THE TREASURY
Kaitohutohu Kaupapa Rawa

Date: 23 September 2011

To: Minister for State Owned Enterprises

Aide Memoire: Germany - Incentives for Employee Participation and Ownership of Companies

You requested information on the following statement from the Green Party's recent policy document:

> *Facilitate greater worker participation on company boards, as has been successfully implemented in Germany, and encourage employees to take an ownership stake in their companies.*

Co-Determination

We understand that Germany operates a system requiring employee representatives to be provided with places on the boards of companies over a certain size. For private and public limited companies with more than 500 employees, one third of the supervisory board must be elected by workers. For companies with more than 2000 employees, half of the supervisory board is to be representatives of the workers. In this case the chairman of the board is a shareholder appointee and is able to make a casting vote whenever a vote is tied, thereby allowing the shareholder to maintain control.

Supporters of co-determination argue that it gives workers a voice in company decisions and provides a better balance between the pursuit of profit and the interests of workers. Some argue that this assists long-term productivity through better relationships between employees and management/shareholders. This is, of course, a matter of some dispute.

Encouraging Employee Company Ownership

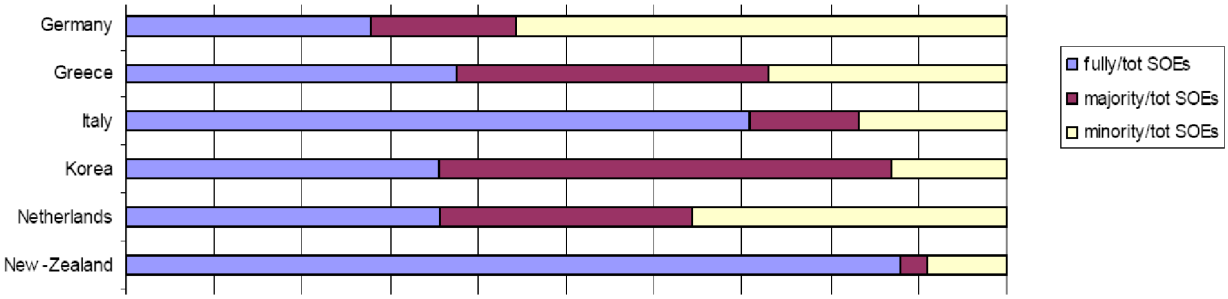
We understand that the German Government has adopted measures to encourage increased levels of employee company ownership. The stated goals were to:

- strengthen the identification of employees with their companies and to provide employees with improved motivation;
- procure additional equity capital for companies;
- promote entrepreneurship; and
- promote a partnership-based corporate culture.

The primary measures were the provision of tax incentives for employee share investments and the creation of funds for employees to invest in which are able to reduce risk by investing in a variety of instruments.

We are not aware of any measures to promote employee ownership specifically in state owned enterprises. To the extent, however, that non-government ownership in some state owned enterprises is allowed, the general tax incentive would seem to apply. The figure below is a snapshot of the percentage of state owned enterprises in full, majority, or minority government ownership for a few countries. It indicates that over 70% of German state owned enterprises include some non-government ownership.

Percentage of SOEs in Full, Majority, and Minority Government Ownership[1]



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[1] Source: *OECD Comparative Report on Corporate Governance of State-Owned Enterprises*. State owned enterprises are defined as assets held in a corporate form so, in New Zealand's case, includes corporations not covered by the State Owned Enterprises Act.