State capitalism

Big Brother is back

France and Germany lead a revival of state intervention

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THE biggest European merger for years collapsed last month. EADS, the owner of Airbus, and BAE Systems, a defence-and-aerospace group, will not tie the knot. The aim of the merger was to wrest both firms free of state interference. Now Big Brother is back.

Angela Merkel, Germany's chancellor, is rushing ahead with plans for the German government to take a 15% stake in EADS before the end of the year, buying shares (through KfW, the state bank for reconstruction) that the Daimler car group and some banks want to ditch, thus bringing it level with the French government's shareholding (see table).

A tentacle in every boardroom

French government stakes in listed companies

	Stake, %	Valuation, €bn (October 15th)
Aéroports de Paris	54.54	3.27
Air France KLM	15.88	0.27
Areva	10.17	0.53
CNP Assurances	1.10	0.07
Dexia	5.73	0.02
EADS	14.96	3.27
EDF	84.44	26.00
France Télécom	13.45	3.32
GDF SUEZ	36.36	14.70
Renault	15.01	1.59
Safran	30.20	3.74
Thalès	27.08	1.55

Source: Agence des participations de l'Etat

The Germans have been concerned for some time about losing out to France on Airbus work, and have withheld some promised government loans for the latest big Airbus plane. Now, in a bid to strengthen Germany's hand, Mrs Merkel appears to be taking a leaf out of the French book on industrial policy—opting for strategic stakes in privatised groups.

This startling reversal comes on top of new moves in France to extend the reach of government into troubled manufacturers. Last week, just as Germany was closing in on EADS, the French government guaranteed loans of some €7 billion ($9 billion) to the finance arm of PSA Peugeot Citroën, a carmaker. In return the government gets a seat on the

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board and guarantees that dividends and share buy-backs will be suspended for several years.

French observers are waiting to see whom the ministry of finance will name as the "independent" director. Critics fear that he or she might be a representative of the APE (the agency for state shareholdings), which reports to the ministries of finance and industry. Peugeot shares fell on the announcement of the financial support, because investors fear the door has been opened to a partial nationalisation.

The APE was formed in 2004 to oversee the jumble of residual state holdings that followed the 1990s privatisation wave (which undid the nationalisations of the early 1980s). In most cases the state held on to some shares. Last year the centre-right government of President Nicolas Sarkozy gave it more powers to manage its stakes: it became the core of a new industrial policy. Arnaud Montebourg, the new Socialist minister of industry, now shares oversight of the APE with his finance counterpart. There are rumours that he will force one of its charges—Thalès—into the arms of Safran, another aerospace group. Safran itself has only recently emerged from a disastrous period after it was created in 2005 by a forced marriage of Snecma (a successful maker of jet engines) and Sagem, a defence-electronics group.

The APE portfolio runs to 58 companies. Its stakes in the top 12 listed firms have a combined value of some €58 billion. These companies include not only privatised utilities such as EDF, France Télécom and GDF SUEZ, but also Air France KLM, EADS, Areva (a nuclear giant) and Renault, another carmaker. GDF SUEZ is an interesting case. The merger in 2007 of GDF, a state-owned gas group, and Suez, a private one, was hailed as a privatisation. But it now looks more like the partial nationalisation of Suez.

The forthcoming annual report of APE, some of which has leaked to *Le Figaro*, a French newspaper, will show that net profits across the state's portfolio fell in 2011 from €7.9 billion to €5.8 billion—a drop of 26% on the previous year. The value of the holdings also fell by nearly 13%, while the French stockmarket rose by almost 5%. This lacklustre performance is probably not due to mismanagement. Rather, it is because the big energy stocks such as EDF and GDF Suez have done badly, thanks to weak demand for power in Europe.

There is more to the French government's industrial influence than its shares in big f
Last month the government announced the formation of a Banque Publique d'Investissement (BPI). Its main role will be to channel state funds to promising firms taking small stakes alongside private-equity investors. (The BPI is formed from a mer of the Fonds Stratégique d'Investissement, created by the previous administration t jazz up finance for small and medium businesses, and OSEO, another state financier.

François Hollande, France's president, thinks the BPI can jump-start a French versio Germany's *Mittelstand*. But the BPI also has a mandate to act generally in the public interest—which could justify bailing out any firm. One of its earliest acts was to invest some $150m in taking a 6% stake in CMA CGM, the world's third-largest container-shipping line, formed from the merger of a privatised state firm and a private group, held largely by a Turkish family. Buffeted by the weak shipping market, the group is struggling to refinance its debts.

No one is suggesting that Europe's economic crisis is driving a return to the mega-nationalisations that created the (now defunct) giant state holding companies such as Italy's IRI or Spain's INI in the aftermath of the 1930s depression. Indeed, the most beleaguered European governments, in Spain, Greece and Portugal, are desperately trying to privatise state assets to plug the holes in their budgets.

But when even centre-right governments such as Germany's or the previous French administration start buying up industrial stakes, something is in the air. And comparisons with Barack Obama's rescue of General Motors are inexact. President Obama's government took control of car firms in a quick in-and-out operation, like financial Navy SEALs. Europe's interventions may look less dramatic, but they could last much longer.

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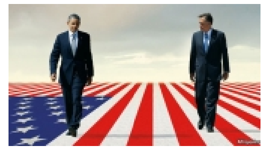

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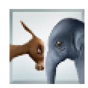

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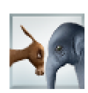

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