

Translation of written evidence from the French Government

Reply to the MMC questionnaire

The relationship between the French Government and Thomson-CSF operates at two levels: the French Government is both a shareholder in Thomson SA which owns 59.1 per cent of the capital of Thomson-CSF and a customer of Thomson-CSF in the defence sector. Your questions will therefore apply to the Government's role as a shareholder and its role as a customer.

1) Control and influence exercised by the French Government over the management of Thomson-CSF

Thomson SA and Thomson-CSF are both *sociétés anonymes* (public limited liability companies) constituted under ordinary law and governed by the Law of 24 July 1966 on commercial companies. They therefore operate on the same basis as any *société anonyme* in the private sector and the various responsible bodies within the companies-Chairman, Board of Directors, General Meetings of Shareholders etc-have the same powers as in a private sector company.

Any influence which the Government as shareholder may exercise over Thomson SA must be exercised within that legal framework: as a shareholder in Thomson SA, the Government may select its representatives on the Board of Directors and appoint its Chairman. The Chairman has complete management autonomy. Under the Law of 1966, the Chairman has the widest possible powers to take action under any circumstances in the name of the company and to represent it in dealings with third parties, subject to the powers expressly granted to meetings of shareholders and the Board of Directors.

On the contrary, the Government as shareholder has only an indirect influence over Thomson-CSF which is exercised through Thomson SA. It is in fact Thomson SA which holds a majority shareholding in Thomson-CSF and over two-thirds of the voting rights: Thomson SA has 10 seats out of 15 on the Board of Thomson-CSF. Thomson SA is therefore in a position to exercise the control normally exercised by a majority shareholder. Nevertheless, this control is limited by the presence of minority shareholders. The Government does not interfere in the Chairman's management decisions and thus reserves the right to pass judgment on the company's results only in so far as they may have an impact on the results of the parent company or their contribution towards the consolidated results of the group.

2) The role of Government representatives in the direction of Thomson-CSF. The scope of the agreement on strategic objectives

Two of the ten seats held by Thomson SA on the Board of Thomson-CSF are occupied by directors appointed by the general meeting of shareholders in Thomson-CSF, who are also directors of Thomson SA and as such represent the Government on the Thomson SA Board. These two representatives of Thomson SA have no more power than any other director of Thomson-CSF; they also take part in votes taken by the Board.

The MMC also mentioned the existence of an agreement between the Government and Thomson-CSF on broad strategic objectives. There is in fact an 'agreement on objectives' (*contrat d'objectifs*) between Thomson SA and its shareholder, covering the broad strategic objectives of the major subsidiaries of Thomson SA and therefore, of course, of Thomson-CSF. This agreement on objectives has no legal force and is only a formal expression of the general consensus of opinion between Thomson SA and its shareholder on the broad strategic objectives proposed by the Chairman of Thomson SA.

3) Special financial benefits enjoyed by Thomson-CSF as a public sector enterprise

Thomson-CSF does not enjoy any special financial benefits because its parent company is government-controlled. Like any private sector enterprise, Thomson-CSF may increase its capital through subscriptions from its shareholders, ie Thomson SA and the owners of quoted shares. The most recent capital increases were monitored by the stock market, which allowed the percentage of capital owned by Thomson SA to remain unchanged.

4) Government involvement in decisions on commercial or financial objectives

Following the principle of management autonomy, Thomson-CSF decides on its own commercial and financial objectives, which are approved both by Thomson SA and the other shareholders, who are concerned to ensure that their assets will increase in value in the normal way. The quotation of over 40 per cent of the capital of Thomson-CSF on the Paris, Frankfurt and New York Stock Exchanges is a tangible factor in this.

5) Co-ordination of competition policy with other public enterprises

The relationship between Thomson-CSF and other public enterprises engaging in similar activities is no different from that between Thomson-CSF and similar private sector enterprises. Management autonomy means that competition operates normally both on the French and on the international market. This normal competition is beneficial to the Government as customer, in the sense that competition makes companies increase their productivity and offer their products at more attractive prices. Of course, Thomson-CSF is free to associate with other public or private sector enterprises within consortia or joint ventures in areas where the amount of research and development work needed is too much for the enterprise to take on alone or where there are benefits to be derived from industrial co-operation.

6) The role of the *Commissaires du Gouvernement*

The *Commissaires du Gouvernement* were introduced in 1935 for the purpose of gathering information on behalf of the Ministry of Defence on the management, financial position and accounts of enterprises handling defence contracts. As in many other countries, the French Government wished to be well informed about the enterprises supplying it with defence equipment. The *Commissaires du Gouvernement* are appointed by the Minister of Defence and they monitor both public and private French enterprises: the *Commissaires du Gouvernement* are involved solely in the relationship between the Government as customer and its suppliers and their involvement is in no way connected with the fact that the Government may be a shareholder in one of its suppliers. A *Commissaire du Gouvernement* has no powers over decisions taken by the enterprise monitored by him and his activities are confined to contracts awarded by the Ministry of Defence and do not therefore cover the enterprises' international business.

7) Protection from the risk of failure or take-over and reduced incentives to be competitive

The position of Thomson-CSF is in all respects similar to that of any enterprise owned by a majority shareholder. Although it is true that it is in principle protected from take-overs, except in the case where the majority shareholder wishes to sell its interest, the risk of failure is obviously still present. The desire to be competitive arises from the degree of responsibility allowed by the shareholder. Here, the principle of management autonomy, subject to approval by the shareholder of broad strategic policy, gives the Chairman the greatest possible freedom of action and means that he is totally responsible to his shareholders.

8) Exceptional circumstances likely to cause the French Government to exercise a more direct influence over public enterprises

There is a very broad consensus within France concerning two fundamental principles which must be applied to public sector enterprises, namely that they should have management autonomy and that fair and open competition between public enterprises and between public and private enterprises must be guaranteed both in France and within the European Economic Community. Consequently, we cannot envisage any circumstances which would bring about a radical change in this policy.