strengthen the position of the future group. Firstly, the CFP and national producers would occupy 50% of the French market and, abroad, a share of the market equivalent to that of the foreign companies in France. Secondly, in order to give the national producers the solid base they needed on the French market, foreign oil companies should not expand as fast as the market but only half as fast. Thirdly, French companies should control sources of crude oil equivalent to the totality of national needs. Fourthly, every oil company should keep a nine-month stock of oil - previously three months⁷³.

How the merger should be carried out was Giraud's next task and for this he needed Pierre Guillaumat because, in his view, "lui seul aura l'autorité suffisante pour se faire entendre et obéir des différents *barons* de la RAP et du BRP."⁷⁴ Guillaumat surrounded himself with trusted colleagues, Blancard, Giraud and Moch, together with chosen executives of the younger generation, Raymond Lévy, Pierre Desprairies and Jean Méo, the presiding director of the DICA, Michel Vaillaud and his deputy, Georges Dominjon.

Internal structure

In June 1965 the structure of the newly integrated group had been outlined in a report drafted by the above-mentioned top managers and government officials. It was given the name *Entreprise de Recherche et d'Activités Pétrolières* (ERAP). The dominant features which emerge from the report concern the managerial structure of the new group, the legal and financial organisation and the role of private capital.⁷⁵

The top management structure reflected the need to maintain unity in an organisation characterised by its differences and dominated by personalities. At the top of the pyramid, a *conseil d'administration*, on which representatives of the supervisory ministries of Industry and Finance would have a seat and also one from the Ministry of Foreign Affairs. Alongside, a *comité spécial*, would bring together the chairmen of the BRP, RAP and UGP with the *autorités de tutelle* but would meet more often than the *conseil d'administration*. Finally there would be a *comité directeur*, consisting of the chairmen of the three companies. They would have the essential powers of approval of budgets and programmes, movement of assets, regulations governing staff and the financing of new projects. In the view of the authors of the report, the triumvirate was necessary so that decisions of the group would be seen to be the result of a common way of thinking. This would create the

indispensable *esprit du groupe*.

As regards the legal and financial organisation, the main objective was to ensure maximum mobility of finance. This implied, on the one hand, frequent merging of firms to facilitate the allocation of finance to certain sectors, and on the other, reduction in the number of subsidiaries by country. Finally, the authors underlined the necessity to regularise the flow of money within the group by fixing prices for the buying and selling of crude oil, the import and export of finished products and the sale of raw materials to petrochemical sectors.

The role of the SNPA

The use of private capital focused mainly on the SNPA and its future.⁷⁶ Should it be merged or remain independent? The authors of the report, aware of the SNPA's wealth and its strong tendency towards autonomy, chose a mid-way solution. The single group, formed out of the BRP and RAP, would hold the public shareholding in the SNPA but the SNPA itself could exercise certain activities alone, for example, the exploitation of the gas field at Lacq. The SNPA would also serve to bring private capital into the group. It was quite clear that the top management intended to make full use of the SNPA's wealth. They calculated that "a substantial part of the SNPA's available funds would contribute to the development of new exploration zones or to sectors whose activity would increase further, namely refining and distribution".⁷⁷

The total merger of the three companies was therefore to be avoided. The SNPA shares were star performers and it seems that just the news of the BRP-RAP merger was enough to make their price fall several points. Another factor, perhaps less well known, underlay the avoidance of a total merger:

"Elle (la SNPA) avait un cash-flow important, alors que la RAP et le BRP étaient subventionnés par le Fonds de Soutien aux Hydrocarbures. Or on avait bien l'intention de tirer le plus possible sur cette pompe à finance non pas tellement pour l'exploration comme ç'avait été le cas précédemment mais pour créer les réseaux de raffinage-distribution nécessaires à l'intégration. En laissant la SNPA de côté, on se donnait donc le moyen de justifier une demande d'aide à l'Etat, tout en ayant cependant la volonté bien arrêtée d'éteindre celle-ci un jour."⁷⁸

A first step was nevertheless made towards this partial merger of ERAP and the SNPA: the appointment of a common chairman to ensure the coordination of policies. Who other than Pierre Guillaumat could fit the post, having played such an important part in the early days of the group and whose authority was generally respected among national producers? Another more tactical reason for the choice of Pierre Guillaumat was the DICA's determination that one of their "own men", that is, an *Ingénieur au Corps des Mines* should be appointed to the job.⁷⁹

The importance of preserving the profitability of the SNPA is revealed in the note which the Minister of Industry received from Georges Pompidou on the day of Guillaumat's appointment, November 21st, 1965:

"La politique de la SNPA me paraît devoir avant tout respecter la structure mixte de la société et maintenir sa politique de rentabilité fondée sur un équilibre convenable de ses activités entre la recherche, la production, le traitement et la transformation des hydrocarbures. Cette action devra naturellement être coordonnée avec celle du groupe des producteurs nationaux, tout en laissant à la SNPA une grande autonomie dans le choix des terrains de recherche."⁸⁰

The guiding principles of the merger: better circulation of finance, resources and manpower, a common chairman and a degree of autonomy for the SNPA, were endorsed by government and ERAP came into existence in December 1965. Novel aspects of the new organisation were the use of the term *groupe* for the first time

in French law and the creation of an *établissement public* through the suppression of two others of the same type.⁸¹ In addition, the decree instituting the new organisation specified that the chairman must belong to the top civil service. "Both the head of the DICA and Guillaumat wanted to avoid the danger of a political appointment."⁸²

The practical execution of the merger was Guillaumat's immediate task, and according to his wishes, Jean Blancard and Paul Moch were appointed vice-chairmen. Blancard was given responsibility for exploration-production and Moch for refining-distribution. In addition each vice-chairman was to be assisted by a deputy, Jean Meo for Paul Moch and Raymond Lévy for Jean Blancard. Although certain aspects of the merger posed problems, such as the unpopularity of methods used by R.Lévy to combine work teams and protests from the RAP's unions that the new structure was a form of denationalisation, even opponents of the restructuring admitted years later that it was a success.

A further symbol of fusion of the state oil companies materialised a year later, on 27th April 1967. This was the official launching of the trade name "Elf", finally decided upon after nearly six years of deliberations! From now on the state oil group would be a visible and recognised rival to the big international oil companies.⁸³

The state oil companies' expansion reveals many aspects of close collaboration between government and industry. First, ministry officials responsible for the oil industry ensured, by means of legislation, that national oil was sold. Second, they participated in the creation and development of a refining and distribution sector and in securing for it a substantial share of the domestic market. Finally, they worked together in the important merger of upstream and downstream activities. In order that the integration of activities should succeed, the top management of the new group, with the full consent of government, intended making use of substantial

amounts of private capital by means of the SNPA. Thus, although an *établissement public* in name and, by definition, 100% state owned, ERAP was gradually acquiring the character of a mixed economy company.

It should also be noted that the personalities involved in the expansion of the state group, both in the Ministry of Industry and top management of the companies, had similar ambitions for the development of a powerful state oil sector. The fact that they occupied high-ranking posts in the administration and companies meant that they could impose their wishes. It is also apparent that they largely belonged to the Corps of Mining Engineers (*Corps des Mines*) in which Pierre Guillaumat was *patron*. Being in addition one of the founding fathers of the BRP and close advisor to de Gaulle, his influence on French energy policy was enormous. As Feigenbaum suggests in his explanation of why France needed a second oil company, when a "national champion" already existed, namely the CFP:

"It was a foregone conclusion that the high-ranking posts in the new petroleum company would go to members of this corps (Corps des Mines) which had already established a monopoly on positions in the petroleum sector. The establishment and continuing life of two state oil companies therefore provided important advantages to certain elites."⁸⁴

THE FRANCO-ALGERIAN OIL CRISIS

The state oil companies were expanding not only in France. The 1960s were also years of rapid expansion outside the franc zone, in Canada, Nigeria and the North Sea. One of the factors which determined this expansion was the accession to independence of French possessions during the 1950s and early 1960s. While this process was peaceable in the case of most states, the Franco-Algerian war, which culminated in Algerian independence in 1962, was a bitter conflict and posed problems for the group which dragged on for nine years.

Neither de Gaulle nor the top management of the state oil companies had any illusions about the future of French oil assets in Algeria. The fact that the state

companies were beginning to move outside the franc zone from 1959 was, in itself, a sign that their top management foresaw what was coming well before the signing of the Evian agreements of March 1962, which marked the end of the Algerian war and heralded Algerian independence. Péan and Séréni summarise their attitude in the following terms:

"En prévision de l'orage inéluctable on retire autant d'argent que possible d'Algérie et on va le faire fructifier ailleurs, au Canada, au Moyen-Orient, en Afrique noire...En somme, on compte sur l'Algérie pour financer le désengagement algérien des pétroliers d'Etat et reconstituer ailleurs l'équivalent de l'Algérie."⁸⁵

Franco-Algerian relations prior to the 1965 agreements

Before 1962 the exploitation of Algerian oil had been governed by the Sahara Oil Code, promulgated in 1958, and which established a regime distinctly favourable to the French oil companies operating there. According to Jean-Marie Chevalier, the tax system laid down in the Code was much more generous to the producing companies than agreements signed in Venezuela or Iran at the same time.⁸⁶ In fact Chevalier points out that this was the actual intention of the legislators who, in their preamble to the Sahara Code, state that,

"la Métropole qui vise essentiellement à assurer la sécurité du ravitaillement de la zone franc entend marquer ici son désintéressement à l'égard des ressources fiscales procurées par l'exploitation pétrolière du Sahara."⁸⁷

There is further evidence of the value which France attached to Saharan oil. During the Algerian war the French government made several attempts to separate the Sahara *départements* from Northern Algeria. This was strongly opposed by the Front de Libération Nationale (FLN) and it was not until 1961 that the French government recognised that the *départements* actually belonged to Algeria. In addition, although the Evian agreements modified the Sahara Oil Code to the extent that Algeria,

"succédera à l'Etat français dans ses droits, ses prérogatives et ses

obligations de puissance concédante au Sahara pour l'application de la législation minière et pétrolière",⁸⁸

it is significant that, a few weeks before the signing of the agreements, the Code was amended by a series of decrees which considerably reduced the rights and prerogatives of the power granting concessions and extended the tax and financial advantages in favour of companies which held these privileges.

Consequently, at the time of independence, French oil companies operating in Algeria enjoyed far greater advantages than companies in other oil-producing countries. They had complete control of their production costs and of the price at which they sold Algerian crude to their subsidiaries in France, whereas the Algerian government had no means of controlling these two factors influencing tax to be levied on companies. Sales in France of Saharan oil were organised through the *Société pour la Valorisation des Pétroles (SOVAP)*⁸⁹ according to the system of *devoir national*, that is, refiners in France were obliged to obtain part of their supplies from the "franc crude"⁹⁰ available. When they did not produce any themselves, they purchased it from SOVAP at a considerably higher price than on the international market. The organisation of Franco-Algerian relations therefore allowed French companies, established in Algeria, to transfer considerable profits to France in order to develop their refining and distribution network and finance prospection in other countries.⁹¹

The vital document of the Evian agreements relating to cooperation in oil, the *Déclaration de principes sur la coopération pour la mise en valeur des richesses du sous-sol saharien* made provision for the establishment of a technical organisation to develop the wealth lying under the Sahara.⁹² This *Organisme Saharien*(OS) was a council consisting of equal numbers of French and Algerians. On the French side, council members were all top civil servants, well acquainted with oil regulations and allies of the state oil companies. On the Algerian side, members were young, without real experience of oil questions and lacking clear policies, yet determined that Algeria should have an independent oil industry and that its

development should be based on the exploitation of Saharan resources. Although relations were cordial, as the months passed, disillusionment set in among the Algerian members. In their opinion the Sahara Oil Code was an anachronism, a vestige of colonial domination and an obstacle to the rapid, ambitious, economic development they were pursuing. According to one of Babinet's Algerian sources: "Le code saharien? Il laissait le pétrole rigoureusement entre les mains des sociétés concessionnaires."⁹³

As for the OS, its very nature was ambiguous. Was it an instrument of cooperation or a means of protecting the interests of the oil companies? It had been created to "promote the rational development of the wealth lying under the Sahara", yet it did not initiate exploration and its role in reality was purely consultative.

Mistrust and misunderstanding deepened on both sides. This was not surprising, given that the objectives of the different negotiating groups were hardly reconcilable. The Algerians, inheritors of the rights of the *puissance concédante*, were resolved to base their industrialisation on the rapid exploitation of their raw materials and ensure as high taxes as possible. The French government wanted to keep taxes low and to contribute to the expansion of French companies, but within the context of de Gaulle's plan of cooperation with the Third World. The oil companies were still very dependent on Saharan resources but without illusions about how much longer they would last and simultaneously preparing to find replacements.⁹⁴

As early as November 1963, the Algerians requested the revision of the Evian agreements. Their demands included: a majority share in all French oil companies operating in Algeria; higher taxes; state to state cooperation in oil exploration; specific aid towards Algerian industrialisation in return for the possibility offered to France to exploit Algerian oil; a share in the profits of all upstream and downstream branches of the industry; the control of gas from the moment of its extraction.

The French negotiators prepared their line of attack on the basis of these demands, while simultaneously keeping an eye on the fundamental interests of France. These were: security of national supplies through control of production; oil products payable in French francs; the maintaining of a regime which allowed a suitable return on capital invested; the financing of exploration abroad to guarantee diversification of supplies. The more precise objectives of the French negotiators were, on the one hand, to maintain the regime decided in the Evian agreements to the benefit of French oil companies, on the other, to find ways of associating Algeria in the exploitation of their hydrocarbon resources without modifying taxes.⁹⁵

The Wormser Agreements

Actual talks did not begin until May 1964 under the leadership, on the French side, of Olivier Wormser, director of economic and financial affairs at the Ministry of Foreign Affairs. The atmosphere was extremely tense, due to the fact that the Algerians were starting proceedings against the French for their refusal to support the construction of a new pipe-line. Negotiations dragged on for six months with each side reiterating its demands. It was not until the leader of the Algerian delegation was replaced, in November, by Belaid Abdesslam, chairman of the *Société Nationale pour le Transport et la Commercialisation des Hydrocarbures* (SONATRACH)⁹⁶ that the Algerian attitude softened. Olivier Wormser, in his turn, made concessions by recognising that Algeria should have control of its own gas resources.

Although agreements were reached in January 1965, the texts were not signed until July. They were profoundly innovatory regarding the relations between companies and producing countries. While France obtained the guarantee that concessions to companies would be maintained, that is, the possibility of acquiring large supplies of hydrocarbons payable in francs and the right to sell gas at a profit, the French negotiators had yielded on some major points. They were higher taxes for French companies and the agreement to pursue the exploration and exploitation of oil and gas through ASCOOP (Association coopérative), a joint subsidiary owned in equal

shares by SONATRACH and ERAP. French negotiators also agreed a special regime for the exploitation of gas, by which Algeria could buy from the concessionary companies the amounts of gas it needed at cost price. In addition, France consented to considerable financial support for the industrial development of Algeria over a period of five years.⁹⁷ On the Algerian side the Wormser agreements were welcomed as a victory for cooperation. The benefits for Algeria were in fact considerable: higher revenues from the exploitation of its oil and gas and direct participation in their exploration and production.

The Franco-Algerian crisis of 1971

The feelings of victory created by the agreements were nevertheless shortlived. The organisation, established to relaunch Franco-Algerian cooperation in oil activities (ASCOOP), became the centre of conflicts. This association, owned jointly by ERAP and SONATRACH, had inherited all Saharan mining shares previously held by the French state companies. Yet France was the operator in the majority of exploration activities and thus bore the greater part of the cost. Severe disputes arose because the Algerians criticised the French for the inadequacy of their exploration budgets, whereas the French considered that they had respected their financial commitments and were not going beyond them. For the French, the chances of finding important new oilfields in the Sahara were very slim.⁹⁸

Franco-Algerian relations did not improve. At the beginning of 1968 a new set of grievances were levelled at the French. These focused especially on the price at which oil and gas were exploited by the French subsidiaries. They were aimed especially at strengthening the Algerian position in preparation for the 1969 revision of the reference price for crude oil, agreed in the Wormser Plan. Disagreements worsened throughout the year. In 1969 the French state oil group was deprived of a strong supporter in the person of de Gaulle. He left the political stage in April, to be replaced by Georges Pompidou, a less staunch ally and whose relations with Pierre Guillaumat were not especially cordial. On the Algerian side, there was fresh criticism of the ASCOOP budget. In addition, the Algerians were requesting a

revision of the price of 2.08\$ per barrel, agreed in the Wormser Plan for their oil. They considered the price uncompetitive after the closure of the Suez Canal in 1967. This event had raised the freight price of Middle East oil, which had to travel to Europe via the Cape.⁹⁹

The signs of the forthcoming crisis forced ERAP's leaders to seek support and instructions from the French government. In Guillaumat's view, it was the government's role to arbitrate when there were major difficulties between organisations, which were each defending their state's interests. The problem was that ERAP, a state-owned enterprise, was seen by the Algerians as inseparable from the French state, whereas in the French government's view, the distinction was clear.¹⁰⁰ Moreover, the top management of ERAP and certain officials at the Quai d'Orsay took the view that oil prices should not be the only subject of negotiations, but should form part of a complete revision of Franco-Algerian economic relations.

An ERAP memorandum states:

"le gouvernement doit avoir arrêté ses options sur l'avenir à long terme de l'ensemble des relations économiques franco-algériennes et des engagements français dans ce pays."¹⁰¹

Price revision talks, which had begun in the Autumn of 1969, had hardly progressed eight months later. In July 1970 the Algerians, anxious about tax arrears accumulated over a year and a half, unilaterally raised the price of their oil from 2.08\$ to 2.85\$ per barrel.¹⁰²

Paris agreed to reopen negotiations in a much wider context, cultural, economic and social, provided that Algeria delayed imposing new prices. Algeria agreed and negotiations opened on October 5th 1970, but coincided with the beginning of the oil crisis. Therefore, when France agreed the new prices in November, the Algerians demanded a higher price in line with world rates. Negotiations were suspended and Paris resorted to delaying tactics, wishing to await the outcome of the Tripoli and Teheran agreements. In the meantime, the French negotiators had

changed and it was the Minister of Industry himself, François-Xavier Ortoli, who now headed the French delegation. His line of approach, supported by Matignon and the Elysée, was to bring to an end negotiations which threatened to jeopardise all projects aimed at renewing Franco-Algerian cooperation. At the request of the Algerian Foreign Minister, Ortoli agreed payment by the French oil companies of 675 million francs in tax arrears for 1969-1970.¹⁰³

Not surprisingly, Guillaumat contested the payment but was forced to conform to the government's decision. He and the top management of ERAP realised that the nationalisation of French oil assets in Algeria was imminent. They felt betrayed by their major shareholder, as revealed in Guillaumat's letter to Ortoli of 5th February 1971:

"Ouvertement c'est nous surtout que les Algériens attaquent: l'énormité de nos réinvestissements depuis 5 ans, la qualité de mes équipes et les résultats qu'elles ont obtenus comparés à ceux des autres Français, Russes ou Algériens, me donnent bonne conscience et je vois bien que l'ERAP est maintenant attaquée parce que son patron, la France, a la philosophie moins dure et que recevant 80% de sa production des ses oeuvres algériennes, l'ERAP est le meilleur captif. Eh bien! Allons-nous en!"¹⁰⁴

The takeover by SONATRACH of a majority share (51%) in French companies operating in Algeria and the nationalisation of pipelines and natural gas resources was announced by President Boumedienne on 24th February 1971. Although the Algerian government agreed to compensate the French companies to the tune of 550 million francs, they also raised the price of oil to 3.60\$ per barrel and demanded that tax arrears be settled by 6th May. ERAP and CFP suspended their collections of crude oil from Algeria on 19th April and the rift was finalised. The CFP was to remain an important purchaser of Algerian crude, so had to settle its accounts. Guillaumat, on the other hand, refused to give any money to the Algerians. He preferred to pay his debts by forfeiting the nationalisation compensation.¹⁰⁵ It was at this point that ERAP left Algeria and concentrated its efforts on other former French territories and beyond.

The Franco-Algerian crisis was a sad episode, not only in relations between the two states, but between the highest authority in government and the state oil group. A change of leadership in 1969 meant the departure of de Gaulle, who had always been supportive of the state oil companies. His successor, Georges Pompidou, did not particularly favour the state-owned group, being of the opinion that public money should not be spent when the private sector was ready to invest. There was also disagreement between the top management of ERAP and government over policy. The 1965 agreements had been concluded between two states and related to a much wider context than purely oil production. Political, commercial, diplomatic and strategic interests had to be taken into consideration. Inevitably the top management of ERAP felt that government was not looking after its interests. There was a further conflict of views between Pompidou and the state oil group's top management. Pompidou was of the opinion that the French companies should have established closer ties with Algeria, in such a way that the economies of the two were interdependent. However, ERAP's plan, since 1962, had been to invest as little money as possible in a country from which, sooner or later, they knew they would be evicted.¹⁰⁶

Commentators underline different reasons why the efforts to establish new oil relations between France and Algeria failed: intransigence on the part of the top management of ERAP, whereas in the case of the French government, it was indecision, lack of a long term view or failure to understand the strength of Algerian determination.¹⁰⁷ Both Philippe Simonnot and Harvey B. Feigenbaum stress the fact that the existence of a state oil group should have put the French government at an advantage, insofar as the BRP had been created precisely because government wished to be able to influence oil policy.¹⁰⁸ Yet the progress of events in Franco-Algerian oil relations show considerable ambiguity about who was influencing whom or, as Simonnot put it: "Qui décide la politique pétrolière de la France et qui obéit?"¹⁰⁹

INTERNATIONALISATION

The main reason which drove the state oil companies to increase their exploration efforts overseas, both in and outside the franc zone, was their possible eviction from Algeria after its accession to independence and the consequent need to find new sources of crude oil. The need turned into a fight for survival, however, after the departure from Algeria became a reality in 1971. What criteria guided the state oil companies' choice of zones to explore? Before the intractable difficulties with Algeria began, the regions chosen were those where hydrocarbons were plentiful and easily accessible, that is to say, the Middle East. The Franco-Algerian crisis of 1971, however, convinced the top management of ERAP of the necessity of exploring in areas which were also politically safe, such as West Africa, Canada and the North Sea. It was in these regions, but especially the Gulf of Guinea in West Africa, that the group concentrated its efforts after 1971. We should add that, benefitting from France's diplomatic ties with former colonies, ERAP was already obtaining substantial supplies from this region in the late 1960s. We shall examine first the development of the group's oil relations with certain West African states and then their less successful ventures in Iran and Irak.

Gabon

Of the three states in the Gulf of Guinea which contributed to the group's survival after its departure from Algeria in 1971, Gabon has been and remains the most productive in crude oil. In 1975 the group's production from the Gulf of Guinea amounted to 12 million tonnes of which Gabon produced half.¹¹⁰

A series of discoveries in the 1950s by the *Société des Pétroles d'Afrique Equatoriale Française* (SPAEF), a subsidiary of the BRP, convinced Jean Blancard, who had taken over directorship of the BRP and DICA in 1951, that substantial investments should be made in Gabon. These resulted in further discoveries in the early 1960s. As Péan and Sérénis remark: "Dès lors les sceptiques se taisent. Le

Gabon est, à l'évidence, une vraie province pétrolière."¹¹¹

In spite of the high costs involved in exploiting Gabonese oil fields compared with those of the Middle East, the majority being off-shore, the Algerian oil crisis forced the group to increase their investments there. Between 1972 and 1975 the investments of ELF-SPAFA¹¹² (*Société des Pétroles d'Afrique Equatoriale*) more than doubled, while Gabon itself benefited during the same period from the dramatic rise in world oil prices. Income from oil rose from 40 billion francs CFA¹¹³ in 1973 to 203 billion in 1975.

Relations between the Gabonese President, Albert Bernard Bongo, and ELF were complex. While ELF ensured more than half the Gabonese state budget, Gabon provided almost half ELF's resources in crude oil. In the words of Babinet:

"Bongo a parfaitement saisi les moyens de tirer parti de l'imbrication des intérêts français et gabonais: si à plus d'un titre le Gabon ne peut se permettre de relâcher ses liens avec Paris, sa position d'élément-clé de la politique française en Afrique lui laisse en revanche une marge de manoeuvre certaine."¹¹⁴

The close interdependence of French and Gabonese interests was the reason why the *Service de Documentation Extérieure et de Contre Espionnage* (SDECE) and the French army maintained a presence in Gabon. The protection of French interests implied essentially those of ELF.¹¹⁵ Further proof of the complicity which existed between ELF and Gabon was that Gabon, although a member of OPEC from 1973, did not apply the full oil tax recommended by the organisation, only 73% instead of 85%.¹¹⁶ Another aspect of this *fiscalité douce* was a formula devised by two of ELF's directors, by which oil income could subsidise Gabonese industrial development. ELF GABON would be exempt from paying a proportion of corporate tax on condition that the money be reinvested in government approved projects.

Nigeria

Hopes of finding oil in another state of the Gulf of Guinea, Nigeria, materialised due to the efforts of the *Société Africaine de Recherches et d'Activités Pétrolières* (SAFRAP), a joint subsidiary of the BRP and RAP, created in 1961.¹¹⁷

It was after Nigeria gained its independence in 1960 and BP and Shell were obliged to hand back oil permits, that the Nigerian government invited foreign companies to apply for licenses. SAFRAP obtained a 3000m² area in the delta of the Niger and discovered oil there in 1964. Unfortunately for the French state group there was hardly time to benefit from the Obaji oil field. War broke out in 1966 between the Muslim north which represented the majority, and the Ibos, the dominant tribe of the southern Biafran province where the Obaji field was situated.¹¹⁸ SAFRAP, being a French state subsidiary, had to accommodate different parties. De Gaulle and the French government openly supported the Biafrans and even secretly sent a mercenary force to help the Ibos, yet French interests in Nigeria also had to be protected. The top executive of SAFRAP working on the spot had to resist demands from Paris to side openly with Biafra and refute rumours in Lagos accusing France of supporting the mercenary force. In addition, the top management of ERAP in Paris had to deal with repeated demands for financial aid from the Biafrans, in return for exploration permits in their province once the conflict was over. With the surrender of Biafra in 1970, SAFRAP was forced to pay the penalty of France's support of the Ibos; a rise in oil taxes, the loss of a certain number of permits and the handing over of an increased share of its capital to the Nigerian national oil company. The subsidiary was nevertheless compensated in the years to come by the discovery of important reserves of gas. In 1974 SAFRAP became ELF NIGERIA and by 1977 its yield in crude oil amounted to roughly half that of the group's Gabonese production.¹¹⁹

Congo

Elf Congo was created in 1969 by separation from SPAFE which had found the small oilfield of Pointe Indienne in 1957, one of the first of the BRP's discoveries in black Africa. An important off-shore field was discovered in 1969 at Pointe Noire, followed by a succession of others in the early 1970s.

The Congolese had high hopes of rivalling their neighbour, Gabon, in oil production. This was not to be so. Extraction of oil in the Congo was difficult and costly, yet the government wanted rapid increases in production. In addition, the Congo raised its price of crude oil in line with the Geneva agreements of 1972. For ERAP, however, the Congo was a marginal producer and Guillaumat refused to satisfy their demands particularly in the area of oil taxes.¹²⁰

The first oil shock of 1973 made the Congolese oil fields seem more attractive to ERAP. Yet simultaneously, the growing power of the oil-producing states encouraged the Congolese to reiterate their demands for rapid oil production and launch an ambitious programme of industrial developments based on oil income. Production was precarious, however, the regime of Marien N'Gouabi was more radically revolutionary, and Guillaumat, backed by the Elysée, less keen to support a politically unstable state which imposed increasingly high taxes. During renewed negotiations with Paris in 1977, N'Gouabi was assassinated, and it was under Albin Chalandon's chairmanship that they were concluded. The Congolese and African leaders found him a more amenable negotiator than Guillaumat and it was largely due to his efforts that, in 1981, the group was able to obtain a quarter of its crude oil from the Congo.¹²¹

Cameroon

The Cameroon was the last state to join the important producers of the Gulf of Guinea. Although exploration began there in the 1950s, the local subsidiary of the BRP, *Société de Recherches et d'Exploitation des Pétroles du Cameroun*

(SEREPCA), made only modest discoveries in the late 1950s and early 1960s. It was not until SEREPCA joined with Shell in carrying out a geological analysis of the Cameroon by entirely new methods that discoveries increased from 1975. The President of the Cameroon, Ahmed Ahidjo, was, however, extremely distrustful of the destabilising effects of an oil boom, as well as being a very shrewd negotiator. Without joining OPEC, he succeeded in obtaining very favourable terms for the exploitation of Cameroon oil and gas resources. For ELF ERAP the Cameroon was one of those rare states which was simultaneously "low risk" politically, but had important hydrocarbon reserves. In the mid-1980s the group's production in Cameroon amounted to roughly half that of Gabon.¹²²

The Middle East

The French state oil companies ventures in the Middle East, which began in the 1960s, were not as successful as those in West Africa. The reasons were varied: the unstable nature of political regimes in both Iran and Iraq, the group's modest size compared with that of the Majors, already well established there, and the reluctance of the French government to give its full support to the relatively young state oil sector when it was also supporting the CFP. The CFP had a long-standing relationship with the Middle East through the Iraq Petroleum Company (IPC), in which it owned a 23.75% share with four of the Majors, Esso, BP, Shell and Mobil as associates.

Iran

It was shortly after Algerian independence, bringing the prospect of the French state companies' possible eviction from Algeria, that the top management decided, in 1963, to make a large investment in Iran. Iran had enormous reserves of oil which, according to the companies' calculations, might replace Algerian oil, should the Evian agreements be broken. This was one of the national producers' first ventures outside the franc zone and certainly the most costly.¹²³

Anxious to obtain exploration permits, ERAP was at this time proposing more advantageous terms than the Majors to producing countries. These *contrats d'agence*, as they were called, were inspired by Enrico Mattei, director of the Italian oil champion, *Ente Nazionale d'Idrocarburi* (ENI). They involved leaving the control of operations to the producing country, while the foreign company provided financial, commercial and technical services. According to J-M. Chevalier, this strategy was in line with "de Gaulle's vision of the state-owned oil company, which should provide an opportunity to cooperate with the producing countries".¹²⁴ In specific terms, the 1965 Iranian contract included a 50% tax on the reference price of oil, an advance by ERAP to cover exploration expenses, association in equal shares with the National Iranian Oil Company (NIOC), and the price of an "entry ticket."

The Farsi Petroleum Company (association of ERAP, SNPA and NIOC) established for the purpose, was granted extensive zones to prospect, yet its first exploration attempts were unsuccessful. Having lost nothing, the Iranians were not unduly worried and offered ERAP further contracts. They found the French state oil group less greedy than the Majors, being themselves in urgent need of foreign exchange for their extensive industrialisation programme. This required increased oil production in a very short space of time. The Iranians naturally advertised the favourable terms they had secured from ERAP, which momentarily provoked complaints from the international companies, who were critical of France for its demagogic attitude towards the developing countries. In reality, the international companies coveted the exploration zones offered to the French companies. The affair soon died down, however, because Guillaumat in no way wished to arouse the hostility of the international companies, particularly since ERAP suffered by comparison with the size and influence of Shell or Esso.¹²⁵

Having made no major discovery by mid-1968, ERAP formed a mini-consortium, the European Group of Oil Companies (EGOCO), in which they joined with the Italian Azienda Nazionale Generale Italiani (AGIP), Petrofina (Belgium), Hispanoil (Spain),

OMV (Austria) and the SNPA. The consortium signed a *contrat d'agence* with NIOC in 1969 and were given an extensive zone to explore. Over the next three years, both ERAP and EGOCO made a number of major discoveries, including the important gas field of Kangan in 1973. The exploitation of gas is very different from that of oil, since profits are calculated over the long term. Unless there are established openings there is no point in developing a gas field. Consumption in Iran was modest at the time and nothing had been developed for the export of gas, for example, pipelines, liquefaction factories, or fleets of methane carriers. What is more, for the affair to succeed, ERAP and its associates would have to make further investments over a period of possibly ten years. NIOC, on the other hand, was reluctant to make a large financial commitment to the project, but grew more demanding with regard to the foreign group's contribution. Late in 1973, the top management of ERAP tried in vain to obtain an agreement with NIOC on an acceptable regime for the exploitation of gas. Two years later, since there had been no progress in negotiations, a reassessment of ERAP's investments was necessary and the group's disengagement from Iran seemed imminent. The actual document of disengagement was signed in 1976 and, although it was agreed that the group should be reimbursed its investments, ERAP did not fully recoup these until 1985.¹²⁶

Iraq

ERAP's fortunes in Iraq were equally mixed. As in the case of Iran, it was the possibility of the state oil group's eviction from Algeria which prompted Guillaumat's request to de Gaulle to begin negotiations with Iraq in 1967. The early 1960s had not been a very propitious time for foreign oil companies in Iraq. Under the regime of General Kassem, 99.5% of the IPC's mining rights had been expropriated and the Majors had retorted by freezing production. After the Arab-Israeli conflict of 1967, however, during which France had remained neutral, its popularity was high in the Middle East. As well as ERAP, the top management of the CFP, who had not agreed entirely with the policy of the Majors in Iraq, but was nevertheless a partner in the consortium, also wanted to make fresh approaches to Iraq in order to reopen

talks concerning the expropriation of the IPC's mining rights. The CFP was strongly supported by the DICA, since the company's production in Iraq was vital for French supplies.¹²⁷

The scheme devised by the delegation, headed by André Giraud, director of the DICA, who set out for Bagdad in the autumn of 1967, had two major aims: first to reopen negotiations between the IPC and Iraqi government, and, second, to obtain new exploration zones for French companies. The outcome of negotiations and of ERAP's somewhat aggressive attitude was that the state-owned group signed a *contrat d'agence* with the Iraqi National Oil Company (INOC). In reality, the contract was signed four days before the arrival of the delegation in Bagdad, doubtless to the embarrassment of its leaders, although Giraud admitted years later that "Guillaumat's position was understandable: he could see the Algerian crisis coming and his group deprived of resources".¹²⁸

Cooperation between France and Iraq was marked by an exchange of visits between de Gaulle and General Aref, the Iraqi head of state, who was received with great pomp in Paris in February 1968.¹²⁹ It was cooperation not just in the domain of oil. From this moment oil became the currency in a long and fruitful trade in French arms to Iraq. As Péan and Sérénit mention, the link between arms and oil was not official:

"La liaison s'est imposée de manière pragmatique. Au fur et à mesure que leurs recettes pétrolières augmentaient, les Etats producteurs, pour les protéger furent tentés d'augmenter leur puissance donc d'acheter des armes puis des systèmes entiers de défense."¹³⁰

The authors explain how, by the end of the 1960s, France had completed its programme of modernisation in the weapons industry. Supply outweighed demand, and it became necessary to export, in order to reduce production costs and to safeguard employment. Thus, by the end of the 1970s, France was doubly dependent on Iraq and Saudi Arabia "these two countries which provide us with two-thirds of our oil and are the main clients of our weapons industry".¹³¹ What is more,

in the context of the state oil group, there was a further close link between arms and oil, because, in April 1968, Jean Blancard was appointed *délégué à l'armement* by de Gaulle. Although, according to Péan and Sérén, there was no conscious motive behind the appointment, "it would contribute later on to plans in the inextricably linked areas of diplomacy and petroleum".¹³²

To return to the ERAP-INOC contract of 1967, although the 10,000 square kilometre zone, which the state oil group had been granted, seemed promising, its problems in Iraq were only just beginning. In the year following the contract, the Iraqi leadership changed, bringing political upheaval and ERAP was forced to establish contracts with a new set of personalities. The ERAP-INOC contract was severely criticised as outmoded by certain groups. With the mounting tension of OPEC meetings in Teheran at the beginning of 1971, leading to a projected increase in oil taxes for ERAP, relations between the French state oil group and the Iraqi authorities could only deteriorate. Even the discovery of the Buzurgan oil field between 1970 and 1971 did nothing to improve the situation.¹³³

After the visit of Saddam-Hussein, vice-chairman of the *Conseil de Commandement* of the Iraqi revolution, to Paris in 1973, Franco-Iraqi relations improved somewhat. Both the CFP and ERAP were allowed to acquire large quantities of crude oil and Iraq's relations with the IPC were normalised. Guillaumat, however, wanted to limit the risks of ERAP in Iraq. Having delegated its role of general entrepreneur to a subsidiary, ELF IRAQ, he then sold 40% of its mining rights to the Japan Iraq Petroleum Company and, in 1978, withdrew definitively from Iraq.¹³⁴

ERAP's attempts to establish itself outside French territory show that a wide variety of factors can affect a major company's fortunes in its efforts to internationalise. Changes in the political regime of the host state can destroy years of effort, as shown by ERAP's ventures into Iraq. National foreign policy can considerably enhance the prosperity of a state-owned subsidiary abroad. Foreign policy can also run counter to its interests, as shown by the French government's involvement with

the Ibo tribe during the Biafran war. Outside national territory the state-owned company must be more competitive. To obtain exploration zones in the Middle East, where the Majors were well established, ERAP had to offer Iran and Iraq more advantageous terms than their powerful rivals. Internationalisation may mean an end to the support the state-owned company enjoys at home. Unless there is a close and long-term interdependence of interests between the home and host state, as between France and Gabon, the state-owned subsidiary abroad will be treated and have to behave like any private company. For a major oil group, such as ERAP, this implied a constant weighing up of the financial, technical and political risks and making choices on purely commercial terms.

Generally speaking, however, the state-owned oil group's efforts to extend its international activities paid off. It is to the credit of ERAP's top management that, four years after the departure from Algeria, they had reconstituted their reserves of crude oil and returned to the level of production they had achieved before the Algerian crisis, that is 22.5 million tonnes of crude in 1975. Thus, in many ways, the Algerian crisis benefited ERAP, since it forced the group to internationalise rapidly. Its spectacular recovery also gave it a different image in the eyes of government. Even Giscard d'Estaing is supposed to have reacted favourably to ERAP's achievement. In the words of one of Babinet's sources: "Lorsqu'il a vu que nous n'avions pas crevé de l'affaire algérienne, il a commencé à nous considérer d'un autre oeil."¹³⁵

THE CRISIS IN REFINING AND DIVERSIFICATIONS

The oil crisis, which began on 10th October 1973 radically upset the structures of the world oil market. On 14th October, the six producing states of the Persian Gulf unilaterally raised the price of their crude oil by 70% and, on 17th October, the representatives of five big oil companies, BP, Shell, Exxon, Socal, Atlantic Richfield, broke off relations with OPEC ministers. From now on the producing states would make their own decisions, fix prices which would serve as a base for tax and reduce

production. The decision taken on 22nd December to double the posted price of oil meant that, in less than a year, oil prices had quadrupled. A further rise in September 1974 brought oil company profits down by 0.2\$ per barrel. The energy policy of Western countries, based until then on cheap oil, was suddenly under debate.

As far as France was concerned, the effect was a rise in inflation, an upsetting of the trade balance and a slowing down in growth. Obsessed by the need for secure supplies of oil, and convinced that demand would grow, the Director General of Industry and Director of the DICA encouraged the CFP and ELF to increase their purchase of crude oil and conclude long-term contracts with Saudi Arabia. In addition, they introduced energy-saving legislation, which included the fixing of prices of oil products on the domestic market without reference to international prices.¹³⁶ In the refining sector generally, since consumption actually decreased by 4.3% from 1974, these measures resulted in serious overcapacity, from which the French refining industry took a long time to recover.¹³⁷

The crisis in refining

For ELF ERAP there were very specific difficulties. The group's refining sector suffered more than most companies from this rise in crude oil prices and fall in the price of finished products. On account of the Algerian crisis, the group lacked resources in crude oil to feed its refineries and, therefore, had to buy considerable quantities on the international market at the new high price. In addition, ELF's refining industry was less competitive than that of rival oil companies. Even ten years after the creation of the UGP, various weaknesses in the company's organisation had not been remedied. Refineries were old and badly situated and equipment obsolescent. As regards ELF's distribution network, it was only modestly efficient. The state companies were late-comers to the market at a time when the best-situated service stations had been acquired by other companies.¹³⁸

The purchase of Antar was an example of how ELF ERAP unforeseeably burdened itself with refineries at the wrong time. Antar was a well-established private oil company, created in 1928 to distribute oil from the small oilfield of Pechelbronn in Alsace. It had expanded into refining in the mid-1950s, and held 10% of the French distribution market, with a network of well-situated service stations throughout the whole of France. Its weaknesses were that it had no international outlets, no crude oil resources of its own, and had not modernised its refineries. A takeover by ERAP was therefore welcomed by Antar's shareholders. Moreover, the state oil companies, from the early 1960s, had considered buying shares in Antar. Therefore, when Antar's major shareholders, Worms and Rothschild, decided to sell their shares in the firm to a foreign oil company in 1968, Guillaumat expressed an interest. He considered that Antar's activities would complement those of ERAP. The takeover by ERAP of SOCANTAR, Antar's holding company, was finalised in March 1970, and resulted in the following redistribution of shareholders: ERAP 40%, the French State 10%, Caltex 20%, CFP 24%, Pechelbronn 5%. Unfortunately, the timing of the takeover, on the eve of the Algerian nationalisations and oil crisis, could not have been worse. Both events drastically reduced the group's crude oil supplies. In addition, Antar's weaknesses aggravated the already precarious state of ERAP's refining sector.¹³⁹

Diversification into Petrochemicals

The petrochemicals industry was also affected by the oil crisis. Serious overcapacity resulted from a rise in the price of raw materials, running parallel with a fall in the growth rate. In addition, government's fixing of the price of finished products prevented firms from building up their profits.

Among the state oil companies, it was the SNPA which was the main actor in the area of chemicals. Managing as it did the gas field at Lacq, it had at its disposal the by-products of natural gas and sulphur. With the arrival of Saharan crude at the beginning of the 1960s, and the state companies' large scale move into refining, the

SNPA became a petrochemical centre and associated with a number of important firms in the Lyon region, for example, Ugine and Progil.

By the end of the 1960s, however, in spite of the enthusiasm of certain SNPA executives, the firm's chemical activities amounted to no more than about six factories. For these executives there was an urgent need to diversify, in order to take advantage of the growing number of outlets and the invention of new materials. In addition, the industry had to acquire an international dimension. Yet the enormous sums of money involved were daunting. Furthermore, there was little likelihood of a newcomer, such as the SNPA, becoming associated with the large chemical groups, such as Rhône-Poulenc, Péchiney, CDF-Chimie, or of government intervening in its favour.

The only possible association was with the *Compagnie Française de Raffinage* (CFR) which, at the time, was seeking to expand its chemical activities. Negotiated during 1968 by Pierre Guillaumat and Victor de Metz, chairman of the CFP, without the intervention of the supervisory ministries, the amalgamation was concluded in the course of 1971. It was planned that ATO (contraction of Aquitaine and Total*) should bring together the activities of the two firms in petrochemicals, plastics and later packaging and building materials. According to the agreement, the main objective of the new joint company was "to make chemicals into a distinct activity, not simply a downstream activity from oil refining". In addition, there would be strict parity between the two firms in the areas of decision-making, finance, the sharing of information, the use of raw materials and research programmes.¹⁴⁰

Collaboration actually proved more difficult than expected, because of the basic differences of view of the two groups. The SNPA had ambitious plans for moving

* The Compagnie Française des Pétroles (CFP) trades under the name of Total

into the sector of fine chemicals, setting up installations abroad and creating a distinct chemicals branch, not just petrochemical activities as an extension of refining. The CFR, on the other hand, was more cautious and gave priority to petrochemicals as the logical downstream activity from refining.

In spite of these differences, and the fact that the equal status of the two firms tended to paralyse decision-making, the new company progressed well initially. However, a combination of factors, not least the oil crisis, created a new problem: the French market became saturated with petrochemical products at a time when economic growth was declining. From 1976, ATO's turnover in plastics regressed by 35%. Responsibility for the state of affairs has been largely attributed to government, "qui n'a pas su ou voulu arbitrer, obliger les grands groupes à se mettre d'accord pour rationaliser leur pétrochimie, qui a donc suivi un cours passablement anarchique".¹⁴¹

Diversification into pharmaceuticals

It was the first oil shock and the increasing financial burden of the refining and petrochemical sectors which drove ERAP-SNPA to expand into pharmaceuticals and cosmetics. There were other factors also. The creation of ATO had relieved the SNPA of investments in petrochemicals over three years. The firm was therefore seeking non-oil sectors which might attract its considerable cash-flow. In addition, the staff at Lacq, which the SNPA managed, were concerned about the decline of the gas field, the region's main employer and due to be exhausted by 1990. They made public protests, to which the SNPA finally reacted at the beginning of the 1970s, by creating the *Bureau de Développement de l'Adour*, a non-profit-making association bringing together the SNPA and Chambers of Commerce of Tarbes and Pau. The aim of the association was to grant loans to local firms to encourage them to create jobs. Pharmaceuticals were the chosen activity, because they did not demand heavy investment, but did require a large labour force. In addition, involvement in pharmaceuticals conformed to the group's

policy, expressed in the 1973 Annual Report, to diversify beyond refining and petrochemicals, areas which the oil-producing countries themselves would soon seek to develop on their own territory. Furthermore, pharmaceuticals and cosmetics were not affected by oil crises.¹⁴²

The reaction of the authorities was mixed. While the director of the DICA, Michel Vaillaud, showed understanding of the group's need to invest "beyond oil", the Ministry of Finance did not look favourably on the group's departure from its original vocation. The former financial director of the SNPA and later deputy financial director of Elf Aquitaine, Jacques Pavard, outlined the opposition of different groups:

"(Auprès) du Plan et des Finances Valéry Giscard d'Estaing était ministre de la Direction du Budget qui disait, "Si la SNPA a trop d'argent, elle n'a qu'à le reverser à sa société-mère", de la Direction de la Pharmacie qui redoutait une levée de boucliers de ses assujettis, des milieux parlementaires, enfin, de la Direction des Hydrocarbures et de l'ERAP...."¹⁴³

The oil shock of 1973 radically changed the view of certain sections of government and convinced them of the state oil group's need to diversify their investments. A further consideration was the threat presented by foreign firms who, in the 1970s, were rapidly buying up French pharmaceutical and cosmetic companies. It seems that the rate of take-over by foreign firms was 50% in pharmaceuticals, and between 30% and 70% in cosmetics.¹⁴⁴

There were two main reasons for this development. First, foreign firms could often set themselves up in France more quickly by acquiring French firms than by creating a subsidiary. Second, since the price of medicines in France was fixed according to the price of raw materials, and foreign firms were able to import the latter into France in a fairly uncontrolled manner, the foreign companies could make larger profits than French companies.

Therefore, in 1973, under the chairmanship of René Sautier, development director of the SNPA, the *Omnium Financier Aquitaine pour l'Hygiène et la Santé* (SANOFI) was created in the form of a holding company, which acquired completely or bought shares in firms experiencing difficulties. In addition to pharmaceutical firms and laboratories, SANOFI also took over or bought substantial shares in several large perfume companies from 1974 onwards, for example, Yves Rocher, Roger et Gallet, Stendhal. In addition to these, SANOFI, as part of the Société Nationale Elf Aquitaine (SNEA), moved, in the 1980s, into additives and aromas for the food industry, veterinary products and, more recently, biotechnologies.¹⁴⁵

Although the oil crisis weakened ERAP's refining sector, it acted as a stimulus to the group's move to diversify its range of products. As with all forms of company expansion, mergers, takeovers and the purchase of shares in other firms were the means employed. It should be noted that there was little government intervention in these transactions, as shown by the creation of ATO. In fact, diversification took the state-owned group into areas not normally associated with the public sector, and unrelated to its original mission. After the oil crisis, this move had the full approval of government, especially since it meant fewer demands on the public purse. Therefore, as with the internationalisation of the state group's activities, the diversification of its products also meant that it was less subject to government supervision.

TOWARDS LIBERALISM

The early 1970s brought a series of power struggles and ideological conflicts involving the top management of ERAP, the President of the Republic, ministers and *grands corps*, and resulted in some radical changes in relations between the state oil group and government. Traditionally the energy sector was the domain of the *Corps des Mines*. Furthermore, the protectionist nature of the 1928 legislation made oil one area where the Ministry of Finance, stronghold of the *Enarques**,

* Graduates of the Ecole Nationale d'Administration (ENA)

could not impose its policy. According to Péan and Sérén:

"Une lutte farouche et sourde oppose énarques et corpsards. Les premiers ont pénétré en force dans de nombreuses citadelles durant la décennie. L'énergie leur résiste. Le pétrole, les carburants, l'atome leur échappent."¹⁴⁶

The Bodourian affair or *affaire de Marseille* and the findings of the Schwartz report provided a convenient pretext for increasing the power of the Ministry of Finance over the oil sector and liberalising its policies. Both scandals were related, insofar as they revealed not only the malpractices of the oil companies, but raised questions about the mechanism for sharing out public markets - the real cartel - as it related to the 1928 laws and quota system.

According to one of the government commissioners on the board of ELF ERAP: "Fondamentalement tout le système reposait sur l'organisation du marché, c'est-à-dire une sorte d'entente officielle."¹⁴⁷

The Bodourian affair

The affair brought to light the tactics of the eight biggest oil companies operating in France - Elf, Total, Esso, Shell, BP, Mobil, Petrofina, Antar - and particularly their method of sharing out among themselves the most lucrative contracts in order to eliminate small, independent distribution companies who were attempting to enter the market by offering substantial reductions. In 1970 Shell obtained from the Mairie de Marseille a contract for 12000m³ of domestic fuel, although Combustibles et Carburants de France (CCF), a subsidiary of Sagip, had offered it to them at 50 centimes per hectolitre less. Gaston Defferre, mayor of Marseille, was given this information by the Head of CCF. CCF's supplier called a meeting of the eight and recommended the removal of Sagip from the bidding table. Unknown to all present, the director of Sagip, Bodourian, obtained minutes of this meeting.¹⁴⁸ In spite of various attempts to keep the matter secret, Bodourian brought a case in June 1971 on the grounds of "collusion with a view to raising prices, obstruction to the freedom

of bidding and refusal to sell". In July, Giscard d'Estaing ordered an enquiry by the *Direction Générale du Commerce Intérieur et des Prix*, which submitted a report overwhelming in its indictment of the oil market. According to the report, all the main oil products were subject, at every stage in the marketing process, to collusion among the distributing firms, especially the eight most important companies: Shell, Total, Esso, BP, Elf, Antar, Mobil, Petrofina. The entire market was "rigged".

The Bodourian affair marked a change in the system of fixing oil prices. Prices had been proposed by the profession and approved by the DICA. In June 1973 the Ministry of Finance took over responsibility for fixing oil prices from the Ministry of Industry. In future the DICA would propose prices and the *Direction des Prix* would make final decisions. This meant that from now on the oil companies would be under the thumb of the Ministry of Finance. They would no longer be the ones who dictated the price of oil products.¹⁴⁹

In general Giscard d'Estaing was distrustful of the oil companies. As Minister of Finance, according to Péan and Sérén, "He never missed an opportunity to show his preference for the CFP and only with reluctance opened the purse strings for ERAP".¹⁵⁰ In 1971 a grant of 400 billion francs, requested by Guillaumat, was refused and the *Fonds de Soutien aux Hydrocarbures* (FSH) reduced to 200 million francs, as against 250 million in 1970. As already mentioned, Giscard d'Estaing was opposed to the creation of the UGP. Moreover, at the end of 1971, at a critical time for ERAP, he actually campaigned for a single oil group composed of the CFP and ERAP. What is more, the top management of the state oil company was convinced that the enquiry leading to the Schwartz report was "a plot set up by Giscard d'Estaing".¹⁵¹

The Schwartz report

The oil crisis of 1973 had profoundly disturbed public opinion. Not only had the oil-producing countries benefited, but also the large oil companies, who were

suspected of being in league with OPEC. A number of enquiries were demanded in the USA and, in France, Georges Marchais, General Secretary of the Communist Party, asked the *Assemblée Nationale* to set up a commission which would,

"examiner les conditions commerciales, financières et fiscales dans lesquelles les sociétés pétrolières opérant en France approvisionnent le marché français et y assurent la distribution des différents produits pétroliers et sur leurs rapports avec l'Etat."¹⁵²

Julien Schwartz, UDR deputy for Lorraine, became the main inspiration behind the report, and the findings caused a scandal when they appeared in *Le Monde* of November 1974.¹⁵³ Accusations appeared under four main headings:

1. The oil companies pay virtually no taxes

It was revealed that ERAP and the CFP, like the large international companies, used loopholes in the different allowances to which they were entitled (depletion allowance, price fluctuation allowance, consolidated profits system) to avoid paying taxes.

2. The companies falsify information concerning access prices for crude oil

The companies were alleged to refer to theoretical prices, published by OPEC, in order to obtain permission to raise oil prices for the consumer. However, it was revealed that the real price paid to oil-producing countries varied considerably from state to state. According to M.Chenevrier, chairman of BP France, the average price was \$9.42 per barrel, but the *rapporteur* considered it to be \$8.64, which represented a difference of 20m dollars per month.

3. Anticompetitive practices

This accusation concerned the practice of *tables* by which the big oil companies, ERAP and the CFP included, agreed among themselves how the market should be divided up, so as to squeeze out small companies, and how prices should be fixed. The full irony of this practice was that some important public sector companies, notably Air France and CDF, who depended on the oil companies for their supplies, were forced to pay unnecessarily high prices. The ambiguous nature of the relations between ERAP and the administration was pointed out. ERAP had been created precisely because government wished to be able to influence oil policy, for it was acknowledged that the CFP behaved like a private company. Guillaumat reinforced this point to the commission:

"son groupe était entré dans l'Union des Chambres Syndicales de l'Industrie du Pétrole (UCSIP) car (l'Etat voulait) faire en sorte que cette union cessât de représenter uniquement la voix des trusts ayant des filiales en France."¹⁵⁴

However, it seems, according to the *rapporteur*, that, as soon as ERAP became a member of UCSIP, it adopted the same anticompetitive practices as other oil companies.

4. The ambiguity in relations between the administration and oil companies

This accusation was a kind of synthesis of the previous three, namely that, instead of supervising the oil sector, officials at the DICA actually colluded with and protected the interests of the state oil companies. This relationship had been facilitated by the fact that there had always been a movement from top posts in the Ministry of Industry to management posts in public and private companies. Certain names were mentioned, for example, Pierre Guillaumat, who, throughout his career, moved back and forth between the top administration and ministerial posts, to the directorship of different public

corporations: BRP, ERAP, CEA, EDF. Jean Blancard was another example. Michel Vaillaud, particularly, was targeted for having signed agreements, while he was director of the DICA, that subsidies of 120,000F in 1971 and 80,000F in 1972 should be given to a private subsidiary of Schlumberger. When he left the administration in 1973, it was to Schlumberger that Vaillaud was appointed. In other words, if private interests were protected by the body established to protect public interest, how was public interest defined? And how was oil policy decided? To quote Simonnot: "On peut se demander où est l'Etat. Est-il à la Direction des Carburants ou à la Délégation Générale à l'Energie ou est-il à la tête d'Elf-Erap?"¹⁵⁵

For the first time the foundations of French oil policy were openly discussed, with the following questions being asked:- Is the 1928 legislation still of any use? What is the price of this legislation? Are the advantages enjoyed by the two French oil companies justified? In the opinion of the Minister of Industry, Michel d'Ornano, whose liberal views corresponded closely with those of Giscard d'Estaing, the 1928 legislation was superfluous, since the oil crisis was over and prices were coming down. Why, according to the President and his Minister of Industry, should the state oil sector be excluded from the wave of liberalism surging through France?

In the wake of the scandal produced by the Schwartz report, Michel d'Ornano put Maurice Lauré, chairman of the Société Générale at the head of a commission of enquiry into the supplying of oil products to the French market. The commission's task was: "to determine whether the laws which regulated the French oil market allowed the sector to function in the national interest".¹⁵⁶

The Lauré Commission asked the American consultant, Arthur D. Little, to compare the German and French systems of supply. The results were not as conclusive as originally thought. In both countries, over a long period, petrol prices for motorists fluctuated in much the same way. However, heavy fuel used in industry was clearly

more expensive in France, and the Commission recommended that price controls be lifted. Within the Commission itself opinions were divided. Liberal and *dirigiste* elements could not reach a conclusion and the findings were eventually left unpublished. When the *Conseil restreint sur l'énergie* announced its intentions in April 1976, they reflected this same divergence of opinion present in government circles. Simultaneously liberal and *dirigiste* in its intention, the *Conseil* proposed lifting controls on the import and price of heavy fuel oil and naphta and increasing the French companies share of the petrol market. Behind these proposals was the attempt to redress the balance between the Majors and national companies regarding the sale of petrol. Since the Majors enjoyed the lion's share of the petrol market, considerably more lucrative than that of heavy fuel oil and other oil products, the national companies felt disadvantaged and had demanded that a balance be achieved.¹⁵⁷

The laws governing the French oil industry were being questioned, not only in government circles and in the public at large, but also in Brussels. Indeed the 1928 legislation was a contradiction of the Treaty of Rome, which laid down the free trade of products within the Community. For a long time Brussels had been demanding the abolition of this legislation, and especially the removal of quotas on oil products coming from EEC countries. The last dispensation granted by the Commission expired on 31st March 1976. The French were thus obliged to remove quotas on naphta and heavy fuel oil.¹⁵⁸

As far as the state oil group was concerned, the lifting of restrictions on oil products only aggravated difficulties brought on by the oil crisis. Problems in the refining and petrochemicals sectors were acute. In addition, the cost of investments was rising steadily. The exploitation of the Frigg oil field in the North Sea was especially burdensome. Guillaumat was obliged to arbitrate, on the basis of their profitability, among the different projects which the group should pursue. Permits in Canada, Côte d'Ivoire, Columbia and a 25% share in the group's German refinery at Spire

had to be sold off. Furthermore, no effective support was forthcoming from the French authorities, so Guillaumat, in association with four European oil companies (Veba, ENI, Petrofina, CFP), protested strongly to Brussels about the extent to which they were disadvantaged by comparison with the Majors. Unlike the Majors, the five companies were especially handicapped by their lack of access to the cheapest source of oil from Saudi Arabia. Their main objective was to obtain permission to increase prices, in order to swell their autofinancing profits. Their letter of July 1976 to the European Commission therefore contained five demands: transparency in the market for finished products; government intervention to balance the supply and demand of refined products; the pooling of investments in distribution; a reduction in the number of sales outlets and a ban on advertising; aid to exploration by means of loans at reduced rates and tax incentives.

Brussels was vague in its reply and hardly supportive of the European companies' demands. There was no question of freezing refining capacity at its current level, nor of limiting imports. In fact, the Commission again began its protests in December 1977, determined to oblige the French government to abandon all restrictions on the free trade of petrol.¹⁵⁹

Guillaumat was obliged to admit that *dirigisme* was becoming a thing of the past. The logical solution to ERAP's difficulties was to bring in private capital, by merging with the group's highly prosperous subsidiary, the SNPA. The merger would mean not only a clearly pronounced diversification of ERAP's activities, geographically as well as at the product level, but also the introduction of a very different mentality. Péan and Sérén point out what a radical change in direction the merger represented for the state oil group:

"Avec son argent tiré pour l'essentiel du gaz de Lacq et accessoirement de son implantation au Canada, la SNPA apporte à sa maison mère un état d'esprit et une logique très différente. De toutes les filiales du BRP puis de l'ERAP, Aquitaine est depuis sa naissance la plus liée au privé, la moins pénétrée de l'esprit de mission nationale. A la SNPA, on n'est pas là pour trouver du pétrole

mais pour gagner de l'argent. On y raisonne plus en industriel et en chimiste qu'en pétrolier. Sa mentalité "capitaliste" va rapidement contaminer le nouveau groupe Elf Aquitaine".¹⁶⁰

It was not only the merger between ERAP and the SNPA, which marked the culminating point in the liberalisation of the state oil group, but also the appointment of Albin Chalandon as successor to Pierre Guillaumat, due to retire on 5th August 1977. A convinced liberal, Chalandon had the support of Giscard d'Estaing and prime minister, Jacques Chirac. Guillaumat, however, and the top management of ERAP were very much opposed to their choice. Chalandon was not a member of the *Corps des Mines*, nor an *haut fonctionnaire*, having resigned from the *Inspection des Finances* in 1955. This last point contravened the conditions for appointment which specified that the chairman of ERAP must be an *haut fonctionnaire*. So strong was the presidential support for Chalandon, however, that the *décret constitutif* of ERAP was modified to allow the appointment. According to Péan and Sérén: "l'arrivée de Chalandon s'inscrit dans la volonté de libéraliser le secteur pétrolier. Et donc de redéfinir sa mission".¹⁶¹

This section has shown how a combination of factors contributed towards liberalising the policies of the state oil sector in the first half of the 1970s. In broad terms, these were the influence of France's President, world events producing a dramatic change in the conditions in which the state oil group obtained its oil supplies, and supranational pressures.

It is hardly surprising that a liberal-minded president, Giscard d'Estaing, opposed to public sector firms, should be reluctant to support the state oil group. In fact he went further. With his blessing, enquiries made by parliament into the practices of the oil companies, showing that ERAP's behaviour was anything but exemplary, were then used to bring the state oil group into disrepute. Moreover, the revelations of collusion between the DICA and ERAP served as a pretext to increase the control of the rival Ministry of Finance over the state oil group. What is more, Giscard d'Estaing's choice of Albin Chalandon, as successor to Pierre Guillaumat, radically changed the character and role of the state company.

World events, especially the oil crisis, also affected the state oil sector and aggravated the difficulties ERAP faced as a result of the departure from Algeria. In the main, these were higher exploration costs and a drop in demand for oil products, leading to overcapacity in the refining and petrochemicals sectors. If the group was to survive, its top management would have to react decisively. Thus the merger was planned with ERAP's rich subsidiary, the SNPA, more diversified than its mother company and with a large private shareholding.

Difficulties which the French state group faced as a result of the world oil crisis were also affecting European oil companies. It was therefore to be expected that the European Commission should intensify its demands for the removal of protectionist legislation in France, which adversely affected the sale of oil products imported into France from other EEC countries. In this way, a combination of international and domestic factors contributed towards liberalising the French state-owned oil group.

CONCLUSION

The progression from statism towards liberalism in the French oil sector was a gradual process, although the pace quickened after the oil crisis of 1973. While the inter-war years were characterised by some strong government initiatives to create an integrated oil industry under French control, the authorities also hesitated between a free market system and a state monopoly. In the immediate post-war period, it was the necessity of reconstruction, coupled with the Gaullist vision of regaining France's position as a world power, which produced a strong consensus in government that the nation should have an integrated oil industry under state control, on which it could rely for secure supplies of oil and gas. Two main strategies were chosen to achieve this objective; the policy of *pétrole franc* and the creation of a state-owned refining and distribution sector. The legislation of 1928 and close collaboration with government enabled the upstream and downstream sectors of the industry to develop. Close collaboration with government in the mid-1960s also brought about a strengthening of the industry, through the concentration

of its somewhat fragmented parts and the unofficial use of private capital. The creation of ERAP also conformed with national industrial policy, which aimed to create strong industrial groups, capable of competing in world markets. The policy to develop and protect a strong state oil sector which had been consistently pursued for nearly thirty years, was broken, however, by ERAP's departure from Algeria and the oil crisis. From then onwards, government oil policy was less clear. While the state oil group was able to find new sources of crude oil supply through rapid internationalisation, the downstream sectors of the industry suffered from the drop in demand for energy and oil products. Moreover, a new French President, Valéry Giscard d'Estaing, opposed to public sector firms, meant less support than hitherto. What is more, he appointed a like-minded chairman, Albin Chalandon, who gave the state oil group a more commercial orientation. In addition, the difficulties of all oil companies operating in Europe meant that Brussels also insisted on the removal of protectionist policies. Created originally for the specific purpose of providing France with secure supplies of oil, ERAP was becoming a diversified industrial group, whose top management had to choose each project on the basis of its profitability. It was an evolution of which the highest authorities in government approved, since it would mean fewer demands on the state budget.

NOTES

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1. Quoted in Christophe Babinet, *Histoire du groupe Elf Aquitaine* (unpublished), Paris, 1986, p.1.
 2. Pierre Péan and Jean-Pierre Séréni, *Les Emirs de la République*, Paris, Seuil, 1982, p.23.
 3. Quoted in Christophe Babinet, op.cit., p.3.
 4. E. Catta and E. Lemasson, *Le Vote de la Loi de 1928*, Paris, Compagnie Française des Pétroles, Service de Documentation, November 1977.
 5. "Le Monde Pétrolier en 1928", *Pétroles Information* No. 1464, 23 February - 1 March 1978, p.27.
 6. Christophe Babinet, op.cit., p.4.
 7. E. Catta & E. Lemasson, op.cit., pp. 3-8.

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8. Harvey B. Feigenbaum, *The Politics of Public Enterprise*, Princeton, Princeton University Press, 1985, p.38.
 9. Analyse du Projet de Loi (Rapport Charlot) in E. Catta & E. Lemasson, op.cit., pp. 12-14.
 10. Ibidem,.
 11. Harvey B. Feigenbaum, op.cit., p.39.
 12. Harvey B. Feigenbaum, op.cit., pp. 56-58.
 13. The largest international petroleum firms, sometimes called the "Seven Sisters". The present names of these firms are: Exxon, Mobil, Royal Dutch/Shell, Texaco, Gulf, Standard Oil of California, British Petroleum.
 14. Christophe Babinet, op.cit., p.6.
 15. Ibidem,, pp. 7-8.
 16. Ibidem,, pp. 8-9.
 17. Ibidem,, pp. 11-17.
 18. Ibidem,, pp. 19-26.
 19. Ibidem,, p. 28.
 20. Quoted in Péan and Séréni, op.cit., p.46.
 21. Quoted in Christophe Babinet, op.cit., p.29.
 22. Pierre Péan and Jean-Pierre Séréni, op.cit., p.24.
 23. Ibidem, pp. 22-29.
 24. Christophe Babinet, op.cit., p.32.
 25. Pierre Péan and Jean-Pierre Séréni, op.cit., pp. 40-44.
 26. Christophe Babinet, op.cit., p.37.
 27. Yves Delavesne, "Le Bureau de Recherches de Pétrole", *Revue Française de l'Energie*, no.108, May 1959, pp. 338-339.
 28. Christophe Babinet, op.cit., pp. 39-42.
 29. Pierre Péan and Jean-Pierre Séréni, op.cit., p.49.
 30. Amalgamation of the BRP, RAP, and UGP. ERAP came into being on 1st January 1966.
 31. Pierre Péan and Jean-Pierre Séréni, op.cit., p.49.
 32. Christophe Babinet, op.cit., p.42.

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33. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.46.
 34. Yves Delavesne, *op.cit.*, p.336.
 35. Christophe Babinet, *op.cit.*, p.46.
 36. Ibidem, pp. 50-53.
 37. Ibidem, pp. 56-60.
 38. Ibidem, pp. 62-67.
 39. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.193.
 40. Christophe Babinet, *op.cit.*, p.71.
 41. Ibidem, p.68.
 42. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.56.
 43. Christophe Babinet, *op.cit.*, pp. 101-102.
 44. Ibidem, pp. 103-105.
 45. Ibidem, pp. 106-107.
 46. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, pp. 56-57.
 47. Ibidem, pp. 59-60.
 48. Quoted in E. Catta and E. Lemasson, *op.cit.*, p. 6.
 49. Christophe Babinet, *op.cit.*, pp. 111-112.
 50. Ibidem, pp. 114-115.
 51. Quoted in ibidem, p.115.
 52. Ibidem, pp.116-117.
 53. Quoted in ibidem, p. 118.
 54. Ibidem, p. 121.
 55. Joint subsidiary of Standard Oil of California and Texaco.
 56. Christophe Babinet, *op.cit.*, pp. 123-124.
 57. Quoted in ibidem, p. 127.
 58. Quoted in ibidem, p. 129.
 59. Groupement d'Exploitants Pétroliers (GEP).
 60. Compagnie d'Exploration Pétrolière (CEP), created in 1955 and previously known as the Société Nationale des Pétroles du Languedoc Méditerranéen (SNPLM), created in 1941.

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61. Société de Prospection et d'Exploitation Pétrolières en Alsace (PREPA), created in 1952 when the Syndicat d'Etudes et de Recherches Pétrolières (SERP) Alsace was dissolved.
 62. Christophe Babinet, *op.cit.*, p.131.
 63. *Ibidem*, pp. 132-134.
 64. *Ibidem*, pp. 135-138.
 65. *Ibidem*, p.139.
 66. *Ibidem*, p. 142.
 67. *Ibidem*, p. 144.
 68. *Ibidem*, p. 145.
 69. Quoted in *ibidem*, *op.cit.*, p.146.
 70. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, pp. 70-73.
 71. Diana Green, "Industrial Policy and Policy-Making 1974-1982", in V.Wright (ed.). *Continuity and Change in France*, London, Allen and Unwin, 1984, pp. 141-143.
 72. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.77.
 73. Christophe Babinet, *op.cit.*, pp. 149-154.
 74. Quoted in *ibidem*, p. 154.
 75. *Ibidem*, pp. 156-159.
 76. *Ibidem*, pp. 159-163.
 77. Quoted in *ibidem*, p. 161.
 78. Quoted in *ibidem*, p. 162.
 79. *Ibidem*, p. 163.
 80. Quoted in *ibidem*, p. 164.
 81. *Ibidem*, p.165.
 82. *Ibidem*.
 83. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, pp. 74-75.
 84. Harvey B. Feigenbaum, *op.cit.*, p.62.
 85. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.86.
 86. Jean-Marie Chevalier, *Le Nouvel Enjeu Pétrolier*, Paris, Calmann-Lévy, 1973, pp.142-143.

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87. Quoted in *ibidem*, pp. 143-144.
 88. Quoted in *ibidem*, p. 144.
 89. A sort of clearing-house for Algerian crude oil produced by French state-owned companies.
 90. Crude oil produced in the franc zone and therefore payable in French francs.
 91. Jean-Marie Chevalier, *op.cit.*, p.148.
 92. Christophe Babinet, *op.cit.*, p.194.
 93. Quoted in *ibidem*, p.196.
 94. *Ibidem*, pp.197-198.
 95. *Ibidem*, pp.204-207.
 96. SONATRACH was created on 31 December 1963 to manage the construction of a third pipeline. Gradually it became the instrument of Algerian oil policy. See Jean-Marie Chevalier, *op.cit.*, p.149.
 97. Christophe Babinet, *op.cit.*, pp.207-209.
 98. *Ibidem*, pp.214-220.
 99. Jean-Marie Chevalier, *op.cit.*, pp.152-155.
 100. Christophe Babinet, *op.cit.*, p.221.
 101. Quoted in *ibidem*, p.222.
 102. Jean-Marie Chevalier, *op.cit.*, pp.155-158.
 103. Christophe Babinet, *op.cit.*, p.225.
 104. Quoted in *ibidem*, p.227.
 105. Pierre Péan and Jean-Pierre Sérén, *op.cit.*, p.100.
 106. *Ibidem*, pp.92-98.
 107. Philippe Simonnot, *Le Complot Pétrolier*, Paris, Editions Alain Moreau 1976, p.36; Jean-Marie Chevalier, *op.cit.*, pp.169-171.
 108. Harvey B. Feigenbaum, *op.cit.*, p.55; Philippe Simonnot, *op.cit.*, pp.30-38.
 109. Philippe Simonnot, *op.cit.*, p.37.
 110. Christophe Babinet, *op.cit.*, p.242.
 111. Pierre Péan and Jean-Pierre Sérén, *op.cit.*, p.151.
 112. SPAEF was renamed SPAFE when Gabon gained independence in 1960.
 113. 1 FRANC CFA (Centrafricain Franc) = .02 French Francs.

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114. Christophe Babinet, op.cit., p.245.
 115. Pierre Péan and Jean-Pierre Sérén, op.cit., p.152.
 116. Christophe Babinet, op.cit., p.247.
 117. *Chronologie du groupe Elf Aquitaine*, Paris, Société Nationale Elf Aquitaine, Service de Documentation, p.62.
 118. Pierre Péan and Jean-Pierre Sérén, op.cit., pp.155-156.
 119. Christophe Babinet, op.cit., pp.252-256.
 120. Ibidem, pp.256-258.
 121. Pierre Péan and Jean-Pierre Sérén, op.cit., pp.159-162.
 122. Christophe Babinet, op.cit., p.261.
 123. Ibidem, p.263.
 124. Jean-Marie Chevalier, "L'Energie", in Bertrand Bellon and Jean-Marie Chevalier (eds.) *L'Industrie en France*, Paris, Flammarion, 1983, p.71.
 125. Christophe Babinet, op.cit., p.263-267.
 126. Ibidem, p.270.
 127. Ibidem, pp. 271-273.
 128. Quoted in ibidem, p.275.
 129. Pierre Péan and Jean-Pierre Sérén, op.cit., p.111.
 130. Ibidem, p.131.
 131. Ibidem.
 132. Ibidem, p.132.
 133. Christophe Babinet, op.cit., pp. 276-278.
 134. Ibidem, p.280.
 135. Quoted in ibidem, p.242.
 136. Ibidem, pp. 280-282.
 137. Pierre Péan and Jean-Pierre Sérén, op.cit., p. 183.
 138. Christophe Babinet, op.cit., p. 283.
 139. Ibidem, pp.284-287.
 140. Ibidem, pp. 285-292.
 141. Quoted in ibidem, p.294.

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142. Ibidem, pp.295-297.
 143. Quoted in ibidem, p.297.
 144. Ibidem, p.298.
 145. Ibidem, pp. 298-300.
 146. Pierre Péan and Jean-Pierre Séréni, op.cit., p.166.
 147. Quoted in Christophe Babinet, op.cit., p.306.
 148. Pierre Péan and Jean-Pierre Séréni, op.cit., pp.168-170.
 149. Ibidem, p.172.
 150. Ibidem, p.166.
 151. Ibidem, p.175.
 152. Quoted in Philippe Simonnot, op.cit., p.9.
 153. Ibidem, pp.18-23.
 154. Ibidem, p.21.
 155. Ibidem, p.22.
 156. Pierre Péan and Jean-Pierre Séréni, op.cit., p.175.
 157. Ibidem, pp.176-178.
 158. Ibidem, p.179.
 159. Ibidem, pp.184-186.
 160. Ibidem, p.202.
 161. Ibidem, pp.181-183.

CHAPTER 2

CONFLICT AND COLLABORATION:

THE INSTITUTIONS AND PRACTICES OF COMPANY POLICY-MAKING

During the decade 1976-1986 company policy-making for the Société Nationale Elf Aquitaine (SNEA) was a complex affair. The problems stemmed from the two-fold nature of the company. On the one hand, being a largely state-owned group, its policies were expected to conform to broad government objectives. On the other, its nature as one of France's major, diversified, industrial groups with important international concerns meant that it wished to behave like any large private multinational.

Furthermore, the decade 1976-1986 marked a turning-point in the government-company partnership. 1976 was the year of the first denationalisation of the *Entreprise de Recherches et d'Activités Pétrolières (ERAP)*, *établissement public*, when it merged with its rich, privately-oriented subsidiary, the Société Nationale des Pétroles d'Aquitaine, creating the Société Nationale Elf Aquitaine (SNEA). In this way, ERAP's top management, backed by their supervisory ministers, aimed to make good the soaring costs of their group's exploration activities and losses of its refining sector. 1986 marked the first official, partial privatisation of the SNEA, motivated by the Chirac government's decision to reduce its debts and budget deficit and by Elf's need to increase its own financial resources through access to capital markets. 1986 was also the year of the Single European Act which relaunched European integration in preparation for the Single Market of 1993. The trends apparent throughout the decade were: successive governments' gradual disengagement from their commitment to the state oil sector, the increasing market orientation of the Elf group and the firm rather than government assuming the role of senior partner.

Our approach will show that policy-making for the SNEA took place at and between two levels; the government and the company level. At the level of government, there were a number of institutions involved in policy-making for energy and, more specifically in our case, for oil. It was these bodies which set the broad objectives within which the company operated. In addition, since the Elf group was largely state-owned and therefore an instrument of government policy, there were certain established structures and powers enabling government officials to intervene in and control company affairs. We shall show that these structures were used by government both to limit company action and to cooperate with the firm's top managers. Although it appears that company action was restricted by a host of institutional arrangements and that the legal framework treated the company as if it had to be watched, governments did not manage state-owned firms. On the contrary, they depended on them. A major company's expertise, its capacity to create wealth, and the similar background of both government and company top personnel were factors which in practice gave a state-owned company the freedom to determine its own policies. Moreover, the divisions within and between government institutions and the international character of our case-study were further factors which enabled it to exploit its creator, the state.

The chapter is divided into three sections. Section I considers how government affected the oil industry by examining the role played by the different government institutions responsible for energy policy. This section also underlines the impact of external events on French oil policy and on the policy process at government level. Section II analyses certain structures and powers emanating from the institutional framework which enabled government to control company affairs. Although these controlling mechanisms were also aimed at information-sharing and collaboration, they could be applied if necessary. The government's intention was, after all, to use a state-owned company to solve national problems. Section III focuses on the practices of company policy-making. While government officials could at times prevail over the firm's top managers, the latter, in their turn, had effective means for determining their own policies.

GOVERNMENT AND INDUSTRY: THE FRAMEWORK OF PUBLIC POLICY-MAKING

Oil forms just a part of French energy supplies, so factors, such as the quantities needed for the future, the price at which oil is bought and sold, the provision of refineries and distribution points may be coordinated with similar objectives for other sources of energy. During the decade with which we are concerned (1976-1986), the task of coordination in such a strategic area as energy was in the hands of certain powerful government institutions: President and Prime Minister, Ministries of Industry and Finance, the Planning Commission and the large energy corporations acting as informants to government. Other institutions played a more intermittent consultative or investigative role: Parliament, the *Cour des Comptes* and the *Conseil d'Etat*¹. We shall show that it was the broad economic and political decisions of these institutions which shaped the choices available to France's state oil sector.

French oil policy was not static. France always depended heavily on imported oil, so events in the oil-producing countries had a dramatic influence on national energy policy. In fact, one of the most striking features of French energy policy was the switch from cheap to expensive oil in the early 1970s, as a result of the oil crisis². In examining the role of institutions concerned with defining objectives for energy supplies, we shall show the impact of this event on government actors.

At the highest level, responsibility lay with the President of the Republic. Although he rarely intervened, his influence was potentially very powerful. Successive presidents of the Fifth Republic have considerably strengthened the functions of the presidency, making the person who holds the office the effective head of the executive³. It is the President who appoints the Prime Minister and, at his proposal, all the other ministers. Moreover, heads of public sector companies figure among the many key appointments which the President makes. Although appointed by the Council of Ministers, they are in practice the President's choice. The President's power of patronage can thus be used to place his own supporters in positions of

influence and reward the faithful. In this way, the President can influence the development of government institutions.

Another feature of the Fifth Republic is the growth of the presidential domain. The first four presidents added further spheres of decision-making to those traditionally attributed to the presidency⁴. With regard to energy policy, successive presidents differently affected the fortunes of the state oil sector. For de Gaulle, secure supplies of oil formed part of his vision to turn France into a vigorous, independent economy with firms capable of confronting international competition. He therefore gave his support to the policy of oil exploration on French territory or exploration that could be paid for in French francs and to the growth of an integrated state-owned oil group. With the nationalisation of Elf Erap's Algerian assets in 1971 and the collapse of the policy of *pétrole franc*, however, the group was forced to behave like any other multinational. These developments were reinforced by the accession to the presidency of Giscard d'Estaing, ideologically opposed to state-owned companies. It was in line with the more liberal policies he advocated that he approved the ERAP/SNPA merger of 1976 which gave the group a more private and diversified orientation. The Mitterrand presidency influenced the character and development of the Elf group in a different fashion. The nationalisation programme and restructuring of industry between 1981 and 1983 were inspired by the President's concern about the de-industrialisation of France and his ambition to use the state sector in renovating the economy. We shall explain in Chapter 5 how, in the restructuring process, Elf's chemical branch was chosen to impart an impetus to other French chemical firms.

Although the intervention of the Prime Minister, who is theoretically responsible for the management of government affairs, is limited to "problems of daily life," as principal executive officer of the President, one of his main roles is to exercise a general influence in the implementation of presidential policies⁵. A case in point was Raymond Barre who was specifically appointed by Giscard d'Estaing in order

to liberalise the economy. In accordance with the President's broad guide-lines, Prime Minister Barre began to free price controls on many oil products in order to make the oil companies more efficient⁶. Moreover, as head of the administration, the Prime Minister is responsible for its smooth running so has an important function as arbitrator in conflicts. This role is revealed in events surrounding Elf's diversifications in 1979-1980, discussed in Chapter 5 (see pp. 237-239). In addition, according to the 1958 Constitution, the Prime Minister has the power to propose the dismissal of ministers and top-ranking civil servants. This power was used by Prime Minister Pierre Mauroy in 1983 in not renewing Albin Chalandon's term of office as chairman of the SNEA. The animosity which existed between Chalandon and successive ministers of industry was well known. A former company secretary of the SNEA gave the reasons why Chalandon's *mandat* was terminated.

"Il (le Premier Ministre) avait été excédé de l'attitude arrogante et méprisante de Chalandon vis-à-vis du ministre (de l'Industrie) car Chalandon ne voulait connaître que le Président de la République et le ministre disait: 'C'est mon métier de ministre, c'est moi qui représente l'Etat'".⁷

The Ministry of Industry was the chief supervisory ministry of the energy companies, their technical *tutelle* and responsible for the elaboration of sectoral policies. Between 1976 and 1986 the interests of the oil sector were supervised through the *Direction des Hydrocarbures* (DHYCA), a division of the *Direction de l'Energie et des Matières Premières*, one of the key departments of the Ministry of Industry. In the words of Feigenbaum,

"the DHYCA serves as a conduit of policy imperatives to industry and as a repository of technical advice to government".⁸

It was here that import licences, new refineries and distribution points were decided. There was consultation with DHYCA officials regarding diversification projects and exploration in France and abroad. National oil companies had to submit their long-

term plans to the DHYCA as well as information on short-term management. The Ministry's contact with the oil industry was continuous. Its representative, the *Directeur des Hydrocarbures*, had a seat on the board of national companies (ERAP, SNEA, CFP) and regular meetings with top management on the subject of prices and long-range policy.⁹

In Chapter 1 we showed how successive heads of the Direction des Carburants (DICA), predecessor of the DHYCA, were committed to the protection and expansion of the state oil group. Inspired by de Gaulle's ambition that France should be independent in energy supplies, DICA officials, beginning with Pierre Guillaumat, adopted a policy of concentration on a single supplier (Algeria). Then, armed with the licence and quota system of the 1928 laws, they acquired for the State oil group a substantial share of the processing and distribution markets. While de Gaulle's influence was strong or perpetuated by DICA officials who shared his view of France, the state oil sector developed at the expense of foreign oil companies. This policy of protection collapsed however, with the departure of de Gaulle, the nationalisation of French oil assets in Algeria, the world oil crisis and the accession to power of more liberally-minded presidents*. The quota system and the 50% share of the market reserved for national companies were gradually abolished and prices progressively freed. From then onwards, financial factors played as important a part as technical factors in the life of the state oil group, increasing the influence of the Ministry of Finance over its activities.

The Ministry of Finance, responsible for the nation's finances, occupies a dominant place in economic policy-making. Its two main centres of power are the Treasury and Budget Divisions. The Treasury is in charge of France's monetary policy, the

* The appointment of Industry Minister, René Monory, in 1977 was a manifestation of the economic liberalism of Giscard d'Estaing and Prime Minister Barre. Monory dismantled much of the oil sector's protectionist legislation.

management of public receipts and payments, public borrowing and the loan of public funds for public and private investment. The Budget prepares the annual state budget on the basis of estimates received from the ministries and supervises its implementation. Since the guiding principle of the Ministry of Finance is a balanced budget, or that public expenditure must not increase faster than the national product, the prolonged recession has tended to strengthen the hands of the finance officials at the expense of spending ministries. Analyses of the steps in the preparation of the budget reveal the preeminence of the Ministry of Finance. Spending ministries are put on the defensive in the tough negotiations which take place between them and the Budget Division.¹⁰

The state oil sector was one which successive Ministers of Finance refused to subsidise from the mid-1970s. On the contrary, they used the wealth of state-owned oil firms to reduce public expenditure. For example, as shown in Chapter 6, (see pp. 246-251), the ERAP/SNPA merger of 1976, allowing private capital to assist an ailing *établissement public*, was strongly supported by the Finance Ministry. Not only would this merger relieve the Treasury of contributing to costly oil exploration in new zones, but also of making good the losses of the state oil group's refining sector. The principle of cutting public expenditure was also obvious throughout the 1980s in the economic policies of both Socialist and neo-Gaullist governments.¹¹ By means of nationalising and restructuring certain large industrial groups in 1981-83, the Socialists aimed to make rich public sector firms, such as the SNEA, pay for the losses of poorer ones, such as Pétrobrás. Moreover, the chief motive behind the Chirac government's privatisation programme of 1986, in which it sold 11% of the state's share in Elf, was to use money from the sale of state holdings to pay off government debts.

The Ministry of Finance also influenced public firms' major decisions to the extent that one of its departments, the Office of Prices and Competition, was the agency responsible for industrial prices. In the context of the state oil sector, responsibility

for the pricing of oil products was transferred from the Ministry of Industry to the Ministry of Finance in 1973 in the wake of the *affaire de Marseille* (see Chapter 1, pp. 96-98). In the words of Péan and Sérénis:

"En juin la Rue de Rivoli reprend à la Rue de Grenelle un instrument déterminant de la politique pétrolière. La Direction des Carburants proposera des prix, la Direction des Prix décidera en dernier ressort. Les pétroliers sont désormais continuellement dans le collimateur des énarques. Ils ne feront plus la loi."¹²

From then onwards, the state oil group became a victim of the Ministry of Finance's price index considerations.

With successive governments' commitment to less *dirigisme* and pressure from the European Community from the mid-1970s, however, restrictions on oil prices were gradually lifted. In 1976 restrictions on heavy fuel oil and naphta were relaxed as part of a general lifting of restrictions on industrial prices, and between 1980 and 1986 price controls on diesel, domestic fuel and petrol were freed.¹³

The state oil group's relations with the Ministry of Foreign Affairs also evolved. While de Gaulle, who took the initiative in international affairs, was in power, oil policy was a part of foreign policy. We noted in Chapter 1 that the top management of ERAP, aware of the risks posed to its assets in the newly independent Algeria, sought fresh production zones from the mid-1960s. The state-to-state contracts which they established with Iran, Iraq and West Africa owed much to French foreign policy and the Quai d'Orsay had a vital role to play in negotiations. Between 1976 and 1986, however, contracts were determined purely on commercial grounds and the Ministry's role was no more than consultative. According to a top-ranking official, the group always enjoyed considerable autonomy in the area of foreign affairs:

"On n'a pas tellement le sentiment que le Quai d'Orsay a toujours été sur le dos de cette maison. Il l'était parfois mais ç'a été réaffirmé à maintes reprises publiquement que le groupe était libre d'aller dans n'importe quel pays."¹⁴

Effective contacts between the group and the Ministry of Foreign Affairs were nevertheless important. To this end, the Quai d'Orsay always had a representative on the corporate board of the SNEA. Moreover, according to the above-mentioned SNEA official, Pierre Guillaumat considered it essential to have an effective contact at the Quai d'Orsay who could explain the company's point of view.

The Planning Commission is another institution whose influence has declined since the decades after World War II. It was created as a centre of public and private collaboration to coordinate investments, avoid overproduction and resolve conflicts in the formulation of long-term policy, but studies of the planning process show that it had little effect on energy policy from the early 1960s onwards. First, there were conflicts inherent in the planning process. In the energy sector, for example, the formulation of long-term policy was necessary because of the high cost of investments, yet the forecasting of how supply and demand would evolve over the next ten years was virtually impossible. In addition, the planning process involved finding a consensus between the impartial long-sighted planners and powerful political and economic groups who were pursuing short-term considerations in their own interests. There were also factors specific to energy which contributed to the demise of planning. For example, in the Fourth and Fifth Plans, 1960-1970, there were important discrepancies between forecasts and outcomes. This resulted from underestimated targets in oil consumption and overestimates in coal. The discrepancy was caused by the failure to assess underlying trends, in particular, the modernisation of industry by means of cheap oil. It demonstrated, moreover, that it was pressures originating outside the Plan and not targets fixed by the planners which were important. A further area in which the planning process was seen to fail was that, in the Sixth Plan, recommendations emanating from the Energy Commission reflected the balance of power of institutions represented on the

Commission, in particular the weak positions of the coal and gas industries, by comparison with the strong nuclear lobby.

In preparation for the Seventh Plan, 1975-80, Giscard d'Estaing created the *Conseil Central de Planification* in 1974 to improve the means by which government could intervene in the elaboration of the Plan. The *Conseil*, consisting of President, Prime Minister, Minister of Finance, Minister of Employment, Planning Commissioner and other competent ministers met each month at the Elysée. In reality, for the Seventh Plan, proposals came from the industries, on the basis of which a coherent energy balance was worked out by the *Délégation Générale à l'Energie* (DGE) and the *Direction des Carburants*. These departments then fixed objectives identical to those issuing from the *Conseil Central de Planification*. In that they showed an enormous nuclear target, the process could be described as collusion between *Electricité de France* and the DGE. As a result, there was widespread scepticism among many of those involved vis-à-vis the planning process which was seen as arbitrary and illogical.¹⁵

There were other factors which contributed to the decline of planning. Since the mid-1960s companies had made their own plans. Moreover, oil companies, exposed by their very nature to keen international competition, were obliged to make plans which differed substantially from the national plan. Oil companies were also notoriously averse to revealing their strategies in public, yet the open discussion of objectives was one of the chief requirements of the planning process.¹⁶ In spite of the importance attached to the Plan by President Mitterrand, a former vice-chairman of ERAP confirmed that indicative planning had little effect on the SNEA's development:

"L'expérience prouve que la définition d'une stratégie dans un document est quelque chose de très difficile, tout simplement parce que plongé dans la concurrence internationale un groupe hésite beaucoup à exprimer sa stratégie. D'autre part, il ne souhaite pas non plus la figer puisque par pragmatisme on peut avoir plusieurs stratégies. Il y en a un qui réussit et d'autres échouent. Par

conséquent, on s'adapte en permanence.. . Comme, en plus, des centaines de personnes participent à son élaboration, on est à peu près sûr qu'on ne peut rien y mettre de sérieux."¹⁷

The extent to which Parliament can affect public policy has also weakened during the Fifth Republic. Parliament's chief means of intervention is in its examination of the annual budget. This work is carried out by *rapporteurs*, members of the Finance Committee of the National Assembly. The budget for the coming year is contained in the proposed Finance Law, showing forecast expenditures for each ministry and is submitted to the Finance Committee in early September.¹⁸ For reasons both constitutional and extra-constitutional the financial powers of Parliament have been severely curtailed. For example, in the budget debate the authority of parliament is restricted to making changes which will increase public revenue or decrease public expenditure. In addition, the government is prepared to yield only a tiny fraction of the budget (0.05%) to deputies seeking to please their electorate. Furthermore, the government can and does alter details of expenditure after the budget has been voted.¹⁹

Nevertheless, Parliament does have the right to investigate the affairs of public corporations through its ad hoc committees. More precisely, the *rapporteurs*, assisted by the *Cour des Comptes*, can follow the use of money, make investigations and see any documents relevant to the budgetary control of ministries and public enterprises attached to ministries.²⁰ The Schwartz report of 1974 (See Chapter 1, pp. 98-101), revealing the malpractices of the state oil companies, was the result of one such ad hoc committee. Wright notes, however, that Parliament's prerogative as 'exposer of scandals' was only rarely and timidly used.²¹

In addition to Parliament, there are two other important bodies which keep an eye on the activities of public sector companies. The *Commission de Vérification des Comptes des Entreprises Publiques*, attached to the *Cour des Comptes*, audits the accounts of public sector companies under its jurisdiction and reports on the

efficiency with which they are managed. The reports are then sent to the supervisory ministries, to the companies concerned and to Parliament. Lucas notes that:

"As public enterprise is increasingly required to incorporate political guidelines into its decision-making, for example, to reduce unemployment, to conserve foreign exchange, and a host of other conditions, so its activities open themselves to criticisms from the Commission. The Commission's responsibilities for control conflict with controls imposed by other institutions."²²

The *Conseil d'Etat* supervises the French system of administrative courts. Here complaints of procedural maladministration are heard and ruled upon. Its role was particularly important in the allocation of import licences (A3 and A10 authorisations). The DHYCA decisions on the quantities of crude oil, which it allowed each company to import, were subject to appeal before the *Conseil d'Etat*. Any cartel where prices were fixed created an incentive for participants to jockey for the maximum possible share in order to maximise profits. Thus charges of discrimination in the allocation of quotas were not uncommon. In this context the *Conseil d'Etat* provided machinery for arbitration of disputes among cartel partners.²³

Last but not least, the top managers of the energy companies are essential participants in public policy-making. While the broad policies of government institutions influence the choices available to public sector companies, we shall see, in the next two sections of this chapter, that the mechanisms allowing government officials to intervene in the activities of state-owned firms enabled company leaders, in their turn, to influence public policy. Insofar as a major industrial group is a repository of up-to-date technical and financial expertise, top managers, as informants of government, are in a very powerful position.

This review of the institutions concerned in the formulation of oil policy reveals two important and related strands: public policy-making is a complex affair because of the number of actors involved; French oil policy, as well as the process by which that policy was formulated, underwent a profound evolution in the 1970s and 1980s.

In all areas of public industrial policy-making a proliferation of institutions is involved. We have seen that decision-makers vary considerably in the influence they can exert. Moreover, each has a particular function which invariably conflicts with that of another actor. There are in French public policy-making traditional areas of conflict: the President aims to appoint his own supporters; sections of parliament oppose the executive; the Ministry of Finance resists the demands of spending ministries, while its pursuit of short-term goals clashes with the long-term aims of the economic planners; international events constrain national decision-makers; public enterprises must cooperate with government, but have also been obliged since the late 1970s to become progressively more independent of the authorities.

As regards French oil policy, the dramatic change in the world oil scene after 1973 simultaneously transformed the balance of power between government decision-makers and deepened the divisions between them. While de Gaulle was in office, his vision to restore France to its position as a world power gave a certain coherence to industrial policy and there was a consensus between President, ministries and planners that a French state oil industry should be supported and developed. De Gaulle's departure coincided with the loss of French oil company assets in Algeria and the world oil crisis. From then onwards, institutions originally supportive of the state oil group (President, Prime Minister, minister of Finance) emphasised the need for companies to be more self-reliant and competitive. High crude oil prices on the international market posed serious difficulties for the French state group's refining sector and the necessity to be cost-effective increased the influence of the Ministry of Finance in the decision-making process. Moreover, the

decision of successive governments to develop other sources of energy, which were not exposed to political instability abroad, set the various sectors of energy against one another. For example, from the mid-1970s nuclear energy was supported at the expense of oil. As a result, from then onwards, a government policy for oil became less coherent and decisive. Furthermore, from the beginning of the 1980s, public sector firms were being made to serve purposes for which they were not originally created. Consequently, tensions between company leaders, and supervisory ministers became more acute. A later development was that the trends towards greater internationalisation, deregulation and privatisation from the mid-1980s meant that government institutions had less influence in the policies of the state oil group.

MACHINERY FOR GOVERNMENT CONTROL

During the decade with which we are concerned, the state was the major shareholder in the SNEA, and as such it watched over what the company was doing. Consequently there were certain established mechanisms by which governments could intervene, if necessary, in the activities of this public sector firm. Lucas emphasized the point that it was the *a priori* controls which were the most important.²⁴ These were the power of appointment, the presence of civil servants at many levels of the enterprise and the authorisation of financing measures. The present section examines these structures within the context of the SNEA. It focuses on the President's power to appoint and dismiss company chairmen, the rights and duties of the government commissioners and the role of the holding company, Entreprise de Recherche et d'Activités Pétrolières (ERAP), responsible for the SNEA's financial health. In examining these established structures, we shall also attempt to clarify the nature of government control.

The Power to Appoint and Revoke Appointments

We have already shown that the President's influence over the state oil sector was significant. Through his power to appoint to the chairmanship of public sector companies the President, in the words of Lucas, "tries to ensure that the man of his choice takes the enterprise in the direction he requires".²⁵ Should conflicts arise, the revoking of an appointment is as effective a weapon as the power to appoint. As J. Hayward points out with a quotation from Giscard d'Estaing,

"The power to appoint is virtually the only influence that one can have over the policy of these enterprises as the justification for shortening the chairman managing director's term of office to three years".²⁶

A review of the three chairmen of Elf over the decade with which we are concerned (1976-1986) shows how the President's power of patronage was applied. In 1977 Pierre Guillaumat retired from the chairmanship of the SNEA. He had been principal advisor to de Gaulle on energy and had directed the formation and growth of France's state oil sector for almost thirty years. As stated in Chapter 1, (see p. 50), he was not only a family friend of de Gaulle but, like de Gaulle, believed in the strategic importance of oil. Moreover, he belonged to a group of like-minded men in the post-war period who aimed to make France into a vigorous, independent economy and restore it to its position as a world power. A 'national oil policy' which implied the creation and development of an integrated oil industry under French control was a prerequisite for turning France into a major industrial power. Appointed Director of the DICA by de Gaulle in 1945, Guillaumat also took charge of the BRP, the government agency created by himself and close collaborators in order to implement a 'national oil policy'. The great structural developments in the state oil industry were engineered by Guillaumat or by men whom he had placed in key positions while de Gaulle was in power. For example, the creation of a 'national champion', ERAP, in 1966 by merging the state oil sector's upstream and downstream activities, was initiated by André Giraud in his position as Director of the DICA.

After the departure of de Gaulle and collapse of the policy of *pétrole franc*, ERAP had to survive in a more liberal and less supportive environment. Nevertheless, before his retirement, Guillaumat ensured the future prosperity of the group by overseeing the merger between ERAP and its privately oriented subsidiary, the SNPA.

The appointment of Albin Chalandon, Guillaumat's successor to the chairmanship of Elf in 1977, also demonstrates that the person chosen to head a public sector group had to be sympathetic to the views of the President. Giscard d'Estaing acceded to the presidency in 1974. As a liberal, he was opposed to public sector companies and, not only planned a merger between Elf and the CFP²⁷, but fully approved the partial privatisation of ERAP in 1977.²⁸ Like Giscard d'Estaing, Chalandon was an *Inspecteur des Finances*, although he had resigned from the top civil service in 1955. His strong aversion to all kinds of state intervention in economic life and his former career in banking and business fitted him well for instilling into the state oil group a more market orientation. We explain in Chapter 6 (see pp. 251-258) how his chairmanship considerably reinforced its market image.

Another version of the circumstances in which Chalandon was appointed to the chairmanship of Elf was that he had been promised the post by Jacques Chirac.²⁹ This was in return for running the secretariat of the UDR from 1974 until Chirac took it over in 1976, after resigning from the premiership. During the presidential campaign of 1974, Chalandon had also shown himself a strong supporter of Giscard d'Estaing in the second round. When Chalandon applied for the chairmanship of Elf, Chirac therefore strongly supported him and Giscard d'Estaing would not go against the promise made by his former prime minister. Actually Chirac and Giscard d'Estaing imposed Chalandon on the Elf group against the wishes of Guillaumat and the *Corps des Mines* clan. They went as far as to change the constitution of Elf (which stated that the chairman had to be a top civil servant) to ensure Chalandon's appointment. As already mentioned, Chalandon had resigned from the *Inspection*

des Finances in 1955.

The President's power of patronage also enables him to revoke appointments. According to a top executive in the oil sector, the criteria for maintaining and terminating the chairmanship of a public sector company were as follows:

"La doctrine, c'est que le gouvernement nomme un patron responsable et au fond, il lui laisse une très large autonomie et il le conserve s'il fait bien son métier. S'il y a un heurt sur une question politique grave, si l'Etat considère que le refus de la part du président est contraire à la politique, à ce moment-là il ne le renouvelle pas comme président, il met fin à ses fonctions."³⁰

This situation actually occurred during the chairmanship of Chalandon. His two terms of office between 1977 and 1983 were an ongoing series of protests against administrative procedures and quarrels with successive Ministers of Industry. The climax of Chalandon's defiance towards government officials in authority over him was reached during the chemical restructurings of 1983 when he refused to comply with Industry Minister Fabius' instructions to pay compensation to the CFP.³¹ The non-renewal of Chalandon's *mandat* was the only solution to the saga of conflict between himself and the top administration throughout his chairmanship of the SNEA.

Michaël Pecqueur, appointed successor to Chalandon, was altogether a very different personality with a different style of management. An *ingénieur des Mines*, he had made his career at the *Commissariat à l'Energie Atomique*. Having assisted André Giraud when he was *Administrateur Général Délégué* of the CEA, he then succeeded him in this position in 1978. In addition, he had served on the board of EDF, he had co-managed Framatome and succeeded Georges Besse as chairman of Cogema. His close links with André Giraud and membership of the same *grand corps* may have contributed to his appointment. In any case, the appointment of a chairman whose background resembled that of many of the SNEA's top executives, past and present, was motivated by the desire to restore stability to a group which

had experienced considerable turmoil under Chalandon. According to Babinet,

"...en désignant Michel Pecqueur, le gouvernement dote Elf d'un grand commis dans la pure tradition des fondateurs du groupe. Apolitique, technicien, respectueux de la tutelle étatique mais parfaitement capable de faire prévaloir ses propres vues..."³²

This summary of how the President's power of patronage works, shows that the chairmanship of a public sector company, such as the SNEA, was a highly coveted position, and used by the President as a reward for loyal service in the top administration or for political support or both. While the chairman was allowed considerable managerial autonomy, it was important that his policies not only ensured the company's prosperity but also conformed to national policy, as determined by the chief supervisory ministry. If there were severe conflicts, as shown in the case of Chalandon, the Prime Minister who is responsible for the day-to-day management of government may, with the approval of the President, use his powers of dismissal. In this way, the power to appoint heads of state-owned companies and revoke appointments was an effective instrument at the disposal of the President. It served to ensure the prosperity of the company, the compatibility of its goals with those of the government and, last but not least, it reinforced the influence of the President.

Presence of Civil Servants in the Organisation

Civil servants are present at several levels of French public sector companies. In general their role is to allow a transfer of information and ideas between the company and government departments and facilitate mutual understanding. There are three main structures allowing for their infiltration of the company.³³ First, by means of a system of *détachement* there are opportunities for civil servants to be seconded into nationalised industry. Second, a certain number of state representatives, recommended by the ministries, have a seat on the corporate

board* of state-owned companies. Their number is fixed by law and proportionate to the state's participation in the capital of the company. Third, the most important presence is that of two Government Commissioners, representatives of the ministries of Industry and Finance who have a seat on the board as well as wider powers within the company.

In the context of the SNEA it is worth looking in detail at the function and powers of these two officials. Between 1976 and 1986 the Industry Minister's representative was the *Directeur des Hydrocarbures*, that is the person responsible within the Ministry for the sector to which the SNEA belonged. According to Feigenbaum, the duty of the official was

"To exercise control of particular as opposed to general activities of the companies, such as individual investments or diversification decisions. The commissioner is the State's representative on the corporate board ostensibly to ensure that company policy decisions will not transgress larger state objectives."³⁴

He had right of veto and, in consultation with his minister, he could block decisions of the company. He was in permanent contact with the top management of the group and had a *droit de regard* on the three or four top appointments. He reported to and advised the *Directeur Général de L'Energie* and Minister of Industry and acted on their behalf. The *Chef de la Mission de Contrôle*, or state auditor, was the permanent representative of the Minister of Finance. He was in charge of supervising the economic and financial activity of the group. The state auditor examined the budget before it was presented to the corporate board and had right of veto over decisions. Although his functions covered responsibility for the SNEA,

* On the basis of reports submitted by the Director General, the corporate board defines the general policy of the company taking into account guidelines given by the public authorities. The board approves the annual report of the organisation, the accounts, the balance sheet of the past year and proposed budget for the following year.

CFP and IFP, he was physically present at the head office of the SNEA. This official described his day-to-day responsibilities as follows:

"Il est en permanence dans les bureaux de l'entreprise. Il est physiquement installé dans la tour Elf. Il reçoit les procès-verbaux de sociétés, les comptes-rendus, il participe à de nombreuses réunions de conseils d'administration de société. Il reçoit le budget."³⁵

Although the government commissioners, acting on behalf of their respective supervisory ministers, had right of veto over decisions of the group, they rarely exercised this power. According to one top-ranking official,

"Il vaut mieux que ce soit la diplomatie qui fonctionne plutôt que la guerre. Par conséquent l'Etat ne se sert pas couramment ni du droit de veto qu'il a sur les décisions du groupe ni de son pouvoir d'actionnaire pour l'exprimer dans l'assemblée générale de façon violente."³⁶

Feigenbaum remarked, however, that the rarity with which the power of veto was used could be deceiving. This was because the formal decision of a commissioner, acting on instructions of his respective minister, only took place after a considerable period of informal bargaining, through which the interests and opinions of various supervisory agencies were taken into account.³⁷ This point was confirmed by a former top civil servant:

"Toutes les choses sérieuses se passent dans la coulisse. Elles ne se passent pas à la table du conseil."³⁸

The structures enabling the infiltration of the company by civil servants were controlling mechanisms insofar as they allowed government departments to have knowledge of company activities. We have seen that the corporate board had an impressive list of duties. However, decisions taken in this forum were those for which approval would have been sought from one or other of the supervisory ministries. It was therefore the unofficial negotiations taking place between

representatives of the supervisory ministries and top management, prior to meetings of the board, which determined whether company proposals were finally blocked or accepted.

Provision and Authorisation of Financing Measures

In Section I we referred to the all-pervading influence of the Ministry of Finance in economic policy-making. This section will show more specifically its influence in public sector firms. First, between 1976 and 1986 the Finance Ministry not only directed how these firms spent public money but also watched closely how they used their own. Second, in the context of our case-study, one particular structure within the Elf group, namely the holding company, ERAP, illustrated clearly how important the financial health of state-owned firms was to government.

Let us look initially at the variety of ways in which public sector firms financed their investments. They could use their own resources, borrow on the national and international markets, benefit from allocations of capital from the state, and receive state loans at a reduced rate of interest. As Lucas pointed out, all means required the authorisation of the Ministry of Finance.³⁹ The Ministry thus controlled access by state enterprises to national and international financial markets. Furthermore, state payments to state enterprises, whether in the form of allocations of capital or loans and advances from the *Fonds de Développement Economique et Social* (FDES)*, were part of the budget of the Ministry of Finance. The Council of the FDES had responsibility for examining the investment programme of public sector firms and any investments financed by or with the help of the state. As a result, this body exercised great power over state enterprises. Its approval was required even when the investment programme was self-financed. The Council was dominated

* The FDES is an arm of the Ministry of Finance. It supports national investment projects and has a vital coordinating role in economic policy (See Jack Hayward, op.cit., p.187)

by the Ministry of Finance. The Minister presided and membership included the Directors of the Budget and Treasury amongst others.

The investment programmes of the SNEA were self-financed from the mid-1970s. However, the Ministry of Finance exerted a strong controlling influence on its financing measures through the holding company, ERAP, as we shall show in the following analysis of its functions.

The state was the major shareholder in the SNEA, owning 56% of its capital in 1986.* The state's share was held and managed by ERAP, an *établissement public* (100% state-owned). As we explained in Chapter 1, ERAP was formed in 1965 out of a merger of two *établissements publics*, the Bureau de Recherches du Pétrole (BRP) and the Régie Autonome des Pétroles (RAP). All the BRP's subsidiaries were preserved, of which the most important was the Société Nationale des Pétroles d'Aquitaine (SNPA). A second restructuring was achieved in 1976 when the assets of ERAP and the SNPA were merged, resulting in the newly named Société Nationale Elf Aquitaine (SNEA). ERAP was retained as an *établissement public* with responsibility for managing the state's 67% share in the capital of the SNEA. This situation obtained until 1986 when, under the Chirac government's privatisation programme, ERAP sold off 11% of the state's share in the SNEA, bringing it down to 56% (See Chapter 6, p. 263).

ERAP was a small entity of five to six people. The chairman, vice-chairman and administrators were all appointed by government. ERAP had its own corporate board where the directors of the Budget and Treasury Divisions had a seat, along with the two Government Commissioners of the SNEA, *Directeur des Hydrocarbures* and *chef de la Mission de Contrôle des Entreprises Pétrolières*. These same top civil servants, together with the chairman and vice-chairman of ERAP, also

* 53% in 1992 and privatised in 1994

composed its *comité spécial*. This small committee examined all strategic decisions of the SNEA along with the company's budget, accounts and future plans. It was originally created by Pierre Guillaumat, when he was head of the initial holding company, the BRP, and intended to involve in the life of that institution people of influence at the Ministry of Finance.⁴⁰

Questioned on the role of ERAP in 1986, the chairman insisted that it did not have a directive function vis-à-vis the SNEA.⁴¹ Rather it was concerned, as major shareholder, with the SNEA's financial health, with its plans for the future, with the compatibility of its diversification projects with long-term strategies of the group as a whole and its ability to manage them financially. For this reason, ERAP appointed administrators to the board of the SNEA, on whom they could rely.

Although ERAP's chairman denied the controlling aspect of his company, its above-mentioned role shows that it was nevertheless a government watchdog. This is borne out by events surrounding the SNEA in 1979-80.⁴² Until this time the chairman of the SNEA and ERAP was the same person. However, as already mentioned, under the chairmanship of Albin Chalandon, relations between the group's top management and the administration deteriorated for a variety of reasons. The conflict was intensified at the end of the 1970s because of broader national problems which the government was attempting to solve: high inflation, high public expenditure and an excessive dependence on state funds by certain strategic industries. Since the SNEA had accumulated enormous wealth as a result of the second oil crisis, there was concern in government circles about how these resources were being used. The fact that Chalandon headed both the holding company and its main subsidiary only obscured matters. As a result, on the advice of Industry Minister Giraud, Prime Minister Raymond Barre appointed a new chairman and vice-chairman to manage ERAP, while leaving Chalandon and his vice-chairman in their original functions. According to a former vice-chairman of ERAP,

"Les dirigeants d'Elf Aquitaine ont été déchargés de leurs responsabilités parce que le gouvernement a préféré nommer au sein de l'ERAP des personnes plus proches de lui qui puissent mieux surveiller l'évolution de ce qui se passait à Elf Aquitaine."⁴³

ERAP also played a public relations role with regard to the authorities, ensuring that the government representatives on its corporate board had a clear understanding of the group's different activities and development. In their turn government officials could inform ERAP's leaders of ministerial reaction to their plans. Thus ERAP acted as a buffer between company top management and government.

According to ERAP's chairman in 1986,

"L'expérience montre que quelle que soit l'étiquette du gouvernement, si des tiraillements se produisent entre le groupe et les représentants de l'Etat, ces derniers se tourneront vers leur ministre et le différend ira jusqu'en réunion interministérielle, c'est logique. Avec l'ERAP cet inconvénient est écarté: la présence à son conseil de représentants de la haute administration permet de préparer les décisions, de mieux discuter des problèmes dans une enceinte où les dirigeants de l'entreprise peuvent s'exprimer, ce qui ne serait évidemment pas le cas en réunion interministérielle."⁴⁴

This review of the functions of ERAP shows that it was a protective organisation with regard to both the company and government. The Elf group and government benefited from its existence in many respects. Having first-hand knowledge of the group's activities and future plans, officials of the Ministry of Finance on ERAP's board could support company leaders in ventures which seemed promising in order to protect or possibly raise the major shareholder's dividends. The reverse was also true, as we show in Chapter 5, where ERAP's top management supported opposition from the Industry Minister and Prime Minister to Chalandon's risky diversification projects. Certain diversified activities were in loss-making sectors, and their recovery would not only be costly to the group, but depended on specialist markets which Elf's managers lacked. Another example of ERAP's controlling influence on the SNEA's financial operations was the condition of exchanging subsidiaries which it imposed on the purchase of Texas Gulf in 1987 (See Chapter

6, pp.253-254). These illustrations show that in protecting the SNEA against the ambitions of its top management, ERAP's leaders were also protecting their own interests as major shareholder.

The structures enabling the government to intervene in company policy-making clarify to some extent the nature of government control in a public sector company between 1976 and 1986. The President's power to appoint and revoke appointments ensured that the person appointed to the chairmanship was a competent manager whose objectives for the company were consistent with those of government. Should he fail or serious conflicts arise, the President could use his power to change the chairman when his three-year term of office came up for renewal. The official role of top civil servants from the supervisory ministries at different levels of the group was to ensure that company plans did not transgress broad state objectives. To this end, information sharing about government and company goals facilitated understanding on each side. At the level of the holding company, we noted that the role of the Finance Ministry directors who sat on ERAP's board was to ensure that the SNEA acted in a way most favourable to its major shareholder, yet these officials also had broad responsibilities and could make their knowledge of the company contribute to solving national problems. Here lies the ambiguity and inherent danger of this two-way contact between government officials and company leaders. We shall show in the next section that it had disadvantages and benefits for both sides. In general, all these controlling mechanisms aimed to blend company strategies into broad government objectives. However, the fact that company leaders had constantly to give an account of themselves to government officials with authority to intervene in the activities of the firm was, in Lucas' words, a 'chronic irritant'.⁴⁵

THE PRACTICE OF GOVERNMENTAL CONTROL

The mechanisms enabling governments to intervene in the activities of a public sector company can have negative as well as positive effects for the firm. In this

context Section III will highlight two questions. First, in what circumstances were the mechanisms for government control, analysed in the previous section, applied in practice? Second, while governments could and did use their powers to limit the ambitions of a state-owned company, what factors underpinned the company's exploitation of its government link?

A Case of Conflict

The blocking by Prime Minister Raymond Barre of the Kerr Magee purchase in 1980 was an occasion when one of the supervisory ministers used his power of veto.⁴⁶ The episode shows that the reasons for strong government intervention in industrial affairs are often blurred by the variety of problems which must be addressed in decision-making. It also reveals that questions of political importance to government can outweigh sectoral issues.

Setting up a subsidiary in the United States was one of Chalandon's main ambitions when he took up the presidency of Elf in 1977. The advantage of the US was that profits could be repatriated in France. In 1979 the rise in oil prices, fall in the dollar and anti-trust laws introduced by the Carter administration brought the subject back onto the agenda. Industry Minister, André Giraud, agreed in principle to Elf extending its interests to the United States. After long discussions as to the respective qualities of about twenty selected companies, the choice fell on Kerr Magee, an oil and diversified mining company. Listed 128th among American companies by Fortune, Kerr Magee satisfied all the criteria, being in the top rank for its oil and gas reserves, turnover and profits. While several members of the SNEA's executive committee opposed the purchase, Chalandon and one of his two vice-chairmen strongly favoured it. The supervisory ministers also agreed in principle but laid down certain conditions: the cost should be limited to 1bn dollars; Kerr Magee's uranium reserves should be transferred to the Compagnie Générale des

Matières Nucléaires (Cogema)*; the takeover should be carried out in a friendly fashion without intervention of the American government, who might be concerned about the transfer outside the United States of an important uranium producer.

During negotiations, although Chalandon remained in contact with the President's advisers at the Elysée, André Giraud, for his part, had difficulty obtaining precise information from the SNEA's top management. The aspect of secrecy was in fact deliberate since, according to Chalandon,

"Aucune chance de l'obtenir si les administrations de tutelle étaient informées. Si en effet le projet était éventé, l'action Kerr Magee flamberait en Bourse."⁴⁷

Finally, news of the takeover was leaked on Wall Street, unexpectedly bringing forward the date of the transaction by a week. On the day fixed for the takeover, April 24th 1980, Chalandon informed the *Directeur des Hydrocarbures*, Jean-Pierre Capron, of its imminence, stressing that he had received authorisation from the Elysée. However, such permission had not been given, according to Giraud and Capron. On instructions from the Industry Minister, the *Directeur des Hydrocarbures* called a meeting of the *comité spécial* of ERAP,

"Pour obliger les dirigeants du groupe à rendre compte pour faire annuler l'opération."⁴⁸

Finally, in the evening of April 24th, on the advice of Giraud, Raymond Barre vetoed the takeover. Added to Giraud's earlier refusal to allow the SNEA to diversify into food-processing, this veto only fuelled Chalandon's antagonism towards his Minister

* Private subsidiary of the *Commissariat à l'Energie Atomique* created in 1975. Its purposes were to facilitate the management of the CEA's industrial activities on a commercial basis, to provide the State with an instrument for ensuring all the stages in the provision of nuclear fuel and to permit France to enter into international markets both for the purchase of raw materials and the sale of products.

of Industry. As we explain in Chapter 5, the outcome was a public war of words between Chalandon and Giraud throughout 1980. Yet as far as Giraud was concerned, it was the serious lack of information about Kerr Magee which obliged him to oppose the takeover. Recalling with irritation the episode, he is quoted as saying:

"Peut-on me citer un exemple au monde d'une société qui fasse une acquisition de 3,5 milliards de dollars sans en avoir jamais parlé à son conseil d'administration ni même à un seul de ses administrateurs. Eh bien non, je suis bien tranquille, on ne pourra pas en citer une autre."⁴⁹

Yet there were other issues at stake behind the veto. Elections were to take place a year from then. The Barre government had become progressively unpopular owing to the Prime Minister's austerity programme. To make a huge investment in the United States at a time when large numbers of workers were being laid off in strategic industries in France would only have increased the wrath of the unions and brought the government and President into further disrepute. Other factors contributing to the veto were possibly corps rivalry and the animosity which existed between Chalandon and Giraud. According to a former vice-chairman of ERAP,

"Le ministre de l'Industrie n'était peut-être pas fâché qu'une crise se produise car elle pouvait fournir l'occasion de démontrer l'erreur commise par les dirigeants de la SNEA."⁵⁰

The Kerr Magee episode reveals much about company policy-making for a public sector firm and the reasons behind a government's veto of company plans. The process is complex because the different actors involved have opposing concerns, which must be taken into account during negotiations. Furthermore, the process is slow and circumstances change. Agreement in principle at the outset does not necessarily mean agreement in practice. Moreover, should an operation fail, the stated reasons for failure are not necessarily the true reasons. In the episode discussed it was, according to Giraud, the lack of information which forced him to block the purchase. Yet evidence from other sources suggests that a whole variety

of factors may have contributed to the veto. The animosity between Chalandon and Giraud had its roots in *corps* rivalry, in their conflicting perceptions of the role of the SNEA and in the very different personalities of the two men. The approaching presidential elections and the Barre government's concern about its declining popularity, heightened by fears of social unrest, were also factors which contributed to the veto. In addition, since the takeover concerned a foreign company, the potentially hostile reaction of a foreign government (and the United States government at that!) was a further factor which obliged the French officials responsible to tread warily. Therefore, although the blocking of the Kerr Magee purchase appeared to be due to a veto on the part of the Minister of Industry, because he had not been fully informed, issues of political, economic, social and diplomatic importance for the government were equally and possibly more influential.

Collusive Practices and Shared Interests

We have demonstrated that between 1976 and 1986 the official role of government commissioners from the Industry and Finance ministries was to ensure that company strategies did not transgress broader state objectives. This section will show, however, that these state 'supervisors' actually depended on company top managers and positively supported their interests.

With regard to the state auditor, Feigenbaum points to an essential ambiguity in the functions of this official. In the context of the SNEA, the state auditor not only had an intimate knowledge of the company's financial activities but was physically present at Elf's headquarters. Feigenbaum states that after a certain time in post these officials behaved as if they were,

"representatives of the enterprise, having a tendency to take on the defence rather than act as true controllers"⁵¹

He quotes a particular *contrôleur* who described his functions as follows:

"we participate at the level of financial authorisations...we have a function of advice, of counsel and of information. The important thing is that the enterprise should be economically profitable".⁵²

The attitude of this government commissioner is borne out in Chapters 5 and 6, devoted respectively to the SNEA's diversification strategies and to its progressively private orientation. It will be demonstrated in these chapters, that from the mid-1970s, governments were not only less generous towards public sector firms, but anxious to use their wealth in the service of a range of broad state objectives, for example, to reduce public expenditure, to boost budgetary receipts, to facilitate the restructuring of industry and to create jobs. The company's objective to maximise its profits therefore converged with those of the Treasury. Consequently, it is no surprise that Ministry of Finance representatives defended state-owned firms in their profit-making ambitions.

As for the government commissioner from the Ministry of Industry, the *Directeur des Hydrocarbures*, it is a well-known fact that he supported the French oil industry for a variety of reasons. First of all, this official was relatively young, upwardly mobile and completing his training, as a new recruit to the prestigious *Corps de Mines*, in the top echelons of the Industry Ministry. In discussions with company directors who had perhaps been with their firm for 15-20 years, this young official would not only be a less skilled negotiator but dependent on them for specialised information. This point was reinforced by a former company secretary of the SNEA:

"Il reste que quand une boîte a une continuité qu'elle sait à peu près ce qu'elle veut, qu'elle se trouve en face d'un Etat dont les hommes changent tout le temps et la rotation des fonctionnaires s'est beaucoup accélérée parce que les gens sont pressés, on est dans une situation bien meilleure pour discuter que quiconque."⁵³

Secondly, according to the system of *pantouflage* or move by members of the *grands corps* from the top administration to posts in a public or private sector firm, this young official would be seeking a more lucrative post, possibly in an oil company. It was therefore likely that he would show deference to company leaders and be loath to alienate a prospective employer.

A third reason why the *Directeur des Hydrocarbures* gave way to the wishes of the top management concerns the status of the chairman. We have already shown that the person appointed to the chairmanship of a public sector company must have the support of the President of the Republic. In addition to enjoying presidential support, past chairmen of Elf also attained ministerial status or an equivalent position. Pierre Guillaumat was de Gaulle's *Ministre des Armées*, Albin Chalandon was Pompidou's *Ministre de l'Équipement* and Michel Pecqueur was head of the CEA, a state institution of equivalent prestige to that of the SNEA. The influence which the chairman wields in government circles is a powerful advantage. This point was made by H-R. de Bodinat and M. Chambaud. Although their study dates from the Guillaumat era, their observations were still relevant between 1976 and 1986:

"Le président actuel de Elf, Monsieur Guillaumat, a la même formation que le directeur de la DICA mais il est plus âgé que lui, a été ministre et dispose d'appuis importants dans l'administration. Il est donc capable dans certaines circonstances d'imposer sa volonté aux pouvoirs publics. Il est fort probable qu'un conflit entre la DICA et le président de ELF se solderait à l'avantage de ce dernier".⁵⁴

Good relations between the chairman and government commissioner were nevertheless all important. According to a top official in the oil industry,

"Le Directeur des Hydrocarbures peut dire au Président d'Elf 'Je ne suis pas d'accord...Si vous passez outre ce que je vous interdis, j'en garderai le souvenir' Le Président d'Elf réfléchit. Il est nommé par le gouvernement. Il va avoir besoin du gouvernement pour un permis en France, pour la modernisation d'une raffinerie, pour une vérification de pollution et c'est le Directeur des Hydrocarbures qui les donne. On ne peut pas déclarer la guerre quand on est Président d'Elf à la Direction des Hydrocarbures."⁵⁵

The relationship between government and industry was therefore not always one of 'supervisor' and 'supervised', as the institutional framework may lead us to believe. Nor was it constantly conflictual. The process of deciding company policy was mostly one of interdependence, collaboration and ensuring that the objectives

of both sides converged. Moreover, on account of the firm's monopoly of expertise and status of company chairman, top managers were the main actors in initiating policy and government officials tended to play a junior role. The implication was that company leaders could exploit their superior position, a point which we highlight in the next section.

Internationalisation and the Weakening of Government Control

As we show in Chapter 4, the oil industry by its nature is international. Moreover, oil companies have a multiplicity of sources of production throughout the world, a variety of products and markets and they are also capital intensive. These characteristics made a large integrated oil firm the multinational *par excellence*.⁵⁶ The SNEA was no exception. In fact, during the decade with which we are concerned, 1976-1986, at least 50% of its turnover was realised outside France. The international ambitions of a public sector firm not only increased government's dependence on company top managers, but weakened government's ability to control them.

We have already shown in Chapter 1 that in its early years, the state-owned oil sector expanded rapidly in order to associate and compete with the international oil firms, already well-established on French territory and beyond. Integration, diversification, increased internationalisation, europeanisation and partial privatisation were all stages which contributed to making the SNEA a *multinationale comme les autres*. This development also resulted in the decentralisation of decision-making and in making supervision by national government less stringent. For example, foreign subsidiaries of nationalised companies had always been immune from investigation by the *Cour des Comptes*.⁵⁷ What is more, the Ministry of Finance always favoured the internationalisation of firms, because they could use foreign branches to borrow abroad and thus minimise the effect of the loan on the French balance of payments.⁵⁸

However, outside national territory the situation for a public sector company, such as the SNEA, was highly competitive. In order to establish itself in a foreign state with a view to setting up a subsidiary, acquiring exploration permits or entering into joint ventures, it had to offer the same terms as any private company. Moreover, it had to comply with the legislation of that state regarding, for example, the payment of taxes or the employment of a percentage of foreign nationals. These constraints, however, could be used by the company to minimise the effect of legislation at home. As Feigenbaum pointed out,

"Corporations can use the differences in various national bodies of legislation to minimise the impact of any one government's legislation. This ... aside from the global rationalisation of resources is the chief attraction of the multinational form of organisation."⁵⁹

An international company such as the SNEA therefore enjoyed greater freedom vis-à-vis supervisory ministries at home than a company whose activities were more domestic. This freedom was understandable, since all our examples point to the fact that government officials were dependent on companies for information and initiatives. They themselves had no policy for specific sectors. This point was confirmed by many officials interviewed at the SNEA. For example, describing the dilemma created by the nationalisation of the French state oil companies' assets in Algeria in 1971, a high-ranking SNEA official remarked,

"Nous pourrions vous montrer des documents où Guillaumat disait, 'Il faut une politique, c'est à l'Etat d'avoir une politique, moi, je suis une entreprise, je défends mon entreprise...' Guillaumat avait une thèse, il la défendait et les politiques n'ont jamais répondu...."⁶⁰

A similar point was made by another official regarding Elf's diversifications into chemicals:

"Elf voulait devenir véritablement chimiste. Les pouvoirs publics ne sont pas intervenus. Ils se sont tenus au courant mais il n'y a pas eu de directives parce que l'Etat n'avait pas de politique chimique... Ils étaient peut-être contents de voir les gens qui avaient de l'argent s'intéresser à la chimie"⁶¹

This lack of government policy for specific sectors therefore gave company top managers considerable autonomy to pursue their own plans for the firm, because they could exploit divisions within government in order to get their way. The opposition between the Ministries of Industry and Finance is well known. Within the Finance Ministry itself, its different departments have opposing concerns. There can even be divisions between the highest authorities in government. Were not the philosophies of the liberal Giscard d'Estaing and those of André Giraud, his *dirigiste* Minister of Industry, opposed? For example, it was with the knowledge that he could rely on Giscard d'Estaing's support in giving the SNEA a more commercial orientation, in spite of opposition from his supervisory minister, that Chalandon pursued an ambitious diversification programme. This lack of government policy for specific sectors therefore gave company top managers considerable autonomy to pursue their own plans for the company.

This analysis of how government controls worked in practice shows that the reasons for strong government intervention were extremely complex, but political issues, such as the threat of losing an election, could outweigh other considerations. Yet obstructionist tactics on the part of government were rare. Most of the time the relationship between supervisory ministries and a state-owned company, such as the SNEA, was one of collusion. Moreover, the firm's monopoly of expertise and government's lack of policy enabled company top managers to exploit divisions within government to get their way.

It must not be forgotten that between 1976 and 1986 the ability of French governments to intervene in the affairs of companies was further reduced by France's closer integration into Europe. In Section I we mentioned how successive governments' need to reduce public expenditure from the late 1970s and early 1980s, together with pressure from the European Commission, led to the gradual freeing of price controls on oil products and the dismantling of the 1928 legislation. The latter had always contravened Articles 85 and 86 of the Treaty of Rome. Thus in the 1980s, the French authorities were forced to distribute refining licences to

European companies*, for example, Italian AGIP and Belgian FINA, and supermarkets gained permission to sell petrol at reduced prices. The freeing of all oil prices was completed by the Chirac government in 1986 as part of its programme to liberalise the economy. What remained of the 1928 legislation was to disappear from 1993.⁶² A further step in European integration was the Single European Act of 1986. It had the effect of accelerating changes in competition policy in preparation for the Single Market of 1993. Although the Treaty of Rome removed tariff barriers, non-tariff obstacles persisted, for example, differences in technical norms, taxation systems, nationalistic preferences in the attribution of public procurement contracts. The aim of the SEA was the removal of these by 1993. In this way a range of measures, national, international and European, contributed to reinforcing the market and weakened the power of French governments to use their public companies as instruments of economic policy.

CONCLUSION

During the decade with which we are concerned, 1976-1986, we have distinguished two levels of policy-making in which government and state-owned companies participate. In the context of our case-study they were in fact so closely interwoven that commentators refer to the opacity of the decision-making process in the oil sector.⁶³ At the level of public policy-making, government institutions were responsible for defining broad objectives for the economy. Public sector companies were expected not only to operate within the framework laid down by the authorities but, as instruments of government, to advance national policies. Consequently, these firms were carefully watched by means of structures allowing government officials to be involved in their affairs. We have seen that these controlling mechanisms served several purposes. Officially they ensured that company plans conformed to broad national objectives, yet they also served to inform government

* Previously it had been the French oil firms and French subsidiaries of international companies, Mobil, Esso, Shell, BP, which benefited from the 1928 laws.

about a firm's strategies. The multi-faceted role of government officials created, as we have seen, many ambiguities. Governments, however, did not run public sector companies. They appointed competent managers for that task. At the level of company policy-making, public sector firms of the market sector came to be managed from the mid-1970s increasingly along the same lines as private firms. In other words, they were obliged to become more self-reliant and independent of government. Moreover, this trend was encouraged by successive governments who wanted the best of all worlds: that state-owned companies be self-sufficient, that they generate profits and that they advance government policies. It is no surprise that conflicts arose. While company policy-making was mostly a collaborative process, governments could, in certain conditions, obstruct the ambitions of company top managers. We have seen, however, that a major company's expertise and the status of its leaders put it in a powerful negotiating position. In their turn, company leaders could exploit government's dependence on them and pursue their own plans for the company.

Those with all the powers did not therefore make all the decisions. One of the reasons for this ambiguous state of affairs was that institutions and departments within them had conflicting functions. Besides, ministers and company chairmen changed and could have opposing ambitions. Furthermore, our case-study is an oil company and international by nature. Unforeseen political events beyond national boundaries and the decisions of foreign governments and supranational authorities impinged on policy-making at home. It would be impossible for any government to conceive a coherent sectoral policy for an industry exposed to so many variables. It is inevitable therefore that governments should have allowed a state-owned company of the size and stature of our case-study increasingly more freedom to pursue its own policies. Apart from an interlude of strong government intervention to restructure industry in 1982-83, French governments over the last twenty years have chosen to disengage themselves progressively from the time-consuming and costly activity of involvement in the affairs of France's major industrial group.

NOTES

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5. Ibidem, pp.77-84.
6. N.J.D. Lucas, op.cit, pp.165-166.
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 30. Private Interview.
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 35. Private Interview.
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 37. Harvey B. Feigenbaum, op.cit., p.95.
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 39. N.J.D. Lucas, op.cit., pp.103-107.
 40. Pierre Péan and Jean-Pierre Sérén, op.cit., p.49.
 41. Private Interview.
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 60. Private Interview.
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CHAPTER 3

MANAGERS AND TECHNOCRATS? THE ROLE OF THE CORPS DES MINES

Chapter 2 focused on the institutional links of the Société Nationale Elf Aquitaine (SNEA). It highlighted the collaborative relationship between sections of government and company top management in the policy-making process. Chapter III will explore in greater depth the nature of this collaboration by looking at who company top managers were. It is divided into two main sections: the first analyses the eligibility of a certain type of French top manager for key posts; the second is a case-study of the *Corps des Mines*, which sets recent evidence against the claims of the technocratic myth and discusses the consequences.

A striking feature of France is that the leaders of large companies are frequently former top civil servants or, in the case of the SNEA, sometimes even former ministers. They form part of the technocratic or techno-bureaucratic elite. That is, they have occupied key posts in the top administration, where they have been responsible for advising on and executing government policy. They then use the prestige and contacts acquired as a springboard into strategic positions in other sectors, for example public, semi-public or private corporations.

THE TECHNO-BUREAUCRATIC ELITE

How do they come to occupy the heights of power? Many argue, not least the techno-bureaucrats themselves, that they are the legitimate holders of power. Their legitimacy derives from several factors. First, they are a state-created elite: trained by the state to serve the state. Second, their positions are based on a meritocratic ideal. Third, the elite encourage a certain myth regarding their expertise. We must nevertheless be wary of this model. The elitist system produces diversity as well as uniformity. As several SNEA officials interviewed for this study pointed out, within any group people differ in their ambitions and perform with varying degrees of competence.¹ Furthermore, we must address the question of whether a state-

centred elite is appropriate for the current world of market competition and privatisation and the problem of adaptation which this poses.

A state-created elite

There is a long tradition in France by which the state takes responsibility for training its leaders. Training involves admission to and graduation from one of France's elitist *grandes écoles*. Whereas certain *grandes écoles* existed under the *ancien régime* (*Ecole des Mines, Ecole des Ponts et Chaussées*), or were created by the Convention (*Ecole Normale Supérieure, Ecole Polytechnique*), Napoleon recognised their usefulness in his plan for a centralised education system. The training of professional groups - teachers, army officers, road and mining engineers - served Napoleon's objectives of political stability, social cohesion and fulfilling a utilitarian role in society.² Moreover, a century and a half later, these same objectives inspired the creation in 1945 of another *grande école*, the *Ecole Nationale d'Administration* (ENA). Founded in order to recruit to the highest echelons of government administration, ENA's mission was to teach future top civil servants "le sens de l'état".³

The state went further than training. It organised a complex system which links professional training to the *corps* in which the *diplomés* exercise their profession. The *corps* correspond to functions within ministries and each has a specific technical role, for example, the *Cour des Comptes* has the task of checking public accounts. Although there are as many as 900 *corps*, the most prestigious are the *grands corps*. They are divided into two rival camps, administrative and technical, according to the *grande école* from which their members graduate. The ENA, which provides a legal, diplomatic and economic training, feeds the *grands corps administratifs*. The *Ecole Polytechnique* and its principal extensions, the *Ecole des Mines* and the *Ecole des Ponts et Chaussées*, specialising as they do in applied sciences and engineering, are the main channels of recruitment to the *grands corps techniques*.⁴ As the term "elite" implies, the technical and administrative *grands*

corps form an exclusive group, restricted in number because they have been selected as the most competent. Furthermore, as we explain below, regarding the elite's capacity to circulate between sectors, on the basis of their specialist skills, they also *claim* a general competence.

The meritocratic ideal

The concept by which only the most intellectually capable have the right to key posts in society is related to an egalitarian or democratic ideal. In the spirit of republicanism, the right to lead should be determined by merit rather than predetermined by privileges of birth or wealth. Capacities proven and made manifest by examination have an irrefutable prestige, which is the *raison d'être* of the *grandes écoles*. According to one of Suleiman's sources,

"The *grandes écoles*, where one entered by competitive examination, which became more and more difficult, established within the powerful but fluid divisions of birth and of fortune, a new social category, defined at once by its small size and by its merit".⁵

The nature of the training offered by the *grandes écoles* has always been elitist in nature. The selection procedure begins at an early stage, since only the most capable candidates at secondary level are allowed to enter the *classes préparatoires*, which prepare pupils for the entrance examination. Then it is only those with the highest score in the entrance examination who are accepted by the *grandes écoles*, which in turn have a hierarchy among themselves, the most prestigious having the right to the best candidates. The numbers entering *grandes écoles* each year are very limited, especially when compared with the numbers entering universities. At the next level the elitist philosophy applies again, since the best students graduating from the best *grandes écoles* will have a choice of *grands corps*. Since there is a hierarchy among *grandes écoles*, there is also a hierarchy among *grands corps*. It therefore follows that the best students will choose certain

corps. The reputation of the most illustrious *grands corps* thus derives from the fact that the best students from the most prestigious *grandes écoles* join them.⁶

The technocratic myth

Scholars highlight a number of general characteristics which account for the influence of the techno-bureaucratic elite: their "imperialism", their enjoyment of untold privileges, their mutual solidarity, their commitment to progress and efficiency and their ability to decide the policy of whole sectors. Let us look in greater detail at the constituents of the technocratic myth.

The *raison d'être* of the *grands corps* is to obtain and preserve key posts for their members or, as Suleiman observes, "imperialism is the key to corps strategies".⁷

Although the original role of the *grands corps* was to work in state service, posts in government administration ceased to enjoy the prestige they once held. Consequently, the majority of *corps* members moved out of the civil service functions originally assigned to particular *corps* into more lucrative positions frequently unrelated to their training. However, rivalry for prestigious posts among different *grands corps* is such that each strives to protect its distinguishing features or specialism - for example, civil engineering projects for the *Corps des Ponts et Chaussées*, industrial security for the *Corps des Mines* - at the same time as it attempts to colonise other sectors. This mobility is possible because the *grands corps* cultivate the quality which Thoenig has termed "polyvalency".⁸ It consists in treading a delicate path between a general and a specialised or "technical" competence. The technocrat's skill has been defined as follows:

"The technocrat fixes the goals and the means of the technicians' work. He is in a position to effect a synthesis of the results obtained, to choose between different options and to define the priorities. Nine times out of ten he is incapable of taking the place of any of the technicians whose skill he relies on".⁹

Membership of a *grand corps* brings many advantages. As a result of the fiercely competitive process, which graduates of the *grandes écoles* have undergone, a bond of mutual respect and solidarity is created and positively encouraged among *corps* members. Moreover, they derive substantial privileges from their membership of the *corps*: the offer of prestigious posts and career mobility thanks to the *corps*' "employment agency", high salaries, bonuses and security of employment.¹⁰ In its turn, however, the *corps* expects to benefit from the gains of individual members, who are morally obliged to pass on to others advantages they acquire. Individual members are, in fact, so well supported by their *corps* that they are allegedly protected from the consequence of their actions.

Possibly the most prized benefit of *corps* membership is the network of valuable contacts. It is this *capacité relationnelle*¹¹ which makes individual *corps* members so sought after by big employers. According to Thoenig,

"Pour une banque "s'offrir" un inspecteur des Finances, c'est acheter à travers lui tout le carnet de relations dont il bénéficie au ministère des Finances".¹²

The organisation which employs a *Corps* member therefore benefits as much from his indispensable contacts in government and other sectors as from his innate ability and acquired expertise. Large institutions depend on these contacts for the efficient running of affairs, a factor which bestows on the *corps* member considerable autonomy.¹³ Therefore, paradoxically, *although the corps member is working for an organisation, he enjoys considerable independence from its pressures through his allegiance to a "higher" authority.*

Owing to the *grands corps*' imperialistic tendencies and the fact that organisations themselves strive to employ *corps* members, it follows that certain *corps* have gained a monopoly over certain key positions. In fact, whole sectors have become strongholds of certain *corps*. For example, many top executive posts in the *Ministère de l'Équipement* are the preserve of the *Corps des Ponts et Chaussées*.¹⁴

What are the results of this appropriation by the *grands corps* of key positions? Networks are created within and between the sectors of politics, government and industry, in which the *grands corps* occupy decision-making posts. Since members share a common training and experience, they communicate easily, and consequently contribute to good relations between the sectors. According to many commentators, their cohesion and belief in progress and efficiency were responsible for France's "economic miracle" in the post-war period.¹⁵ The less beneficial effect of the *grand corps*' monopoly over key posts is that these are denied to executives who do not belong to the *corps* and who may be more effective and energetic colleagues. In fact the *grands corps* are seen to act as a kind of mafia.¹⁶ A further consequence of the *corps*' monopoly over key posts in government and large organisations is that they shape policy for whole sectors of the economy. This is because they have established themselves as the "experts" in the fields they have colonised. What is more, because of their allegiance to their *corps d'origine*, it is alleged that they formulate the policies of "their" sectors or respond to government policies with a view to advancing the interests of their own *corps*.¹⁷

THE CORPS DES MINES

To what extent is the technocratic myth borne out by reality? A case-study of the *grand corps technique* to which many of Elf's leaders belong will attempt to provide an answer.

The elite Corps of Mining Engineers is the official corps of the Ministry of Industry. In 1986 the *Corps* consisted of 468 *ingénieurs*. Each year about 15 new members join, recruited for the most part from the *Ecole Polytechnique* (top ten candidates, otherwise known as *la voie royale*) but also from the *Ecole Normale Supérieure* (two or three) and the *Ecole des Mines de Paris* (one or two). All follow a three-year training course at the *Ecole des Mines de Paris* and it is this select group who annually swell the ranks of the *Corps*.¹⁸

The establishment of a separate administrative department for mines and an *Ecole des Mines* can be traced back to 1769. However, it was the Committee of Public Safety during the Revolution which consolidated the work of the *ancien régime* by creating an *Agence* and *Corps des Mines* in 1794 and specifying their responsibilities. These duties were incorporated into the *loi minière* of 1810 establishing the framework of the state's action in the mining sector.¹⁹ Three main areas were attributed to the *Administration* and *Corps des Mines*:

"L'arbitrage, notamment par la définition des concessions, le contrôle pour la sécurité dans les usines comme pour la préservation des ressources du sol et du sous-sol; le progrès technique et le développement économique enfin, selon les termes même des rapporteurs de la loi "par les conseils donnés sans imposer de lois, sans exercer aucune contrainte sur la direction des travaux".²⁰

It should be noted that the training of the *ingénieurs des Mines*, recognised as a responsibility of the *Corps* even by the Committee of Public Safety, also became one of the chief preoccupations of the *Administration des Mines*.

A diversified elite

The functions and activities of the *Corps des Mines* have diversified considerably since its beginnings. To survive it had to adapt to economic change: reduce its presence in traditional areas and move into more advanced sectors.

As industry developed during the nineteenth and twentieth centuries, so did the activities of the *ingénieurs des Mines*. First, their official duty to ensure that security regulations were observed in the mines was extended to the use of all kinds of machinery. The *Arrondissements Minéralogiques* remain one of the official tasks of the *Corps* and consist today of making safety checks on heavy lorries. This task ensures a permanent source of income to the *Corps*.²¹ Second, a certain number of *ingénieurs* began to leave state service to take up positions in industrial firms. They owned no part of the capital of these companies but gained power within the

organisation, because they were appointed to posts of responsibility and thus contributed to directing the firm's policy. Initially, they moved into coal and metallic mining companies, but their growing importance at the beginning of the twentieth century is chiefly linked to their spreading into other sectors: steel, chemicals, electricity generating companies.²²

It is suggested that the *ingénieurs*' influence within corporations was related less to their technical training than to their administrative experience. Their function as mining inspectors had acquainted them not only with social legislation but with the organisation, management and financing of firms. Consequently the *ingénieurs* had over other civil servants the advantage of sound scientific and technical knowledge and over other engineers the advantage of understanding the running of corporations.²³

Research conducted by Friedberg and Desjeux in the early 1970s, together with an examination of the *Annuaire du Corps des Mines* for the years 1980-1986, show that trends apparent in the late nineteenth and early twentieth centuries continued into the mid-1980s.²⁴ Although trained for public service with the purpose of representing state authority in the mining industry, the majority of *ingénieurs* abandoned traditional areas and moved into more prestigious or dynamic sectors. In 1986 the *ingénieurs* occupied posts of responsibility in several very influential areas of French society: the top civil service, teaching and research, public and private sector companies. In all categories they showed a preference for the industrial sector, whether at the Ministry of Industry, in teaching posts at the Ecole des Mines and research centres attached to vital industries, for example, *Commissariat à l'Energie Atomique* (CEA), *Institut Français du Pétrole* (IFP), or in top management posts in public and private sector corporations. An analysis of the positions occupied by the *ingénieurs* within these categories confirm the above-mentioned trend towards a generalisation of their expertise (see Tables 3.1 and 3.2, pp. 294 and 295).

The Top Administration

As far as the top administration was concerned, the *ingénieurs* were concentrated particularly in the Ministry of Industry and were to be found in all departments, in the post of director, assistant director or departmental director. These departments were the *Direction de l'Energie et des Matières Premières* (concerned with the different sources of energy), the *Direction Générale de l'Industrie* (representing the various branches of industry), and the *Direction de la Qualité et de la Sécurité Industrielle* (responsible not only for industrial security but also for nuclear installations). The *ingénieurs* were also to be found in regional departments of industry, where they occupied the post of director or had special responsibility for industrial development, environment, nuclear questions, energy or the management of mineral resources. In 1986 about one fifth (30 out of 153) of those in administrative posts were to be found in other ministries, Environment, Research and Technology, Justice, Posts and Telecommunications, Agriculture, Urban Planning and as many as six in the Prime Minister's cabinet office.²⁵

As regards the distribution of *ingénieurs* in the different administrative departments, Friedberg and Desjeux' research reveals important tendencies which persisted into the 1980s. It is obvious that the traditional functions of the *Corps (Gestion des mines and Arrondissements minéralogiques*)* decreased in relative importance, while the *ingénieurs* maintained their presence in the central administration of the Ministry of Industry and reinforced it in ministerial cabinets and other ministries. As far as administrative posts were concerned, therefore, evidence showed that the *Corps des Mines* had a deliberate policy to keep hold of the routine jobs, while simultaneously spreading its influence by a diversification of its functions, with an emphasis upon those with access to power (see Table 3.3, p. 296).

* This is one of the official tasks of the *Corps des Mines* and consists of making security checks on heavy lorries

Public or parapublic sector

A further table compiled by Friedberg and Desjeux shows the distribution of *ingénieurs des Mines* in the public or parapublic sector which covers, in the first category, teaching and research and, in the second, managerial functions in public companies. The figures reveal the reversal in importance of the two categories between 1949 and 1970. That is, while managerial functions in public companies absorbed two-thirds of *ingénieurs* in 1949, this proportion had fallen to 43% by 1970. On the other hand, teaching and research had grown in importance. This trend was still obvious in 1986. The figures also show that, as regards management posts in public companies, there was a decline in the number of *ingénieurs* in traditional areas, for example, mining, while their presence was reinforced in the more advanced sectors - oil and nuclear. Moreover, the trend was apparent at two levels, both in the management of firms and in industrial research connected to these two areas. One can conclude that the *ingénieurs* readily abandoned sectors in decline to the benefit of more advanced areas and increased the importance they attached to research and innovation (see Table 3.4, p. 297).

A further trend mentioned by the authors, and borne out by a study of the *Annuaire*s, was the steady increase in the number of *ingénieurs des Mines* in the banking and insurance sector and in activities on the periphery of industry, for example, management consultancy and engineering firms. These were areas not traditionally colonised by the *Corps*, yet an examination of the *Annuaire*s over a seven-year period 1980-1986 shows that there was a 20%-30% increase in the number of *ingénieurs* in these sectors (see Table 3.5, p. 298).

The implications of this diversification of the *ingénieurs du Corps des Mines* in the administrative and industrial sectors were that the *Corps* was no longer identified with a single sector but with specific tasks. According to two directors of the Ecole

des Mines, these tasks were: industrial policy of the state; strategy of large enterprises; technical and economic innovation.²⁶

Not only did these areas underline how far the *Corps des Mines* had moved from its original function, but also the diverse and constantly changing nature of the tasks it had appropriated. How the *Corps* was perceived by the outside world also confirmed its non-identification with a specific activity. In attempting to define the *Corps des Mines*, an official at the SNEA said:

"Il n'y a pas de profession particulière exercée - on ne sait pas bien ce que c'est".²⁷

Rather than a weakness, this lack of specialisation was, paradoxically, a sign of strength. It constituted the *Corps*' ability to adapt and survive. The evolving nature of the above-mentioned tasks required the creation of constantly changing forms of expertise. In Thoenig's view, this capacity to diversify is the very hallmark of the *Corps des Mines*' prestige.

"Les ingénieurs des Mines sont le plus grand des Grands Corps techniques parce qu'ils s'occupent de beaucoup d'autres choses mais pratiquement plus guère des mines".²⁸

Self-management

In addition to their adaptability, what other features explain the *Corps des Mines*' capacity to occupy a wide variety of prestigious positions?

"Leurs carrières sont gérées de façon interne", said an official at the *Compagnie Française des Pétroles* (CFP).²⁹ The internal organisation of the *ingénieurs*' training and careers was confirmed by a member of the *Conseil des Mines* as follows:

"Nous jouons le rôle de service du personnel pour les ingénieurs des Mines. Depuis 1976 ce sont les mêmes personnes qui assurent la gestion du personnel et la formation des *ingénieurs* . . . les *ingénieurs* sont nommés comme tous les hauts-fonctionnaires par le Président de la République sur notre rapport et ensuite c'est nous qui jouons le rôle de service du personnel pour la carrière, les possibilités d'emploi . . . et puis tous les actes administratifs, les mutations, les avancements, les promotions, c'est nous qui nous en occupons . . .".³⁰

Evidence shows that the *Conseil des Mines'* control of training and careers was closely integrated into *Corps* strategies for spreading and maintaining its influence.

Training and post-training

Even prior to the 1970s, training had been modified in line with the greater diversification of the *ingénieurs'* activities. It had been simultaneously widened and personalised. New areas such as management, *recherche orientée* and optional courses had been introduced and greater importance attached to business placements.³¹ In the late 1980s these developments had been taken further in order to make the course more concrete, personally adapted and relevant to future careers. According to a top manager (*Corps des Mines*) at the SNEA,

"c'est un menu à la carte ... c'est plutôt fait soit pour les responsables d'administration polyvalents, soit des experts scientifiques sérieux de pointe, soit des capitaines d'industrie".³²

The small number of students (15-17 per year) made close supervision and knowledge of individuals possible. For example, according to their interests and intended career, students had a choice of training placement in an industrial or commercial organisation. This could be in banking, as a commercial attaché in a foreign embassy or in an industrial laboratory. Students were also expected to undertake authentic pieces of research required by companies or administrative departments. For example, according to a young *ingénieur*, who joined the *Corps des Mines* in 1981 and occupied in 1986 a post of responsibility at the DHYCA, students were given projects to research which could not normally be carried out within the existing structures of companies. Two examples given were:

1. "la façon dont on fait les comptes en commerce extérieur".
2. "les pannes, problème industriel bien connu mais qui n'est jamais traité en tant que tel ou très rarement parce que ce n'est pas traitable dans le cadre des structures habituelles des entreprises".³³

It emerges from these developments that in the late 1980s the training course at the *Ecole des Mines* was similar to what one normally associates with the programme of a business school. Indeed, the *Ecole des Mines* had established excellent relations with business organisations and industry and received substantial research grants from companies. (It seems that two-thirds of the *Ecole's* revenue came from industry.) In the opinion of Suleiman, when one considered the influence of the *Ecole des Mines* and the posts occupied by its former students, it was probably the most successful business school in France.³⁴

A further point which emerged is that the training course for the majority was general rather than highly specialised. According to the young *ingénieur* quoted above:

"Les grandes écoles formaient les généralistes, ne formaient pas les spécialistes . . . X* forme des scientifiques assez généralistes et après à l'Ecole des Mines on peut se spécialiser dans un certain domaine mais la majorité ne le fait pas".³⁵

Apart from those who decide to devote themselves to research - about 25% of each *promotion* - specialisation would run counter to the wide variety of posts which the *ingénieurs* fill after training:

"Les ingénieurs-élèves occupent des postes extrêmement diversifiés qui font appel à des techniques variables. Il est hors de question d'apprendre tout à tous les élèves et comme la répartition des postes se fait vraiment à la sortie, il est hors de question de faire une pré-spécialisation".³⁶

The *grand corps*' attachment to a general competence is underlined by Suleiman, who highlights the contradiction between the generally accepted view that members of *grands corps* have received a specialised training and the fact that they succeed in carrying out a diversity of functions in society, as shown by the posts occupied by members of the *Corps des Mines*. If too narrow, specialisation would actually prevent members of the *grands corps* from being able to move easily from one sector to another.³⁷

Professional training implies a social as well as a practical and intellectual dimension. Interaction between members of the *Corps* during their initial training course and throughout their career is ensured by the *Ecole des Mines*. *Esprit de corps* or solidarity is a vital element in the *corps*' policy to reinforce links between members and forge new ones. According to the young *ingénieur* quoted above, solidarity is encouraged through the *Amicale* and a variety of social occasions:

"Il y a une Amicale qui fonctionne bien, qui fait même des groupes de réflexion. Il y a des relations pas seulement professionnelles entre

* The *Ecole Polytechnique* is known as "X" for short because of its badge of two crossed cannon.

les ingénieurs des Mines . . . moins les corps sont nombreux, plus ses liens sont serrés".³⁸

A responsibility of those concerned with training is the placing of young *ingénieurs* in their first administrative post. This is a period of post-training, usually lasting four to five years, and offering experience of top administration and valuable contacts. It is generally accepted that, since the *ingénieurs* are paid during their training, they are expected to work for the *Corps* for a certain number of years before "pantouflage".

According to an official at the CFP, interviewed for this study:

"Tactiquement c'est la meilleure chose à faire. Ça permet d'observer, d'acquérir en douceur, ça n'aurait pas de sens de sortir du Corps des Mines et démissionner tout de suite et aller en entreprise . . . ils ne retireraient pas les bénéfices de leur appartenance au Corps".³⁹

While the Ministry of Industry is the obvious first destination, the *ingénieurs* have the possibility of moving to other ministries and, within the four to five-year period, of gaining close experience of the workings of different departments.⁴⁰ For example, Gilles Bellec, was appointed over a six-year period to five different posts: in 1980 to the *Ministère de l'Economie* (CIASI Comité Interministériel pour l'Aménagement des Structures Industrielles), in 1981 *Chef de cabinet du Directeur Général des Télécommunications*, in 1982 *Conseiller technique auprès du Ministère délégué à l'Energie*, in 1984 *Directeur du Gaz, de l'Electricité et du Charbon* at the *Ministère de l'Industrie*, in 1985 *Directeur des Hydrocarbures*.⁴¹

The experience and contacts acquired are not only invaluable to the *ingénieurs* in their future careers, they are also of benefit to the *Corps* as a whole and to forthcoming *promotions* of young *ingénieurs*. They contribute to the creation of what Friedberg and Desjeux call the *réseaux d'expertise*.⁴² It is to a large extent in these networks that the main influence of the *Corps* lies.

Monopoly over posts

An essential function of the *Conseil des Mines* is to secure prestigious posts for its members, so that it will be in a position to attract candidates of the highest calibre by offering them a choice of interesting appointments. It is officially acknowledged that certain posts of responsibility within the Ministry of Industry will be occupied by the *ingénieurs du Corps des Mines*, for example, the directorship of the DHYCA, of the *Direction de l'Energie et des Matières Premières* and of regional departments of the Ministry of Industry. On the unofficial side, however, there are many posts in other ministries, in ministerial cabinets and in public and private firms, which the *Corps* regards as its property, although these posts are also an object of competition with other *grands corps*. The *Conseil des Mines*, therefore, has to keep an eye, not only on the posts officially allocated to the *Corps*, but on those it has captured by some tacit agreement and which are in the *Corps'* interest to preserve.⁴³

An effective tactic employed by the *Conseil des Mines* to preserve prestigious positions is to place *ingénieurs* of different ages in a firm, so that one can replace another at director level. According to an official at the CFP,

"il faut bien voir dans ces sociétés qu'on embauche régulièrement des ingénieurs du Corps des Mines à des âges différents pour que les gens soient étagés pour pouvoir un jour être directeur . . . à la CFP et à Elf vous verrez qu'il y a des gens de tous âges. Autre secteur d'activité où il y a beaucoup d'ingénieurs du Corps des Mines, c'est la SNCF. Tous les directeurs généraux apparemment sont toujours des ingénieurs du Corps des Mines. Et là ce phénomène d'étagement il paraît que c'est très frappant, tous les 7 ans . . . donc sauf gros problème ils sont assurés de parvenir au pouvoir".⁴⁴

Another aspect of the *Corps'* role as an employment agency is that an influential figure in the *Corps* has the unofficial function of recommending and supporting appointments. He is referred to as *le parrain* and described in the following terms by an official at the SNEA:

"le Corps considère qu'il y a un tel qui de par ses qualités personnelles, sa personnalité, son entregent, ses relations, les positions qu'il occupe est apte à faire ce métier et donc à avoir les entrées nécessaires pour régler les problèmes".⁴⁵

Both Pierre Guillaumat and André Giraud enjoyed this title.

Benefits

Corps members enjoy a range of personal advantages, confirming Thoenig's observation that "Le caste est d'une autre espèce que le commun des mortels".⁴⁶

In addition to the prestigious posts, job mobility and valuable contacts already mentioned, benefits also include exceptionally high salaries, bonuses if the *corpsard* works in the administration, and job security.

Evidence shows that within companies members of *grands corps* have a salary scale of their own, above that of other company executives. According to the director of personnel at the CFP,

"la hiérarchie des salaires n'a rien à voir avec la hiérarchie des responsabilités. M. X qui est polytechnicien a une responsabilité de fonctionnel parce qu'il est polytechnicien. M. Y a une responsabilité opérationnelle beaucoup plus considérable, mais comme il n'est pas polytechnicien il a un salaire inférieur".⁴⁷

The *Corps des Mines* enjoys considerable financial autonomy through funds obtained from the *arrondissements minéralogiques*. This is one of the official tasks of the *Corps* and provides it with substantial funds which can be allocated to different areas. For example, the salary of those *ingénieurs* who work in the top administration can be supplemented to bring their income in line with those working in the private sector. This is an attempt to avoid too great a migration from the administration to the private sector. In addition, the funds can be used to supplement the financial resources of the *Ecole des Mines* by supporting different kinds of postgraduate training in the form of travel or study grants.

According to Friedberg and Desjeux,

"Le Corps peut ainsi à chaque instant disposer des experts dont il a besoin dans de nombreux domaines, voire les former au fur et à mesure que la demande s'en fait sentir".⁴⁸

A further benefit is job security, that is, a member of the *Corps des Mines* is unlikely ever to be unemployed. This point was confirmed by an official at the CFP interviewed for this study:

"Quoiqu'ils fassent, ils auront toujours la sécurité d'emploi, ils ne seront jamais blâmés . . . Moi je n'aurai jamais la chance d'avoir un poste qu'ils peuvent avoir. Par contre on peut les voir faire des fautes absolument gigantesques et rester en place".⁴⁹

Job security as a benefit is also confirmed by Suleiman's evidence:

"Regardless of their competence, or of attempts at other careers that may not always be wholly successful, they can always return to the bosom of their Corps".⁵⁰

One should add that the careers of those who resign from the *Corps* (*démissionnaires*) are no longer "managed" by the *Conseil*. These are *ingénieurs* who have taken up posts in the private sector. They made up about 50% of the *Corps des Mines* in 1986. However, Thoenig points out that

"... même si l'individu en vient à démissionner, à quitter formellement son statut de fonctionnaire, socialement et psychologiquement, il restera perçu comme un membre de la tribu, comme une maille du réseau".⁵¹

The fact that the *Conseil des Mines* is responsible for the training of the *ingénieurs-élèves*, that it has personal knowledge of each one of them, that it organises their career in its initial stages and in its entirety, if they choose to remain in state service, are the bases of the *Corps*' independence and capacity to manage itself. The content of the training course reveals the *Corps des Mines*' adaptability and

capacity to exploit simultaneously a specific and a general competence. These features have enabled the *Corps* to place its members in a wide variety of posts and build an extensive network of contacts in the worlds of government and big business. As demonstrated, the *Corps* employs a variety of tactics to preserve these contacts and constantly to create new ones. Its considerable financial autonomy and capacity to offer prestigious posts and many other advantages to its members creates between the two sides allegiance and mutual dependence. The evidence provided bears out Thoenig's comment that "L'intérêt du groupe passe par celui de ses membres et vice versa. L'un travaille pour l'autre".⁵²

Consequences

What were the consequences for government-industry relations of the *Corps des Mines* capacity to diversify its activities and monopolise posts? In his discussion of the effects of technocratic action, Thoenig refers to "la transformation des responsabilités exercées par les individus en quasi-propriété du groupe".⁵³ That is, the creation of strongholds where *Corps* members occupied decision-making positions. As already shown, the *ingénieurs du Corps des Mines* were to be found throughout the heavy industry and energy sectors, both in top posts in the relevant departments of the Industry Ministry and at director level in public-sector firms under its *tutelle*. Taking the state oil sector as our example, we shall show first that at the time our research was conducted (1986-88), it was a stronghold of the *Corps des Mines*, and, second, discuss the positive and negative consequences for government-industry relations.

A glance at the positions occupied in 1986 by the 19 *ingénieurs du Corps des Mines* in the SNEA shows that, not only the Chairman and Vice-Chairman belonged to the *Corps*, but also the Chairman and Vice-Chairman of ERAP (holding company), the Chairman of ATOCHEM, as well as the directors of strategic areas, namely Europe, the United States and Nigeria.⁵⁴ Moreover, of the fourteen members of the *Comité Exécutif*, five were *ingénieurs du Corps des Mines*.⁵⁵

Strongholds imply continuity of leadership. If one looks back over the history of the group it is noticeable that from its beginnings there were *ingénieurs du Corps des Mines* in the key posts.

The three founders of the BRP in 1945, all "X" *Mines*, were still involved in the state oil company's development 30 years later. Table 3.6, p. 299 confirms their continuity and "logical" career path from the top administration to key posts in public-sector firms. An official at the SNEA, interviewed for this study, referred to "le noyau qui a impulsé le groupe" or a collective ambition born of a common training and interests.

Tout ceci n'a pu se faire que par une volonté animée effectivement par des gens ayant cette formation commune, ces relations étroites, cette appartenance sans quoi on n'aurait pas pu le faire ... il y a bien eu une volonté délibérée et ça c'est une création du Corps des Mines ... C'est cette volonté de remédier à cette carence géologique qui est née chez eux dans la formation qu'ils ont obtenue, dans cette collégialité.⁵⁶

Not only had several leaders of the state oil group received the same training and joined the same *grand corps*, but they also shared the same *corps d'origine* as those occupying posts of responsibility at the DHYCA. For example, in 1986, the following posts were filled by *ingénieurs des Mines*:

Direction des Hydrocarbures

Directeur	Gilles Bellec
Directeur (Service de prospection-production)	Dominique Henri
Directeur (Service de la prévision)	Claire Hocquard ⁵⁷

The director of the DYHCA, as explained in Chapter 3, was one of the *Commissaires du Gouvernement* of the SNEA, and by tradition an *ingénieur du Corps des Mines*. Pointing out this "colonisation" of the DHYCA by the *Corps des Mines*, an official at the SNEA remarked,

"Les deux groupes pétroliers ont des relations très étroites avec cette administration du Corps des Mines qui est le grand corps du Ministère de l'Industrie dont la DHYCA est l'instrument exclusif. Il n'y a quasiment que des ingénieurs des Mines dans les fonctions importantes à la DHYCA. De ce fait on se connaît, on se tutoie".⁵⁸

The implications for government-firm relations of the fact that people with the same training occupied key posts in public corporations and in their *ministère de tutelle* is that top civil servants and company leaders knew and understood one another. The tradition of *pantouflage* further reinforces these links with benefits for both sides. As a SNEA official remarked,

"Dans une entreprise publique il y a plus de gens qui viennent de la fonction publique que dans une entreprise privée. Les fonctionnaires aident en ce sens qu'ils créent un système de relations privilégiées avec leur corps d'origine ... c'est l'intérêt d'avoir des fonctionnaires, c'est de créer avec l'administration des liens privilégiés ...".⁵⁹

The three young *ingénieurs du Corps des Mines* mentioned above would have been welcomed by the firm for other reasons. They had a good technical knowledge of the oil sector, they understood the working of large corporations and they had experience of and contacts in the top administration, a useful asset in negotiations with government officials:

"Ça permet de recueillir des gens bien qui en plus de par leurs fonctions ont déjà été formés à notre métier et ont été formés dans un poste où ils ont vu beaucoup de choses".⁶⁰

Pantouflage was therefore extremely valuable to the top management of the SNEA and, as demonstrated in Chapter 2 (see p. 142), contributed to the support which the firm enjoyed from its supervisory ministry.

It is therefore no surprise that officials interviewed for this study should have emphasized the relationship of trust and complicity which habitually existed between the state oil group and its *ministère de tutelle*:

"Les anciens chefs de la DHYCA, ils vous disent clairement que leur rôle n'était pas d'être des cerbères, des inquisiteurs ... il y avait un jugement sur le comportement de l'entreprise et sur la confiance qu'on pouvait faire aux hommes qui conduisaient, à être plus souple vis-à-vis de certains hommes que vis-à-vis d'autres".⁶¹

Easy communications with the top administration was a related benefit of the *liens privilégiés* and possibly the most frequently mentioned by top managers in the state oil sector. Referring to the *ingénieurs du Corps des Mines* an official at the SNEA described them as,

"un milieu très homogène et qui communique bien"

and remarked that,

"... une entreprise de grande dimension comme nous, si elle n'avait pas d'ingénieurs des Mines, c'est un cas extrême, elle serait très gênée parce que pour correspondre avec l'administration française il faudrait créer les liens très difficiles avec des gens du Corps des Mines. Pour correspondre avec certaines grandes sociétés voisines il faudrait faire la même chose, donc il est intéressant pour nous d'avoir un certain nombre d'ingénieurs des Mines qui assurent cette liaison ... ça évite les blocages ... on va plus vite avec l'administration".⁶²

This efficiency of operation has been, in the opinion of Friedberg and Desjeux, the chief asset of the *grands corps*. It stems from their capacity to exercise control through their network of contacts, enabling them to simplify the growing complexity of government decision-making processes. Increasingly, groups and individuals representing different interests had to be brought together in negotiations. This led to the "horizontalisation" of administrative structures, that is, the creation of interministerial bodies, ad hoc committees, consultative groups. In the opinion of the authors two kinds of administrative structure appeared, the one formal, bureaucratic and highly compartmentalised, the other informal, flexible and fluid. Increasingly decision-making processes were obliged to make use of the latter, and it is here that Friedberg and Desjeux see the importance of the *grands corps*. They

operate like one large family with contacts in several fields whom they can consult easily and efficiently, whether it be a question of obtaining information, passing on ideas or exerting an influence: "leur expertise devient précisément la possession de cette capacité relationnelle".⁶³

A central question posed by writers on the *grands corps* is whether they pursued specific policies. Did the complicity between the state oil company and its supervisory ministry, together with specialised knowledge of the oil sector, which they jointly developed, enable members of the *Corps des Mines* to impose their choices on successive governments, in order to maintain their monopoly over the sector for their own career advantage? The development of the French nuclear industry, in which members of the *Corps des Mines* always occupied positions of responsibility, is cited as an extreme example of technocratic action.⁶⁴

Certainly while Pierre Guillaumat was influential in the state oil sector - for almost thirty years - members of the *Corps des Mines* in government and public-sector companies shaped national oil policy. The impetus given to exploration in French territories, the creation of a state-owned refining and distribution branch to capture a share of the national market, greater concentration of companies and increased internationalisation, were due to collusion between top civil servants in the Ministry of Industry and state oil-company leaders.

From the late 1970s, however, the picture became less clear. Other forces were as important in shaping the Elf group as that of building up a national champion in oil, namely less support from government for public-sector firms, the realisation by company top management of the need for an increasingly market-oriented approach, for wider diversification and the capture of foreign markets. The management of the SNEA was not dissimilar from that of a private multinational oil group.

What then was the main contribution of the *Corps des Mines*' presence in the state oil sector? Our evidence certainly shows that, as the Elf group expanded through mergers and takeovers, the number of *ingénieurs* in the company rose (see Table 3.7, p. 300). This evidence concurs with that of Suleiman, who demonstrates that the *grands corps* defend career advantages for their members, and with that of Kosciusko-Morizet, who shows that the *polytechniciens* tend to maintain their pre-eminence through the amalgamation of firms rather than through the creation of independent companies.⁶⁵ In addition, as subsequent chapters show, over the long term, there was a remarkable convergence between the policies of the state oil group and that of successive French governments. In other words, the French state and big business shared the same goals of industrial growth, although the means by which this growth was achieved evolved from a statist to a more market-directed one. Therefore, the clearest contribution of the *Corps des Mines*' presence in the oil sector is that it facilitated collaboration between government and large companies. This point was confirmed by Simonnot in *Le Complot Pétrolier*, where he showed that, in the second half of the 1970s, when French government policy aimed to liberalise the state oil sector, the influence of the *Corps des Mines* was to implement the denationalisation of ELF-ERAP, an *établissement public*, through amalgamation with the Société Nationale des Pétroles d'Aquitaine, one of its largely private subsidiaries.⁶⁶ Not only did this development conform with government economic policy, it also enhanced the size and financial health of the state-owned group. Therefore, in addition to facilitating communication between the sectors of government and industry, the *Corps des Mines* ensured that the objectives of both coincided.

Although the good relations between sectors of government and the state oil industry stemming from shared goals, were beneficial to the growth of the SNEA, *corps* practices and the similarity of training between government and company officials have several drawbacks. The *politique de parachutage*, complacency, introversion, an unbusinesslike approach to business and *corps* rivalry were

considered by certain officials interviewed as weaknesses of the elitist system and responsible for the failings of French industry.

Since the *grands corps*' main objective is to acquire prestigious positions for their members, an *ingénieur des Mines* may be "parachuted" into a company director's post, not only from outside the organisation, but without having had to climb the echelons of office. Consequently, the new director may lack real knowledge of the post, while experienced staff within the firm are excluded from appointment to a position "captured" by the *Corps des Mines*. The result can be inefficiency and demotivation, as a SNEA official remarked:

"... premièrement, il vaut mieux avoir des gens qui connaissent les métiers dans lesquels ils vont travailler, deuxièmement, vis-à-vis des gens en place, l'arrivée d'un nouveau venu qui ne connaît rien et qui est nommé directeur veut dire qu'il n'y a pas de carrière, que les gens qui sont arrivés à un certain niveau seront de toute façon plafonnés par des rentrants arbitraires".⁶⁷

Security of employment and other advantages offered by the *grands corps* to their members can lead to complacency in the key positions they occupy. Moreover, a feeling of superiority arising from the knowledge that they were the most brilliant students of their generation can produce an attitude of non-accountability. As a public official remarked, "... ils sont moins soumis à la nécessité de se justifier de façon permanente ... ça peut induire un certain confort intellectuel".⁶⁸

Grands corps members are regarded by non-members as protected from the risks of the business world:

"Leur maison principale c'est le corps, ce n'est pas Elf. L'effet c'est comme sur un bateau si le commandant a une ceinture de sauvetage plus grosse que celle de l'équipage".⁶⁹

Although easy communication between government and company officials contributes to the smooth running of affairs, if circumstances change, mutual

support and a similarity of vision can create introversion, immobility and conservatism. The economic growth in France during the *trente glorieuses* has been attributed in part to the cohesion between industrial and government circles. However, the world recession since 1973 brought unstable conditions to which certain sectors of French industry did not readily adjust. As a SNEA director remarked,

"Dès que ces croissances se sont rompues le système s'est complètement effondré puisqu'il y avait une inertie considérable. La sidérurgie est un bel exemple, l'industrie dominée par le Corps des Mines pendant longtemps a continué à faire comme si de rien n'était et n'a pas fait le mouvement de repli et de changement qu'auraient imposé les circonstances".⁷⁰

How were circumstances different? A major development was France's increasing exposure to competition from international markets, in the face of which the French steel industry in particular was slow to react. According to the official quoted above:

"A partir du moment où depuis 10-15 ans le problème des industries c'est de vivre à l'extérieur, cet avantage (cohésion interne) devient un inconvénient. Il vaudrait mieux avoir à la tête de Sacilor un Japonais ...".⁷¹

The world economic crisis also brought a considerable slowing down in demand, so that projects based on long-term growth confronted difficulties of adaptation. The same official used the example of the French nuclear industry, another stronghold of the *Corps des Mines*. Here it was a *collusion néfaste* between trade unionists and *grands corps de l'Etat*, both very conservative in outlook, which produced a nuclear industry far exceeding demand:

"on peut leur imputer des programmes comme le programme nucléaire français, exagéré parce que là encore une bonne cohésion entre l'administration et les syndicats de gauche a permis de monter un programme nucléaire inégalé, le premier du monde ... et comme toujours ce programme s'avère non adapté aux circonstances".⁷²

On their own admission, a sense of public service, instilled into members of the *Grands Corps* during their training, contributed to an anti-capitalist approach to business. According to a director at the SNEA, an *ingénieur du Corps des Mines*,

"On a tous une préoccupation de l'intérêt national. On a été formé dans les écoles à faire du droit public, étudier la jurisprudence. On a passé les premières années de notre vie au service de la collectivité publique. Ça donne de ce fait un certain détachement par rapport aux affaires - on regarde toujours un peu l'intérêt national
...⁷³

The same official explained this sense of national interest as follows:

"Les corpsards ont une certaine notion du service public, une certaine responsabilité. Ils disent qu'il ne faut pas licencier les gens, il est hors de question d'arrêter une entreprise, quelle que soit la mauvaise santé de l'entreprise ... ils sont rarement de véritables capitalistes".⁷⁴

The *ingénieur des Mines* quoted above remarked that the *Grands Corps* training can be ill-adapted to the cut-throat world of business:

"Cette préoccupation de l'intérêt national contribue à cette tare parce que dans l'industrie de temps en temps il ne faut pas seulement regarder l'intérêt collectif, il faut aussi tirer des coups de façon un peu brutale et nous, on ne sait pas très bien faire ... les grands corps de l'Etat ne sont pas des requins industriels, ils sont un peu trop gentils
...⁷⁵

A major drawback of the elitist system is *corps* competition. Rivalry between *grands corps* arises from the fact that professional training is general rather than specialised. The result is that different *grands corps* compete for a limited number of top positions. The power struggles between Albin Chalandon, chairman of Elf (1977-1983), and André Giraud, Industry Minister (1977-1981), referred to in Chapters 5 and 6, arose from the fact that Giraud, an *ingénieur du Corps des Mines*, had been Guillaumat's preferred successor on his retirement. President Giscard d'Estaing, however, generally unsupportive of the state oil sector, favoured Chalandon, a former *Inspecteur des Finances*, and more ideologically akin to his

own tastes for economic liberalism. The appointment of Chalandon was considered a loss and an affront to the *Corps des Mines*. Similarly, in 1989, the replacement of Jean-Pierre Capron, X-Mines and head of the CEA, a stronghold of the *Corps des Mines*, by an *Inspecteur des Finances* was described as *une gifle* - literally a slap in the face - towards the *Corps des Mines*.⁷⁶

It is unclear to what extent conflicts of this nature arose from rivalry over posts, policy differences or conflicts of personality. Events show, however, that *corps* competition produced divisions and inconsistencies in the policy-making process, as shown by the Kerr Magee episode (see chapter 2, pp. 138-141) and saga surrounding the group's diversifications (see chapter 5, pp.235-240). In the former case the attempt to expand in the US failed in 1979, but was successful two years later, because Industry Minister Giraud had been succeeded by Pierre Dreyfus (Minister of Industry 1981-1982), who was allegedly more sympathetic to Chalandon, having himself been chairman of another public-sector company, Renault.

Does our evidence confirm or contradict the technocratic myth? Have Elf's leaders conformed to the technocratic model? Is a state-created elite appropriate for the current world of market competition and privatisation?

We have shown that in 1986 all members of the *Corps des Mines* at the SNEA were in key positions. Moreover, their number had increased as the group expanded through mergers and acquisitions (see Table 3.7, p. 300). We have also shown that up to 1976 - until then the state oil sector was entirely in public ownership - members of the *Corps des Mines* not only occupied virtually all the positions of control in the group but also shaped French oil policy. Their collaboration with government had contributed to the development of a "national champion" in oil. Even ten years later, in 1986, when public ownership had fallen to 56%, officials still stressed the importance of the group's privileged links with government, maintained largely by the *ingénieurs du Corps des Mines*.

However, in pointing out the weaknesses of the elitist system, officials interviewed suggested that, by the late 1980s, the *Corps des Mines* had in many respects not adapted to the more competitive conditions of international business, but had remained conservative in outlook and protective of their positions. In addition, comparisons made between Elf and other oil companies at the same time also revealed that the group was more inward-looking than certain of its foreign competitors. It was smaller, it had not internationalised to the same extent, it was too concentrated on Africa for exploration and France for refining and distribution. Moreover, there were no foreigners on Elf's executive committee, only *Polytechniciens* and *Enarques*.⁷⁷

However, we have also shown that Elf's creation, development and expansion was largely due to collaboration between members of the *Corps des Mines* in Elf's top management and the Ministry of Industry. Furthermore, the group's record by the late 1980s was not insignificant. It figured among France's top companies in turnover and profits. It occupied ninth place at world level among oil companies. Moreover, it had successfully surmounted the vicissitudes of the world oil industry by diversifying into chemicals and pharmaceuticals.⁷⁸ This was not the record of a group run by unbusinesslike, non-accountable technocrats, removed from reality and secure in the privileges they enjoyed.

Perhaps the answer lies with top executives from within and outside the *Corps des Mines* whose career had been spent largely in France's state oil sector. Interviewed between 1986 and 1988, they considered that members of the *Corps des Mines* at Elf did not conform to the technocratic image, but were a very heterogeneous group: "... dire le Corps des Mines, c'est déjà une erreur" and "Il ne faut pas croire que tout le Corps des Mines est un et indivisible comme la République".⁷⁹

In the opinion of a member of Elf's *Comité Exécutif*, himself an *ingénieur du Corps des Mines*, the capacities of his fellow *Corpsards* were extremely varied:

"C'est un corps d'individus, il n'y a pas un comportement standard, collectif. C'est une bande d'individus qui ont quand même quelques facilités dites intellectuelles ... il y en a qui ont réussi avec une somme d'efforts importants, il y en a d'autres qui ont vraiment beaucoup de facilités".⁸⁰

The view that members of the *grands corps* were the best candidates for the posts they filled was erroneous. They could behave with varying degrees of competence, and membership of a *grand corps* was not necessarily a guarantee of the skills needed to run a company.

"Ce qui est néfaste c'est qu'on veuille dans certains esprits considérer que l'appartenance à un grand corps est un brevet de capacité à tout faire alors que c'est certainement un brevet de capacité de travail, de niveau intellectuel, de mémoire ... ce n'est pas nécessairement un brevet de jugement et qu'à l'intérieur de ce grand corps il peut y avoir des gens qui feront d'excellents hauts-fonctionnaires, d'excellents professeurs à Sciences-Po ou ailleurs, il y en a qui feront de grands industriels, de grands financiers ...".⁸¹

In the competitive conditions of the late 1980s, although membership of a *grand corps*, such as the *Corps des Mines*, facilitated appointment to positions of responsibility, the leaders of top companies had still to prove themselves on the job.

"Ils sont plus vite admis à la tête d'une filiale, ensuite s'ils réussissent ils sont peut-être plus vite dans les grandes directions du groupe mais je crois qu'on les teste assez sérieusement à l'intérieur de l'entreprise".⁸²

"Dans ce monde moderne il sera de plus en plus difficile de parachuter des gens. Il faut avoir été immergé au sein des affaires pendant de nombreuses années pour y apporter réellement une valeur ajoutée".⁸³

What is more, the *Corps des Mines* was conscious of its reputation, so those who fell short of its image of excellence were known to have been dismissed abruptly.

"Le Corps a aussi un intérêt de sa présentation, de sa crédibilité et notamment un homme comme Guillaumat, moi je l'ai vu virer des gens

du Corps des Mines de manière très sèche parce qu'ils étaient ingénieurs des Mines et pas au niveau qu'il aurait souhaité".⁸⁴

"Une fois que les gens du Corps sont intégrés dans des entreprises et y ont fait carrière, leur problème c'est du faire vivre l'entreprise dans laquelle ils sont. En aucun cas ils ne mettraient quelqu'un du Corps des Mines s'ils jugeaient que ça risquait de compromettre l'avenir de l'entreprise".⁸⁵

In addition, the Mafia-like practices - widely acknowledged as a characteristic of all the *grands corps* - may not have been as prevalent as is believed. According to an official of long-standing at the SNEA, the shrewder *ingénieurs* in posts of responsibility, aware of their lack of expertise in certain areas, would associate themselves with colleagues having complementary skills:

"Une des choses qui m'a frappé chez un certain nombre de Mineurs, c'est que les plus intelligents sont capables de s'abstraire de cette situation en s'adjoignant aussi les gens d'autres origines à titre de complémentarité".⁸⁶

Career mobility, resulting from an attachment to a general competence, was a further characteristic refuted by officials at the SNEA. Many *ingénieurs du Corps des Mines* in Elf's top management in 1988 had been with the company for the greater part of their career. "La plupart des ingénieurs du Corps des Mines ont fait toute leur carrière dans la maison ... ils sont entrés dans le groupe et ils y sont restés".⁸⁷

The reason given was that the oil industry is notoriously complex and takes many years to understand.

"Toutes les grandes sociétés pétrolières forment leurs dirigeants. La formation est très longue et il faut que les gens aient parcouru tous les cycles de la vie et de l'histoire pétrolière pour essayer d'en comprendre un peu la consistance".⁸⁸

CONCLUDING REMARKS

A more balanced view of the *ingénieurs du Corps des Mines* emerges from these comments. They do not all come to type. They perform differently and display a variety of talents. Knowledge and experience of the oil business and proven management skills came to be considered as indispensable to Elf's top executives. At the end of the 1980s Elf's rating as a French company and its place at world level showed that its top managers had adapted in several areas to more competitive economic conditions. The oil industry is essentially global. In order to survive oil companies have had to be not only very profitable, but also very flexible. A sign of Elf's strength in the late 1980s was that, although relatively young, it was able to survive alongside more powerful, established companies. It would not have achieved this relatively strong position, unless its top managers had been personally committed to the company's success.

Throughout this analysis we have stressed the importance for Elf of the *ingénieurs des Mines'* privileged links with government. We have shown that the government-company partnership was also an essential factor in Elf's achievements. Successive French governments' disengagement from the affairs of industry through privatisation - which began for Elf in 1976 - made the *ingénieurs des Mines'* role less appropriate and presented the *Corps* with new challenges.

From the late 1970s the SNEA underwent radical changes in both its mission and structure. This evolution anticipated the rapid liberalisation of the French economy from the mid-1980s. From being a hydrocarbon supplier, Elf's role widened to become that of "une entreprise de développement de l'économie française" (1981-1982). Its activities became increasingly more international and diversified. Tighter budgets forced both governments and companies to adopt more market-oriented policies. The sales of state shares in Elf's capital in 1976 and 1986 were symptomatic of this trend. Consequently, government support for France's oil "champion" was progressively reduced, culminating in Elf's privatisation in 1994.

We noted in Chapter 2 (see pp. 146-147) that the gradual dismantling of the 1928 laws governing the import and distribution of oil products brought an end to Elf's protected share of the French market. Yet regulation of the oil sector was a responsibility reserved for top officials at the DHYCA, a stronghold of the *Corps des Mines*. The speciality of the *ingénieurs des Mines* was becoming less relevant. This evolution reflected important developments in France: the decline of heavy industry, the ascendancy of the financier to the detriment of the *ingénieur*, and the devaluing of public service.⁸⁹ In addition, many of the *Corps des Mines*' strongholds have been lost through competition with *Enarques*. Since 1977, three of the four chairmen of Elf have not belonged to the *Corps des Mines*, and two have been *Inspecteurs des Finances*. However, regarding the appointment in 1989 of an *Inspecteur des Finances* to the directorship of the CEA, a stronghold of the *Corps des Mines*, an official of the *Corps* remarked,

"Pour le CEA, il y avait dans le privé une bonne trentaine de membres du Corps capables de tenir le poste, mais ils ne se battaient pas pour y aller. Les camarades les plus brillants sont dans la banque et le privé".⁹⁰

At the end of the 1980s the *ingénieurs du Corps des Mines* were looking for new outlets. However, they were operating in an unfavourable environment. The best elements were no longer attracted to posts in the top administration nor in public-sector firms. Their traditional specialism had lost its prestige. Remuneration in the civil service was poor compared with posts in private companies. Sectors in which they were attempting to move, such as banking, were strongholds of their formidable rivals, the *Enarques*. In addition, their scientific training was considered inappropriate to what the business world had become. According to a former minister and eminent member of the *Corps des Mines*,

"They do not know how to talk or to project themselves. It's an enormous handicap in an increasingly media-dominated society".⁹¹

NOTES

1. See also Vincent Wright, *The Government and Politics of France*, London, Hutchinson, 1983, pp.116-121.
2. Ezra N. Suleiman, *Elites in French Society*, Princeton, Princeton University Press, 1978, pp.17-24.
3. Ibidem, p.41.
4. Jack Hayward, *Governing France: The One and Indivisible Republic*, London, Weidenfeld and Nicolson, 1983, pp.117-124.
5. Quoted in E. Suleiman, op.cit., p.42.
6. Ibidem, pp.95-100.
7. Ibidem, p.7.
8. Jean-Claude Thoenig, *L'Ere des Technocrates: le cas des Ponts et Chaussées*, Paris, Les Editions d'Organisations, 1973, p.220.
9. Quoted in E. Suleiman, op.cit., p.166.
10. J-C. Thoenig, op.cit. See Introduction to 1987 edition, pp.22-24. See also E. Suleiman, op.cit., pp.176-188.
11. Erhard Friedberg and Dominique Desjeux, "Fonctions de l'état et rôle de grands corps: le cas du Corps des Mines" *Annuaire International de la Fonction Publique*, 1971-72, p.583.
12. J-C. Thoenig, op.cit., 1987, p.22.
13. E. Suleiman, op.cit., pp.240-244. and E. Friedberg and D. Desjeux, op.cit., p.576.
14. E. Suleiman, op.cit., pp.108-110.
15. E. Suleiman, op.cit., pp.223-226.
16. Jacques Kosciuzko-Morizet, *La Mafia polytechnicienne*, Paris, Seuil, 1973.
17. J-C. Thoenig, op.cit., 1987, pp.35-37.
18. Private interview.
19. Jean-Marc Oury, "Histoire succincte de l'administration des Mines", *Annales des Mines*, No.1, 1983, (Numéro du Bicentenaire), pp.33-34.
20. Ibidem, p.34.
21. E. Friedberg and D. Desjeux, op.cit., p.572

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22. André Thépot, "Les Ingénieurs du Corps des Mines, le patronat et la seconde industrialisation", in A. Thépot (ed.), *L'Ingénieur dans la société française*, Editions Ouvrières, 1985, pp.14-18.
 23. Ibidem, pp.19-21.
 24. E. Friedberg and D. Desjeux, op.cit., pp.569-573 and *Annuaire du corps des Mines* for the years 1980, 1981, 1982, 1983, 1984, 1985, 1986, St Etienne, Gédim
 25. *Annuaire du Corps des Mines* 1986, op.cit., pp.6-22.
 26. E. Suleiman, op.cit., p.209.
 27. Private interview.
 28. J-C. Thoenig, op.cit., 1987, p.20.
 29. Private interview.
 30. Private interview.
 31. E. Suleiman, op.cit., p.164.
 32. Private interview.
 33. Private interview.
 34. E. Suleiman, op.cit., pp.207-208.
 35. Private interview.
 36. Ibidem.
 37. E. Suleiman, op.cit., pp.162-167.
 38. Private interview. See also E. Suleiman, op.cit., pp.96-97.
 39. Private interview.
 40. E. Suleiman, op.cit., p.145.
 41. *Annuaire du Corps des Mines*, op.cit., for years 1980 - 1985.
 42. E. Friedberg and D. Desjeux, op.cit., p.579.
 43. E. Suleiman, op.cit., pp.176-188.
 44. Private interview.
 45. Private interview. See also E. Suleiman, op.cit., p.180.
 46. J-C. Thoenig, op.cit., 1987, p.22.
 47. Private interview.
 48. E. Friedberg and D. Desjeux, op.cit., pp.577-578.

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49. Private interview.
 50. E. Suleiman, op.cit., p.145.
 51. J-C. Thoenig, op.cit., p.23.
 52. Ibidem, p.22.
 53. Ibidem, p.23.
 54. *Annuaire du Corps des Mines*, op.cit., 1986, p.28.
 55. *Société Nationale Elf Aquitaine, Rapport Annuel 1987*.
 56. Private interview.
 57. *Annuaire du Corps des Mines*, op.cit., p.5.
 58. Private interview.
 59. Private interview.
 60. Private interview.
 61. Private interview.
 62. Private interview.
 63. E. Friedberg and D. Desjeux, op.cit., pp.579-585.
 64. Philippe Simonnot, *Les Nucléocrates*, Grenoble, Presses Universitaires de Grenoble, 1977.
 65. E. Suleiman, op.cit., p.249 and J. Kosciusko-Morizet, op.cit., p.136.
 66. Philippe Simonnot, *Le Complot Pétrolier*, Paris, Editions Alain Moreau, 1976, pp.63-80.
 67. Private interview.
 68. Private interview. Se also E. Suleiman, op.cit., pp.145-149.
 69. Private interview.
 70. Private interview.
 71. Ibidem.
 72. Ibidem.
 73. Private interview.
 74. Ibidem.
 75. Ibidem.
 76. *Le Monde*, 23.7.89.

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77. *Usine Nouvelle*, 25.5.89.
 78. *Le Monde*, 18.6.88.
 79. Private interview.
 80. Private interview.
 81. Private interview.
 82. Private interview.
 83. Private interview.
 84. Private interview.
 85. Private interview.
 86. Private interview.
 87. Private interview.
 88. Ibidem.
 89. *Le Monde*, 23.7.89.
 90. Ibidem.
 91. Ibidem.

CHAPTER 4

THE MULTINATIONAL DIMENSION: GOVERNMENT-COMPANY STRATEGIES IN AN INTERNATIONAL ENVIRONMENT

How did Elf and successive French governments interact in the international sphere? This chapter will show that government both supported and hindered Elf's international expansion. Yet, by exploiting the convergence of its goals with those of the French state, Elf extended its activities abroad. Furthermore, by means of its international dimension, Elf achieved considerable autonomy vis-à-vis its major shareholder and in certain areas even took over the role of government. Paradoxically, the group's identity as a French public sector company favoured its internationalisation. However, the Single European Act and rapid liberalisation of world trade from the mid-1980s brought about a weakening of the state link in France. How did these developments affect the government-company partnership?

In discussing government-company interaction in the international sphere, we must take into account the Elf group's identity. During the decade with which we are concerned, 1976-86, the SNEA belonged to that category of companies which were both public and multinational. State ownership of the group stood at 67% up to 1986. That year it was reduced to 56% through partial privatisation. The SNEA could also be identified as a multinational according to a range of criteria: possession of subsidiaries abroad, the realisation of 50% of its turnover abroad, the planning and management of its activities on a world scale¹. Furthermore, since its beginnings, the group's main activity in oil and gas exploration and production made it the ideal field of activity for the multinational company. According to J.M. Chevalier, whether a country is in the position of an importer like France or an exporter like Saudi Arabia, oil is a world industry. The reason is that if one leaves aside the USA and Russia, the zones of greatest consumption, Western Europe and Japan, do not correspond with the zones of greatest production, the Middle East and Africa, and oil has to be transported by pipeline and tanker. What is more, the industry has several levels: exploration, production, transportation by sea, refining and marketing, and each phase may be located in a different place. In addition, it is a multi-product industry. This plurality of finished products means a plurality of markets. Furthermore, it is a highly capital-intensive industry. Entry into the oil

sector demands large amounts of capital at every stage and this is a barrier which can only be surmounted by powerful financial groups².

The scale of Elf's international activities in 1987 are an apt illustration of the characteristics mentioned above. That year the SNEA realised at least half its turnover from its international activities which extended over some 50 countries³.

In fact all five branches of the group, oil and gas exploration and production, processing and marketing of oil and gas, heavy and fine chemicals, pharmaceuticals and cosmetics, Elf Aquitaine Inc., had an important international dimension⁴. The last of these - Elf Aquitaine Inc., a diversified mining and chemicals group - is actually situated in the US. The original and what was in 1987 still the most important branch, exploration and production, depended almost entirely for its resources on the outside world. This branch had prospection activities in 30 countries and production activities in half of these⁵. Europe and West Africa were the most productive zones, the greater part of Elf's crude oil coming from the Gulf of Guinea and its gas from the North Sea⁶. It is for this reason that among Elf's most important foreign subsidiaries were the following:

Elf Aquitaine Norge	-	Norway
Elf U.K.	-	Britain
Petroland	-	Holland
Elf Gabon	-	Gabon
Elf Congo	-	Congo
Elf Nigeria	-	Nigeria
Elf Serepca	-	Cameroon
Elf Aquitaine Angola	-	Angola

As regards the refining and distribution branch, while most of the group's activity took place in France, it also had a share in refineries in several African countries, Morocco, Senegal, Ivory Coast, Cameroon, Gabon and Congo. The connection between this African bias of Elf's activities and the French Government's political, military and economic involvement in the affairs of many of these countries is therefore no accident, nor is the connection with political corruption in France

fortuitous. In addition to 6,400 sales outlets in France, it had distribution subsidiaries in Germany, Britain, Belgium, Holland, Switzerland, Spain and Nigeria⁷. An aspect of Elf's refining activity is international trading in crude oil and finished products. International trading has developed in recent years for two reasons: the crude oil produced by the group has not necessarily been of the quality required in its refineries and the group naturally aims to sell the crude oil it produces at the best price⁸. Originally Elf was self-sufficient. It supplied its refineries with crude oil produced by its own exploration companies. As prices became volatile and markets developed, it became more profitable to trade with others. In 1987 only a third of the crude oil processed in Elf's refineries was produced by the group's production subsidiaries, while two-thirds were acquired on the international market⁹.

As regards the group's chemical interests which received their present form as a result of the restructuring of the French chemical industry in the early 1980s, they are the concern of its subsidiary Atochem, whose chief activity is heavy and speciality chemicals. Elf Aquitaine Inc., the group's American branch, also has important chemical interests, covering the production of sulphur and phosphates and speciality chemicals. Sanofi is the pharmaceuticals branch of Elf but its subsidiaries also include bioindustries, perfumes and cosmetics. In 1987 both Atochem and Sanofi achieved 50% of their turnover outside France¹⁰.

Although the extent of the SNEA's operations abroad in the late 1980s justified its identity as a multinational company, evidence provided by Elf's officials showed a division of opinion regarding the group's true character. For some there was a reluctance to use the term "multinational" and an emphasis on the group's "Frenchness". According to Michel Pecqueur, SNEA chairman 1983-89, Elf was

"un groupe français par son lieu d'établissement comme par sa direction."

and

"un groupe international par ses activités dans plus de 50 pays."¹¹

For another official, the SNEA was "à base française". There was a "culture française dominante" in its foreign subsidiaries where French nationals occupied

the main decision-making posts. By contrast, according to the same official, the true private multinational not only operated in several countries but had decision-making centres throughout the world. Furthermore, it had no predominant nationality. In his opinion, the term "multinational" had pejorative connotations implying,

"une certaine déresponsabilité de la société où chaque filiale travaillait pour ses propres intérêts et non pas pour l'intérêt du pays d'origine de la société."¹²

Yet another official defined Elf's character as follows:

"on est une entreprise libre de ses mouvements ... Elf a toujours eu dans l'esprit de se comporter comme une entreprise privée dans la limite où elle pouvait le faire."¹³

This divergence of opinion points to Elf's dual nature and to the paradox implicit in its simultaneously multinational and public character. According to Anastassopoulos *et al.*,

"Très peu de ces entreprises, multinationales publiques semblent accepter avec sérénité leur double état, en faire mention de façon explicite."¹⁴

The tensions arising from Elf's dual nature emerge clearly in the analysis of government-company interaction in the international sphere and were a contributory factor to the competitive pressures favouring outright privatisation in the 1980s. Nationalised industrial champions were being compelled to become internationalised firms while retaining their French roots.

Government support for internationalisation

France's state oil sector had to have an international dimension for a simple reason. As an official interviewed for this study remarked: "On est obligé d'être international. Du pétrole, on n'en trouve pas en France. Donc on est obligé d'aller le chercher là où il se trouve."¹⁵

As Chapter I explained, the Bureau de Recherches de Pétrole (BRP), created for this very reason in 1945, was given enormous help from government to supply France with oil. Government policy at the time was directed at production although an international dimension was also implicit in the BRP's task, as shown by the *ordonnance* for its creation:

"Du pétrole produit et raffiné en France et dans son empire est la seule solution parfaite aux problèmes d'approvisionnement du pays en hydrocarbures."¹⁶

The support received from government, namely, presidential backing, financial help from the first Plan (1946-50) and the Fonds de Soutien aux Hydrocarbures (FSH), tax exemption and the protection of the 1928 legislation, not only enabled the BRP to implement a national oil policy but also encouraged it to behave like a multinational, although with an emphasis upon the French colonies.

The BRP's early activities show features of multinational behaviour, namely the search for more abundant sources of supply, association with foreign companies and the creation of subsidiaries. As noted in Chapter I, since the *ordonnance* for the creation of the BRP implied geological examinations of all territories of *l'Union française* and prospection in regions which seemed technically and economically promising, the use of private capital to share the costs and risks was recommended. This would entail association with foreign oil companies notably the Majors.¹⁷

The BRP was created not just as a government agency but also as a holding company. Not only were shares in companies operating in metropolitan France, Société Nationale des Pétroles d'Aquitaine (SNPA) and Société Nationale des Pétroles du Languedoc et du Midi (SNPLM), transferred to it but it also took over the French government's role in companies developed from *syndicat d'études* working in different parts of Africa, notably, Tunisia, Gabon, Madagascar. Prospection in such underdeveloped regions necessitated the creation of companies which would service the industry, such as drilling, the construction of offices and housing, transport of oil and gas by pipeline, engineering. These were the activities of the

BRP's first holdings. As discoveries were made and the industry developed, the BRP's holdings naturally became more diverse.¹⁸

It was the efforts of the BRP's overseas operations which gave the state oil sector its first successes in the late 1950s, in Gabon, the Congo and more especially, the Sahara. Practically inexistant in the early 1950s, oil production from the franc zone amounted to 18 million tonnes by 1962¹⁹. Moreover, structures were in place, knowledge of the regions and technical know-how had been acquired. Such expertise was invaluable when rapid internationalisation became a necessity after the state oil companies' withdrawal from Algeria in 1971.

The state oil companies, as we have shown, were given enormous financial support from government to develop in their early years. Furthermore, with the signing of the Treaty of Rome, GATT agreements and gradual opening of the French economy to international trade from the 1960s, the concentration of firms to create "national champions" which could compete internationally became government policy²⁰. The Nora report of 1967 strongly recommended greater internationalisation for French firms. The *Entreprise de Recherches et d'Activités Pétrolières* (ERAP), formed out of the merger between BRP and the *Régie Autonome des Pétroles* (RAP), in 1965, is an excellent example of a public company which was given all kinds of advantages to compete both on national territory and in the international arena.

We shall show that ERAP's international dimension was supported by governments in three areas: regulation and prices, the relaxation of certain government control procedures and financial benefits. By consolidating public enterprise in its country of origin, governments indirectly gave it a basis for expansion abroad. It should be added that similar advantages were enjoyed by a large number of other public sector companies, for example, Renault, Air France, *Entreprise Minière et Chimique* (EMC), *Compagnie Internationale pour l'Informatique* (CII)²¹ reflecting the fact that this was general government policy.

Chapter I has shown that by means of the 1928 legislation, the DICA, throughout the 1960s, steadily increased the share of the French refining and distribution market held by the young state oil companies to the detriment of that held by the Majors. By the late 1970s a certain balance had been achieved by which Elf and the CFP held 50% of the market, while Shell, BP, Exxon and Mobil, held the other 50%. As noted in a study of government influence on the French oil sector,

"Comme dans toute oligopole bien établie, une certaine forme de cartellisation est bénéfique aux compagnies."²²

An example of these benefits was that in their international activities, the French oil firms' association with the Majors on French territory was negotiated in exchange for shares in permits abroad acquired by the Majors. Consequently:

"Elf et la CFP peuvent développer leurs opérations outre-mer en contre partie d'association avec les internationaux sur les permis accordés aux sociétés françaises."²³

It was by means of such associations that Elf and the CFP were entitled to begin North Sea exploration from the early 1970s.

A further result of the state managed cartel, emanating from the 1928 laws, was that the price of oil products was always higher in France than in other EC countries. As the president of Shell's French affiliate put it in the late 1970s, "the French regulatory system assured a market where profitability was more constant than elsewhere."²⁴ Chapter I has explained how responsibility for fixing the price of oil products moved from the ministry of Industry to the ministry of Finance in the wake of the *affaire de Marseille* and oil crisis. Yet both ministries favoured high prices. Industry traditionally supported the firms under its *tutelle* while Finance encouraged high prices to allow firms to use their own funds for investment. Pricing policy therefore brought large profits to the oil companies operating in France, although it also meant high prices for the consumer²⁵.

Regarding the mechanisms for the control of public sector companies, analysed in Chapter 2, it was recognised that these should be lightened to facilitate their wider internationalisation²⁶. There were two reasons for this. First, it was acknowledged that firms which showed good results as a consequence of efficient management, should be allowed to make their own decisions. Second, it was recognised that control procedures, imposed by national governments, were ineffective at controlling the foreign subsidiaries of public sector firms. As mentioned in Chapter II, the subsidiaries of nationalised companies are immune from investigation by the Cour des Comptes. A further example of this relaxation of control procedures is that when the SNEA was created in 1976 (out of the merger between ERAP and the SNPA) and given instructions to be "responsible for its profitability and development", the government chose not to exercise its right of vote beyond 52.2%, although it owned a 70% stake in the oil group through ERAP.

As regards the financial advantages enjoyed by the state oil sector, we have already mentioned that from its creation, the BRP benefitted from tax exemption and a fund created to assist oil exploration, the Fonds de Soutien aux Hydrocarbures (FSH). In addition, as the internationalisation of the economy became more pressing from the mid-1960s, public sector firms were allowed to internationalise their profits. Both Elf and the CFP were allowed this advantage in order to put them on an equal competitive footing with the international oil firms operating on French territory. A further advantage was that borrowing by public sector firms was guaranteed by government²⁷.

What is more, like other public sector firms, Elf and the CFP enjoyed the advantage of public procurement contracts. Writing in the late 1970s, de Bodinat and Chambaud noted that:

"Elf a obtenu que d'autres sociétés nationalisées (Air France et Renault) s'approvisionnent en carburant auprès de lui-même plutôt qu'auprès de concurrents internationaux."²⁸

From the early 1980s, however, a combination of new challenges stemming from the international nature of the oil industry, from France's closer integration in Europe and successive French governments' need to curb public expenditure, progressively swept aside many of the privileges which Elf was accustomed to receive. Since then, Elf has been forced to adapt to increasingly fierce world competition. Firstly, the 1928 laws had always been a bone of contention between successive French governments and the European Commission since they contravened the Treaty of Rome. Under pressure from Brussels during the late 1970s and early 1980s, French governments gradually and reluctantly dismantled the 1928 legislation and lifted price controls on oil products. The freeing of petrol prices was completed by the Chirac government of 1986 in its general lifting of price controls²⁹. Secondly, when the Socialist government came to power in 1981, in spite of its moves to establish good relations with the business community, evidence for which was the government's authorisation to Elf to purchase Texas Gulf, the Socialists nevertheless refused to give any financial help to the venture. The transaction had to be carried out by an exchange of subsidiaries. Therefore, although the government was anxious to give "guarantees of liberalism to the outside world", it was also intent on making Elf pay. Thirdly, the fall in world oil prices in the mid-1980s meant that oil produced by the French companies would no longer finance their exploration costs. These had become prohibitive, multiplied by seven between 1977 and 1987³⁰. As a result, according to the oil correspondent of *l'Expansion*, writing in the late 1980s, Elf and the CFP went through a "cultural revolution". Responsible in the past for meeting the needs of the French market, they benefitted in return from guaranteed sales. Once they were freed from the constraints of supply, they lost part of their share of the national market. A parallel development took place in distribution when supermarkets obtained permission to sell petrol at reduced prices.³¹

The result of this greater liberalisation and fiercer competition between companies was that to survive, Elf and CFP had to adapt increasingly to the laws of the international market. This implied drastic cuts in their exploration budgets, more

cost-effective refining and distribution activities and the acquisition of new skills, notably those of international dealer in oil and oil products with profitability as their only criterion³².

Obstacles to Internationalisation

The previous section has shown to what extent Elf's links with government favoured its international expansion. Yet there were also cases in which government hindered the group's international activities, arising from the fact that the state oil sector was created as an instrument of government. Originally government aimed to use the sector to provide France with secure supplies of hydrocarbons in an attempt to achieve independence in energy supplies. Governments and economic circumstances change, however. Besides, public sector companies are vulnerable to the ideological and economic imperatives of their major shareholder³³. Furthermore, since the early 1970s, French firms have been increasingly exposed to changes in world markets. The oil crisis of the early 1970s not only brought about the switch from oil to nuclear energy as the major source of power in France, but also marked the beginning of a fall in demand for energy worldwide. Governments also became more demanding. Elf's major shareholder expected it not only to continue fulfilling its original mission, but to be profitable like any "normal company" and to take responsibility for the tasks which governments habitually assumed.

We shall examine interventions by governments of Right and Left which indirectly and directly hindered Elf's international expansion. Any obligation imposed on an international company by government in the national interest can be an indirect handicap to the company's international ventures because such obligations divert company funds away from these activities. Governments can also intervene directly to veto company activities which do not conform to national policy objectives. How did this affect French industrial, social and foreign policy?

Social Policy

"Nous sommes considérés comme une des sociétés qui doit être exemplaire en matière salariale et d'emploi", remarked an Elf official interviewed for this study³⁸.

Government social policy has three main objectives: better working conditions, job creation and an improved geographic distribution of employment³⁹. In the context of a public company and in so far as they concern its home state, these objectives are totally contradictory to the multinationalisation of its activities. Better working conditions imply a reasonable salary and security of employment. In most developed countries, public companies have traditionally offered both these advantages. In addition, the staff of public companies and frequently their families enjoy many other benefits. Consequently, the expense incurred by public companies, as a result of a highly progressive social policy, is not particularly favourable to them in the context of international competition,

"Car elles ne sont pas compensées, bien au contraire, par un dynamisme plus grand de leurs employés, habitués à être bien traités, considérant ce qu'ils reçoivent comme un droit...."⁴⁰

Over-manning can present an even more serious handicap to a public company's internationalisation. On the one hand, "les employés représentent une immobilisation à long terme puisqu'elles (les entreprises) ne peuvent pas les licencier."⁴¹ On the other, the public company must obtain agreement from government and unions, who are endeavouring to combat unemployment, for the fact that it is creating jobs abroad, while at home it is creating few, or none at all, or actually reducing them. The international investments of the SNEA have always come in for considerable criticism on this point, as confirmed by an official interviewed for this study:

"On est obligé d'investir ailleurs une partie des résultats obtenus en France. C'est toujours la question que les syndicats critiquent parce que ça fait plus d'emplois à l'étranger que d'emplois en France."⁴²

Although hostility to delocalisation does not generally prevent investment abroad, it can have a negative influence on the global strategy of firms:

"Celles-ci ont en effet plus de mal à fermer des usines et à licencier du personnel dans leur pays d'origine alors qu'elles créent des emplois à l'étranger: elles auront donc tendance à 'supporter' une certaine dose de sureffectifs dans leurs usines domestiques; par ailleurs, elles auront aussi tendance à modérer corrélativement leur expansion à l'étranger."⁴³

A public company's third 'social mission' is the creation of jobs at a local level and here the unions find support from another forceful group, regional authorities. For example, in 1976, in anticipation of the future decline of the Lacq gas-field, pressure was put on the newly formed SNEA to invest a percentage of its profits (5-10%) in the region of Béarn and process a proportion of the by-products of gas on the spot, rather than export them. The SNPA (which amalgamated with Elf Erap in 1976), responsible for the exploitation of Lacq, had been the 'moteur économique' of the region since 1957 and was directly and indirectly giving work to some 50,000 people. It seems that from 1972, the SNPA, aware that gas production would begin to run down from the early 1980s, was no longer investing in the region. The response, given by the vice-chairman of the SNEA, to demands was: "Il n'est pas question de nous substituer à la puissance publique, ou à la DATAR."^{44 45}

Demands of this kind only add to the numerous constraints on public companies aspiring to extend their international dimension, by attaching them more firmly not only to their country but to their region of origin.

Foreign Policy

Abroad a French public company is always expected to represent the state which is its sole or major shareholder. The company's activities outside national boundaries can never be disconnected from the foreign policy of its country of

origin⁴⁶. The link between the public company and its home state manifests itself in two ways: the first is that host countries perceive the company as an agent of its home state, the second is that the firm's home government tends to use the company as an agent of national foreign policy. These two phenomena can be a handicap to the public company in its international expansion, as shown from numerous examples in Chapter 1.

Perhaps the most notable period in Elf's history, when it was perceived to its detriment as an agent of its home state, occurred after Algeria gained its independence in 1962⁴⁷. The attitude of the French oil companies towards the new Algerian state hardly changed. In fact the Sahara Oil Code of 1958, which defined conditions under which Algerian oil could be exploited and which distinctly favoured the French companies, was hastily amended, just prior to the Evian agreements of 1962, so that French interests could be safeguarded. The French companies in Algeria enjoyed far greater advantages than companies in other oil-producing countries, having complete control of their production costs and prices at which they sold Algerian crude. They were thus able to transfer considerable profits to France to develop their refining and distribution network and finance prospection in other countries. The Algerians became conscious of how they were being exploited and, anxious that Algerian hydrocarbons should contribute to the economic development of their own country, they demanded from 1964 a revision of the Evian agreements. A plan was drawn up which seemed to promote real industrial and commercial cooperation between France and Algeria but it did not satisfy the Algerians for long. In addition, they began demanding higher prices for their oil after the closure of the Suez Canal in 1967. Relations deteriorated fast, with Algeria unilaterally raising prices and France resorting to delaying tactics regarding the payment of accumulated arrears. The beginning of the oil crisis in 1970 brought matters to a climax, for although France agreed to renegotiate economic cooperation, Algeria was demanding still higher prices in line with world rates. France's delaying tactics were on this occasion ineffectual, because on February 24th 1971, President Boumedienne announced the takeover of a majority share in French oil companies

in Algeria and the nationalisation of pipelines and natural gas reserves. The loss to the French oil companies, as already mentioned, was enormous and took several years to repair.

Insofar as it is an instrument of the foreign policy of its home government, the public company, and especially the oil companies, can be subjected to all kinds of pressures against their own interests, as a comparison with Italian policy highlights:

"Le secteur pétrolier est très caractéristique de ce genre d'interférence entre la politique et l'économie car il est lui-même très politisé. Ainsi l'ENI ira en Libye parce que le gouvernement italien le lui demande mais Elf Aquitaine y "gèlera" ses activités parce que le gouvernement français engagé aux côtés du Tchad contre l'armée du colonel Kadhafi l'y oblige."⁴⁸

These instructions from the French government to the SNEA were actually the last stage of one of the many battles waged between Albin Chalandon and André Giraud, his *ministre de tutelle*. In the midst of hostilities between Gadaffi's soldiers and pro-French Tchadian forces, in November 1980, Chalandon had quietly agreed an important exploration-production deal with Tripoli. He had characteristically not asked the permission of André Giraud but referred instead to the *secrétaire général de l'Elysée** who had given him the go-ahead. Giraud was only informed in the press about the deal some days later.

"Il y (dans Le Monde) apprend simultanément l'entrée des chars libyens dans N'Djamena et l'obtention de cinq permis d'exploration en Libye par Elf Aquitaine"⁴⁹

Giraud was forced to admit, at the *Conseil des Ministres* of 7th January, that he knew nothing of the agreement and Raymond Barre was obliged to save his minister's dignity by demanding that at the next meeting of the board of the SNEA, there should be a temporary freezing of Libyan oil permits.

* Since de Gaulle's presidency, there has always been a special supervision of France's African policy within the President's Office.

Still in the context of Franco-Libyan relations, the US suggested, in April 1986, that Europe follow their example in economic sanctions against Libya. France, the first European country to follow suit, asked not only its oil companies, Elf and Total, to stop buying oil from Libya but also subsidiaries of foreign companies operating in France. Government orders were implemented and the companies interrupted their imports. The oil correspondent for *Le Monde* pointed out that the French oil companies were likely to suffer the most. Not only was France a good customer of Libya which supplied 8% of France's crude oil but Libyan prices were also particularly competitive⁵⁰.

During the Iran-Iraq war, Iran was also the object of an oil embargo. In 1987 it was in an even stronger position vis-à-vis France than Libya, representing 14% of French supplies in June - France's most important supplier in fact - and offering crude oil at very attractive prices, 1-2 dollars per barrel cheaper than crude of other origins. The extent to which national companies were made to comply with government wishes is illustrated by the fact that although the French government had obtained the agreement of Elf and Total to abstain from buying Iranian crude, after a period of "autodiscipline", the companies resumed their purchases, provoking a discreet call to order by the authorities.⁵¹

Submitting public companies to the imperatives of national policies can, as we have seen, handicap their international ambitions, their relations with foreign partners and company profits. Changes in government, government policy or international tensions which suddenly give rise to new directives, can be a real obstacle to a company's strategies worked out with a long term perspective in view.

A Convergence of Objectives

While the close relations which a public company has with its major shareholder can handicap its internationalisation, company strategies which benefit from the state link can actually strengthen its establishment abroad. In the areas of diplomacy, technological development and industrial policy, company and government objectives can converge closely⁵². With regard to these areas, let us examine how

the SNEA has exploited its links with the French government.

Diplomacy

In the sphere of diplomacy, the French government made efforts in the 1960s to break the power of the Majors by means of ERAP. Like other national oil companies, for example, the Italian Ente Nazionale d'Idrocarburi (ENI),

"ERAP sought to diversify her sources of supply and, with a view to obtaining exploration permits, offered producing countries more advantageous terms than those offered by the Majors, that is, agency contracts, under which the national company of the producing country retained mastery over all operations, while the foreign company offered financial, commercial and technical services. This was how ERAP gained a foothold in Iran (1966) Iraq (1968) black Africa, Canada and Europe."⁵³

Close diplomatic ties between France and former West African colonies have been and still are extremely beneficial to the SNEA. In return, it is partly due to Elf that France maintains a presence in francophone Africa and extends it to other countries. The *affaire Le Floch** of 1996, leading to the imprisonment for suspected abuse of funds of former chairman of Elf, Loïk Le Floch-Prigent, give these relations a highly topical perspective.

As shown in Chapter I, it was certain states in the Gulf of Guinea which contributed enormously to Elf-Erap's survival after its departure from Algeria in 1971. In fact, it was intended that oil from this region should replace Algerian oil. According to Le Floch-Prigent,

"Les gaullistes souhaitaient une sorte de ministère de pétrole inamovible assurant l'approvisionnement de la France puisque le pétrole algérien n'était géré par les Français que jusqu'en 1971."

* Loïk Le Floch-Prigent, chairman of Elf 1989-93. His imprisonment provoked a "confession", published in *l'Express* 12.12.96, pp. 62-70.

Consequently, French government policy inherited from the Gaullist era and then continued by the RPR Gaullist party, promoted Elf as "the secular arm of the state in Africa". We shall look in particular at the case of Gabon.

Revenue from oil is vital to the Gabonese economy, representing 60% of the state budget in 1986⁵⁴. Although other companies operate there, their activity is limited compared with that of Elf Gabon. For example, between 1971-76, Elf Gabon and the SNEA were responsible for 85% of Gabon's oil production. In 1987 Gabon accounted for one fifth of the total production of the SNEA's operated fields and 30% of production accruing to the SNEA⁵⁵. The interdependence between Gabon and Elf, explained in Chapter I, has been such that it is impossible to know who controls whom⁵⁶. French parachutists reinstated a former Gabonese president on the orders of de Gaulle after an allegedly US inspired *coup d'état* in 1964. The *Service de Documentation Extérieure et de Contre-Espionnage* (SDECE), now called *Direction Générale de la Sécurité Extérieure*, and French army maintain a presence in Gabon to protect French interests which in the main are those of Elf. A top manager of the state oil group was simultaneously adviser on African affairs to Pierre Guillaumat and to the Gabonese president, Albert Bernard Bongo. The same personality was still advising the president in 1981. In return, the state oil companies benefitted from President Bongo's relations with neighbouring states. He is reported to have said:

"C'est moi qui ai demandé à Pierre Guillaumat d'aller au Congo et qui l'ai aidé à obtenir des permis de recherche en 1968."

Furthermore, Elf has always had the advantage in Gabon of a lower rate of tax than that recommended by OPEC (73% instead of 85%). It seems that this *fiscalité douce* was a formula devised by the Gabonese president, the above-mentioned adviser and the head of Elf Gabon. Elf Gabon would be exempt from paying a proportion of company tax on condition that the money, *provision pour investissements diversifiés* (PID), was reinvested in government approved projects. In addition, the PID enabled the Gabonese authorities to use Elf's expertise in

certain development projects.⁵⁷

It is clear from the case of Gabon that Elf's interests and those of successive French governments have been and still are inextricably linked. The implications have been far-reaching. It is only with Elf's backing that the present leaders of Gabon, the Congo, Cameroon and the Ivory Coast are in power. France has used Elf to maintain its presence in Africa and to extend it to other states. According to Le Floch-Prigent,

"Elf s'introduit en Angola, au Nigéria et plus récemment au Tchad à la demande du gouvernement français qui veut étendre sa zone d'influence et la sécuriser grâce à des liens économiques solides..... Elf est bien conçu comme une entreprise au service de l'Etat pour sa politique extérieure, le vote des pays africains avec la France à l'ONU faisant partie de sa position de grande puissance."⁵⁸

Le Floch-Prigent described his role in Africa, while chairman of Elf, as that of mediator in and between the different states with the help of Gaullist networks. His comments on Elf's role in Africa in 1996 hardly differ from those made by Péan and Sérénin in the early 1980s during the Chalandon era:

"Ce n'est pas un hasard si le président d'Elf Aquitaine s'occupe personnellement de l'Afrique. L'avenir d'Elf Aquitaine se construit encore, pour une part déterminante, dans le golfe de Guinée. Et très largement dans l'ancien Empire français."⁵⁹

Clearly, Elf benefits from France's political and economic ties with West Africa but also contributes to and reinforces them. The case of West Africa shows that Elf played its role as instrument of successive governments' foreign policies so effectively that it gradually took over their responsibilities. Moreover, there has been a striking continuity in the government-company diplomatic arrangements, as the Le Floch "confession" reveals:

"L'argent du pétrole est là, il y en a pour tout le monde. Les arrangements de Gaulle-Guillaumat avec les pays francophones courent toujours, à la satisfaction des gaullistes et des Africains."⁶⁰

However, the suspected abuse of funds, uncovered by the Le Floch affair and involving not only a former chairman of Elf but also heads of West African subsidiaries, shows that French governments, however reluctantly, must accept the consequences of handing over their responsibilities to France's top industrial group. The increasing intrusion of the French judiciary into the corrupt financial practices to which this intimacy of government - firm relations has led, has occurred in the years after those with which we have been concerned.

Technological developments

In the area of technological development, principles of government and of large companies, namely the maintaining of technical competence, are seen to converge. Public companies, especially in industrialised countries, are considered instruments of national technological development, but technology can only progress if it is given opportunities to develop, in the form of adequate funding and the chance to be tested and compared with foreign technologies⁶¹. In the area of technological development therefore, the international dimension is vital. As world reserves of hydrocarbons decrease, new sources must constantly be found, yet conditions in which they are obtained are becoming progressively more hazardous. Since the oil companies are constantly preoccupied by rising costs, the search for cheaper means of production becomes essential. For the SNEA, in 1987, exploration costs were a prime concern because of their impact on the group's profits and investments. According to Elf's annual report:

"la recherche et l'exploitation des gisements d'hydrocarbures constituent toujours l'activité principale du Groupe, sa plus importante source de profit et sont à l'origine de la majeure partie de ses investissements."⁶²

It is therefore no surprise that in the early 1980s the SNEA was one of the foremost companies in oil exploration technology and played an initiating role in devising revolutionary methods for automated under-water production. The Skuld system was devised and tested by Elf Norge which also bore the major part of the cost: 180

million francs divided as follows:- Elf Norge 80%, Total Marine Norsk 10%, and two Norwegian companies, Statoil 5%, Norsk Hydro 5%⁶³. It was described as:

"une installation totalement sous-marine sans même une plate-forme de commande - mise en place par modules, sans interventions de plongeurs et télécommandée non plus à 18 mais à 100 km de distance à partir de côtes ou d'un champ voisin."⁶⁴

France was justifiably proud of her *industrie parapétrolière*, second at world level after the USA and described as "by far the most dynamic in the hydrocarbon sector with an export balance of 45 billion francs in 1982, double that of the car industry"⁶⁵. The French government naturally wished to maintain the prestige of its industries since the quality of technology in this area ensured important contracts for the SNEA. For example, the granting of permits by Norway to the SNEA to explore new North Sea oil fields was, in the opinion of Michel Pecqueur, chairman of the group between 1983 and 1989, "proof that the quality of our technology has been recognised".⁶⁶ As a result the French government supported oil exploration by means of the *Comité d'études pétrolières marines*, which was funded by a budget drawn from an internal tax on oil products amounting to 250million francs in 1986.⁶⁷ In addition, the industry had the benefit of a "technological" loan which the authorities wished to maintain in spite of the economic situation.⁶⁸

Industrial Policy

In the area of industrial policy there have been many occasions where Elf's international ambitions have coincided with government objectives. The SNEA's purchase of Texas Gulf, already mentioned, after the victory of François Mitterrand in the 1981 presidential elections, was a case in point. Elf had for a long time been seeking to establish itself in the US, geographic diversification being considered one of the major elements of company strategy by chairman Albin Chalandon.⁶⁹ At the end of the 1970s the SNEA was concerned about the declining production of the Lacq gas field, one of its main sources of revenue, and was seeking new forms of income. Its choice of Texas Gulf was dictated by the fact that the US was "one of

the last countries where substantial profits could be made and where no restrictions were imposed on their transfer abroad". It was ironic that a Socialist government should allow a nationalised company to carry out "an operation of wildcat capitalism"⁷⁰ which a previous liberal government had vetoed (Kerr Magee), but the Socialists were keen to give guarantees of liberalism to the outside world.

Multinational Behaviour

The previous section has shown that Elf's international dimension benefitted enormously from the company's "national interest" mission. This section will highlight how Elf, in its efforts to establish itself abroad, overcame constraints imposed by host and home states. We shall show that in attempting to minimise these constraints, the state oil group's strategies have been no different from those of a private multinational.

In states whose government had no special relationship with France, ERAP always had to compete on an equal footing with other oil companies. Chapter 1 has shown how the oil group, in its attempts to internationalise rapidly in the late 1960s, was obliged to offer producer states more advantageous terms than other companies, as shown by its efforts to obtain exploration permits in the Middle East where the Majors were already well established. In the 1970s, when Elf's internationalisation was a question of survival but producer governments more demanding, the company's establishment abroad entailed a constant weighing up of the financial, technical and political risks and making choices on purely commercial terms. The Middle East, for example, is considered to be a region characterised by its political instability, even though oil is abundant and easily accessible. The North Sea, on the other hand, is politically safe but exploration is technically hazardous. At the financial level, there is considerable risk involved in exploration, since companies can spend phenomenal sums of money drilling for oil and gas yet fail to find any⁷¹. According to an Elf official interviewed for this study:

"Si on fore à la Jamaïque, on a une chance sur dix de trouver quelque

chose et ensuite une chance sur dix que ce soit exploitable... un risque politique nul comme en Norvège peut équilibrer une lourde fiscalité."⁷²

A further constraint is that since competition to obtain zones in oil rich areas is intense, foreign governments impose all kinds of conditions on the oil companies. Norway provides the case of particularly strict regulations. According to Elf's director for Europe:

"En Norvège vous appliquez la politique d'exploration norvégienne et vous devenez un agent norvégien et vous recrutez des Norvégiens et vous les faites travailler dans un esprit de défense des intérêts en priorité de la Norvège c'est un régime extrêmement bureaucratisé avec un tas de règlements de tous genres que ce soient sociaux, industriels, sécurité, engagement des dépenses d'exploration, engagement de faire travailler l'industrie norvégienne. On est Norvégien parmi les Norvégiens."⁷³

A specific example of Norwegian oil policy is that the government, in exchange for the most attractive concessions, can lay down the condition that the oil companies maintain exploration in less promising areas, "Ce qui n'est pas toujours facile à faire accepter par Paris", according to Elf's director for Europe⁷⁴. It is therefore no surprise that in order to obtain the best zones to explore in a country such as Norway, the oil companies make all kinds of commitments as regards technical cooperation, employing the local workforce and subcontracting to local firms.⁷⁵ In short, according to an official at the SNEA: "You've got to show you're working in the interests of the country where you are."⁷⁶

In Norway, Elf's policy of "norwegianisation" has contributed enormously to the group's success there. Long-term establishment in order to build up a relationship of trust with host countries, was confirmed as an important strategy by an SNEA official:

"Elf a l'habitude de s'installer durablement dans les pays, surtout en Norvège, en Angleterre et d'essayer en même temps de faire des actions un peu parallèles, marginales, de développer son activité sur

place, d'obtenir d'autres permis, de s'établir pour longtemps, grâce aux relations de confiance qu'on essaye d'avoir avec ces pays."⁷⁷

The SNEA's "actions marginales" in Norway are a clear example of how the company strives towards good relations with host states. Elf Norge has financed a cultural centre at Stavanger and continues to subsidise all kinds of activities there: concerts, plays, lectures, seminars. At the cost of 490,000 francs (Elf Norge's contribution for 1983), the company's motives are not entirely philanthropic, since it obtains substantial tax relief on monies allocated to the centre⁷⁸.

Strategies such as these will minimise the impact of Norwegian legislation for the Elf group. In addition, due to its nature as an international group, whose activities are organised on a world scale, the company can also use differences in various national bodies of legislation to alleviate the effect of any one government's regulation. This is considered the chief attraction of the multinational structure⁷⁹.

In recognition of the constraints imposed by foreign governments on its state-owned firms and in order to encourage their internationalisation, the French government, as mentioned above, has always allowed these companies a relaxation of certain control procedures. In addition, company leaders have fought for greater financial independence and autonomy from their *ministères de tutelle*. Chapter 6 shows that the chairmanship of Albin Chalandon (1977-83) marked an accelerated development in Elf's market orientation. When Chalandon took up his chairmanship in 1977, he saw the Elf group as a multinational like any other:

"l'une des premières entreprises industrielles du pays; en tout cas celle qui, dans le secteur concurrentiel, gagnait le plus, investissait le plus, travaillait dans trente ou quarante pays, défiait par sa capacité technique et ses ambitions les "grands" du pétrole, qui étaient anglo-saxons."⁸⁰

He is given particular credit for emphasising the fact that Elf should be run like any "normal company". He saw the Elf group less as a firm providing a public service and more as one which should be profitable. Moreover, because of the

uncertainties of oil activities - fewer discoveries, the increase in technical costs, tighter tax conditions, the problems of the refining sector - Chalandon considered it vital to find new areas of development. These motives underpinned his strategies while chairman of Elf: expansion of the group's diversified activities which would require lower investment and labour costs; restructuring of Elf's refining sector to reduce losses and direct refining towards more lucrative products; expansion in the U.S. to give Elf a foothold there.

Chalandon's determination to make the SNEA profitable is also related to his pursuit of autonomy from his *ministères de tutelle*. His chairmanship of Elf witnessed his dismissive attitude towards civil servants (over Kerr Magee purchase and Libyan contracts), his frequent requests that administrative procedures should be lightened and his resistance to government attempts to use the SNEA as an instrument of national policy (over diversifications and chemical restructuring). Chalandon was also highly skilled at exploiting divisions within government, as shown by the Texas Gulf purchase and, like his predecessor, Pierre Guillaumat, of using "national interest" or "shareholder interest" arguments to the advantage of his company⁸¹.

Chalandon's mentality of opposing the wishes of government is part of a longer tradition in the state oil sector. Did not Pierre Guillaumat go against the wishes of President Pompidou in withdrawing from Algeria in 1971? Two years later the accusations of the Schwartz report revealed that Elf-ERAP adopted practices which were hardly in keeping with a public service mandate. As Chapter 1 explained, the report accused the big oil companies operating in France (including ERAP and the CFP) of using loopholes to avoid paying taxes to France and of withholding and falsifying information concerning access prices for crude oil in order to keep administered prices unnecessarily high. It accused the two French companies of conspiring with affiliates of the Majors to maintain unusually high jet fuel prices supplied to Air France. Finally, it accused the state-appointed auditors of representing company interests to the state rather than the reverse.

As the above examples show, the fact that the oil market is inherently international

has always limited the ability of government to control it. The necessity of operating in an international environment causes state firms to follow the logic of the international market and resemble their multinational counterparts. While successive French governments encouraged the multinationalisation of state-owned firms and allowed them all kinds of freedom, the firms naturally took advantage of this freedom and adopted strategies similar to those of private multinationals.

Conclusion

Government-company interaction in the international sphere shows that Elf has indeed played the dual role of the public multinational. In the aftermath of World War II, the French government created a state oil sector for its own purposes. It developed an integrated oil industry under French control, on which it could rely for secure supplies of oil. From the mid-1960s, in line with the evolution in government policy, which moved from protecting French interests to integrating France into the world economy, governments encouraged the state oil sector's growth in order to have industries capable of competing in the international arena. As a company with a "national interest mission", Elf benefitted from the positive measures instituted by governments to consolidate its position at home and enable it to expand abroad.

Yet Elf's link with government enabled it to progress beyond simply being an instrument of government plans. Increasingly, company leaders could be seen to be exercising power with their major shareholder⁸². While Elf exploited the state link to establish itself in Africa, French governments allowed Elf to take over some of their foreign policy responsibilities in African states. It is clear that in the international sphere, as in other spheres, the interests of French governments and those of Elf have been inextricably linked. Yet it is company leaders who are in the driving seat, who take initiatives, possess the required knowledge and contacts, defend the interests and argue the case of their firm. Whereas in its early years, the state oil sector was dependent on government, over time, governments became

dependent on the firm. The trend towards greater liberalisation of world trade, establishment of the Single European Market in 1993 and privatisation movements throughout Western Europe, have all weakened the state link and shifted the balance of dependence within a declining interdependence..

There is a further force at work: the nature of a firm's activity. Since oil is a world industry, in its efforts to internationalise, the state oil group increasingly acquired the characteristics and adopted the behaviour of a private multinational, that is, working in its own interests. In the interests of their company, we have seen Elf's leaders circumventing French legislation in the manner of the private multinational, flouting administrative procedures, opposing the highest authorities in government, exploiting divisions within government in order to impose the company view. In fact, French governments have been treated by Elf's leaders little differently from foreign governments. Conflicts have ensued between Elf and certain sections of government, while other sections have supported the company's behaviour. Besides, due to the benefits which big companies bring France, governments of Left and Right have increasingly recognised that competitive firms need freedom of manoeuvre. As a result, in the international sphere, Elf has enjoyed considerable autonomy vis-à-vis its major shareholder precisely because of the diversity of support it can exploit at home and abroad.

In the 1980s, observers drew comparisons between Elf and its international competitors, concluding that the French oil group was too small and too concentrated geographically on France and Africa⁸³. Had Elf's interdependence with its major shareholder held back and circumscribed its international development?

Many in France recognised that government interference in the life of firms was inhibiting their development. Certainly at the end of the 1980s, Elf's chairman was seeking to "break state chains" further⁸⁴ - 11% of the state's share in Elf was sold off in 1986. Greater private ownership would enable the group to develop like any

"normal company" and give it the flexibility to tap financial markets to finance its international development and fund big acquisitions. Yet this chapter has shown that the state link actually enabled Elf to acquire an international dimension. Moreover, the state link is still essential to the Elf group in Africa which, in the late 1980s, accounted for 115 million of its 190 million tonnes of oil reserves⁸⁵. Although, as mentioned above, a host of challenges faced the group in the late 1980s, Elf was adapting to the international market. In order to offset the risks attached to oil production worldwide, it had made a success of its diversifications into chemicals and pharmaceuticals and acquired new *métiers*. Although a "young" group by comparison with its competitors, Elf was, in 1987, the ninth oil company at world level⁸⁶ and most profitable French company after Peugeot. "Nous voulons être partout dans les trois ou quatre meilleurs" remarked Elf's chairman in 1988."⁸⁷ At the end of the 1980s, therefore, although many of Elf's international activities still depended on the group's link with the French state, top managers were looking forward to a further reduction in state ownership in order to increase the firm's capital and reinforce the international base of all its branches.

NOTES

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CHAPTER 5

THE ELF GROUP DIVERSIFIES: COOPERATION AND CONFRONTATION

French industrial policy was characterised before the mid-1970s by an emphasis on industrial concentration to attain an internationally competitive scale of operations. Why did a different strategy, industrial diversification, become popular in the 1980s, more especially in the case of Elf? Was it due to the government's and/or company's wish to make Elf the national champion both in oil refining and heavy chemicals? In the case of pharmaceuticals, was it a case of genuine diversification to support the main activities of Elf? To what extent were the aims of successive governments, motivated by public policy objectives and of successive managements of Elf, driven by market considerations, consistent or conflicting? The resounding clash between Industry Minister Giraud, determined to assert public control and a would-be autonomous chairman of Elf, Albin Chalandon, - particularly over the policy of diversification - places the issue in especially sharp focus. These are the questions to be investigated in this chapter.

A glance at Elf Aquitaine's annual reports between 1986 and 1988 shows that the group's activities were highly diversified. Apart from oil and gas related business, chemicals, health, hygiene and bio-industries, regional development, the funding of aid projects to developing countries, the management of research laboratories linked to the group's strategic activities, environment protection programmes and the sponsorship of arts and sports events figured among its main activities.¹

In the present chapter we shall concentrate on the sectors of chemicals and of pharmaceuticals, the two areas of Elf's operations which together with the production, processing and distribution of oil and gas form "les trois piliers du groupe."² Although the group's reputation is based on its oil and gas business, by 1987, Elf had also developed two important diversified subsidiaries, Atochem and Sanofi. In that year Atochem was France's third chemical group while Sanofi occupied second place in pharmaceuticals.³ Together they accounted for half the profits of the SNEA.

Hydrocarbons are well-known for the multiplicity of their by-products. Crude oil and gas figure among the ten or so vital raw materials mentioned in this description of the main characteristics of the chemical industry:

"La caractéristique la plus apparente des industries chimiques tient à l'extrême complexité des procédés de fabrication et à la diversité des produits obtenus. Une dizaine de matières premières soumises à des transformations de plus en plus complexes (par extraction, synthèse ou substitution) conduisent à plus de 100,000 produits utilisés pêle-mêle dans les automobiles, les détergents, la pharmacie, l'habillement, les engrais, les équipements sportifs, la conquête spatiale ou l'alimentation." ⁴

Certain products can be used directly as the result of an initial transformation process, for example, plastics and fertilisers, or they can be processed further, generating another range of products, some of which may undergo yet further transformations, for example, in the pharmaceutical industry. In this context, another characteristic of the industry is the close interdependence between products and chains of production, as explained by Bertrand Bellon:

"On ne fait pas de matières plastiques sans éthylène mais pas d'éthylène sans produire du benzène ou du propylène que l'on retrouve dans les produits pharmaceutiques ou les dérivés organiques fluorés qui demandent à leur tour du chlore et quand on fait du chlore on produit de la soude et des dérivés chlorés." ⁵

Oil companies became involved in chemicals for a number of related reasons. They aimed to expand in order to compete and growth in itself may be a major reason for diversification. In addition, oil companies seek to diversify their risks by developing the by-products of their refineries. In the process they exploit the above-mentioned interdependence of products and production chains. (Figure 5.1, p. 301, shows how production chains can supply one another with raw materials, intermediate products or outlets.) Moreover, the more elaborate the product, the less affected it is by the conditions of supply of its raw materials.⁶ Oil companies, such as the SNEA, may therefore diversify into the manufacture of increasingly complex products, for example, pharmaceuticals and cosmetics, not only to escape the factors affecting the supply of raw materials but also to benefit from increased value

The success of a firm's diversified operations depends on keeping abreast of scientific knowledge.⁷ New materials, new uses and new products are constantly being developed and firms aim to take advantage of the opportunities offered. Large companies are not content to rely on the discoveries of others. They can direct research themselves by acquiring existing research centres or developing their own. Research can therefore generate further diversification by revealing different uses, products and production methods. Moreover, new products in their turn create new demands.

A company can be encouraged or hindered in its diversification ambitions by government policy.⁸ Encouragement may come in the form of industrial policies which favour mergers, acquisitions and takeovers. Regional policies aimed at creating jobs may allow a firm to direct government aid to its own projects in an area of the country where it has long-standing ties. A company's diversification plans can also be hindered by inconsistencies or a lack of policy on the part of government. In certain circumstances, supervisory ministries may be positively obstructive for a whole host of reasons. In the case of the SNEA, however, we shall consider to what extent the policies of a strongly interventionist government favoured the group's diversified activities.

DIVERSIFICATION INTO CHEMICALS

Elf's entry into chemicals can be traced back to the Lacq gas field on which so much of the company's fortune was based. The sour nature of the gas necessitated the removal of sulphur from which the Société Nationale des Pétroles d'Aquitaine (SNPA) naturally developed an interest in thiochemicals.* Some time later, in 1960, ethane from Lacq was used to feed the Mont steam cracker. It was not until 1971 that Elf became more involved in the heavy end of the business when the 50:50 joint venture with the Compagnie Française des Pétroles (CFP), Elf's competitor in the

* Branch of the chemical industry dealing with chemicals containing sulphur

oil business, created ATO.⁹

The creation of ATO

The impetus to diversify into chemicals therefore originated in the SNPA which, as manager of the Lacq gas field, became the group's main actor in chemicals. As early as the mid-1960s it was exploiting its own raw materials, by-products of gas and sulphur, as well as those of crude oil coming in large quantities from the Sahara. The limited scope and purely regional dimension of the SNPA's chemical activities became a handicap, however. In the late 1960s concentrations and "national champions" were the priority of government industrial policy.¹⁰ The SNPA's chemical experts wanted to take advantage of new openings and new materials and acquire international status. Since there was no likelihood of the firm associating with the large chemical groups, Rhône-Poulenc, Péchiney and CDF Chimie, the only possible partnership was the Compagnie Française de Raffinage (CFR), refining branch of the Compagnie Française des Pétroles (CFP).

A treaty was drawn up in March 1969 without intervention from the supervisory ministries, providing for a new joint company, ATO (Aquitaine and Total), which would bring together the activities of the two firms in petrochemicals and plastics and later, packaging and building materials. The SNPA's managers envisaged that the new company should make chemicals a distinct activity, not simply a downstream activity from oil refining. According to the 1969 agreement, however, there was to be strict parity between the two firms in the areas of decision-making, the financing of projects, information, the use of raw materials and research programmes (see Chapter 1, p. 93).

Collaboration between the CFR and SNPA proved difficult, because of the differing views of the two firms. The SNPA's chemical experts had ambitious plans to create a distinct chemicals branch, whereas for the CFR, petrochemicals were the logical downstream activity from refining. In addition, the equal status of the two firms

tended to paralyse decision-making. The consequences of the oil crisis and saturation of the French market with petrochemical products at a time when economic growth was declining only aggravated the existing difficulties. What is more, government intervention was conspicuous by its absence. According to a former official of Elf interviewed for this study,

"Chacun a construit son vapocraqueur et sept ou huit ans plus tard, la France se retrouvait avec une industrie surcapacitaire."¹¹

The creation of CHLOE

A further development in the creation of ATO took place in the summer of 1980 when Jean Gandois, chairman of Rhône-Poulenc, anticipating the over-supply market situation, made moves to sell the heavy chemicals branch of his group, that is petrochemicals and plastics. André Giraud, Minister of Industry, recommended that the sale should be concluded with Elf rather than the CFP. The reason was that Rhône-Poulenc's activities complemented those of Elf, whose chemical specialists were anxious to expand the group's openings in chemicals and to diversify its range of plastics, over-concentrated on ethylene.¹² The more important reason for Giraud's recommendation, however, lay in the plan to restructure the French chemical industry, of which the purchase of Rhône-Poulenc's assets was the first step. Chalandon mentions that in January 1980,

"le ministre de l'Industrie me fit part d'une décision prise en conseil restreint à l'Elysée de constituer un pôle pétrochimique en France dont Elf devait être l'animateur. Il souhaitait notamment que notre entreprise achetât la pétrochimie de Rhône-Poulenc."¹³

As already mentioned, the problematic aspect of the cooperation between Elf and the CFR in chemicals was that neither firm could act independently of the other. Chalandon hoped that the purchase of Rhône-Poulenc's assets would break up the association, that it would be,

"le moyen de sortir de la pire des situations: deux associés à part égale qui se neutralisent et condamnent l'entreprise qu'ils possèdent en

commun.¹⁴

Negotiations were therefore carried out in the greatest secrecy between Elf and Rhône-Poulenc, the plan being to present the CFP with a *fait accompli*. Chalandon had reason to believe that he was well supported by Elf's chemical experts. They not only considered their association with the CFR an obstacle to their ambitions but they were also keen to get their hands on Rhône-Poulenc's assets. These were its share in the steam cracker at Feyzin, an industrial complex at Lavéra which would give Elf access to the Mediterranean and the much desired essential third ingredient in the chemical industry, chlorine, the other two being sulphur (from Lacq's natural gas) and carbon (derived from methane in natural gas and from oil products).¹⁵

The price agreed by Elf was considered very high at the time and more so in retrospect because of the imminent recession in the chemical industry, as underlined in a note from the SNEA's, *Direction Générale Chimie* of 1.7.80.

"l'acquisition se fait à l'aube d'une récession sévère sur ces activités chimiques et que l'émergence prochaine à Berre du vapocraqueur de Shell, en association avec PCUK, introduira un facteur négatif dans les premières années de cet ensemble industriel."¹⁶

When the deal, concluded on July 9th 1980, was presented to the chairman of the CFP, René Granier de Lilliac, he demanded a half share in the purchase in accordance with the 1969 treaty. He was supported in his demand by the top management of ERAP, opposed to breaking the original deal, and by the Minister of Finance who was against any extension of the public sector.¹⁷

It was their wishes which prevailed and in September 1980, an agreement was signed, by which the SNEA and CFP would each hold a 40.25% share in the new company, Chloé (Chlo-Chlorine and E - Ethylene), while Rhône-Poulenc would hold the remainder.¹⁸

Chalandon's hopes to break the association with Total did not therefore materialise in this instance. As in the case of his unsuccessful attempt to purchase Kerr Magee five months earlier, his animosity towards André Giraud only increased because of what he saw to be another deliberate volte-face on the part of the Minister of Industry. The government's action in this episode was somewhat unclear in view of the imminent restructuring of the whole French chemical sector. Was Giraud again obstructing the ambitions of the SNEA chairman? Did the decision represent a victory for the Minister of Finance over the Minister of Industry? Whatever the reason, by forcing Elf into another joint venture with Total, the government delayed the recovery of the heavy chemicals sector by a number of years.

Cooperation with government

Further expansion of Elf's chemical activities took place in the context of the Socialist government's nationalisation programme of 1981-82. The programme involved the nationalisation of France's two large steel firms, Usinor & Sacilor, of five leading multinationals, the Compagnie Générale d'Electricité (industrial electronics) Pêchiney Ugine Kuhlmann (aluminium and chemicals) St. Gobain (glass and electronics) Rhône-Poulenc (chemicals) Thomson-Brandt (electronics and electrical goods), majority shareholdings in Dassault (aircraft) and Matra (armaments and electronics) and the nationalisation of thirty-six private banks.

The main preoccupation behind the programme was the stagnation of industrial investment and the result of two oil shocks, which had created a lack of demand and serious overcapacity in certain areas. Consequently industries were unable to benefit from gains in productivity created by new technologies. It was intended that the nationalisation programme should channel money from the banks into industry, enabling the firms to be freed of short-term financial constraints and to make long-term decisions regarding new technologies. In addition, the programme would facilitate the restructuring process and allow the concentration of resources on the *métiers d'expertise*. It was envisaged that the newly nationalised groups should

provide direct means by which the objectives of industrial policy could be pursued and that they should impart a competitive impetus to other companies.¹⁹

The problems of the French chemical industry

The situation in the heavy chemicals sector was particularly dramatic with the big public and private companies forecasting serious losses for 1981. According to Cohen and Bauer,

"l'Entreprise Minière et Chimique (EMC) - société publique prévoit une perte de plus de 100 millions de francs, Rhône-Poulenc de plus de 300, Ato-Chloé de plus de 500, PCUK de plus de 800, CDF-Chimie de plus de 1,2 milliard: soit au total 3 milliards de francs (l'équivalent d'une fois et demie le budget "d'intervention" du ministère de l'industrie)²⁰

The crisis was in fact a world crisis, resulting from the second oil shock, but the French companies were affected more seriously, as the Merrill Lynch report of 1987 points out:

"To say that the French chemical industry during the late seventies and early eighties resembled the sick man of Europe is a masterpiece of understatement."²¹

Chemical firms in France seem to have suffered from a variety of weaknesses. The majority belonged to the private sector, Rhône-Poulenc, Péchiney, St. Gobain, and chemicals for these firms had always been a secondary activity. In addition, chemicals had not been a priority of the Monnet Plan, nor since that time of any national strategy on the part of government. Firms were relatively small and dispersed compared with those of other European countries, for example, Germany, Holland and Great Britain. Moreover, they had not begun to merge until the mid-1960s when a "national champions" policy was being encouraged. Then the large-scale projects which government pushed companies to undertake, for example, CDF-Chimie's petrochemical platform at Dunkirk had to face the first oil crisis and consequent decline in demand.²² What is more, unlike their European competitors,

French firms had not diversified on a large scale into sectors which by the late 1970s were in relatively good health, that is, speciality chemicals, agrochemicals and pharmaceuticals. The problems of French chemicals were compounded by the fact that prices were fixed by government at a lower level than those of European firms preventing the companies from making profits. Thus as Elf's *Bulletin Mensuel d'Information* of November 1982 pointed out, just prior to the Socialist nationalisation programme, the specific ills of French firms, overcapacity and lack of specialisation, were aggravated by a fall in demand and rising costs at world level.²³

One company, in particular, Péchiney, was losing money on all fronts. Not only was aluminium, the company's major activity, in a critical state worldwide, but successive governments had refused to allow it to sell off loss-making steel and chemical sectors. Péchiney's attempt, in 1980, to sell its petrochemicals to Occidental Petroleum had met with a refusal because, according to Cohen and Bauer,

"la campagne électorale s'ouvrait et il s'agissait de vendre à un étranger le deuxième groupe chimique français."²⁴

It became rapidly apparent that Péchiney's chemical branch, Produits Chimiques Ugine Kuhlmann (PCUK), would fail completely, so following on the nationalisation of Rhône-Poulenc and Péchiney in February 1982 and in the context of the restructuring plan for the whole of the chemicals public sector, the government initiated a sale of PCUK's assets. The plan consisted of two stages. Firstly, Elf, chosen as the champion of French chemicals, was to acquire majority shares in ATO and Chloé, while PCUK's assets were to be shared between Elf and Rhône-Poulenc. Secondly Elf, CDF-Chimie and Rhône-Poulenc had to propose a plan for reorganising their activities and rationalising investments sector by sector.²⁵

As far as the government was concerned, the underlying objective, set out in the communiqué from the Ministry of Research and Industry, was that restructuring should restore the competitiveness of the chemical industry through greater

specialisation and a more efficient use of the complementary nature of the different groups. Thus in the distribution of PCUK's assets Elf was given the lion's share to become a leader in halogen chemicals (chlorine, fluorine and bromide) and in organic chemicals linked to halogens (oxygenised water and derivatives, see Figure 5.2, p. 302). Rhône-Poulenc received several fine and mineral chemical plants from PCUK, confirming its important industrial role in healthcare, fine chemicals and bio-industries. As for CDF Chimie, its activities in organic chemicals and plastics were also reinforced (see Figure 5.3, p. 303).

The government's plan corresponded to Elf's own proposals that the restructurings should be "coherent", in other words, respect the strategic branches of production of each firm. Through ATO and Chloé Elf was already involved in petrochemicals and chlorine chemicals. By acquiring PCUK's assets (halogen chemicals and oxygenised water) the group not only strengthened its own chlorine chemicals branch but gained new areas in oxygenised water and those requiring treatment with chlorine, that is fluorine and bromide. Thus the government plan substantially raised Elf's national and international status in the chemical industry, as the *Bulletin Mensuel* points out:

"le Gouvernement rend ainsi possible la création d'une super-filière - hydrocarbures, chlore, fluor, brome, eau oxygénée - parfaitement cohérente; du même coup, progressant d'une quinzaine de places, Elf Aquitaine atteint le 3^{ème} ou 4^{ème} rang mondial en ce qui concerne le chlore et devient le 2^{ème} fluorier mondial."²⁶

Cohen and Bauer remark that Elf, in the restructuring plan, "got what they wanted". Negotiations had been lengthy, complex and acrimonious, with changes of Minister, changes of company chairmen and companies fighting over the most lucrative parts of PCUK. Finally however, the voluntarist action of Jean-Pierre Chevènement, Minister of Industry, 1982-83, who imposed a *plan de dévolution* on the five nationalised chemical groups, was beneficial to Elf. The group was able to disentangle itself from its paralysing partnership with the CFP and increase its importance in vital branches of the chemical industry.²⁷ The creation of a new

~~importance in vital branches of the chemical industry.²⁷ The creation of a new~~
company, ATOCHEM, (through the merging of ATO, Chloé and assets of PCUK)
contributed to making Elf in 1983 "France's largest chemical producer."²⁸

Yet Elf was also forced to pay a price. The chairman of the CFP, René Granier de Lilliac, insisted that his company be compensated for its investments in ATO and Chloé. Chalandon, however, having accepted loss-making assets, refused to jeopardise further the interests of his own healthy company. Combined with earlier confrontations with his supervisory minister, Chalandon's refusal to compensate the CFP in any form, (a cash payment, one of Elf's pharmaceutical subsidiaries or a section of a North Sea gas field had all been suggested) led to the non-renewal of his chairmanship of Elf, in 1983, on the recommendation of Laurent Fabius, Minister of Industry, 1983-84. It was left to his successor, Michel Pecqueur, to compensate the CFP partly in cash and partly in shares.²⁹

A convergence of policy

Events surrounding the restructuring of chemicals show that the top management of Elf did not get their way at every stage of the process. They were obliged to take over loss-making assets so that Elf's heavy chemicals showed a loss for the next three years.³⁰ They were also obliged to compensate the CFP. In addition, the government used one of its means of controlling the company by not renewing the chairman's term of office in the face of his refusal to comply with their instructions. However, the results of the group's heavy chemicals four years after restructuring bear out the comment by Cohen and Bauer that:

"l'état volontariste est une providence pour la grande entreprise."³¹

By 1986 Atochem was balancing its books and by 1987 making a comfortable profit. Indeed, that year the whole of Elf's chemical branch, although contributing only 27% to the group's turnover, was securing 50% of its profits.³²

We have shown that Elf had been striving to expand its chemical activities since the mid-1960s. In the Socialist government's industrial restructuring plans, the group got what it wanted and considerably increased its national and international status in chemicals. It therefore seems that there was a close convergence of policy between the company and government. One could also say that government takes into account the wishes of its most profitable firms in formulating its own policies or that it is the initiatives and long-term strategies of its strongest firms which determine government plans.

DIVERSIFICATION INTO PHARMACEUTICALS (HEALTHCARE AND BIO-INDUSTRIES)

Elf's second most important area of diversification, healthcare and bio-industries, is concentrated on Sanofi. It is a field which has grown steadily since the mid-1970s and, as with Elf's chemicals, the impetus came initially from certain personalities in the top management of the *Société Nationale des Pétroles d'Aquitaine*. In 1986 Sanofi was the second largest pharmaceutical group in France after Rhône-Poulenc. Elf had a 61% share in the company although it did not exert managerial influence over it. With a holding in 1986 of 140 companies, Sanofi had three main areas of operations: human health, bio-industries, perfumes and cosmetics. In 1986 contributions to sales were 46%, 27% and 27% respectively. Just under 50% of the group sales were in respect of the French market.³³

In Chapter I we reviewed the factors which gave birth to Elf's pharmaceutical sector in the early 1970s (see Chapter 1, pp. 94-96). These were the nationalisation of the group's assets in Algeria and first oil shock, bringing higher prices in crude oil and subsequent financial burden for Elf's refining and petrochemical sectors; the SNPA's large cashflow from 1971, stemming from the creation of ATO which relieved it of investments in chemicals over the following three years; the approaching decline of the Lacq gas field and need to create jobs in South West France;³⁴ the fact that pharmaceuticals did not require heavy investment but did demand a large labour force; the group's long-term policy to diversify beyond refining and petrochemicals shortly to become areas of competition from

~~demand a large labour force; the group's long-term policy to diversify beyond refining and petrochemicals shortly to become areas of competition from oil-producing countries. Although sections of government were initially opposed to the group diversifying its activities, there was a change of heart after the oil shock of 1973, when they acknowledged the necessity for oil companies to diversify their investments. A further reason why the Treasury in particular reversed its position was that foreign groups were rapidly capturing a large share of the French pharmaceutical, perfume and cosmetics markets.~~³⁵

These were the reasons behind the SNPA's creation of Omnium Financier Aquitaine pour l'Hygiène et la Santé (SANOFI) in 1973, a holding company under the directorship of René Sautier.³⁶ Initially, SANOFI acquired controlling interests in small drugs companies in difficulty, Labaz, Choay and the Robillard and Castaigne laboratories. From 1974 it developed a second leg in perfumes and beauty products by acquiring interests in Yves Rocher, Roger et Gallet and Stendhal perfumes. In the early 1980s Charles J. Molyneux and Van Cleef and Arpels were added to Sanofi's beauty products sector. Sanofi's third leg developed from the early 1980s when the firm acquired the pharmaceutical sector of Clin-Midy. Not only did this acquisition enable SANOFI to attain "critical size" but also to gain access to an important research centre at Labège (Toulouse) and to the whole field of bio-industries, that is, additives, gelatine, and fragrances for the food-processing industry, veterinary products and seeds.³⁷

In 1986 the healthcare sector dominated Sanofi. Speciality drugs designed to prevent or treat cardiovascular diseases and disorders of the central nervous system were Sanofi's top performers. Diagnostic products (through the subsidiary, Diagnostics Pasteur) and the development and marketing of a human growth hormone by genetic engineering were two other areas in which Sanofi strengthened its position by 1987.³⁸

Bio-industries have an increasingly important role in many fields, especially agriculture and the food-processing industry. Sanofi made further progress in this area when it became, in 1985, the centre of a merger of all Elf's business in

objective behind the merger was to benefit from the increasing application of biological research to all branches of bio-industries "from seeds right through to perfumes".⁴⁰

Sanofi's growth was extremely rapid. A turnover of 1,5bn francs in 1976 had climbed to 16bn francs by 1986. In the process of expansion Sanofi also achieved one of its main objectives, the creation of jobs. In 1989, a top ranking official of Elf, interviewed for this study, commented that Sanofi's rapid growth in barely 12 years had been astonishing. Initially considered as just a back-up diversified activity, Sanofi was giving employment to 16,000 people, a bigger workforce than that of Elf's oil business.⁴¹

Although a high percentage of Sanofi's business was French-based, international expansion was a major priority for all divisions of the company. The group was therefore actively seeking acquisitions, especially in the United States.⁴²

Yet certain areas of Sanofi's business had been held back in terms of their maximum profit potential. For example, the French healthcare market was difficult for several years due to price controls in France. In addition, all branches of the group had high expenditure on research since development of their business was research-based. Between 1981-86 spending on research rose substantially to reach 20% of group pharmaceutical sales.⁴³ Research is nevertheless an essential element of Sanofi's activity in view of the rapid pace of scientific discovery and the necessity to develop and introduce new products.

It emerges that Sanofi's rapid growth was due to a policy of acquisitions, merging similar activities, greater specialisation and a strong commitment to research. The group's development was achieved largely through company initiatives with little intervention from government. The Socialist government of 1982 did, however, recognise the duopoly of Rhône-Poulenc and Elf in fine chemicals, bio-industries and pharmaceuticals and admitted that it was in fact desirable.⁴⁴ Sanofi, on the

other hand, positively facilitated the government's chemical restructuring task. Profits from pharmaceuticals and cosmetics enabled Elf's heavy chemical business to survive the loss-making years of 1983-86.⁴⁵ In addition, Sanofi was successful in creating jobs during a period when unemployment was a major preoccupation of government. Therefore, in the second area of Elf's diversified activities, governments benefited from the achievements of one of its major companies.

A PAROXYSM OF GOVERNMENT-COMPANY CONFLICT

The question of Elf's diversifications reveals much about government-company relations. It shows that governments are concerned about broad national aims and these may run counter to a company's projects. It also reveals that the economic and political conditions of the day can influence how supervisory ministries behave with regard to company ambitions. Needless to say, the personalities involved and their relationships with one another will also influence the outcome of events. An episode from the Chalandon era illustrates one of the many confrontations between the top management of the group and the Minister of Industry.

Soon after taking up the chairmanship of Elf in 1977, Albin Chalandon realised that a state-owned group whose business was based almost exclusively on oil was unlikely to make large profits. He saw the group as a multinational just like any other and is reported as saying:

"elles (les multinationales) ont toutes à la fois l'obligation de faire des profits et le devoir de satisfaire leurs clients."⁴⁶

One of his chief ambitions therefore was to develop Elf's diversified activities. The future of the group's oil business was threatened by fewer discoveries, higher exploration costs and more difficult tax conditions.⁴⁷ In addition, Chalandon realised the importance of creating jobs in Aquitaine to compensate for the decline of the Lacq gas field. It was to this end that in 1978 the *Société de Financement Régional Elf Aquitaine* (SOFREA) was formed. It had the opportunity to become involved in

more ambitious projects than its predecessor, the *Bureau de Développement Economique des pays de l'Adour*.⁴⁸ Furthermore, the deterioration of the group's refining sector made closures of refineries and restructurings imminent.

In the spring of 1979 the rise in oil prices and subsequent increase in Elf's revenue gave Chalandon greater liberty to pursue his ambitions. The group's profits approached 15bn francs per annum, a figure never previously attained by a French company.⁴⁹ Chalandon was determined to take advantage of the extra resources to expand Elf's diversified areas. He remarks that,

"alors que l'activité pétrolière pouvait se révéler plus incertaine, Elf compenserait la baisse éventuelle de ses résultats, de son activité et de ses effectifs dans ce domaine par une forte expansion dans deux autres secteurs."⁵⁰

Sanofi's activities already offered considerable potential for development. Moreover, Chalandon's relations with managing directors in these areas were far more relaxed than those in the oil sector. The second area was food-processing. Chalandon's plan, through his contacts with a world leader in cereals, was to develop a food-processing industry based on synthetic products. For him this industry had several virtues:

"expansion et stabilité, pérennité et légèreté des investissements, autant d'attraits face à une activité pétrolière dévoreuse de capitaux et déclinante."⁵¹

Although the food-processing project and a plan to acquire a controlling stake in a large electronics firm never materialised, due to the opposition of André Giraud, Minister of Industry, from 1980 onwards, the SNEA pursued acquisitions in areas as diverse as solar energy, coal, the production of photocopiers and mineral water. Giraud's disagreement stemmed from several factors. In his view Elf should remain true to its mission of supplying France with hydrocarbons as a priority and diversifications should take second place. He was also concerned because diversified activities, being managed by outside agencies, might lead to a relaxation

of control procedures. Moreover, in accordance with the wishes of the President, Giraud was anxious that the public sector should not be extended.

The top management of ERAP was similarly concerned because the group's diversified activities were not always compatible with its original mission. An added reason was that certain acquisitions had been made in loss-making sectors whose recovery would demand a close knowledge of markets and of distribution networks more complex than those of oil.⁵²

The concern felt by Giraud and the top management of ERAP was also shared by other sections of government. In the last years of the Giscard presidency they were attempting to solve a whole variety of national economic problems. Raymond Barre, "France's best economist" in Giscard's view, was appointed prime minister in 1976, for that very purpose. The stop-go measures of the previous Chirac government had driven inflation up to 11% and Barre was committed to bringing it down. His austerity programme, introduced in 1976, aimed to control credit, cut public spending and induce wage restraint. As a "liberal" he was convinced that French industry should be made to stand on its own feet and be freed of excessive government intervention. He therefore lifted price controls in many industries. He also made it clear that public funds would become less available for "lame duck" firms, whatever the cost in jobs. Industries would have to be efficient and pay their way.⁵³ This was the politico-economic context which explains Giraud's concern about *les nationalisations rampantes*.

The question of the nature and extent of Elf's diversified business, therefore, acted as a catalyst in forcing the government to clarify where responsibilities lay within the state-owned oil group. Remarks made by Giraud and others at the time echo the accusations levelled against Elf Erap in the Schwarz Report of 1974:

"Nous voulons savoir qui fait quoi et comment circule l'argent."

"Quand l'Etat est actionnaire à 67%, on ne peut pas être indifférent aux impératifs nationaux et affirmer qu'il suffit de gagner de l'argent."

"La filialisation et la "cuisine" de Bonnet de la Tour (directeur financier), interdisent de savoir ce qui se passe à Elf Aquitaine."⁵⁴

The diversification issue also revealed divisions among the Gaullists themselves and combined with many other sore points between Chalandon and Giraud, producing a public battle of words between the two men throughout 1980. There was the vetoing of the Kerr Magee purchase in the spring of 1980, on the grounds that the Ministry of Industry had insufficient information on the company and then the ensuing attacks against Giraud and state interventionism launched by Chalandon through the media. By way of riposte, Giraud, who had been instructed by a *conseil restreint* at the Elysée in April 1980 to restructure Elf Aquitaine, "dont la puissance inquiète les milieux politiques",⁵⁵ devised the plan to end Chalandon's double chairmanship of the SNEA and ERAP. He would give the former to Georges Besse, chairman of COGEMA, and leave the latter to Chalandon. Giraud also planned to terminate Chalandon's chairmanship when it came up for renewal in July of that year. However, the sacking of Chalandon ten months from the elections would have caused serious rifts within the majority. As a former leading member of the Gaullist party, Chalandon had loyal supporters in high places, especially Roger Frey and Jean-Jacques Chaban-Delmas, presidents of the *Conseil Constitutionnel* and *Assemblée Nationale* respectively, as well as the leaders of several African states.⁵⁶

In order to reconcile Chalandon with his *ministre de tutelle*, Raymond Barre instructed him to reorganise the structures of Elf Aquitaine himself to make them more appropriate to new developments within the group. Chalandon agreed to transfer the SNEA's stake in diversified activities to private shareholdings while the hydrocarbon sectors would remain largely in public ownership. The Council of Ministers meeting of July 1980 also stressed the distinction between the hydrocarbon and diversified sectors. According to the official communiqué,

"Ce sont le pétrole et le gaz qui génèrent l'essentiel de son cash-flow. C'est au pétrole et au gaz qu'il doit être consacré par priorité car la taille du groupe pétrolier n'est pas supérieure à celle des autres groupes pétroliers internationaux. Le responsable de la SNEA doit ainsi accorder l'essentiel de ses préoccupations aux affaires pétrolières."⁵⁷

Sectors in which the group had diversified "ne correspondent ni aux mêmes ordres de grandeur financiers ni aux mêmes réflexes ni aux mêmes compétences."⁵⁸

These were the reasons used by the government to separate the double chairmanship of the SNEA and ERAP. While Chalandon remained head of the SNEA, Pierre d'Alby, *ingénieur des Mines* and chairman of the board of Gaz de France, took charge of ERAP. He was instructed to respect four principles concerning the general management of Elf Aquitaine:

- Elf's oil strategy should conform with French oil policy
- Elf's activities in other energy related fields should take account of France's future supply needs
- diversified activities should be clearly distinguished from those of hydrocarbons and pursued solely in areas approved by the authorities
- Elf's activities in South West France should be reinforced

The question of diversification has shown that a state-owned group and governments can and did have opposing objectives. Chalandon, like any company chairman, aimed to ensure the survival of his group. He therefore sought to develop new branches to compensate for the problems of existing ones. The windfall of increased profits at the end of the 1970s was most opportune. It was unfortunate for Chalandon that he and his Minister of Industry were so ill-matched.

An *ingénieur des Mines* and *grand commis de l'Etat*, André Giraud took the view that the state-owned group should devote its energies to the purpose for which it was created, that is, supplying France with hydrocarbons. Not only did Elf lack specialised knowledge of the new areas which it sought to acquire but no control

procedures were in place to enable supervision of them. Moreover, in the economic climate of the late 1970s the government was especially concerned about cutting public expenditure. It could not afford to come to the aid of yet more industries in difficulty. What is more, the restructuring of the whole French chemical sector in which Elf would play a major role, was already being planned. As Minister of Industry, Giraud was responsible for knowing where Elf's money came from and where it was going. The fact that the same person was chairman of ERAP, the holding company, and the SNEA, its main subsidiary, only served to obscure matters, since the role of ERAP was to ^{manage} control the state's 67% share in the SNEA. By separating the chairmanship, the government created another level of control, so that Chalandon would have to refer to the head of ERAP before spending public money. In this particular episode of Elf's development, therefore, the government was shown to exercise control on the company chairman by forcing him to reorganise the financial structures of the group and imposing on him another level of supervision.

CONCLUSION

This review of how Elf's main diversified activities developed shows that the present status of the group's chemical and pharmaceutical business was achieved through a combination of factors. The company's ambition to develop the by-products of its refineries, to diversify its risks and to achieve competitive size led to the adoption of a variety of long-term strategies and decisions. These included: joint ventures with rival companies (and the breaking of alliances), exploiting the interdependence of chains of production, merging subsidiaries, increased specialisation in products incorporating a greater percentage of value added and high investment in research.

Except for a short period at the beginning of the 1980s, government policy regarding the diversified operations of a largely state-owned group was either lacking or very unclear. Yet in the process of reinforcing and expanding its diversified areas, the Elf group contributed to solving many of the problems which beset governments, such as unemployment and the underdevelopment of regions.

At a time of strong intervention by government, when the Socialists in 1981-82 nationalised key sectors of industry in order to restructure them, Elf's healthy position also aided their plans. Although the group's wealth at the end of the 1970s was due to good fortune rather than to the achievements of its top management, by this stage Elf had proved that it was capable of developing distinct activities in chemicals and pharmaceuticals without help from government. Events therefore show that the achievements of the Elf group facilitated the implementation of government policy. However, a strongly interventionist government can also advance company projects, particularly when the long-term policies of both converge. Elf's desired expansion into chemicals coincided with the government's plan to restructure the industry.

Our review also shows that governments did not intervene systematically in the management of state-owned companies, but in unpredictable ways. The economic and political climate at a particular moment, the personality and status of officials in decision-making posts and the political affiliations of the government in power can affect the level of intervention. Events also show that government does not take the initiative in deciding the management strategies of public sectors companies. They tend to intervene in retrospect and in limited areas, tightening control procedures or replacing company chairmen. The development of Elf's diversified activities demonstrates clearly, however, that governments take advantage of the technological and managerial skills, the imagination, the drive and the achievements of teams within state-owned companies to advance their own broad plans for the national economy. It is the initiatives of major firms which facilitate and determine government policy.

NOTES

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 23. "La restructuration du secteur public de la chimie française" in *Bulletin Mensuel d'Informations*, SNEA, November 1982, p.4.
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 29. Elie Cohen and Michel Bauer, *op.cit.*, 1985, p.107.
 30. *Herald Tribune*, *op.cit.*
 31. Elie Cohen and Michel Bauer, *op.cit.*, 1981, pp.113-115.
 32. *Le Monde*, 18 June 1988.
 33. Merrill Lynch Report, *op.cit.*, p.49.
 34. "L'ensemble des prises de position dans le secteur Hygiène et Santé comme dans la chimie fine vise enfin à servir les objectifs régionaux du groupe." (Extract from meeting on SNPA's diversified activities 2.3.77) Christophe Babinet, *op.cit.*, See note 103, Chapter IX.
 35. *Ibidem*, pp.297-299.
 36. René Sautier was appointed chairman of Sanofi in 1973. In 1986 he became director of the chemicals branch of the SNEA.
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 48. Christophe Babinet, *op.cit.*, See note 22, Chapter XI.
 49. *Ibidem*, p.339.
 50. Albin Chalandon, *op.cit.*, p.171.
 51. *Ibidem*.
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CHAPTER 6

THE PRIVATISATION PROCESS: SHARED OBJECTIVES AND DISPUTED METHODS

Privatisation has been described by John Vickers and Vincent Wright as a "strengthening of the market at the expense of the state"¹, a definition which embraces a whole host of policies. Although in the recent history of the *Société Nationale Elf Aquitaine* there have been two occasions - in 1976 and 1986 - when the government sold off a proportion of the state's share in the group, during that decade Elf also became progressively more market-oriented in character. Over the last twenty-five years all large companies have been locked into the international as well as their national economies and this is truer for an oil company which is multinational by nature, so competition has been keener and survival more precarious. Strategies aimed at increasing profits, developing new activities and new markets, achieving greater financial and managerial independence, cutting back loss-making sectors and avoiding potentially burdensome demands that government might impose on the company are some of the methods employed by large firms, such as the SNEA, to move out of the focus of the state. This chapter will argue that privatisation can therefore assume many different forms.

Privatisation for Elf, at least, was also a gradual process. Firstly, we shall consider the circumstances of the first denationalization of Elf under a liberal right-wing government in 1976. We shall then examine how the managerial approach of the chairman appointed by the same right-wing government took the privatisation process a step further. His chairmanship, however, was subject to the interventionist policies of a Socialist government, policies which paradoxically revealed a continuity with those of the previous administration. Finally, the second official partial privatisation of Elf under a liberal right-wing government in 1986 will be analysed within the context of a national and international privatisation movement. We shall also consider whether politics have made any difference to this evolution.

THE ERAP-SNPA MERGER

The nationalisation-privatisation debate, although high on the political agenda in the 1980s, began well before the decade. In January 1976, the merger of the *Entreprise de Recherches et d'Activités Pétrolières* (ERAP), *établissement public*, with its rich subsidiary, the *Société Nationale des Pétroles d'Aquitaine* (SNPA), entailing the transfer of 30% of the state's share from the public to the private sector, created the *Société Nationale Elf Aquitaine* (SNEA) as it is known today.

The SNPA, in which ERAP owned a 52.22% share, was responsible for managing the gas field at Lacq, the major source of the company's fortune and which, after the rise in oil and gas prices in the mid-1970s, became even more profitable. The merger was in fact a logical step in the development of an integrated oil group, if one considers the creation of the Union Générale des Pétroles (UGP)² in 1960 and of ERAP³ in 1966 as the first steps. ERAP's precarious state after its departure from Algeria in 1971 and the radical change in the world oil market from 1973 accelerated this evolution. Since the late 1960s there had also been a world-wide tendency towards concentration in the oil industry, as pointed out in the letter from André Bouillot, vice-president of ERAP and the SNPA, to SNPA executives in 1970. His argument was that:

"une politique solitaire ne peut conduire qu'à des situations économiques de médiocrité et de dépérissement si l'on n'a déjà - ce qui n'est pas notre cas-atteint la taille indispensable à la survie dans un monde international où les faibles sont rapidement écrasés."⁴

The attainment of optimum size was also behind instructions given to ERAP/SNPA in July 1971 by an interministerial council on energy. The firms were urged to coordinate their management, especially in the area of exploration - production, to ensure greater efficiency, economies and increased profitability.

A first step towards the merger took place in the course of 1973 when a single *Comité Exécutif* was formed under Pierre Guillaumat, chairman of ERAP and SNPA,

and several important functions, *Finances, Economie et Ressources, Personnel, Chimie, Exploration-Production* were assumed at group level. Regarding the merger itself, it was decided that the SNPA should be the main focus and that the operation should be carried out at two levels. First, all exploration and production assets of ERAP and the SNPA were merged into a single subsidiary of the SNPA under the name of the Société Nationale Elf Aquitaine (Production) (SNEA (P)). Second, ERAP brought all its other assets to the SNPA whose name changed to the Société Nationale Elf Aquitaine (SNEA).⁵

When in the middle of 1975, it was rumoured that ERAP and the SNPA would soon be merged, the news had an immediate effect on the *Bourse* with the SNPA share price falling from 539 francs to 485 francs in four days. "Tempête: la Bourse craint une fusion d'Elf avec Aquitaine" were the headlines in the *Journal des Finances* of June 9th⁶.

Private shareholders of the SNPA feared the nationalisation of their assets and demanded reassurance, which Guillaumat, as chairman of the SNPA and ERAP, was unable to give. The uncertainty caused the share price to fall even further and this downward movement was only halted a few days before the official announcement of the merger on January 9th, 1976, when the price actually rose, possibly due to the intervention of ERAP.⁷

There are clear indications that the sections of government involved in the merger, Ministries of Finance and Industry, and the top management of ERAP and the SNPA - in effect the same people - were anxious that the operation should succeed. In other words, the SNPA share price had to be maintained, since the private shareholders of the firm had to approve the merger. Furthermore, the project had to be seen by managers and staff of ERAP and the SNPA as a logical step for both firms. Two texts in particular, the ministerial communiqué and the press communiqué from ERAP, are revealing on these questions. Both texts stress that the merger had strong government support and that it was the economic conditions

of the time which necessitated the merger of the two firms' assets. In a detailed study of the two texts, Philippe Simonnot clearly underlines a discrepancy between the stated and the real aims.⁸ For example, the ministerial communiqué stresses that ERAP's discoveries in several parts of the world would compensate for the decline of the Lacq gas field. In reality Lacq was the reason why the SNPA's wealth had increased substantially since the oil crisis, which resulted in a quadrupling of oil prices and a considerable increase in gas prices. Moreover, ERAP's discoveries would only start being productive at some future date while in the present, its debts were considerable, interest on them had to be paid and further loans made to finance exploration activities. In addition, the serious losses ERAP had suffered in its refining and distribution sector are played down, since the impression ministers wished to create was that the SNPA was benefitting from its merger with ERAP rather than the reverse. On this point Simonnot describes the operation as "Cette manière de hold-up ... occultée dans les communiqués", in which "il ne faut pas faire trop apparaître les énormes appétits financiers de l'ERAP".⁹

Both texts reveal a strong desire to reassure the private shareholders of the SNPA that their interests would be protected and to this end they glossed over the question of state control but underlined emphatically the capitalist nature of the operation. In the ministerial communiqué we read:

"....le Ministre de l'Industrie et de la Recherche et le Ministre de l'Economie et des Finances ont donné mission à M. Pierre Guillaumat de mener à bien cette évolution en respectant scrupuleusement les intérêts des diverses parties en présence, et tout particulièrement ceux des actionnaires de la SNPAIls lui ont en outre indiqué que comme la SNPA à l'heure actuelle, la nouvelle Société Nationale Elf Aquitaine sera avant tout considérée comme une entreprise normale responsable de sa rentabilité et de son développement...."¹⁰

It is with the same intention that the ERAP communiqué points out that it would give up voting rights corresponding to the assets it would bring to the newly formed SNEA - in whose capital it would be owning a 70% share. Despite this two-thirds share, the ministerial communiqué never mentions the subject of government

control. The ERAP communiqué, however, states quite plainly that its majority holding in the SNEA would mean that the newly formed group would be managed like any private company.

Dans la S.N. Elf Aquitaine, le contrôle de l'Etat découlera d'une participation de l'ERAP maintenue supérieure à 50% et s'exercera dans l'esprit qui, précisément, a permis la réussite de la SNPA, c'est-à-dire qu'aucune activité ne sera décidée dont la rentabilité ne soit assurée à des conditions normales pour une entreprise faisant appel à l'épargne privée.¹¹

The merger produced considerable controversy at workforce level and in political circles. For the CGT it was an "inadmissible transfert d'un bien public au secteur privé" and for the *Union des Cadres et Techniciens SNPA* it was "une véritable annexion de la SNPA par le groupe ELF".¹² In parliament, Socialists, Communists and Gaullists criticised not so much the principle of restructuring the group as the methods employed, namely that the merger was being carried out by decree without a parliamentary vote. Michel Rocard, secretary to the PS, admitted that,

"La complexité des structures actuelles, les difficultés de commandement, les rivalités entre une SNPA riche et l'ERAP dévoreuse de crédits pour l'exploration ... tout cela méritait réorganisation".¹³

whereas Julien Schwartz, *député* (UDR), opposed the merger more especially because it contravened Article 34 of the Constitution, which stipulated that any transfer of assets from the public to the private sector must be submitted to a vote of parliament:

"En cédant les actifs industriels de l'ERAP à la SNEA, société de droit privé, le gouvernement opère un transfert qui doit être approuvé par les élus".¹⁴

The related question of the abandonment of state control in the new company was brought to public attention by the appearance in *Le Monde* of March 3rd 1976 of "la note Ramel", one of a series of confidential letters addressed to Guillaumat from Gaston Ramel, *chef de la Mission de Contrôle des Entreprises Pétrolières*, the

Ministry of Finance representative on the boards of the national oil companies. The letter from Gaston Ramel raises the questions of the composition of the board of the SNEA and the organisation of state control in the new company. It shows that Guillaumat was putting up the greatest possible resistance to attempts by Gaston Ramel to increase the number of government representatives on the board and then to enhance the powers of those from the Ministry of Finance. On all points, however, he was forced to fall in line with Guillaumat's wishes that the form of state control in the SNEA - 70% state owned - should remain the same as it had been in the SNPA (formerly 52% state-owned).¹⁵

The government played down the affair, maintaining that the transfer was not illegal because ERAP continued to be 100% state-owned and held a majority share in the newly formed SNEA. Moreover, "plutôt que d'une fusion, il s'agit d'une simplification puisque la majorité de l'un des deux groupes appartenait déjà à l'autre", and the presence of private shareholders should not pose the threat of a "blocking majority", because they were extremely dispersed.¹⁶

It was the government's wishes which prevailed and on July 9th 1976 at an extraordinary meeting of the SNPA's shareholders, the merger was approved. The government's approach to the merger was altogether very pragmatic. Ministers were accepting the inevitable: that ERAP, originally created to be the instrument of French oil policy, should behave like a private company. This trend had in fact begun some years earlier. Did not the Schwartz report of 1974 accuse ERAP along with the CFP of *ententes* with the "Majors"? Did not ERAP leave Algeria in 1971 against the wishes of President Pompidou, who thought that the group should have established closer economic ties there? President Giscard d'Estaing is quoted as saying,

"Peut-on rendre responsable le gouvernement français de la conception que se fait l'ERAP de ses intérêts en politique pétrolière? Chacun sait bien que non."¹⁷

The government also accepted that the role of the *établissement public* had evolved. No longer the instrument of important national projects, firms such as ERAP were being forced by economic conditions to be profitable and attain optimum size in order to compete in world markets. Whereas the BRP, when it was created in 1945, had been given a national interest mission, to set up "an oil exploration programme and ensure its implementation in the exclusive interest of the nation", thirty years later the newly formed SNEA was considered to be "a company like any other, responsible for its profitability and development". (See extract from ministerial communiqué concerning ERAP/SNPA merger quoted above.)

It was also to the government's advantage that firms such as ERAP should have a substantial number of private shareholders. For example, it was a way of making private investment contribute to the financing of costly exploration projects and thus relieve in part the Treasury's contribution to such projects. A large private shareholding also ensured for the SNEA a more "capitalist" management. This point is aptly reinforced by Péan and Sérénis concerning the change of approach which the merger would bring about. They underline that the private sector logic which had always characterised ERAP's ~~new~~ subsidiary, the SNPA, would rapidly permeate the new Elf group:

"De toutes les filiales du BRP puis de l'ERAP, Aquitaine est, depuis sa naissance, la plus liée au privé, la moins pénétrée de l'esprit de mission nationale. A la SNPA, on n'est pas là pour trouver du pétrole mais pour gagner de l'argent. On y raisonne plus en industriel et en chimiste qu'en pétrolier. Sa mentalité "capitaliste" va rapidement contaminer le nouveau groupe Elf Aquitaine."¹⁸

THE CHALANDON ERA

1976, the year of the ERAP/SNPA merger, also witnessed preparations for the retirement of Pierre Guillaumat as chairman of the state oil group. In many ways the chairmanship of his successor, Albin Chalandon, marked a further stage in the group's increasingly market orientation. As a convinced liberal, Chalandon was the

preferred choice of Giscard d'Estaing and Jacques Chirac. Like Giscard, he was an *Inspecteur des Finances* and had spent the early part of his career in banking. In fact his training was that of banker and businessman rather than industrialist.¹⁹

On account of Chalandon's background - the scandals in which he had been involved were also well known - and the fact that he had "stolen" a post which the *Corps des Mines* considered their preserve, many top managers of the SNEA were opposed to his appointment.²⁰ He was also viewed with suspicion by his *Ministre de tutelle*, André Giraud. Their different conception of the oil industry was the source of many conflicts. For Giraud, who remained loyal to the Guillaumat *étatiste* approach, the prime function of the industry should be security of supply and to serve the aims of national fuel policy, but for Chalandon, its purpose was not only to supply France with oil and gas but to make money. First and foremost for Chalandon, the role of the newly formed SNEA was to be profitable and all activities other than the production of hydrocarbons and their by-products should contribute towards the company's cashflow.

Another point of conflict between Chalandon and Giraud was Chalandon's strong aversion to all forms of government intervention in industry, notably, the control of prices, credit and exchange rates.²¹ Furthermore, he had been appointed by the President of the Republic and considered that he was answerable to him alone. Chalandon believed he was at least as good a judge of the national interest as the Minister of Industry himself. Consequently, he was dismissive of civil servants and paid little attention to administrative procedures. For example, he did not inform the authorities about the Libyan contracts in December 1980. His style of management was very different from that of Guillaumat who, as a *grand commis de l'Etat*, was highly skilled in handling top civil servants. As a result, Chalandon aroused the hostility of Giraud and senior administrators at the Direction des Hydrocarbures (DHYCA) who, in return, seem to have obstructed many of his plans.

Chalandon's aim to make the group profitable clarified a number of contradictions which struck him when he first became chairman. In his view Elf had a dual image: a firm created by government and excessively bureaucratic but also financially

independent and enjoying the reputation of being one of France's most profitable firms.²² The importance he attached to cashflow pleased both the Ministry of Finance and former executives of the SNPA:

"Chalandon a eu le grand mérite de trancher le débat, de dire: Vous êtes à capitaux d'Etat, mais vous n'êtes pas une entreprise publique. Votre seule motivation est le profit car sans profit vous mourrez."²³

Chalandon's determination to make the SNEA more profitable underpinned the group's strategies during his chairmanship. In addition to strengthening the group's diversified activities, he is given particular credit for restructuring its refining sector and reinforcing its presence in the US.

On taking up his chairmanship in 1977 Chalandon was convinced by a whole series of uncertainties in the SNEA's oil sector that it was urgent to find new areas of development. These difficulties arose from fewer discoveries, increased exploration costs, higher taxation, the importance of creating jobs in S.W. France where the Lacq gas field would soon be exhausted and the progressive deterioration in the group's refining sector.²⁴ After the rise in oil prices in the Spring of 1979 and subsequent profits for the group, Chalandon sought to take advantage of the increased cash to move into several diversified areas. Although the healthcare activities managed by Sanofi were the most promising, food processing, electronics, the production of photocopiers and mineral water also figured among the areas which he attempted to bring into the group. Giraud and the top management of ERAP were consistently opposed to these diversifications which were frequently incompatible with the basic activities of the group. In Giraud's view diversifications should not be pursued to the detriment of oil exploration, production, refining and distribution, the group's essential task.²⁵

To increase the group's profits was also the intention behind Chalandon's efforts to expand the SNEA's activities in the US, "the only oil-producing country where substantial profits could be realised and brought back to France."²⁶ Although his first attempt to buy the much coveted Kerr Magee in 1979 was vetoed by Prime Minister

Raymond Barre, on Giraud's advice, Chalandon took advantage of the change of government in 1981 to push through the purchase of another American firm, Texasgulf. Texasgulf was chosen for a number of reasons. It was highly profitable - figuring top of Fortune's list of companies - it would expand the diversified and traditional activities of the SNEA and it would allow the group to rid itself of Aquitaine Company of Canada, a Canadian subsidiary of the former SNPA, threatened by a fall in its production of crude oil and sulphur. This exchange of subsidiaries was one of the conditions attached to the acquisition of Texasgulf by the *Comité Spécial* of ERAP. Indeed, it was laid down that no funds were to be transferred from France for the purchase, which at the time was the highest investment ever made by a French company abroad.²⁷

Chalandon's restructuring of Elf's refining sector was also in line with the logic of the market place. The group's refining activities had suffered severely as a result of the oil crisis and there were three major factors which prevented recovery. First, the price of oil products was controlled by government and had been so since the Liberation, when an ordinance of 1945 enabled it to fix the price of all products at production and distribution level. All governments are concerned about the price index level because of its repercussions on the rate of inflation. Governments also take a short-term view for electoral reasons and this can have a negative effect on industrial investment which by nature is long-term. The policy imposed on the refining sector was to bring prices in line with European levels when they were low, but to freeze French prices when European rates rose.²⁸ This naturally led to enormous losses in the refining sector. The second problem facing the group's refineries was that they were the necessary outlet for oil produced by the group's exploration branch and were not allowed to purchase supplies elsewhere and negotiate over the price and quality of different types of crude. The third factor was that anxiety over oil shortages after the 1973 crisis led successive French governments to conclude "state to state" agreements. These submerged the refineries of Elf and CFP with enormous quantities of Saudi, Venezuelan and Mexican crude oil, exceeding their needs three and four times over. Naturally the

companies tried to disengage themselves from these contracts frequently in disagreement with the DHYCA. A lack of profits for reinvestment, rigid price controls and overcapacity had thus led to a serious deterioration of the group's refineries. Restructuring took the form of closures, the automation of production methods and the installation of conversion equipment - catalytic cracking - allowing the manufacture of lighter fuels - petrol, domestic fuel - in preference to heavy varieties. Thus from 1979, refineries throughout France were either modernised and "converted" or closed down. At the level of distribution also, there was a drastic reduction in the number of depots and petrol stations.²⁹

Although decided within the context of the Socialist government's nationalisation programme of 1982-83, the restructuring of the French heavy chemicals sector, in which Elf played a major part, can be seen not only as conforming to the logic of the market but also relieving the Treasury of subsidies to "lame ducks". France's chemicals sector suffered from similar problems to those of Elf's refineries: it was producing more than the national market could absorb; there was a slowing down in demand outside France and an increase in the price of raw materials and energy. Prices were fixed by government at a lower level than those of European competitors and no French chemical group had reached the critical size enabling it to make a name for itself in a particular branch of production.

The plan to restructure the whole of the chemicals public sector was approved by the Conseil des Ministres in May 1982 following the nationalisation of Rhône-Poulenc and Pétrochimie Ugine Kuhlmann (PUK) in February. It consisted of two stages. Firstly, Elf was to take over from the CFP majority shares in ATO and Chloé, while PUK's chemical assets were to be shared between Elf and Rhône-Poulenc. Secondly, Elf, CDF Chimie and Rhône-Poulenc had to propose a plan for reorganising their activities and rationalising investments sector by sector.³⁰ There had been a division of opinion about whether ERAP or the SNEA should lead the restructuring exercise. As Industry Minister, Pierre Dreyfus had planned that it should be ERAP, while the chairman and vice-chairman of ERAP were of the

opinion that the SNEA should be the leader, in order to protect dividends paid by ERAP to the State. It was the latter solution, supported by a new Industry Minister, Jean-Pierre Chevènement, which was finally adopted. The SNEA, however, as the main inheritor of PUK's loss-making activities and because its top management had not initiated the restructuring plan, refused to compensate the CFP for past investments it had in ATO and Chloé. This became the stumbling block in negotiations. The chairman of the CFP demanded that Elf buy all his company's shares in ATO and Chloé, while Chalandon argued that the Treasury, by means of ERAP, should pay compensation to the CFP.³¹ The intervention of yet another new Industry Minister, Laurent Fabius, laying down conditions by which Elf should compensate the CFP, only reinforced Chalandon's resolve:

"C'est la première fois dans son histoire que l'entreprise reçoit des instructions que l'on peut assimiler à un ordre de service qu'un ministre adresse à son administration. Cette attitude me paraît contraire, non seulement à l'autonomie de gestion et à la responsabilité de ses dirigeants telle qu'elle a été affirmée maintes fois par le Président de la République et, plus récemment encore par vous-même mais aussi, aux termes de la loi sur les sociétés à laquelle l'entreprise se trouve soumise.... Face aux intérêts de l'ensemble de mes actionnaires, il m'appartient de prendre en mon âme et conscience les décisions que j'estime conformes à leurs intérêts. L'actionnaire majoritaire qui parle par votre voix peut m'indiquer des orientations, me révoquer, mais non m'imposer ma conduite."³²

It is reported that Chalandon's refusal to comply with Fabius' instructions contributed to the non-renewal of his chairmanship in June 1983.³³

Although during Chalandon's chairmanship there was no reduction in the state's shareholding in the SNEA, his six years in office witnessed his efforts to develop the group's activities, markets and cashflow, to cut back loss-making sectors and to oppose government interference in the group's affairs. Chalandon behaved not as a *grand commis de l'Etat* but as an autonomous company chairman, fighting against the principle of his group being used as an instrument of government economic policy.

It also emerges that the Socialist government which came to power in May 1981, although resolved to break with capitalism, actually adopted policies characteristic of state capitalism. The restructuring of industry shows the government's use of profitable firms to help those which were making losses, a determination to protect their dividends and a refusal to allow a state-owned group to risk its own funds in foreign acquisitions (Texasgulf). In other words, the Socialist government of 1981-83 wanted a state-owned group like the SNEA not only to be "une entreprise normale responsable de sa rentabilité et de son développement" but more especially to relieve the Treasury of having to make good losses incurred in other areas of the public sector.

What had happened by 1983 was that the Socialist government had "rediscovered the firm" as the principal instrument of wealth creation.³⁴ The expansionist and redistributive policies which they had adopted in 1981 in accordance with their electoral promises were going seriously wrong by mid-1982. Unemployment and inflation rose, the balance of payments deteriorated, social measures increased firms' costs, while reflation increased the state budget deficit and exerted downward pressure on the franc. Under the influence of the United States and Great Britain where monetarist policies seemed to be bearing fruit and of Finance Minister, Jacques Delors, one of the more moderate ministers, the Socialist government made two U-turns from reflation to austerity in July 1982 and March 1983. Peter Hall notes that one of the main factors behind this decision was President Mitterrand's choice not to devalue the franc in order to maintain France's membership of the European Monetary System (EMS). He was anxious to maintain France's long-standing commitment to fuller economic integration in the European Community. However, the conditions for falling in line with France's major trading partners was tighter control on public spending, higher taxes, a policy of wage restraint, while the nationalised industries were told to put their finances on a sounder footing.³⁵

By mid-1985 the nationalised groups were in much better health.³⁶ State funds, however, had been exhausted. Compensation to shareholders, increases in capital, payment of debts and the financing of new equipment meant that there would be far less financial aid from the State in the future. The financial journalist of the *Nouvel Observateur* concluded that: "Les fonds que l'Etat accorde aux groupes dont il est l'unique actionnaire ont diminué en 1984 par rapport à 1983 et diminueront encore en 1985".³⁷ Yet to be competitive, firms needed to be equipped to an increasingly high level. Thus between 1983 and 1986 the Socialists allowed a kind of surreptitious privatisation of public sector firms referred to as the "*respiration*" literally, "breathing space" for the public sector. This included the sale of subsidiaries to private firms, the raising of funds on the Stock Exchange - a prerogative of private companies - and the public flotation of subsidiaries of state-owned companies.³⁸

For the Opposition, however, the denationalization of subsidiaries alone was not going far enough. They were calling for the total denationalization of nationalised groups and when the Chirac government came to power in 1986, privatisation formed one of the key issues of their economic policy.

THE CHIRAC GOVERNMENT'S PRIVATISATION PROGRAMME

The motives of the privatisers in 1986 were both varied and extensive. Scholars writing on the subject³⁹ indicate four main sets of arguments for privatisation: the ideological, the economic, the managerial and the financial. Their comments reveal common elements between the ambitions of the privatisers in 1986, those of Chalandon during his chairmanship of the SNEA and those of the Socialist government in its post-1982 "financially sensitive" phase.

Among the principal ideological motives was the struggle against the tradition of dirigisme. The focus of the privatisation campaign in France and Great Britain was to push back the frontiers of the state, considered to be inhibiting, and create an

environment for individual actors. Stemming from this anti-state sentiment was the desire to build a property-owning democracy and increase worker participation in the functioning, development and survival of companies. As for the economic motives, the objective of achieving more efficient and flexible structures was the principal one. The view is widespread that public sector production and services are less efficient than those in the private sector, because they are not vulnerable to market forces, there are no private shareholders to satisfy and there is no threat of bankruptcy or takeover. On the other hand, the public sector is vulnerable to demands made by governments pursuing their own macro-economic objectives, for example, to maintain low prices, to safeguard jobs, to take over firms in difficulty, and these aims may well run counter to company ambitions. It is for this reason that most heads of public sector companies favoured privatisation, since it would ensure greater autonomy for themselves and less likelihood of their company being used to further government economic objectives. This constitutes the managerial argument for privatisation.

Regarding the financial motives for privatisation, there is for privatised firms quicker and more direct access to international capital markets, whereas for state-owned companies, the necessity of obtaining permission for the buying and selling of shares can considerably delay the decision-making process. For governments, the financial reasons for privatisation are substantial. Money from the sale of state assets accrues to the Treasury and allows governments to reduce their debts and budget deficits. Financial aid given to certain state-owned companies in the form of grants, subsidies and loans can also be reduced, once these firms have been handed over to private ownership. Moreover, the sale of unprofitable subsidiaries contributes to making public sector companies healthier, and this indirectly relieves the national budget since firms no longer need state aid.

In 1986 in France there were particular factors which favoured a programme of privatisation. Commentators on the subject point to a whole host of features in the political, social, financial and international environment which contributed to the

success of the movement. As regards the political environment, the 65 companies to be privatised included not only those nationalised by the Socialists in 1981 but also a certain number of those nationalised at the Liberation. Michel Bauer underlines the fact that it was the presence of the RPR in power in 1986 which enabled the privatisation of what de Gaulle had nationalised in 1945. At the Liberation there was such total agreement among all political parties about transferring to the state the large private monopolies, that since that time no one had dared question what was considered to be one of the main achievements of the Resistance. In Bauer's words "it could only have been the Gaullist party who could dare to do so".⁴⁰ As for the Socialists, by the mid-1980s, they had become increasingly sceptical about the merits of nationalisation and, as already mentioned, had recognised the need for *respiration* in the public sector.

There were also many social factors which favoured privatisation in the mid-1980s in France.⁴¹ For example, in certain areas there was work-force disenchantment with the public sector. Restructurings had led to wage freezes and massive lay-offs. Those who might have been expected to defend the public sector no longer gave it their support. In addition, the trade unions who tended to resist privatisation movements had been weakened by government legislation and their own falling membership. What is more, in France the Privatisation Law of August 1986 guaranteed employees the right to buy a proportion of the initial share issue of the privatised company. This was very likely to encourage the interest of employees in activities of the company. Public sector managers, as already mentioned, formed another group who favoured privatisation because it was a means of acquiring greater autonomy, of improving the financial position of their company and being less dependent on the Treasury.

As regards the financial environment of the mid-1980s, there were a number of aspects which contributed to the success of privatisation.⁴² First, the share market in France had grown between 1982 and 1985 due to government measures designed to facilitate and increase transactions (easing of exchange controls and

new computerised trading techniques). Second, the fact that only profitable companies were chosen as candidates for privatisation encouraged investors to risk their money. Third, the sale of shares at below their market value was a further attraction, enabling the small shareholder to make a quick profit.

Regarding the international environment, privatisation movements in 1985-86 were already widespread in the industrialised world. Over the following three years they extended to as many as sixty countries, several of which were in the developing world.⁴³ The increasing internationalisation of economies meant that similar ideas on how to achieve greater competitiveness, to stimulate financial markets and to solve budgetary problems had been diffused transnationally.

At the European level 1986 was the year of the Single European Act negotiated by Laurent Fabius and ratified by Jacques Chirac. It relaunched European integration by laying down the measures required for the completion of the Single European Market by December 31st 1992.⁴⁴ A consistent aim in the construction of Europe has been to improve the competitiveness of European economies in relation to non-European competition. This has involved not only the strengthening of market mechanisms within the European Community but also the gradual removal of all forms of national protectionism. While the Treaty of Rome instituted a free-trade zone, involving the elimination of internal tariff barriers, non-tariff obstacles persisted, for example differences in technical norms, taxation systems, nationalistic preferences in the attribution of public procurement contracts. These barriers limited competition within the EC and encouraged the creation of national markets. The objective of the Single European Act was the removal of these obstacles by December 31st 1992.

An increasingly integrated European market accelerated changes in competition policy in France.⁴⁵ In comparison with some other European states, France had been slow to abandon practices which distorted competition, for example, public procurement contracts, state aid, cartels and price fixing. These practices had

persisted in France because supervisory ministries had traditionally intervened in the strategies of state-owned firms over measures designed to protect and/or expand the industry. The oil business in France has provided numerous examples of this government - industry collaboration. It was pressures exerted jointly by the European Commission and the economic crisis of the mid-1970s to mid-1980s which brought about radical changes. Raymond Barre reinforced competition through legislation in 1977 and set up the *Commission de la Concurrence* which for the first time had powers to intervene in the area of mergers. Barre also went some way towards abolishing price controls. Real enforcement of competition law had to wait until the mid-1980s when the Chirac government introduced wide-ranging reforms to make companies compete more effectively. In addition to the privatisation programme, these included the abolition of price controls and the reduction of regulations and subsidies affecting businesses. For example, regulations limiting lay-offs were repealed, the deregulation of financial services, begun by the Fabius government and providing firms with new sources of private finance, was pursued and enlarged by Chirac. The *Commission de la Concurrence* was replaced by the *Conseil de la Concurrence* which had independent powers to curb anti-competitive practices and punish guilty parties. Moreover, the wording of competition legislation was tightened. From 1986, enforcement of competition legislation became increasingly rigorous.

The Chirac privatisation programme can be seen to be a part of this trend towards an increasingly integrated European market. It aimed to sever the link between public companies and their national governments, making it more difficult for governments to use their public firms as instruments of national policy. It aimed to give state-owned companies access to capital markets, enabling them to enhance their profitability and gain financial independence from government. In removing the hand of the state it aimed to allow firms to respond faster and more efficiently to business partners and forge cross-border and international alliances. These are some of the ways in which the Chirac privatisation programme was a response to the challenges of the Single European Market of 1993.

Much of what has been said about privatisation in general applies to our case-study, the SNEA. In line with the government's attitude towards other state-owned companies belonging to strategic sectors, energy, transport, telecommunications, aircraft, the authorities did not want to disengage themselves at one go from France's top industrial group. Yet Elf did belong to the competitive sector, it was France's most profitable company and the government was counting on the sale of a part of the state's share in the group "to balance its 1986 budget".⁴⁶ It was envisaged that the privatisation of Elf would proceed in stages but that the state share should not fall below a blocking minority. The first stage was therefore a partial privatisation with the state selling off 11% of its 66.8% share yet still preserving over 51%. The operation was intended as a test case for the whole privatisation movement. In the event the share offer was oversubscribed four times, a success which encouraged the government rapidly to undertake the mainstream privatisations.⁴⁷

As in the case of other privatisations a major objective was to boost budgetary receipts and increase the capital resources of the company. Elf's partial privatisation was therefore planned as a twofold operation: a public flotation of 11% of the company's capital held by ERAP worth 3.3bn francs, followed by the issue of convertible bonds on the international market. The latter operation would allow Elf to raise new capital, \$200m initially and another 2.1bn francs over the following four years.⁴⁸ According to reports at the time, an increase in capital was a long-term necessity for the company.⁴⁹ There were several reasons. In the course of 1985 oil prices had fallen, resulting in less revenue from oil. Moreover, not only would the gas field at Lacq and the Frigg oil field - the group's most important sources of profit - be exhausted by the mid-1990s, but no major discoveries had been made in zones - Europe and North America - where profits were highest. In addition, the purchase in 1981 of the diversified mining company, Texasgulf, was proving to be a financial burden for the group. Partial privatisation would bring a number of benefits. The increase in capital would enable the group to make new acquisitions in the oil, chemicals and pharmaceuticals sectors. Moreover, it was expected that

the group would gain greater freedom to pursue its own strategies without having to come to the aid of failing industries. The chemical restructuring of 1983 and bailing out of Technip - an oil engineering company - had been particularly burdensome.

The procedures by which the partial privatisation of Elf would take place were similar to those applied to other candidates for privatisation. The Finance minister, anxious that the share flotation should succeed, fixed the price of Elf Shares below their market value. On September 25th they were put on offer at 305 francs, that is below the previous day's closing price of 339 francs. There were 10.8m shares on offer and more than 46m applications were received. 300,000 small investors subscribed for up to 10 shares each, enabling the Finance minister to claim a success for the government campaign to establish a shareholding class. A considerable proportion of the 10.8m shares were also bought by large institutions, in the case of Elf, by the *Caisse des Dépôts* as well as other French and foreign institutions.⁵⁰ In line with other privatisations, it was important for Elf to keep a *noyau stable* of institutional shareholders to deter takeovers. For the same reason, the government was to keep a "golden share" giving the Finance minister the right during a five-year period to veto any purchase by an individual shareholder of more than 10% in Elf.⁵¹

In an assessment of the impact of the 1986-88 privatisation programme of the Chirac government, one must ask if the ambitions of the privatisers were realised. The speed with which the five-year programme was implemented was certainly impressive. Twenty-two out of the sixty-five companies were privatised in the first 18 months and 70.8bn francs were raised. This represented a rapid and major shift in the public - private industrial boundary.⁵²

In other ways, however, the changes which the programme introduced were not as radical as promised. Michel Bauer's evidence shows that in France the new shareholding class was not as influential as might be expected and that the frontiers

of the state were not pushed back particularly far. Although the number of small shareholders rose from 1.5 million in 1985 to 8 million in 1987, the discount price of the shares ensured rapid profit only if they were sold quickly. This is in fact what happened, so that by 1988 the figure of 8 million individuals had fallen to 1.6 million households. Furthermore, no attempt was made to organise, inform or interest these small shareholders, with the result that they were unable to exert any influence on the boards of privatised firms and their representation was largely symbolic. As regards reducing the role of the state in favour of the market, it seems that the very opposite took place. Not only were all privatisations carried out according to the same scheme - 10% to employees, about 15% to foreigners, about 50% to the public at large and about 25% to around ten large shareholders who constituted the *noyau stable*, but this last group was allowed to hold sufficient portions of the capital - 0.5%-5% - to exercise potentially some control over these groups. Furthermore, Finance Minister Balladur always refused to establish clear mechanisms for constituting this controlling shareholding and arbitrarily selected a chosen few. There were also other ways in which he distorted the market. It was he who fixed the share price - with a discount of 5%-30% - it was he who decided on the percentage share - up to 20% - to be acquired by foreign financial groups; it was he who had the right to use the state's "golden share". It therefore seems that the privatisation programme revealed a suspicion of the logic of the market and strengthened the prerogatives of the state and particularly those of the Finance Minister.⁵³

Although new groups of shareholders were created, they did not alter the control of industry. It seems that in choosing the *noyau stable*, the Finance Minister was sensitive to the wishes of the management of privatised groups. Moreover, the fact that there were many examples of cross-shareholdings shows that the Minister was trying to establish an interlocking network of French-controlled holdings in the privatised groups. In this way privatisation did not change the established "private governments"; it merely brought about a greater concentration of private economic power.⁵⁴

CONCLUSION

We have seen that privatisation, as illustrated in the ten years of the SNEA's development between 1976 and 1986, took different forms. We have also shown that it was an evolving process, closely linked to national and international, economic and political circumstances. The case of Elf in the mid-1970s, during Chalandon's chairmanship, and in the mid-1980s, has shown that a major state-owned industrial group had a constantly pressing need for funds to maintain existing activities and develop new ones. During this decade governments were less generous and the growing internationalisation of products and markets forced companies to seek ways of becoming more competitive. The ERAP/SNEA merger in 1976, accompanied by the partial denationalization of ERAP, or using the rich to help the poor, was one illustration. However, as the SNEA belonged to the public sector, it had to take account of government policy in its strategies and respect administrative procedures. These constraints constituted a further financial burden and slowed down the decision-making process. State-owned companies belonging to the competitive sector, such as the SNEA, therefore sought greater autonomy from government. The Chalandon era illustrates an attempt on the part of the group's top management to avoid being used as an instrument of government policy and to pursue a more "commercial orientation" without government interference. This period marked a further stage in the privatisation process and in the blurring of distinctions between public and private companies. Governments, however, throughout the 1970s and 1980s were subject to increasing demands on the Treasury. They therefore needed to make use of the wealth of firms they owned to cut back public expenditure. It is ironic that the Socialist government's nationalisation and restructuring programme of 1982-83 and the neo-Gaullist government's privatisation project of 1986-88 were motivated by the same goal. It is also ironic that although the wealth of firms seems to have its origin in the efforts of top management to be independent of government, governments actually benefit from firms' striving towards autonomy.

Our analysis of the privatisation process over the decade 1976-1986 also shows that governments, whether of the Left or Right, adopt similar policies but under a different name. Government industrial policy is therefore largely unchanging, although it may assume different guises for electoral and ideological reasons. It also emerges that the movement for change actually comes from firms. The restructuring of Elf's refining sector, the expansion of its chemical and pharmaceutical activities, and the selling of subsidiaries from the public to the private sector began before they actually became government policy. Governments therefore adopt as national policy a trend which is already in progress in certain sectors. In other words, in the industrial sector it is the top management of large companies rather than governments who determine policy.

NOTES

1. John Vickers and Vincent Wright. "The Politics of Industrial Privatisation in Western Europe: An Overview", *West European Politics*, vol. 11, no.4 (October 1988) p.1.
2. The Union Générale des Pétroles was created to ensure the transport refining and distribution of oil from the franc zone.
3. ERAP resulted from the merging of the BRP, RAP and UGP.
4. Quoted in Christophe Babinet, *Histoire du groupe Elf Aquitaine*, (unpublished) Paris, 1986, p.303.
5. Ibidem, pp.303-309.
6. Philippe Simonnot, *Le Complot Pétrolier*, Paris, Editions Alain Moreau 1976, p.41.
7. Ibidem, pp.43-68.
8. Ibidem, pp.63-77.
9. Ibidem, p.66.
10. Ibidem, pp.74-75.
11. Ibidem, p.76.
12. Christophe Babinet, op.cit., p.301.
13. *Le Monde*, 15 January 1977.
14. Ibidem.

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15. Philippe Simonnot, *op.cit.*, pp.83-120.
 16. *Le Monde*, *op. cit.*
 17. Ibidem.
 18. Pierre Péan and Jean-Pierre Séréni, *Les Emirs de la République* Paris, Seuil, 1982, p.202.
 19. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, pp.205-207.
 20. Albin Chalandon, *Quitte ou Double*, Grasset, 1986, p.150.
 21. Ibidem, pp.75-87.
 22. Albin Chalandon, *op.cit.*, pp.150-191.
 23. Quoted in Christophe Babinet, *op.cit.*, p.333.
 24. Albin Chalandon, *op.cit.*, pp.155-171.
 25. Christophe Babinet, *op.cit.*, p.339-342.
 26. Pierre Péan and Jean-Pierre Séréni, *op.cit.*, p.211.
 27. Christophe Babinet, *op.cit.*, pp.368-370.
 28. Albin Chalandon, *op.cit.*, pp.78-79.
 29. Christophe Babinet, *op.cit.*, pp.372-374.
 30. *Elf Aquitaine Bulletin Mensuel d'Information* November 1982.
 31. Albin Chalandon, *op.cit.*, pp.232-233.
 32. Ibidem, pp.234-235.
 33. Christophe Babinet, *op.cit.*, p.381.
 34. Howard Machin and Vincent Wright (eds.) "Introduction: Economic policy under the Mitterrand Presidency", *Economic Policy and Policy-Making under the Mitterrand Presidency 1981-84*, London, Frances Pinter, 1985, p.3.
 35. Peter Hall, "The State and the Market", in Peter Hall, Jack Hayward, Howard Machin (eds.), *Developments in French Politics*, London, Macmillan, 1990, pp.177-178.
 36. *Libération*, 6 November 1985.
 37. *Le Nouvel Observateur*, 26 April 1985.
 38. Michel Bauer, "The Politics of State-Directed Privatisation: The Case of France, 1986-88", *West European Politics*, vol. 11, no.4 (October 1988), pp.50-51.

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39. John Vickers and Vincent Wright, *op.cit.*, pp.4-9
See also: Armand Bizaguet, *Le Secteur Public et les Privatisations*, Paris, P.U.F., 1988, pp.67-79.
 40. Michel Bauer, *op.cit.*, p.50.
 41. John Vickers and Vincent Wright, *op.cit.*, pp.16-18.
 42. John Vickers and Vincent Wright, *op.cit.*, pp.19-22.
 43. Armand Bizaguet, *op.cit.*, pp.68-69.
 44. Janine Brémond et al., *L'Europe de 1993*, Paris, Hatier, 1990, pp.11-20.
 45. Joseph Szarka, *Business in France*, London, Pitman, 1992, pp.122-140.
 46. *L'Usine Nouvelle*, 22 May 1986.
 47. Armand Bizaguet, *op.cit.*, pp.90-91.
 48. *Financial Times*, 26 September 1986.
 49. *Le Monde*, 5 June 1986.
 50. *Tribune de l'Economie*, 26 September 1986.
 51. *Financial Times*, 10 October 1986.
 52. John Vickers and Vincent Wright, *op.cit.*, p.22.
 53. Michel Bauer, *op.cit.*, pp.59-60.
 54. *Ibidem*.

CONCLUSION

Collaboration and conflict characterised the relationship between France's state-owned oil group, Elf Aquitaine, and French governments between 1976 and 1986. Created as an instrument of government with a "national interest" mission, this state oil group was expected to work for and with governments. Government gave it the means to develop while the state oil group carried out the tasks assigned to it. This cooperative venture was an example of French voluntarism or initiative taken by the State to correct perceived market failure. The government - company partnership was considered the means not to destroy but to reinforce the market.

The relationship was altered, however, by the changing international character of the oil industry. Exposed to world events and especially to the consequences of the oil crisis of the early 1970s, the state oil group suffered from the switch made by the French government from oil to nuclear energy as the main source of power. This inevitably changed not only the nature of ERAP, which was obliged to diversify rapidly its sources of oil, activities and range of products, but also its relationship with government. The support it had enjoyed from government could not be sustained. Although the group remained in public ownership, it became financially independent of its major shareholder and acted increasingly as a private company.

Government was also affected by the economic crisis and by widespread demands for public funds. While Elf became concerned with maximising profits, its major shareholder became dependent on the oil group's wealth. It was this confusing combination of dependence and the fact that government could still use its powers of ownership and Elf's "national interest" mission which produced conflicts. Yet company top managers could also exploit the state link and use government goals to achieve their own objectives. Cooperation was facilitated by the presence of members of the same techno-bureaucratic elite in both the top administration and company.

Our conclusion focuses on our findings in cases of restructuring, diversification and internationalisation in which the goals of company and government converged and diverged. It also asks to what extent Elf's partial privatisation in 1986 resolved the contradictions inherent in the government - company partnership.

CASES OF COLLABORATION

Cooperation between top managers and supervisory ministers and officials over the merging of ERAP with its rich subsidiary, the SNPA, in 1976 was strikingly close.

In fact, the objectives of company and government converged to such a degree and some individuals were so inextricably involved with both sides that it is difficult to talk in terms of "sides". For the sake of clarity, however, let us distinguish the respective approaches of ministers and managers.

In 1976 the highest authorities in government supported the fact that one of their *établissements publics*, created originally to ensure for France secure supplies of hydrocarbons, should be rescued by private capital. There were several reasons for this.

Firstly, President Giscard d'Estaing considered that ERAP already belonged to the private sector. Comments made by him and prime minister Jacques Chirac in 1976 show that as far as they were concerned, the controversy produced at the time of the merger by the transfer of assets from the public to the private domain was meaningless.

Secondly, the merger would mean fewer demands on the state budget at a time when government was beset by a range of economic problems: rising inflation, a rising budget and trade deficit, soaring unemployment, a slowdown in growth and the decline of strategic industries. Moreover, government had to finance the enormous expense of replacing oil by nuclear power as the major source of energy. It was no longer prepared to make good the losses of its large firms. On the

contrary, it was obliging even its *établissements publics*, created originally to be instruments of government policy, to become, like ERAP, "une entreprise normale responsable de sa rentabilité et de son développement". An ERAP/SNPA merger would not only be a saving for government at a time when government needed to save money but since this case of restructuring also involved a reduction in the state's share of the newly emerging SNEA, it would also reduce government's responsibility for the future development and financial health of ERAP.

Thirdly, the ERAP/SNPA merger would produce a stronger "national champion" in oil. Since the 1960s successive French governments had been recommending industrial concentrations in order to improve the competitiveness of French firms on the world stage. The creation of ERAP in 1966 had been the first step. The restructuring process culminated in the 1976 merger creating the SNEA, a new stronger oil champion, more diversified geographically and at product level and benefitting from the wealth of the former SNPA.

At company level the top management of ERAP and SNPA - in effect the same people - were of the opinion that a merger was necessary simply to survive. Top managers were acutely aware of constraints on them stemming not only from world events but also from decisions taken at national and EC levels. In 1971 ERAP had lost two-thirds of its reserves of crude oil in the Algerian nationalisations of French oil company assets. This loss was compounded by the world oil crisis of 1973, after which ERAP had to pay new higher prices for its crude oil on the international market rather than at the special prices at which it had purchased Algerian oil. In addition, it had to find new zones to explore and exploration costs were soaring. Furthermore, the particular difficulties of ERAP's downstream sectors were aggravated by the oil crisis, as explained in Chapter 6. Moreover, the liberal policies favoured by Giscard d'Estaing heralded an end to the protectionism which the state oil companies had enjoyed. What is more as part of its drive to increase competition the European Commission had for a long time been calling for the

abolition of the 1928 laws and an end to the fixing of quotas on imports from Europe.

Cooperation between government and ERAP over the merger was and had been extremely close, thanks to officials at the Industry ministry, and especially the DHYCA, who supported the state oil group. From 1964 André Giraud, as *Directeur des Carburants*, had set in motion the reorganisation of the state oil companies. The merging in 1966 of the BRP and RAP to form ERAP, with Pierre Guillaumat at its head, was the first step. It is clear from the high-ranking posts to which other members of the *Corps des Mines* in the group were appointed that an integrated oil company had obvious advantages for them (see chapter 1, p. 72). Serious thought was given to the role of the SNPA because, as manager of the Lacq gas field, it was a wealthy company. It was therefore decided that it should not be totally merged. Instead, ERAP took over the public shareholding of 52% in the SNPA and Pierre Guillaumat was appointed chairman of both companies. As mentioned in Chapter 1 (see pp. 69-72), the top management of ERAP intended making full use of the SNPA's private wealth to extend their exploration zones and develop their downstream sectors while simultaneously making requests for public funds. The push towards closer integration by *l'équipe Guillaumat* was pursued over the next decade. Further evidence of collaboration between managers and ministers, analysed in Chapter 6, is to be found in the actual means employed to ensure the success of the 1976 transaction.

Behind government-company cooperation in the restructuring of ERAP, there was a convergence between the goals of ERAP/SNPA's top management and supervisory ministers. They were greater financial autonomy for ERAP and the creation of a more integrated industrial group. We have shown that the achievement of these goals brought benefits to both sides. For government a more self-sufficient national oil company would enable it to withdraw from its funding of the state oil sector now that the decision had been taken to make nuclear power the main source of energy. Besides, government could oblige the top management of

the newly created SNEA to use company funds rather than those of the Treasury in extending its exploration activities and developing its downstream sectors. In addition, a more integrated oil group would mean a stronger French company better able to compete in foreign markets. As for ERAP's ambitions, access to the SNPA's private wealth would enable it to make good its refining-distribution losses and finance further exploration. Moreover, having always benefitted from government subsidies as an *établissement public* with a national interest mission, ERAP also planned to continue making requests for state aid. The top management of ERAP saw their survival in a stronger, more integrated group and in this they were supported by the ministries of Industry and Finance but more especially the *Directeur des Hydrocarbures*. This post "belonged" to the *Corps des Mines*, so both government and ERAP gained from the *Corps*' drive towards industrial concentrations. For its part, the *Corps des Mines* benefitted from an increased number of top posts resulting from larger industrial entities.

In a case of internationalisation provided by Elf's purchase of Texasgulf in 1981, there was cooperation between government and company because the goals of each side coincided. The Socialist government of 1981 was able to give "guarantees of liberalism to the outside world" without any cost to the Treasury, while the SNEA fulfilled its ambition, thwarted in 1979, to establish itself in the US.

When the Socialists came to power in 1981 they were eager to dispel their non-capitalist image and establish good relations with the business community. Pierre Dreyfus, former head of Renault, and generally sympathetic to the chairmen of large companies, was appointed Industry minister. On several occasions the government stressed that the international activities of public sector firms would not be affected by government policy and that nationalised companies should continue to establish themselves abroad. In addition, not only did President Mitterrand express his support for Albin Chalandon, SNEA chairman, by confirming him in his chairmanship but he also approved the SNEA's purchase in the US of the diversified mining company, Texasgulf. However, conscious of the wealth of the

SNEA, recently enriched by the second oil crisis, and conscious also of the enormous expense of their reflationist policies, the Socialist government was not prepared to assist in this purchase. On the contrary, one of the conditions of the sale was that no funds were to be transferred from France (see Chapter 6, pp. 253-254). The SNEA's top management was obliged to conclude the transaction by means of an exchange of subsidiaries.

As far as the SNEA's top management was concerned, an acquisition in the US was vital. Moreover, the failed purchase of Kerr Magee in 1979 had strengthened Chalandon's resolve. With his overriding ambition to make the group profitable and diversify its activities beyond oil, Texasgulf seemed an appropriate choice. Furthermore, top management was anxious to compensate for the difficulties of their traditional sectors: fewer discoveries of oil and gas, rising exploration costs, the losses of the group's refining sector, the decline of the Lacq gas field and the need to create jobs in South West France. Chalandon therefore took advantage of the Socialist government's international stance and a more sympathetic Industry minister to push through the acquisition.

The acquisition of Texasgulf therefore resulted from the fact that the goals of the SNEA and government coincided. The SNEA achieved its long-awaited ambition to gain a foothold in the US and thereby the means to expand traditional and diversified areas, increase market share and rid itself of losses. The Socialist government showed the world that it supported the business community and that it would not inhibit firms' efforts to internationalise. With consummate political skill Chalandon not only exploited the government's goals but also the change of government minister. (Pierre Dreyfus was personally committed to the principle of independent management.) The Socialist government, for its part, by imposing the condition of no transfer of funds from France, used the wealth of their richest company rather than its own in this demonstration of "wildcat capitalism".

As a case of both restructuring and diversification, the creation of Atochem shows once again cooperation between Elf's top management and government because

the goals of each side converged. In the Socialist government's nationalisation programme of 1981-82, their aim was to rescue several strategic industries of which one was chemicals, while Elf's top management, for its part, had for the previous decade been seeking to expand and diversify the range of their chemical activities.

The broad reason for the nationalisations of 1981 was to combat the economic crisis. The two oil shocks of 1973 and 1979 had produced a fall in demand, serious overcapacity and a lack of investment in several strategic industries. The nine industrial groups nationalised in 1981 were all in a serious financial situation. Government feared that certain firms would fail completely, causing mass redundancies or be taken over by foreign buyers. By taking them into public ownership, government aimed to give them a massive transfer of public monies necessary for restructuring and modernisation.

Several chemical groups were forecasting serious losses for 1981. Victims of the world crisis in chemicals, they also suffered from the long-standing weaknesses specific to the French chemical industry referred to in Chapter 5, pp. 228-231. Government's solution was to make Elf, seen as a wealthy company, the champion of French chemicals. To this end and with the agreement of its top management, Elf would purchase majority shares in ATO and Chloé (joint subsidiaries owned 50/50 with CFR), while the loss-making chemicals of Péchiney (PCUK) would be shared between Elf and Rhône-Poulenc.

It is clear that there was and had been close cooperation between government and the SNEA over this plan since it corresponded so closely to objectives which Elf's chemical experts had pursued over the previous decade: to expand and diversify the range of its chemical activities and achieve international status in this field. The creation of both ATO (1970) and Chloé (1980), not to mention the development of the group's pharmaceutical sector, are proof of their efforts. Further proof of government-company cooperation is that the details of the restructuring package fulfilled Elf's wishes (see Chapter 5, p. 230).

If one overlooks the resounding conflict between Chalandon and prime minister Laurent Fabius over the compensation payment to the CFP (see Chapter 6, p. 256), it is clear that in the medium and long term, both company and government benefitted from the restructuring plan. By using top management's goal to expand in chemicals and the wealth of the SNEA rather than the resources of the Treasury, the government gained more competitive chemical firms for France. By 1984 both Rhône-Poulenc and Péchiney were on their way to recovery. Elf, on the other hand, through exploiting government policy, not only gained the opportunity to develop massively in chemicals, but also realised a long-term ambition to obtain a distinct chemicals subsidiary of its own, Atochem.

These three cases of government-company collaboration show government and company using one another in the achievement of their respective goals. Government's goals were: to rescue sectors in difficulty and develop France's strategic industries, making them bigger, more competitive internationally and more financially independent. However, aware of the increasing demands on the state budget, government also aimed to avoid incurring the cost. In the three cases analysed it is obvious that government was using the past achievements, initiatives, ambitions, expertise and more especially the wealth of the state oil group in achieving these goals. Whether Right or Left was in power, there was a consistency in government use of SNEA resources to implement their policies.

It is noticeable, however, that over time governments were imposing heavier demands on healthy public sector companies. For example, comparing the restructurings of 1976 with those of 1983, the state oil group was rescuing not only firms within the same sector but firms from an entirely different industry. The three cases analysed also show that for its part, the SNEA's goals were: to grow by diversifying its activities, to expand internationally and to achieve greater financial independence from government. All three cases show the company taking advantage of government's long and short-term policies. They also demonstrate top management's skill in exploiting changes of government and government officials.

We have seen that the *Corps des Mines* was a key structure of collaboration. In the two cases of restructuring, it was a prominent figure in the *Corps*, André Giraud, who initiated and/or engineered these restructurings. Since he was at the time of the creation of ERAP (1966) *Directeur des Carburants* and minister of Industry during discussions about chemical restructuring (1980), it is obvious that the SNEA benefitted from the presence of influential figures in government belonging to the same techno-bureaucratic elite as top managers in the SNEA. It should not be forgotten that André Giraud was also seen to be working in the interests of the *Corps des Mines* whose goal was prestigious posts for its members and consequently greater influence in the oil and chemical sectors. Yet government also benefitted from these *corps* networks which contributed to the realisation of broader national goals.

CASES OF CONFLICT

The Elf group's diversification, internationalisation and restructuring also gave rise to resounding conflicts. They have been discussed separately in preceding chapters but here we can show that they were in fact related by the similarity and recurring nature of the real issues at stake. What is the role of state-owned companies? How autonomous is the chairman? To what extent can government control the activities of public companies? Ambiguity over these questions was not only a source of conflict but highlighted the fact that between 1976 and 1986 the state oil group was in the process of evolution. Moreover, disagreements over these issues were exacerbated by differences in personality and background of key decision-makers, by the socio-economic climate and by the clash between the long and short-term goals of policy-makers.

Between 1977 and 1981 many of the conflicts between the SNEA and government were intensified and brought to public attention by the differences in personality, career path and *grand corps* of Albin Chalandon, SNEA chairman 1977-83, and his supervisory minister of Industry, André Giraud. Giraud had followed the traditional

career of the *ingénieur du Corps des Mines* in the top administration of the energy sector: *Directeur des Carburants*, head of the CEA, minister of Industry. In many ways he looked upon the state oil group as his property. Moreover, when Guillaumat retired in 1977, Giraud was his preferred successor. It is therefore no surprise that he should have objected to the appointment of Albin Chalandon. Banker and businessman rather than industrialist, Chalandon was a notorious critic of government intervention in industry. Furthermore, as a former *Inspecteur des Finances*, Chalandon's appointment was considered an affront to the *Corps des Mines* who regarded top positions in the energy sector as their preserve.

The role of the state oil group was one of the many issues over which there was a clash of views. For Chalandon profitability ought to be the chief goal of the SNEA. Since oil activities in the late 1970s were becoming increasingly unpredictable and costly, areas other than oil had a greater profit potential. Moreover, Chalandon had the support of the ministry of Finance in the emphasis he put on profit. Thanks to Elf's large cashflow after the second oil crisis of 1979, Chalandon pursued acquisitions in diverse fields quite unrelated to the group's original role. Supported by officials of ERAP, Giraud put up strong opposition and obstructed many of these ventures. In his opinion, the SNEA had been created to provide France with hydrocarbons. It was therefore essential that the group's activities conform with its mission. Moreover, since there were no control procedures in place, as in the case of oil, to supervise these diversified areas, it was impossible to monitor how money was being spent (see Chapter 5, pp. 237-238).

Furthermore, government had other plans for Elf. Giraud had recommended at the beginning of 1980 that the group should be the leader of French petrochemicals, the creation of Chloé in the summer of that year being the first stage. Having selected Elf to assist government with its chemical restructurings, it is not surprising that the minister of Industry should be anxious to know how and on what the group's money was being spent.

The autonomy of the chairman of state-owned companies was another point of confrontation between Chalandon and his supervisory minister. The issue surfaced in the context of the group's establishment in the US. Since Chalandon wished to take advantage of the group's windfall profits resulting from the second oil crisis, the purchase of a company in the US was being hotly debated at roughly the same time as the diversification issue. Although the company selected, Kerr Magee, fulfilled all the criteria laid down by the authorities and Giraud agreed in principle to the acquisition, he vetoed the purchase at the last minute on the grounds that he had not been given sufficient information. Not only had administrative procedures been disregarded but both he and his representative in the oil industry, the director of the DHYCA, had been overlooked in negotiations.

During negotiations over the Kerr Magee purchase, Chalandon's behaviour was symptomatic of his desire to be the autonomous chairman. His willingness to communicate with the Elysée and reluctance to inform both the director of the DHYCA and Industry minister are revealing. Having been appointed by Giscard d'Estaing, Chalandon considered he was answerable to the president alone. In this case Chalandon's behaviour vis à vis the Industry minister fuelled animosity on both sides.

However there were other factors which contributed to the government's veto of the Kerr Magee purchase. Firstly, elections were approaching and the Barre government was aware of its unpopularity due to the austerity measures it had brought in to combat the economic crisis. News of a large investment by a state-owned firm abroad when companies at home were laying off workers would have increased the government's unpopularity further. Secondly, the question of Elf's diversifications was simultaneously being debated in government circles. When strategic industries in France were making huge losses and government was calling for further cuts in public spending, how Elf with its enormous profits was using public funds worried not just André Giraud but many in government.

The disagreements between Chalandon and his supervisory minister regarding the role of the SNEA and autonomy of the chairman led to the series of controls placed on Chalandon by government in the course of 1980. However, the proximity of elections, the economic climate and government's knowledge of the SNEA's wealth, intensified the conflicts and also contributed to these controls. The veto of the Kerr Magee purchase was followed by government instructions to Giraud to restructure Elf's top management. This resulted in his dividing the chairmanship of the group between ERAP and the SNEA. In addition, Chalandon was instructed by government to reorganise his company's activities according to principles laid down by government.

The extent to which government can control a public sector company was another issue over which Chalandon confronted the minister of Industry. This conflict formed the sequel to the chemical restructuring of 1982-83 and concerned compensation to the CFP for their share in ATO and Chloé.

The conflict arose for several reasons. Firstly, there was an initial division of opinion as to whether the SNEA or ERAP (holding company) should be leader of the chemical restructuring. In 1981, Pierre Dreyfus, Industry minister, thought it should be ERAP while the chairman and vice-chairman of ERAP thought it should be the SNEA (in order to protect ERAP's dividends). The latter view, supported by a new Industry minister from 1982, Jean-Pierre Chevènement, prevailed. Secondly, the actual restructuring process dragged on for three years. Although Chalandon had agreed the terms of Elf's intervention with Pierre Dreyfus, there were between 1981 and 1983 four different ministers of Industry. The terms of settlement also changed during this period. Initially Chalandon had refused to compensate the CFP chairman for his company's shares in ATO and Chloé but later agreed to do so as long as payment could be protracted. Both sides agreed on the price and on payment by instalments but the terms of the settlement were not clarified. It was then that Industry minister, Laurent Fabius, stepped in, impatient that the deal should be concluded. He laid down the terms and deadline by which the settlement

should be made. It was with these instructions that Chalandon refused to comply, stressing that the expansion of the group's chemical activities should respect shareholders' interests and protect Elf's traditional activities. Moreover, he pointed out that Fabius was overstepping his brief in dictating to the chairman of a public sector firm how he should manage his company.

In this case of conflict, Chalandon was defending the financial interests of his company. Fabius, however, was aiming to reduce the state's financial contribution to the chemical restructuring and make the SNEA pay instead. No doubt the reason for his impatience was that when the Socialists came to power in 1981 they had ambitious plans for renovating French industry. The reality was very different. The immediate concerns of unemployment and falling output prevailed over long-term structural plans. The Socialist government's reflationist policies and nationalisations were financed by a rising budget deficit which contributed towards downward pressure on the franc. This was the decisive factor behind the Mauroy government's U-turns from reflation to austerity in July 1982 and March 1983. It was faced with the choice of devaluing the franc and taking France out of the EMS or maintaining membership and reducing the budget deficit. Mitterrand chose the latter course, anxious to maintain France's long-standing commitment to fuller economic integration in the E.C. However, the choice of austerity involved a tighter control on public spending, higher taxes, a policy of wage restraint and the nationalised industries were told to put their finances on a firmer footing.

As for Chalandon's conflict with his supervisory minister, the last in a long series, government got its way by using its power to change the chairman of public sector companies. Chalandon's *mandat* was terminated when it came up for renewal and it was Chalandon's successor, Michel Pecqueur, who compensated the CFP chairman for his company's shares in ATO and Chloé.

These conflicts between Elf's chairman and his supervisory ministers can be summed up in the comment made in 1986 by a former company secretary of the

SNEA and quoted in our Introduction:

"Ce groupe a été géré un peu comme une entreprise privée mais même si ce n'était pas écrit, elle avait toujours une mission d'intérêt national même si ça a évolué. Donc c'est toute la difficulté."

The confrontations analysed have focused on the role of a state-owned company in the late 1970s and early 1980s, on questions of autonomous management and government control. Chalandon, with his emphasis on profit and diversifications, was actually taking the group further in the direction it was going. Did not the official documents concerning the ERAP/SNPA merger of 1976 specify that the newly emerging SNEA should be run like an "entreprise normale responsable de sa rentabilité et de son développement"? In emphasising profit, extending Elf's diversified activities, establishing the group in the US, Chalandon was pursuing the very activities which would ensure the group's survival.

André Giraud, on the other hand, was wanting to preserve what the group had achieved and in which he had been deeply involved. Moreover, as minister of Industry, he had to know what Elf was doing. He was familiar with an oil sector closely supervised and regulated. Unless administrative procedures were observed, how could he remain informed about developments in the industry? He was also aware of Elf's enormous wealth from 1979, which government intended using in the restructuring of chemicals. Giraud expected the SNEA to remain true to its "national interest mission" but also aimed to take advantage of the company's past achievements and recently acquired wealth.

There were also *corps* interests at stake. Giraud was a prominent figure in the *Corps des Mines*. It was due to efforts of members of this *corps* that the state oil sector had come into being. Elf had accomplished the mission it had been assigned and become one of France's top companies. If the nature of the group was changing, the *Corps des Mines* was in danger of losing one of its most important fiefdoms. Giraud's interventions were therefore driven by the fact that he had contributed to the growth of the state oil sector which, as a prominent member of the

Corps des Mines, he had an interest in preserving. In our cases of confrontation, the *Corps des Mines* can also be seen as an agent of division.

The conflicts analysed show a government torn by contradictory interests and wanting the best of all worlds. For example, Chalandon's attachment to cashflow and profit was welcomed in the late 1970s by the ministry of Finance; two years after the failed Kerr Magee purchase, the SNEA was allowed by Giraud's successor to purchase a company of the same type in the US (Texasgulf); the minister of Industry in 1981, Pierre Dreyfus, who set the chemical restructurings in motion was of the opinion that ERAP (holding company), not the SNEA, should bear the cost. Therefore in other circumstances and under different officials, decisions more favourable to the SNEA might have been taken.

It also emerges that governments did not intervene systematically in the management of state-owned companies. The socio-economic and political climate, the personality, ambitions and political affiliations of officials in decision-making posts could determine the level of intervention. Governments tended to intervene after the event, obstructing company plans or appointing more amenable officials who would carry out their wishes. Our cases of conflict show that in spite of government controls, the SNEA went ahead in acquiring a US company and in expanding its diversified activities, showing that more powerful market forces were at work.

The cases of conflict also show that the group and government were in a state of change between two modes of relationship. At one extreme were the government officials who stood for what the oil group had been: an instrument of government, protected and enjoying privileged links with the state. At the other, a would-be autonomous chairman of the SNEA and more market-oriented government officials who stood for what the group was becoming: a private company forging its own destiny.

In the wider context, French economic policy was also in a state of evolution. Although state-directed mechanisms - planning, public ownership, preferential treatment, regulation, the interpenetration of personnel - had ensured a high level of growth during the *trente glorieuses*, they proved less effective from the mid 1970s. The integration of the French economy into an international one limited the ability of French governments to direct the economy and their will to intervene. Between 1976 and 1986, the two oil crises, dollar fluctuations and the increasing influence of closer European integration showed French governments that *dirigiste* mechanisms were less capable of producing prosperity than hitherto. Paradoxically, it was the Socialist government's massive intervention in the economy at the beginning of the 1980s which brought them to the conclusion that state influence on companies should be lightened.

Beyond the Contradictions: Privatisation?

Particular features of government-company relations emerge from these cases of collaboration and confrontation. The cases of collaboration have shown that there was a consistency in government's use of the state oil company's expertise, achievements and wealth in carrying out government's tasks. Examples show that it was the initiatives of large firms which determined government policy. Moreover, as state resources dwindled and greater demands were placed on the Treasury, government made heavier demands on those firms capable of assisting it. The roles had been reversed from Elf's early years when government fostered its growth. Now government was increasingly dependent on Elf. However, there was also consistency in Elf's use of government. Not only did the *Corps des Mines'* networks bring advantages to the SNEA but top managers were skilled at exploiting government policy and divisions within government.

However, the cases of collaboration gave rise to many contradictions. Firstly, while the SNEA was expected by government since the mid 1970s to be financially independent, it was also expected to bail out sectors in difficulty on behalf of

government, such as, ERAP in 1976, PCUK in 1983. Secondly, its obligation to be independent of government drove it to pursue strategies which increased profits, for example, expansion in the US and diversifications. While government benefitted from the group's financial independence, these ventures could also conflict with its "national interest" mission and put government's dividends at risk. A third area of contradiction concerned the autonomy of the SNEA's top management. Since the Nora report of 1967, the autonomy of management of public sector companies had been confirmed by successive governments. Yet, when expedient, government officials still made use of the fact that government was the group's major shareholder in order to subject it to its own macro-economic goals. We have seen that it was ambiguities surrounding the group's mission, the autonomy of the chairman and the extent to which government could impose tasks on the firm or control its activities, which gave rise to our three cases of conflict. They show that governments were very divided over the issues at stake with the result that their interventions were often inconsistent, causing delays and errors of judgement. Furthermore, they show that government-public company interaction is at the mercy of short-term or ephemeral factors: the personality of those in power, the relationships they establish with one another, corps competition, the socio-economic and political climate.

If there is one issue that pinpoints the changing nature of the relationship between the government and its oil national champion, it is the privatisation that took place at the end of the decade which we have considered. The process of privatisation within the state oil group was one which had received government approval and encouragement since the mid 1970s. In the context of the SNEA the process started a whole decade before the first official privatisation programme launched by the Chirac government of 1986. We have shown that it was a logical evolution and assumed a diversity of forms.

The reasons for "strengthening the market at the expense of the state" are clear from the cases of collaboration and conflict analysed: government's increasing

need for funds; its use of the wealth and initiatives of healthy companies to carry out the tasks incumbent on governments; the necessity for public firms to maximise profits in order to meet increasing costs and compensate for losses independently of their major shareholder. Furthermore, the state link had become a source of contradiction and confrontation for state-owned companies: their "national interest" mission, the autonomy of the chairman and the extent to which government could control their activities, had all become contentious issues. Privatisation, or the divesting of government's stake in public sector companies, would be a way to avoid the conflicts linked to the powers of the major shareholder and generate revenue for governments and companies.

Chapter 6 has shown that ironically it was a Socialist government at the beginning of the 1980s which prepared the way for French privatisations. As early as 1983, beset by economic problems resulting largely from its expansionist and redistributive policies, the Mauroy government initiated a process of unofficial privatisations. The Socialists realised that the constraints of public ownership were inhibiting the prosperity of firms. A new prime minister in 1984, Laurent Fabius, turned even more decisively towards the market and introduced measures to enhance company profitability. By the mid 1980s demands from company chairmen for greater autonomy and to increase their capital, pressures from Brussels to abolish all kinds of preferential treatment, the influence of monetarist policies in Britain and the USA, were all reinforcing the decline of public ownership. When Jacques Chirac's right-wing government came to power in 1986, it was therefore a logical evolution that a wide-scale privatisation programme should form the centrepiece of its policies.

In his liberal phases Chirac considered that public ownership was inhibiting. State-owned companies had to obtain permission from government for investments, take-overs, closures and major lay-offs. They were also subject to demands made by governments pursuing their own macro-economic objectives. The privatisers of 1986 argued that state-owned companies were ^{often} therefore less efficient than private

ones. Privatisation would give them more flexible structures, greater autonomy to the Chairman and direct access to capital markets for the buying and selling of shares. In short, Chirac presented privatisation as a way of improving the performance of firms. However, governments would also benefit from privatisation. Money from the sale of state assets fills Treasury coffers and allows governments to reduce their debts and budget deficits. Financial aid given to state-owned companies can also be reduced once these firms have been handed over to private ownership.

Not only had the Socialists prepared the ground in advance, but many other factors favoured this first wave of privatisations in 1986: the presence of the RPR in power enabling the privatisation of what de Gaulle had nationalised at the Liberation; the diffusion throughout Western Europe of a privatisation model based on the experience of the UK; negotiations for the signing of the Single European Act; the weakening of the trade unions through increasing unemployment; the opportunity for employees to buy shares; the enthusiasm for privatisation among public sector managers; the growth of the share market in France.

The case of Elf's partial privatisation in 1986 exemplified the ambitions of the privatisers. It was a test case and clear illustration of the privatisation procedures established. On the other hand, the changes introduced were not as radical as promised. Not only were the prerogatives of the state and Finance minister strengthened by the fact that the latter controlled every aspect of the scheme but the promise of a more extended shareholding class did not materialise. In addition, privatisation increased the mechanisms for the protection of the management of privatised firms. For example, not only was the Finance minister sensitive to the wishes of the management of privatised firms in choosing the *noyau stable*, but the system of cross share-holdings ensured that the leaders of linked firms were protecting rather than calling one another to account. Furthermore, the means by which top managers were chosen did not change. The qualifications of the heads of firms privatised in 1986 show that top posts were won through connections with

the State, for example, membership of a *grand corps* or close friend of prime minister/president. In short, rather than "strengthening the market at the expense of the state", French privatisations showed a suspicion of the market and a greater concentration of private economic power. Such is the enduring ambiguity in government-company relations in France, torn between adaptation to the market forces of international business competition and a hankering after statist intervention in the service of national interests.

The conclusions which emerge from our case-study of a government - company relationship highlight the importance of institutional variables. Peter Hall in *Governing the Economy* led a revival in the application of the neo-institutional model as a way of explaining cross-national differences in economic policy. At the macro-economic level, Hall shows that there are strong continuities present in national patterns of economic policy which the institutionalist analysis is capable of explaining¹. This approach emphasizes the role, responsibilities and influence of institutions, their organizational qualities, how they interact with other actors and how this relationship determines policy outcomes. Underpinning Hall's analysis of economic policy in Britain and France from the post-war era until the mid-1980s are the questions: What is the connection between institutional relationships and patterns of policy? What distinctive national characteristics do these patterns reveal? Where our analysis of Elf has taken his approach further is to examine it in operation at the level of a major firm.

Hall's analysis uses the organisations of labour, capital, the state, the political process and the position of the nation in the international economy as determinants of patterns in macro-economic policy. In our case-study similar variables and their impact on policy have been investigated, but at the level of the firm, showing that the institutional approach is especially apposite at the micro-economic level.

The government - company partnership which is central to our case-study is in itself an institutional variable but, as shown throughout the chapters, this tentacular

relationship encompasses, generates and is affected by a multitude of further institutional features. Certain of these have figured largely in our study as determinants of policy: the presence within the company and state apparatus of the *Corps des Mines*; the international oil market; the European Community; the political and economic ties linking France and francophone African states. Our conclusions have revealed recurring patterns of policy at the level of the firm stemming from these organizational features, particularly in the networks linking government and public enterprises. These patterns can also be related to distinctive broader national trends.

During the decade with which we are concerned, 1976 – 1986, the creation of larger industrial entities through restructuring, internationalisation and diversification resulted from the close linking of views between company managers, government ministers and their senior officials. Although traditional analyses of French technocracy have underlined the potential for state control inherent in the practice of infiltrating private industry by ~~of public officials of the~~ *grands corps*, our analysis suggests that the flow of ideas and communications is not simply one-way. On the contrary, the French *grands corps*, by linking together senior figures in politics, public administration and industry, whether public sector or private, created networks in which ideas circulate and professional and managerial practices are debated and changed. This circulation of ideas and notably those about private sector management techniques – restructuring, diversification, internationalisation – clearly does not change everything. The “economic nationalism” of many leading actors, whether public or private, remains unchanged. The management of French multinationals remains dominated by French personnel especially at the top level. The pursuit of French industrial growth and the strengthening of the French economy in the global market place, goals shared by generations of technocrats since the time of Jean Monnet at the Planning Commissariat, have not been abandoned. Nevertheless, the technocratic network encouraged the consideration of new options to achieve these goals. Internationalisation, diversification and privatisation were considered and adopted as a means to serve the traditional

nationalist goals. The result may be a private sector, international, diversified group but it remains very much a French group, both in leadership and in outlook.

Hall's analysis stressing the institutional pressure of the structuring of international economic relations on national macro-economic policy is also echoed at the micro-level, especially when the firm in question has well-established links with the mechanisms of government devoted to maintaining influence in former colonies. In the early post-war period many French companies, both public and private, rebuilt the trading links with the colonies which had been broken during the war years. With independence these links were not always severed and successive governments and many private managers worked to maintain and develop these contacts. Naturally, much depended on the attitudes and policies of the post-colonial rulers. In some cases, notably Vietnam and Algeria, links were deliberately severed by the new rulers. Such set-backs reinforced the pressure to maintain links elsewhere. When the product involved was such a valuable commodity as oil, both company and state leaders faced a strong institutional inducement to continue and develop the links – by fair means or foul. In the context of this involvement, the oil industry is perhaps the best example.

Nevertheless, colonial linkages were only one side of the international institutional structuring. A second aspect was the development of international management strategies. As French firms, public or private, traded more and more in the international market place, they increasingly considered the behaviour of other firms based in other countries. Such firms might be considered as models, partners or competitive rivals, but in all cases their behaviour and structures were of ever-growing interest. When French companies were explicitly created to compete with existing firms based in other states, it was natural that their leaders should study and eventually emulate the management strategies of these firms.

A third crucial aspect was European integration. Initially, the development of the customs union and Common Market had little impact on national industrial policies,

public ownership or management behaviour. Nationalisations and “non-tariff” barriers to support “national champions” were used at least as much in France as elsewhere. The evolution of European integration, however, had its own institutional dynamics. Two aspects were of crucial importance. The first was the agreement to move towards a “single internal market” which implied the abolition of all non-tariff barriers, followed by a move to a single currency to increase transaction transparency. The second was participation in the GATT system – and especially the Kennedy and Uruguay “rounds” which pushed towards more open global markets. However, even before the Single Market programme, between 1976 and 1986, French governments’ increasing use of public sector firms to carry out the tasks hitherto assumed by ministers drove many company leaders to criticise the inhibiting effect of public ownership, to question the role of the public sector and to press for a reduction of the state’s share in the capital of their firm. The post-war solution of voluntarism, or active government – company partnership to push French industry forward on the world stage had become irrelevant. That irrelevance was finally accepted by the French government in 1997 when the Ministry of Industry was abolished.

Company leaders were one of the influential groups who supported the wide-scale privatisation programme introduced by the Chirac government in 1986. Privatisation was the logical outcome both to pressures exerted by governments in need of revenue and to demands by public company leaders for greater freedom of manoeuvre in the management of their affairs. The privatisation programme of 1986 was an illustration of government responding to a trend initiated by large companies over the previous decade. Companies, not governments, were the catalysts of change. It also illustrates the influence on French governments of Left and Right of monetarist policies adopted in the wider international community.

This case-study of Elf has shown how even before the impact of the Single European Market from the mid-1980s and of Economic and Monetary Union from the mid-1990s, the French state switched from old-style *dirigiste* industrial policy to

a new-style market-centred industrialists' policy². Developments that since 1986 have become generalised were pioneered from within the public sector and by its leading national champion. Elf sowed the seeds of the privatised firm in a competitive world economy, with the French state taking an auxiliary rather than interventionist role.

NOTES

1. Peter Hall, *Governing the Economy*, Cambridge Polity Press, 1986, pp. 229-285 and P. Hall and R. Taylor, "Political Science and the Three New Institutionalisms", *Political Studies*, Vol. 44, December 1996, pp. 936-957.
2. Jack Hayward, "Changing Partnerships: firms and the French state", *Modern and Contemporary France*, Vol. 5, No. 2, May 1997, pp. 155-165.

TABLE 3.1**DISTRIBUTION OF THE *INGENIEURS DU CORPS DES MINES* IN 1986**

		1986
I	Administration	
-	Regional Departments of Ministry of Industry and Research	55
-	Central Administration of Industry and Research	74
-	Other	30
II	Ecole des Mines	30
III	Research	56
IV	Public Sector	
-	Energy	45
-	Steel	26
-	Chemicals	15
-	Banking	14
-	Other	27
V	Private Sector	
-	Energy	10
-	Mines, mineral industries, water	18
-	Steel, chemicals, mechanical and electrical industries	34
-	Banking services	16
-	Other	18

Source: Service du Conseil Général des Mines 1986

TABLE 3.2

EVOLUTION OF THE DISTRIBUTION OF *INGENIEURS DU CORPS DES MINES*

Position or place of activity	1949		1961		1970		1980		1986	
	No.	%	No.	%	No.	%	No.	%	No.	%
Civil Servants (in the strict sense)	109	43.4	115	37.1	120	35.9	145	35.5	153	33.1
On secondment to the public or para- public sectors (including public sector research and teaching)	69	27.5	98	31.6	109	32.6	156	38.1	213	46.1
Mining engineers active in the private sector	73	29.1	97	31.3	105	31.5	108	26.4	96	20.8
Totals	251	100	310	100	334	100	409	100	462	100

Source: 1949, 1961 and 1970: E. Friedberg and D. Desjeux, op.cit.
 1980 and 1986: *Annuaire du Corps des Mines*, op.cit.

TABLE 3.3

**DISTRIBUTION OF *INGENIEURS DU CORPS DES MINES*
IN THE ADMINISTRATION**

Administrative appointment	1949		1961		1970		1980		1986	
	No.	%	No.	%	No.	%	No.	%	No.	%
<i>Arrondissements minéralogiques</i> and mining service overseas	63	57.8	61	53.0	45	37.5	52	35.9	53	35.0
Conseil Général des Mines only	14	12.8	13	11.3	12	10	14	9.6	14	9.0
Central Administration of the Ministry of Industry	24	22.0	30	26.1	40	33.3	47	32.4	51	33.0
Other ministries including ministerial cabinets	8	7.4	11	9.6	23	19.2	32	22.1	35	23.0
Totals	109	100	115	100	120	100	145	100	153	100

Sources: 1949, 1961 and 1970: E. Friedberg and D. Desjeux, op.cit.
1980 and 1986: *Annuaire du Corps des Mines*, op.cit.

TABLE 3.4

**DISTRIBUTION OF *INGENIEURS DU CORPS DES MINES*
IN THE PUBLIC OR PARA-PUBLIC SECTORS**

Area of activity	1949		1961		1970		1980		1986	
	No.	%	No.	%	No.	%	No.	%	No.	%
Teaching (grandes écoles and univs.)	23	33.3	26	26.5	36	33	53	41.7	56	38.5
Industrial research (IFP, CEA, CERCHAR)			15	15.3	26	23.9	26	20.5	30	20.2
Total teaching and research	23	33.3	41	41.8	62	56.9	79	62.2	86	58.7
Oil and nuclear sectors	4	5.8	19	19.4	19	17.4	19	15	31	20.6
"Traditional" sectors (coal mines, mining departments, SNCF, EDF, GDF)	42	60.9	38	38.8	28	25.7	29	22.8	33	23.1
Total public and para-public industrial sector	46	66.7	57	58.2	47	43.1	48	37.8	64	41.3
Total	69	100	98	100	109	100	127	100	150	100

Sources: 1949, 1961 and 1970: E. Friedberg and D. Desjeux, op.cit.
1980 and 1986: *Annuaire du Corps des Mines*, op.cit.

TABLE 3.5

**DISTRIBUTION OF *INGENIEURS DU CORPS DES MINES* IN THE BANKING
AND INSURANCE SECTOR, MANAGEMENT CONSULTANCY AND
ENGINEERING FIRMS**

	1980	1981	1982	1983	1984	1985	1986
Banking, Insurance, Financial organisations	17	17	19	16	21	21	21
Engineering firms, Management consultancy	12	11	13	13	12	17	18

Source: *Annuaire du Corps des Mines* for years 1980 - 1986

TABLE 3.6

**CAREER PATH OF THE THREE FOUNDERS OF
THE *BUREAU DE RECHERCHES DE PETROLE***

	Pierre Guillaumat	Paul Moch	Jean Blancard
1945	DICA Director BRP Director	RAP Chairman DICA Délégué général BRP Délégué général	DICA
1951			BRP Director DICA Director
1959		RAP Chairman UGP	
1962	UGP Chairman	RAP Chairman	BRP Chairman
1966	SNPA) Chairman ERAP)	ERAP Délégué général (Refining and distribution)	ERAP Délégué général Exploration Production
1976	SNEA Chairman		

Source: Pierre Péan and Jean-Pierre Sérén, op.cit.

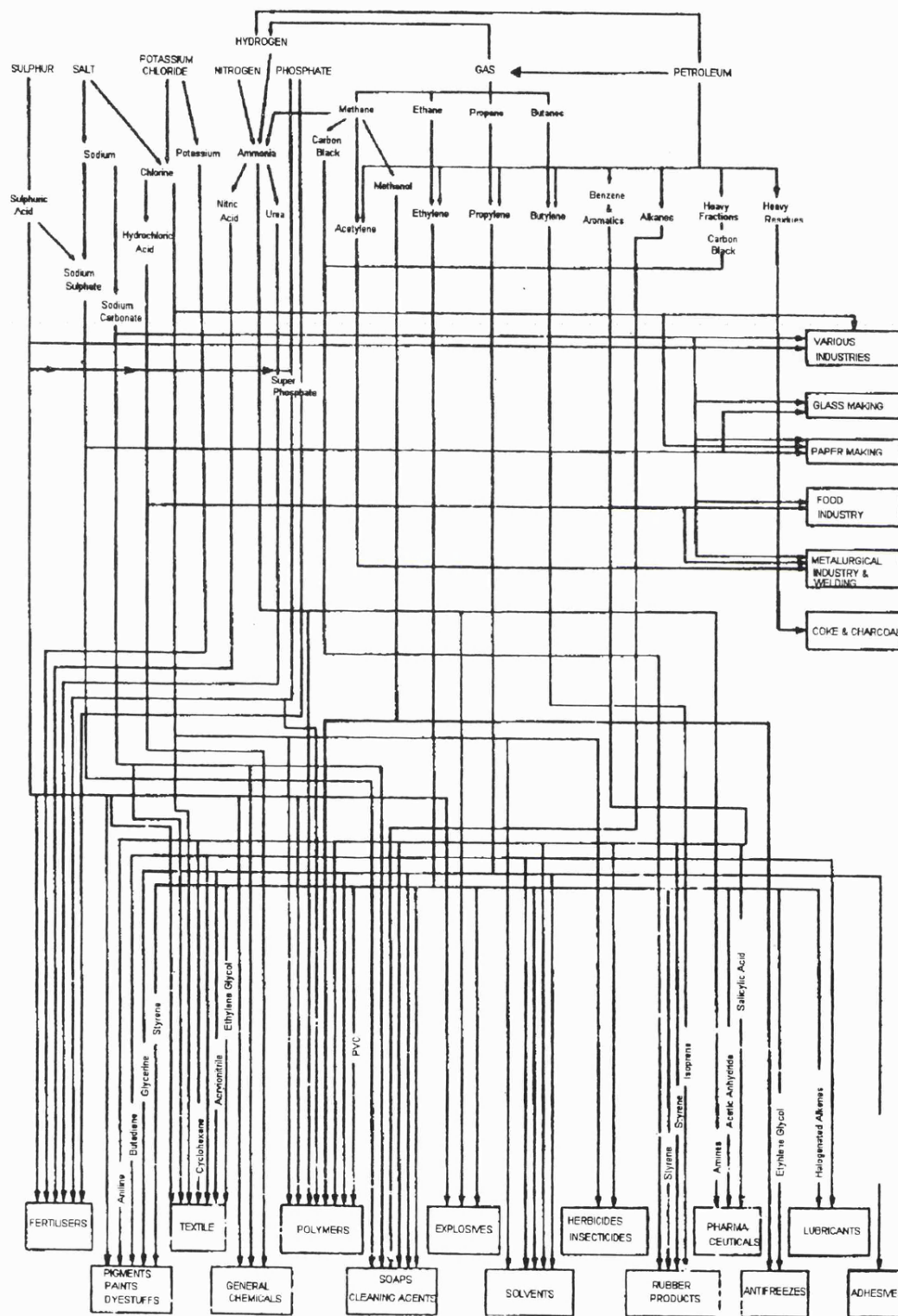
TABLE 3.7**DISTRIBUTION OF *INGENIEURS DU CORPS DES MINES*
IN THE ENERGY SECTOR 1980 - 1986**

	1980	1981	1982	1983	1984	1985	1986
CEA	24	25	27	27	27	30	30
SNEA	11	13	15	13	15	20	20
IFP	4	5	4	5	5	5	5
CDF	6	7	7	6	6	7	7
EDF	8	8	8	8	8	8	8
GDF	4	4	4	4	4	4	4

Source: *Annuaire du Corps des Mines* for years 1980-1986

FIGURE 5.1

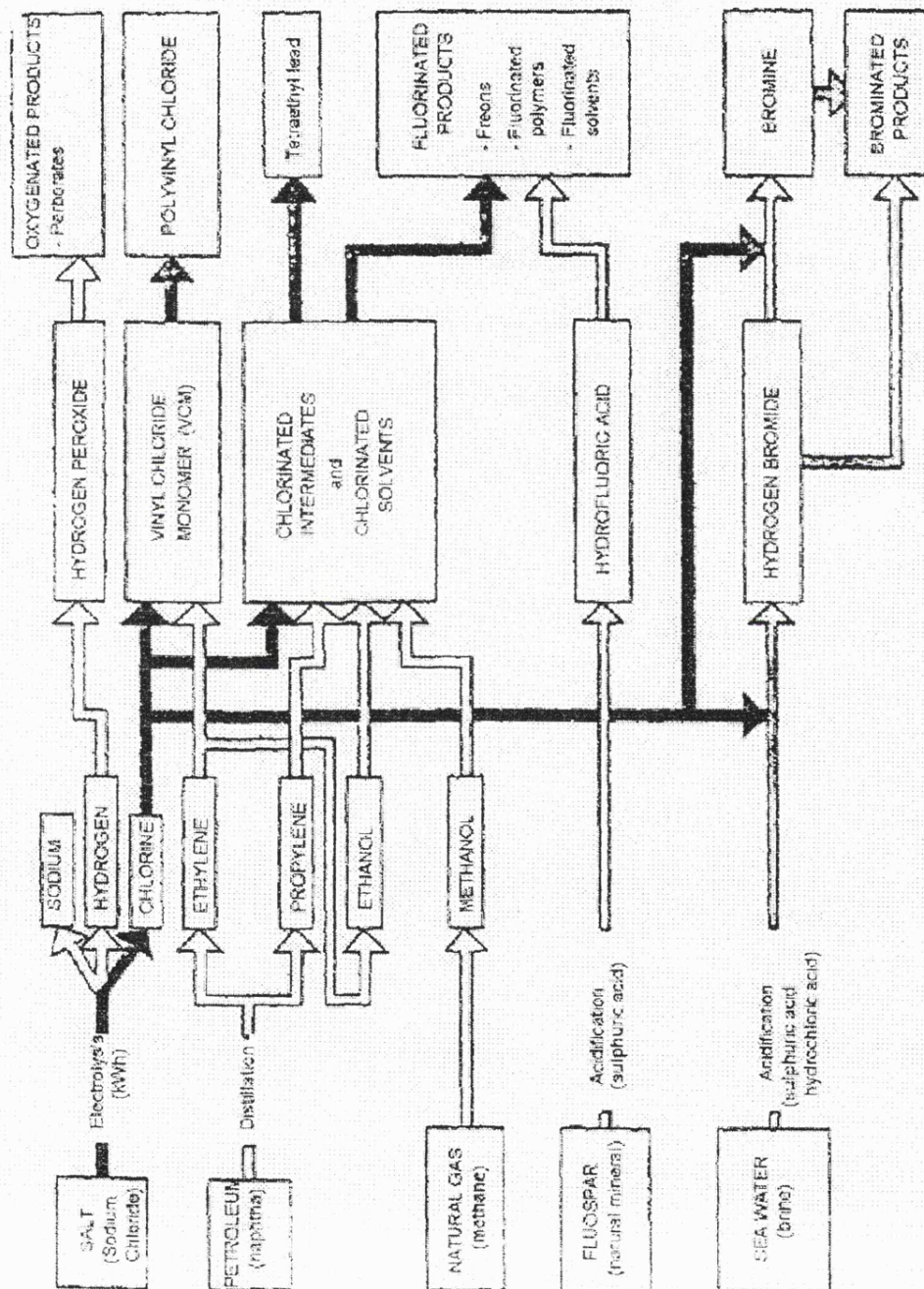
CHEMICAL PATHWAYS



Source: B. Bellon and J-M. Chevalier (eds.)
L'Industrie en France, Paris, Flammarion, 1983, p. 170 (translation)

FIGURE 5.2

**PATHWAYS FOR HALOGENS
(CHLORINE, BROMINE, FLUORINE)
AND THEIR DERIVATIVES**



SOURCE: *Bulletin Mensuel d'informations*, S.N.E.A., November 1982
(Translation)

PRINCIPAL AREAS OF ACTIVITY OF THE FRENCH CHEMICAL INDUSTRY

FIGURE 5.3

Chemical sectors		
Heavy chemicals	➤ Carbon	ELF AQUITAINE + CdF CHIMIE+ RHONE POULENC
	➤ Chlorine	ELF AQUITAINE
	➤ Fluorine	ELF AQUITAINE
	➤ Bromine	ELF AQUITAINE
	➤ Peroxides	ELF AQUITAINE
	➤ Inorganic chemicals (except fertilisers)	RHONE POULENC CdF CHIMIE + COFAZ
	➤ Fertilisers	EMC
Fine chemicals	➤ Potassium hydroxide	
Fine chemicals	➤ Fine chemicals	ELF AQUITAINE + RHONE POULENC (*)
	➤ Pharmaceuticals	ELF AQUITAINE (SANOFI) + RHONE POULENC

(*) including fine chlorinated and fluorinated chemicals

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Interviews

A series of forty interviews with senior managers in the energy sector and with top civil servants in ministries and government agencies was conducted between 1986 and 1990. Several of the above agreed to second interviews towards the end of the fieldwork of this thesis. For reasons of confidentiality a list of names of those interviewees who are cited in the text will be made available to the examiners.

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