



It's not over yet

▶ as claimed by Ms Thibout. Mr Woerth also denies the charge.

Second, Mr Sarkozy said that he would ask parliament to clarify the rules governing conflict of interest in public life. Mr Woerth's wife, Florence, was employed by Mrs Bettencourt as an investment manager at a time when, admits Mr de Maistre, the heiress held secret Swiss bank accounts—and Mr Woerth was clamping down on tax evasion. Mrs Bettencourt says that she will now declare all her foreign assets. Mrs Woerth has since resigned, and denies any knowledge of the Bettencourt family's tax affairs.

More twists are likely. On July 15th, as

part of three ongoing judicial investigations, four figures were taken into custody: Mr de Maistre; François-Marie Banier, a society photographer who received gifts worth nearly €1 billion from Mrs Bettencourt; Fabrice Goguel, her former tax lawyer; and Carlos Vejarano, the manager of a Seychelles island of murky ownership.

There is concern that the presidency is uncomfortably close to Philippe Courroye, the public prosecutor in the case. Mr Courroye told *Le Monde* this week that he was acting with strict impartiality. Pressure to do so may have mounted thanks to the close scrutiny the case has drawn, in France and beyond. ■

State industries in Lithuania

Follow the money

State-owned enterprises in eastern Europe are often a mess. Lithuania is trying to reform them

DIG into the political undergrowth anywhere between the Baltic and the Black Seas and you soon find curious connections between state-owned enterprises, officials and politicians. They mostly escape public scrutiny—not least because politicians of all stripes tend to benefit from the state firms' largesse.

Lithuania's government, faced with suicidally unpopular tax rises and spending cuts as it tries to reduce its deficit of nearly 9% of GDP, has just launched a rare attempt to run these firms properly. A new analysis shows that state-owned assets in energy, transport and land at the end of 2009 were worth some 18 billion Lithuanian litai (\$6.6 billion) but provided only 45m litai in dividends. The return on equity was negative, at -6%.

A glaring example of mismanagement comes from the forestry industry. Lithuania has 830,000 hectares of state-owned forests, run by 42 companies. The average yield in 2008 was only 4 litai per cubic metre of wood (a quarter of the Swedish figure, see table), and even that trickles away into company costs: the state receives no dividend. The government now proposes to set up a single forestry company, charged with managing the industry on a commercial basis.

It has similar plans for state-owned land: in future, ministries and other public bodies, many of which have notably spacious buildings and compounds, will have to pay market rents. When that was tried in Estonia, it led to sharp downsizing. If Lithuania ran its public-sector businesses as effi-

ciently as Sweden or Finland, the revenues would be 1.5-2.5% of GDP, says the prime minister, Andrius Kubilius. That would keep the country out of the arms of the IMF, and also end the reputation of Mr Kubilius's coalition government for dithering.

Merely highlighting the scale of the problem should provoke similar inquiries elsewhere. But sorting out the mess will mean overcoming some of the most powerful lobbies in the country. For nearly 20 years they have stymied all attempts to introduce public scrutiny and competitive pressure on their cosy business arrangements. For a government with a slender majority in parliament, that is tricky.

But Lithuania's president, Dalia Grybauskaitė, a former European Union budget commissioner, has thrown her weight behind the plan. She said the new report revealed "powerlessness and lack of responsibility". The black economy—smuggling and corruption—represented a "mass of reserves", she said, which would be a better source of revenues for the state than raising taxes.

That may be optimistic: though some of the money siphoned off from state enterprises goes into foreign bank accounts, much is spent at home. Higher revenues for the state will come at the cost of lower rents for its cronies, and less spending.

Despite the element of double-counting, the scheme has attracted interest from outsiders such as the European Bank for Reconstruction and Development. Bankers close to the scheme think a similar approach could also work in southern European countries like Greece.

Better-run state industries would also be more attractive candidates for privatisation, which, after vigorous efforts in the 1990s, has largely stalled in the ex-communist world. Estonia has renationalised its railways and is buying back its poorly run national airline; Latvia had to nationalise one of its biggest banks in 2008. Across the region industries like energy are still regarded as too vulnerable to Russian influence to privatise further.

Lithuanian officials say they plan partial sell-offs of at least some firms once they are properly managed. But even the most rigorous politicians may find it hard to sacrifice the state-owned firms' adhesive attractions. ■

Wood and the trees

Forestry-industry efficiency

	Sweden	Latvia	Lithuania
Commercial forest, hectares, '000	3,300	1,127	830
Yield, \$ per m ³ , 2008	6.7	20.4	1.7
Government dividend, \$m, 2008	123.5	67	0

Source: Lithuanian government