FRANCE

Overview

The U.S. and France share many trade similarities, including their global standing as the world's top two exporters in the defense sector. Overall, France is the tenth-largest trading partner of the United States worldwide and the third-largest in Europe after the United Kingdom and Germany.

The major economic question facing France today is whether economic growth, registering a 2.2 percent increase in 1995, will remain strong enough to enable France to make good on its pledge under the Maastricht Treaty to reduce the government deficit to 3 percent of GDP in 1997. This is required if France is to qualify for the European Monetary Union.

The French government statistical agency INSEE is currently calling for 1.3 percent growth in 1996. After absorbing last summer's increase in the VAT, inflation is running at an annual rate of just over 2 percent.

Despite a strong position taken by President Chirac about reducing the size of France's defense establishment, with solid support from the government of Prime Minister Juppe, stiff pressure from France's strong unions remains. In addition, as of May 1996, unemployment was at a politically unacceptable level of over 3 million - 12.4 percent of the French work force..

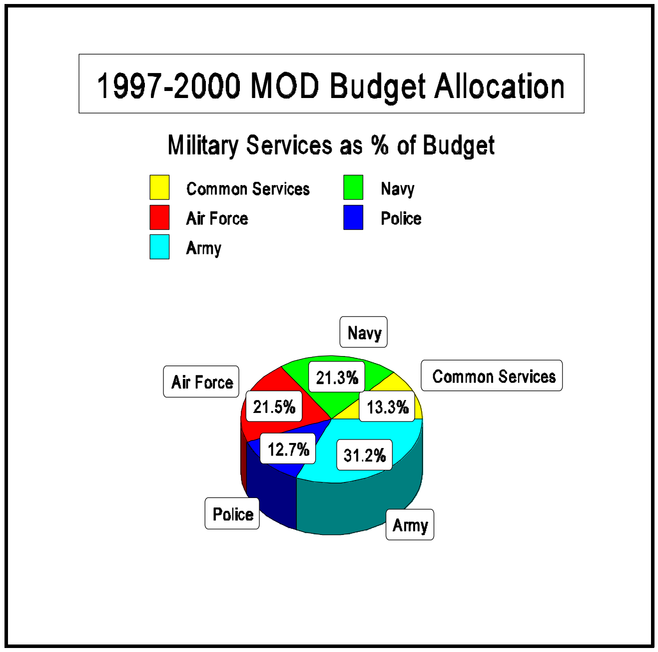
Some progress is being made in defense privatization as well as defense restructuring. France has also announced the demise of conscription and the creation of an all-professional volunteer military structure to be fully operational by the year 2002.

Defense Industry Environment

The multi-billion dollar defense market in France is experiencing profound change, not unlike the recent profound changes experienced by U.S. industry. By any measure, however, the French defense market is large, varied and sophisticated. France produces nearly 90 percent of its own armament requirements. The defense industry serves a large indigenous force and exports to over 25 countries. Exports of French defense equipment and services in 1995 represented sales of US$ 3.7 billion, with naval sales leading all categories.

Annual defense expenditures beginning in 1997, will be limited to approximately US$37 billion versus the current US$41 billion. The budget breakdown shows that an estimated US$20 billion will be allocated for operations. Another US$17.5 billion will be allocated for equipment representing an annual reduction of 18% over the 1994 equipment budget.

In most instances, major equipment programs are retained though delayed. The most notable exceptions to this are France's outright cancellation of participation in the development of the Future Large Transport Aircraft (FLA), and its withdrawal from the MEADS development program.



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A clearly defined strategy of forging stronger European alliances through increased mergers and acquisitions pervades the current rationalization of France’s defense industrial base. As a first step, for example, President Chirac mandated in March that aerospace firms Aerospatiale (government-owned) and Dassault (privately-owned) merge their organizations by 1998. Though the variety of products produced by each are compatible in both the civil and military sectors, the very magnitude of such a government-imposed decision reflects the political commitment to major industrial restructuring. France has also announced the privatization of Thomson by the end of 1996 and the down-sizing of both the chief land and naval organizations, GIAT and DCN.

The private sector is already leading the change. Thomson-CSF and GEC recently created a partnership to produce sonars, Dassault and British Aerospace took the first steps to fuse their military design operations, and Matra Defense and British Aerospace merged their missile business into a US$1.5 billion company. The July 1996 award to British Aerospace of the US$533 million contract for the Conventionally Armed Stand-Off-Missile (CASOM) is seen as a major step in the move to consolidate Europe’s capability in this sector. The winning British Aerospace “Storm Shadow” bid uses Matra “Apache” missile technology while incorporating British subsystems and is hailed as a forerunner of European cooperative projects in the future.

Finally, in approaching the French defense market, it is important to bear in mind that French multinational corporations such as Aerospatiale, Thompson, Matra, Dassault, DCNI, Alcatel, Alsthom, and GIAT contribute significantly to overall market demand with privately financed programs and large scale export activities. These firms are often majority partners in collaborative European projects. The largest of these companies are usually awarded prime contracts that cover approximately 80 percent of the total French defense equipment budget. In general, prime contractors keep only a small portion of the contract value in-house, preferring to subcontract the remainder.

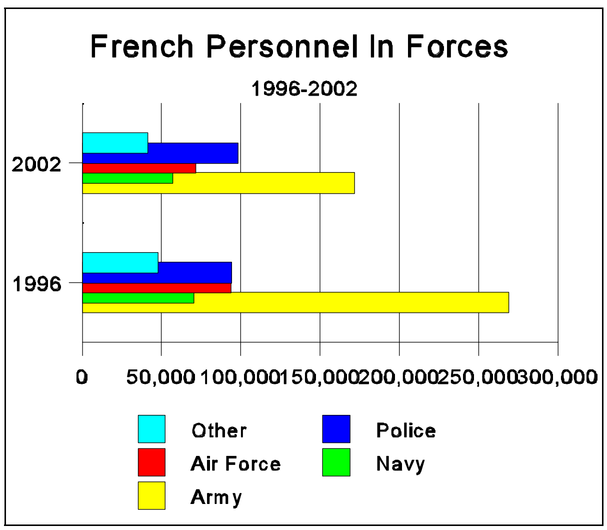
In May of 1996, the Minister of Defense succeeded in getting a new White Paper on Defense for the period 1997-2002 adopted by the French legislature. The paper contains the broad objectives established by Mr. Chirac’s government for the next decade and clearly makes conventional “prevention” a priority over nuclear “dissuasion.” Primary policy objectives are:

- End conscription and develop professional French military forces;
- Strengthen and develop a European-based military structure and defense industrial base;
- Continue modernization of major military equipment programs; and
- Reduce costs by 30% related to defense production (over 6 years).

The White Paper on Defense covers not only equipment and service costs, but also establishes specific personnel figures for each of the services. In addition, for the first time, over US$3 billion has been allocated for financing the costs of social and economic programs related to the professionalization and rationalization of the French forces during this period. The White Paper calls for the continuation of many of the major military programs currently under development but delays real-time production dates. Currently, the privatization of the French defense industry has been delayed due to the election of the Socialists in late spring 1997

Defense Opportunities

Despite the significant reductions announced for the 1997-2002 defense budgets, France is continuing to update its major defense equipment, including submarines, aircraft carriers, helicopters, tanks and aircraft. Program priorities include intelligence gathering, command and control systems, protection of troops, force mobility, and military transport.



France has also completed an exhaustive evaluation of the technological areas determined as critical for national defense purposes. After an arduous examination of industrial capabilities and defense priorities, combined with an economic evaluation of market and defense conversion potential, the Direction Generale de l’Armement (DGA) identified 30 strategically important equipment sectors and then broke them down into 180 technology segments. Foremost are:

- Composites
- Micro-electronics
- Propulsion systems
- Navigation equipment
- Detection systems
- Stealth technology

- Management and control systems

France strongly supports the development of a European defense industry base - preferably with itself at the head. Germany and the United Kingdom are seen as its best partners in this effort and numerous cooperative programs are currently underway. Among these are:

Army: VBCI light armored vehicle
COBRA radar system

Navy: Horizon Frigates
MU90 Torpedoes

Air: Tiger Helicopters
NH 90
ANF, Apache/Scalp, MILAS missile programs

Despite its public position that Europeanization of its defense industry is the surest way of ensuring the viability of the French defense industry base against the specter of American industrial giants, France has more data exchange agreements with the United States than with any other nation. There are almost 350 active FMS cases worth over one billion dollars underway. France is currently a participant in multilateral ship propulsion (ICR) and datalink (MIDS) cooperative efforts.

Industry-to-industry cooperation is clearly on the rise, as U.S. firms seek opportunities to win European defense competitions through partnerships with European firms. For example, Bath Iron Works and the French shipbuilding organization, Direction de la Construction Navale Internationale (DCNI), are cooperating to build ships for the international market. Dassault Electronique and Texas Instruments are working together to market a radar for the NH-90 helicopter and Hughes has teamed with Aerospatiale to compete for the future medium range air-to-air missile program.

In all, over 40 projects are targeted by France for multinational cooperative development during the 1997-2002 framework, with funds doubling for international programs during this period. American firms are strongly advised to develop partnerships and joint ventures with French firms as a viable means to accessing these programs.

The status of major procurement programs included in the May White Paper on Defense for 1997-2002 and approved by the French National Assembly in June 1996 are enumerated in the following chart:

FRENCH DEFENSE EQUIPMENT PROGRAM STATUS

Air Force Programs	*Orders*	*Anticipated Delivery Date*
Rafale Fighter Aircraft	**33**	**First delivery delayed until 2005**
Mirage 2000DA fighters	**86 instead of 90**	**Deliveries until 2001**
C135FR tanker aircraft	**3 instead of 5**	**Purchase delayed 2 years until 1997**
MICA missiles	**1000 instead of 2300**	**Only 75 to be delivered in 2000**
APACHE Scalp cruise missiles	**100**	**Delivery delayed one year to 2002**
Cougar Helicopters	**4**	**Delivery in 1997-2002**
SCCOA command/control	**3 radars canceled**	**Continued development; Phase 3 in 2000**
FLA transport aircraft	**50**	**First deliveries in 2004 of off-the-shelf model**
Navy Programs		
Nuclear submarines	**2 as planned**	**Delivery in 1999 and 2002**
Rafale Naval Aircraft	**60**	**First delayed until 2002**
Patrol Aircraft	**22**	**6 mothballed**
NH-90 helicopters	**27 instead of 60**	**Delivery delayed 2 years to 2005**
MICA air-to-air missiles	**360 instead of 420**	**30 to be delivered in 2001**
PAAMS antiship missiles	**240 instead of 300**	**Delivery delayed 3 years until 2005**
ANF future anti-ship missile	**320 instead of 540**	**Postponed 1 year until 2005**
Lafayette Frigate	**5 instead of 6**	**Delivery by 2002**
Horizon Frigates	**2 instead of 4**	**Delivery delayed 3 years until 2005**
Future Nuclear submarine	**Continued designing**	**Order to be placed in 2001**
Nuclear Aircraft Carriers	**#1 in 1999 #2 in 2015**	**"Depending on economic conditions"**
Army Programs		
Tiger Helicopters	**120**	**Escort version delivery delayed until 2003; attack version delayed till 2011.**
NH-90	**?**	**Delayed until 2011**
Cobra radar	**10 instead of 15**	**Delivery delayed one year until 2000**
Leclerc Tanks	**460 instead of 650**	
A310 Logistical Aircraft	**2**	**Canceled**
Nuclear Forces Programs		
ASMP missiles		**Selection in 1996 instead of 1997**
M51 sub missiles	**specs changed**	**Delivery in 2010**
M4 surface missiles	**canceled**	**Albion nuclear platform closed**

NATO

U.S. Government armament objectives for the NATO alliance also represent potential business in France, since a quid pro quo for France's continued political support for NATO is likely to be armaments cooperation. However, it will be necessary for France to engage in a significant effort to integrate its communications and command systems into the existing NATO structure. Some areas of potential cooperation in NATO programs for France are ground surveillance, combat identification, simulation, theater ballistic missile defense, computer aided logistic support, and dual-use technologies (e.g. digitized systems for computing and tracking).

Defense Procurement Process

The Direction Generale de l'Armement (DGA) is the responsible official body for all armament programs for all three defense services and the national police. It controls all research, development, and production in collaboration with the Joint Chiefs of Staff and the three service Chiefs of Staff. To implement the cost-cutting measures sought throughout the DGA's administrative and management layers, Jean-Yves Helmer, previously a senior executive with automobile manufacturer Peugeot, was recently brought in as Chief of Procurement Programs and charged with introducing a competitive philosophy throughout the organization.

As the Ministry of Defense directorate solely responsible for weapons system acquisition, the DGA monitors the private and nationalized firms involved in armaments research and production, and retains tight control over all phases of the acquisition process. It also does all of its own research and development (R&D) for the military services.

The French parliament does not take as active a role as the U.S. Congress in the line-by-line preparation of the defense budget. The French Parliament provides broad oversight and approves the budget as a whole.

The DGA is currently run by about 1000 well trained Armament Corps Officers without service affiliation. The DGA also employs about 24,000 white collar workers and 46,000 blue collar workers involved in production at French arsenals. Most Project Managers and R&D Commanders are military officers who have some technical and R&D management experience as well as extensive operational experience. Despite announced reductions in this management level, the high level of professional expertise can be expected to continue.

The acquisition process in France is characterized by centralization and a structure of coordination and interaction among the various MOD Directorates. Although the responsibility for weapon systems acquisition is centralized within the DGA, each of the directorates plays a role throughout the acquisition process. As a result, continuous coordination and interaction among these directorates is maintained, but the final approval authority for all major decisions rests with the MOD.

The various operational directorates are responsible for managing the design, technical testing, and production of systems and equipment in the armament areas applicable to the land, naval, air, missile, electronic, and data processing sectors. The operational directorates provide the technical expertise and management during the development, production, and testing of weapons systems.

Teaming arrangements are highly recommended when entering the French market. In a few cases, the equipment need may be so great that the Government will forgo its established industrial “Buy European” policy. Not only French partners, but other European partners should be considered. When considering partners, a rule of thumb is French firms first, Germans second, UK third, and other Europeans thereafter.

As a result of the close relationship between the French MOD and the French armaments industry, most contracts are negotiated on a less formal basis than in the U.S. There are three fundamental contracting possibilities for tenders:

- *Automatic Tender* - Similar to a bid invitation; may be "public," openly competed, or "selective" (restricted to certain contractors).

- *Discretionary* - (Appel D'Offres) A Request for Proposal; "public selective," limited to contractors whose performance is well known.

- *Private Contract* - A negotiated contract, used only in rare cases.

When bidding on government contracts, all correspondence and technical documents must be prepared in French. Contracts are signed by the DGA Operational Directorates and are reviewed by permanent review committees and the Comptroller General.

Prime contractors may select their subcontractors for the most part, although for major program acquisitions, the DGA does occasionally direct contracts for socio-economic reasons, i.e. industrial policy. Teaming arrangements are becoming increasingly important as politicians line up to support the skills invested in the French labor force. Also of growing importance is the quality of offset programs.

There is little evidence of local distribution in armaments trade. In general, end-users obtain equipment directly from manufacturers and/or via government-to-government transactions.

DGA Points of Contact

All U.S. companies should contact the French International Relations Directorate (DRI) of the DGA before pursuing armaments business in France. DRI can also provide a useful guide titled <u>The Practical Guide for DGA Suppliers</u>. DRI is tasked with coordinating France's international armaments commitments. It controls licensing and technical assistance programs and it staffs positions at the United Nations and NATO. The point of contact is:

Delegation General pour l'Armement (DGA)
Director Des Relations Internationals (DRI)
Atlantique - Europe
26, bd Victor
00460 Armees, France
Tel: 011-31-1-45-52-70-87
Fax: 011-33-1-45-52-72-84

The following list includes industry specific contacts within the DGA:

- *Aircraft Construction Directorate*
  DCAE
  26, Boulevard Victor
  00460 Armees, France
  Tel: 011-33-1-45-52-43-21
  Fax: 011-33-1-45-52-61-17

- *Airframes*
  STPA
  4, Avenue de la Porte d'Issy
  00460 Armees, France
  Tel: 011-33-1-45-52-43-21
  Fax: 011-33-1-45-52-45-52

- *Avionics*
  STTE
  129, rue de la Convention
  75731 Paris Cedex 15
  Tel: 011-33-1-44-25-87-00
  Fax: 011-33-1-45-52-69-77

- *Cannons:* STSAT
  Computers: DSTI
  10, Place Georges Clemenceau
  BP 24
  92211 St. Cloud Cedex
  Tel: 011-33-1-47-71-40-00
  Fax: 011-33-1-47-71-43-50

- *Electronics*
  STSIE
  Fort d'Issy les Moulineaux
  92131 Issy-Les-Moulineaux
  Tel: 011-33-1-41-46-36-29
  Fax: 011-33-1-41-46-33-08

- *Land Armaments Directorate*
  ECSTI
  18, Place Georges Clemenceau
  BP 13, 92211 Saint-Cloud Cedex
  Tel: 011-33-1-47-71-40-00
  Fax: 011-33-1-47-71-42-00

- *Quality Directorate*
  DQA
  10, rue Satius Michel
  75732 Paris Cedex 15
  Tel: 011-33-1-40-59-50-00
  Fax: 011-33-1-45-75-48-45

- *Missile & Space Directorate*
  DME
  129, rue de la Porte d'Issy
  00460 Armees, France
  Tel: 011-33-1-45-52-43-21
  Fax: 011-33-1-45-52-59-51

- *Naval Construction Directorate*
  DCN-STSN
  8, Boulevard Victor
  75732 Paris Cedex 15
  Tel: 011-33-1-40-59-20-00
  Fax: 011-33-1-45-54-06-89

- *"Upstream" Research Directorate*
  DET./Mission Industrie
  26, Boulevard Victor
  00460 Armees
  Tel: 011-33-1-45-52-56-75
  Fax: 011-33-1-45-52-45-72

Diversification/Commercial Opportunities

France has developed highly sophisticated defense, aerospace, and telecommunications industries placing it among the world's leaders in these fields. Faced by pressing economic imperatives, the Government is squeezed between its target of maintaining its position as a major player in international peacekeeping, the increasing political and economic pressure to rationalize the European aerospace and defense industries, and high French unemployment rates.

Since France produces the overwhelming majority of its own defense requirements, most U.S. defense firms are less involved in direct sales exports and more involved in foreign military sales/financing (FMS/FMF) programs, and after-sales technical support and/or corporate representation. Other U.S. defense firms are present in the market in connection with offset programs. By any measure, however, the U.S. defense industry presence in France is not large.

Nevertheless, in relative terms, the U.S. presence is in a league by itself. France operates a fleet of Boeing AWACS, Lockheed C-130's, and recently purchased Northrop-Grumman E2C Hawkeyes. France is also looking to add additional KC135's to its fleet. No other nation comes close to the United States supplying the quantity and value of defense sales to France.

In order to penetrate the French market, companies must provide, above all, access to technology that the French do not have. As a result of its still highly centralized political structure, most opportunities for diversification are still within the national government domain.

Dual use technology applications are leading to the development of such joint Franco/US projects as:

- Immigration Control
- Industrial Vehicles
- Heavy Earth Moving Equipment (flood control)
- Medical Diagnostic Applications

There has been a recent major striking increase in the number of Data Exchange Agreements (DEAS) between France and the United States. Currently, over 350 DEAS cover such diverse subjects as:

- Ceramic Armor
- Advanced Switching Technology
- Electric Gun Technology
- Testing of Robotic Vehicles
- Chemical Agent Detectors
- Missile Seeker Technology

Opportunities for American companies to participate in the realization of these agreements will continue to exist in the future. Key Ministries and points of contact for these product areas are:

- Minister Jean Arthuis
  Ministere de l'Economie et des Finances
  139, Rue de Bercy
  75012 Paris, France
  Tel: 011-33/1-40-04-04-04
  Fax: 011-33-1-53-18-95-71

- Minister Jacques Barrault
  Ministere des Affaires Sociales de la Sante et de la Ville
  8, Avenue de Segur
  75007 Paris, France
  Tel: 011-33-1-40-56-60-00
  Fax: 011-33-1-40-38-20-20

- Ministre Frank Borotra
  Ministere de l'Industrie des Postes et
  Telecommunications et du Commerce Exterieur
  20, Avenue de Segur
  75007 Paris, France
  Tel: 011-33-1-43-19-36-36
  Fax: 011-33-1-43-19-54-95

- Minister Bernard Pons
  Ministere de l'Equipement, des Transports, du Logement et du Tourisme
  Arche de la Defense
  92055 Paris La Defense Cedex 04
  Tel: 011-33-1-40-81-21-22
  Fax: 011-33-1-40-81-38-11

- Minister Jean-Louis Debre
  Ministere de l'Interieur
  Place Beauveau
  75008 Paris, France
  Tel: 011-33-1-49-27-49-27
  Fax: 011-33-11-43-59-89-50

Doing Business in France

Although French managers are becoming increasingly international in their outlook, Americans will still occasionally encounter differences in business practices and cultural standards. The following are some basic points to help ensure success:

Financing

In general, France is a cash buyer of defense equipment. However, as a result of the recent reductions in defense equipment budgets, new efforts are being examined to develop private financing inititiatives.

Adopting the British approach to "Private Finance Initiatives", Dassault has recently begun discussions with a syndicate of banks to develop US$1 billion in private financing for the Rafale Air Force squadron, currently delayed until 2005. The banks would then lease the squadron to the Air Force, thus advancing production dates significantly.

Equally creative financing plans are being explored for the FLA transport. Though funds were cancelled in the new Defense White Paper, proponents of the FLA continue to support its development.

There is no official offset policy in France, but offset requirements are often a feature of large contracts, such as the last C-130 sale and the E2C-Hawkeye sale.

Import duties are generally waived for official defense purchases. Commercial purchases in the defense field must apply commercial tax rates.

Customs

All items that are intended to be left in France must be declared with France customs. All goods for commercial use, professional effects, and any prohibited goods must be declared. Goods imported for exhibition may be entered under bond, deposit, or ATA Carnet.

Professional equipment may be temporarily imported into France free of duty and tax under the customs convention on temporary importation of professional equipment. For this purpose, a Carnet may be obtained from the U.S. Council of the International Chamber of Commerce.

Trade Promotion Opportunities

There are several excellent defense trade promotion opportunities in France, as France has always been very active in the support of its defense industry.

Trade shows in France are well attended by foreign delegations, often escorted by French officials. In some cases, all delegation expenses are paid for by the French Government. Upcoming trade shows include:

Name:	**Milipol**
Date:	November 1997
Location:	Le Bourget, Paris, France
Organizer:	IMEXPO 92 Rue Legendre 75017 Paris, France

Tel: (33-1)46-27-82-00
Fax: (33-1)46-27-91-63

Milipol, sponsored by the French Ministry of the Interior, is dedicated primarily to the police market, and to a lesser extent the military market.

Name:	**Eurosatory '98**
Dates:	June 1998
Location:	Le Bourget, Paris, France
Organizer:	Commissariat General Des Expositions Et Salons Du GICAT (COGES) 64 Rue du Ranleigh 75016 Paris, France Tel: (33-1)42-30-71-11 Fax: (33-1)42-30-70-88

Held every two years, Eurosatory is the world's largest land defense trade show.

U.S. Government Points of Contact

The following is a list of U.S. contacts that may be helpful to U.S. firms interested in the French market.

U.S. Embassy

U.S.&FCS
American Embassy
2, Avenue Gabriel
75382 Paris Cedex 08

Tel: 011-33-1-43-12-25-42
Fax: 011-33-1-43-12-21-72

Office of Defense Cooperation
American Embassy
2, rue Saint Florentin
75382 Paris Cedex 08

Tel: 011-33-1-43-12-47-12
Fax: 011-33-1-43-12-45-61

U.S. Industry Associations in France

U.S. Aerospace Industries Representatives in Europe (USAIRE)
4, Place de la Defense
92090 Paris, La Defense Cedex 26

Tel: 011-33-1-47-76-65-98
Fax: 011-33-1-46-98-09-01

French Points of Contact

French MOD in the U.S.

Embassy of France
Armament Section - DRI
Reservoir Road, N..W.
Washington, D.C. 2000-2172
Tel: 202-944-6440
Fax: 202-944-6447

French Industrial Associations

Comite Richelieu
98 Av. du General Leclerc
92100 Boulogne, France
Tel: 011-33-1-46-04-55-03
Fax: 011-33-1-46-04-55-38

Association of small/medium-sized high-tech defense firms

Defense NBC
11, rue Laugier
75017 Paris, France
Tel: 011-33-1-47-63-10-87
Fax: 011-33-1-47-63-13-62

Concerned with nuclear, biological, and chemical warfare issues

GICAT
64, rue du Ranelagh
75016 Paris, France
Tel: 011-33-1-44-14-58-21
Fax: 011-33-1-42-30-80-89

Association of land defense manufacturers

GIFAS
4, Rue Galilee
75782 Paris Cedex 16, France

Tel: 011-33-1-53-23-33-33
Fax: 011-33-1-47-20-00-86

Association of aerospace manufacturers

Office General de l'Air (OGA)
33, Avenue des Champs-Elysees
75008 Paris, France
Tel: 011-33-1-42-25-99-85

Export promotion agency for French aeronautics manufacturers