



THE STATE AS SHAREHOLDER

Is the State a good shareholder? To answer this question using a strictly pragmatic approach, the Cour des comptes reviewed State shareholdings in companies over the period 2010-2016. It defined State Shareholder in a broad sense to include: the Agence des participations de l'État (APE), the Caisse des dépôts et consignations (CDC), and Bpifrance. In France, public shareholdings in companies have long been a well-developed way of participating in the economy. The State's presence as a company shareholder is justified not only for ownership or financial reasons, but also on public policy grounds. As a result, there are contradictions between multiple objectives that the State has difficulty overcoming. The reviews done by the Cour des comptes show that the State has difficulty being a good shareholder. Despite undeniable improvements, chronic weaknesses remain, notably in the area of governance. Public shareholding rarely proves the best-adapted means of contending with the decline in competitiveness and the shrinking industrial sector in the French economy. Moreover, the growing financial needs of state-owned companies are going to place a heavy burden on public budgets in the next few years.

The Cour des comptes calls for clarification of the objectives pursued, a commitment to radically transforming corporate governance, and a limitation of investments by the State to what is strictly necessary.

A vast and diverse array of companies, major challenges

In France, corporate investment is commonly used as a public policy tool in many different sectors. The total value of State shareholdings was about €100 billion at end-2015, with the holdings in 62 publicly listed companies valued at €77.4 billion at end-2016. The APE is the largest shareholder, followed by the CDC and Bpifrance. This scattered and diverse portfolio, which is not widely publicised, owes more to history than to any particular investment approach. Except for the Bpifrance holdings, the portfolio changes very little.

With competition increasing, the companies in question are facing serious challenges and need to demonstrate strategic flexibility. The State's responsibility as a shareholder is to anticipate and support these transformations, which it is capable of doing, as proven by the examples of La Poste and Orange.

A worrisome financial situation

The financial results of the companies in which the State is a shareholder were inconsistent between 2010 and 2015, but the Cour des comptes did find an overall net decrease for those companies in which the APE is a shareholder (the largest portion of the State's portfolio). Despite good results in the defence, industrial and telecommunications sectors, the APE recorded a very substantial loss (€10.1 billion) in 2015, due to structural problems at the railways and major energy companies. The overall outcome for the public finances was negative in the 2010-2015 period. The financial needs of companies in which the State has shareholdings are very large, and in the short term, it appears that the only way to provide the



additional capital required is either by expanding the programme of disposals or by taking funds from the general budget.

The contradictions of State shareholding

The State is an atypical shareholder that exercises diverse roles, all of them legitimate. It must reconcile numerous objectives, many of which are in contradiction with its own financial interests or with the corporate interests of the companies in which it is a shareholder. This situation creates persistent tensions and chronic difficulties that it has trouble overcoming. These tensions are seen mainly in the sectors where the State is either the dominant or exclusive shareholder, i.e. the rail transport, nuclear energy, and public audiovisual sectors.

The budget framework, which draws a distinction between capital transactions and dividends, is poorly adapted to investment portfolio management and not conducive to dynamic management.

Significant improvements in governance, persistent shortcomings

The Cour des comptes notes the lack of a rigorous justification for public equity investments and of a clear division of the APE, CDC, and Bpifrance's roles. Although improvements to company governance have been made, shortcomings persist, particularly when the State is the exclusive or majority shareholder, as witnessed by failures of supervision that have had serious consequences, notably in the nuclear sector with Areva.

Although real improvements are observed, the State has not managed to adequately resolve the contradictions it faces, which weakens it as well. It still often ignores the importance of autonomous management of public companies. The Cour des comptes has found that the State's shareholder practices must be radically changed and improved, as the State exercises too much power in management, but is not vigilant enough as a shareholder.

Recommendations

The Cour des comptes has formulated fifteen recommendations to address three priorities:

- **Set clear strategic objectives** and diligently pursue them, particularly by coordinating investment policies among the three main State shareholders and by shifting APE holdings to Bpifrance;
- **Supervise the shareholder role more closely**, ensuring the autonomy of companies, changing the railways' status from a public institution to a corporation, adopting a governance code for relations with State shareholders, and transforming the APE into an autonomous agency;
- **Limit capital investments to what is strictly necessary** by modifying the size of the portfolio to better adapt it to the targeted objectives. The Cour des comptes recommends either reducing the percentage of each shareholding without diminishing influence or governance rights, or significantly tightening the scope of State shareholding.

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