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THE FRENCH ARMAMENT SECTOR IN THE CHANGING EURO-ATLANTIC CONTEXT

In the past France had to possess modern armament capacities to maintain it's world-role and territorial conquests. France lead to perfection her arsenal and technology to own one of the world's best defence industry. On the European continent after World War II, France became an initiator, and took part actively in integration efforts then after the Cold War it's defence industry transformed significantly. In this paper we had a short overview on the French and international / European defence industry of the post Cold War period. It presents the European institutions of cooperation and the co operational chances of Europe, with or without the Trans-Atlantic partners.

INTRODUCTION

Working effectively in the international environment requires knowledge of the people, organizations and cultures of each country. This paper provides an introduction to the strategical, political, technological and industrial environment of France within the „2000 year's" world of armaments activities. We will try to analyze how the French arms industry and political will has been adapting to the new economic and geopolitical context, which was strongly determined by the effect of globalisation.

France always had – or tried to have — a dominant role in history, with a number of wars, crusades, or even revolutions, nevertheless France offered as a model to all the other nations of Europe and the world. The Revolution of 1789, the Declaration of the Rights of Man and the Citizen, the first Constitution, the Republics, the heritage of Napoléon, the World Wars, the colonisation and the decolonisation era, the return of General de Gaulle and the way to a European Unity with an independent role. In the post-war period France was strongly dependent on foreign military equipment, even during the war in Indochina in the early 1950s (50 percent of equipment came from the USA) a major objective of the Gaullist policy was that France develop weapon systems on its own right. This policy resulted on increase in military expenditures, stimulus given to technological capabilities and active export policy. In one hand, by the end of the 1950s, the development of a strong defence technological and industrial base had the stated objective of allowing France to sustain its independence of the two superpowers, and to be an alternative armaments supplier for countries keen not to be dependent upon the USA or the USSR. On the other hand, the very active French foreign policy's goal was to assert France's interdependence and its role on the world stage. In support of this policy France set about building the country's nuclear capacity, and France became a nuclear power as the American and British allies and as the USSR. This independent foreign policy led to withdraw France from NATO's integrated military command, but remained a member of the Atlantic Alliance. However the most important legacy was the establishment of close cooperation between France and Germany, which process led obviously to the formation of the European Union. France is also the founding member of the North Atlantic Alliance, the Western European Union and other supra-national organisations.[1]

The aim of this paper is to provide insight into the French national practices and approaches within the European and Euro-Atlantic armaments context to facilitate successful co-operation and better understanding.

THE CHANGING DEFENCE MARKETS

The changes in the economic and geopolitical environment that took place in the 1990s constituted an important challenge for the European and also the French defence industry. The falling of USSR brought about dramatic changes in the geopolitical context and international relations. The USA remained the last superpower, but

[1] KAUSAL Tony: A comparaison of the Defense Acquisition Systems of France, Great Britain, Germany and the United States, Defense Systems Management College Press, Fort Belvoir Virginia, 1999

nobody knows for how long. In 1998, the US arms industry turnover (domestic and exports) accounted for almost 50 percent of world production, and US military Research and Development (R&D) expenditures were seven times greater than those of France, the closest competitor to the USA.[2]

Since 1997, the French arms industry has been undergoing a major restructuring, including consolidation through national and European mergers and acquisitions, changes in corporate governance through privatization and participation by foreign institutional investors in major defence contractors. Five years later, in 2002, the amount and proportion of these expenditures has changed, as shown on the next chart.[3]

Country	Defens Exp.	% GNP	Equipment Exp.	R&D Exp.
USA	330	3,3	70	48
Europe (15)	160	1,9	36	9,5
Germany	25	1,5	3	1,3
France	38,6	2,6	12,5	3,1
UK	44,5	2,4	13	3,9

in Md USD

In this year US (R&D) expenditures were less than five times greater than in Europe, but fifteen times greater than those of France. The budget for armaments equipment is double in the USA, than in Europe. An other important fact, is that US military equipment's import in Europe is ten times greater than European exports in the USA.

This new age of globalisation meant world-wide markets, large transnational corporations, intense competition, together with the globalisation of finance and investment and the emergence of global labour markets. From the late 1980s globalisation has affected civil industries such as computer and information technology, electronics, motor cars, pharmaceuticals, telecommunications, food and drinks products and restaurants.[4] In the post cold war period, when the former threat, and enemy — the USSR — collapsed, and military expenditures decreased, to remain competitive defence companies followed the same example.[5] The rising equipment costs and falling defence budgets meant that nations cannot avoid the need for difficult choices in their defence policy. Arms industries had the economic characteristics of global industries, but traditionally, they have relied on their home market and sales to their national armed forces. The three largest arms industries were located in China, the USA and Russia. Since the end of the Cold War, there have been substantial employment reductions in NATO, Eastern Europe, the former Soviet Union and elsewhere in the world.

When comparing different defence industries there are two major economic features to come into consideration: the importance of R&D and the importance of quantity. These two economic features explain the competitive advantage of the US arms industry and the incentives for international co-operation. When two or more nations collaborate on a new equipment project, they share R&D costs and by combining orders, they can achieve economies of scale in production. During the concerned period European countries have undertaken a number of collaborative aircraft and missile projects, where the economics of collaboration enabled the European aerospace industry to compete with the USA. On the other hand — even so progress has been made — various reasons make it difficult for European manufacturers to enter the US market, to make investments there or even to cooperate.

[2] Claude SERFATI: The adaptability of the French armaments industry in an era of globalization in: Industry & Innovation Volume 8, Issue 2, August 2001, pages 221 - 239

[3] Christian HUYNH (Delegation Generale Pour L'armement): Impact des societes transnationales de défense sur les programmes d'armement (Rapport d'Étude), DGA, Paris 2004 page 9

[4] Keith HARTLEY: Arms Industry and the Globalisation Process; Centre for Defence Economics, University of York, Source: http://www.york.ac.uk/depts/econ/documents/research/unesco.pdf; 14 Mai 2008

[5] Keith HARTLEY, Todd SANDLER: Handbook of Defense Economics Volume 2, Elsevier B.V. 2007 page 625

One way of reducing weapon's unit costs is through importing and collaborative purchasing rather than buying small numbers from a national defence industry. Governments will no longer be willing to pay the price of supporting a small-scale national arms industry. That's why US arms companies foreshow a major competitive threat to small-scale (in our case European) arms industries. In the late 1990's mergers in the USA have created large arms companies which amplified this competitive threat, and an other crucial effect is that US model of large arms companies were based on a large home and foreign market. Between 1993 and 1997, a wave of consolidation in the US led to the creation of aerospace and defence giants with turnovers several times greater than those of the biggest European groups.[6]

The next chart indicates the changes in the number of companies of each market in the USA.[7]

Industrial base	Number of suppliers in 1990	Number of suppliers in 1998
Aircraft	12	5
Space	19	8
Tracked vehicles	3	2
Shipbuilding	23	11
Missiles	9	4

At the same time in Europe 7 aircraft, 6 missile, 9 armoured vehicle supplier, and 11 shipyards were on the market, and shared only 50% of US defence expenditures.

To this challenge European defence industries / governments have responded to the US competitive threat by mergers and re-structuring to create a smaller number of larger groups able to compete with the big American arms corporations and European arms companies required that the European governments combine their various national demands to create a Single European Defence Market. Comparison with how the consolidation process ran in the USA highlights some institutional differences. In the early 1990s, the consolidation of the US arms industry was initiated by the Department of Defence, in France and in other European countries, consolidation was an outcome of a political decision-making process. Even today the European armaments market still consists of a large number of isolated national or regional sub-markets. In Europe some progress towards a common defence market has been made in the last years, but existing procedures still continues to hamper industrial co-operation.[8]

FRANCE

The first objective of France's defence policy is to be able to defend it's vital interests, alone if necessary, at any cost and against any threat from any source. Beyond that France has interests corresponding to its international responsibilities and to its position in the world which, as for all countries, results from a combination of historical, political, strategic and military factors, as well as economic, scientific and cultural factors. The security of these interests cannot be guaranteed without suitable defence, including the element of armaments.[9] The second objective of French policy is to ensure European and international stability. The ability to maintain France's position in the world will be closely related to its ability to influence the European construction and future developments in Europe. This European option is necessary for strategic and economic reasons, and the European identity would

[6] Philippe COTHIER, Olivier DEBOUZY: Défense: l'heure des choix in: Défense nationale, 2003. Janvier (1) pages 29-41

[7] KAUSAL Tony: A comparaison of the Defense Acquisition Systems of France, Great Britain, Germany and the United States, Defense Systems Management College Press, Fort Belvoir Virginia, 1999 page 6-61

[8] LÉNÁRT Ferenc: Védelemgazdaság, fegyverkereskedelem in: GAZDAG Ferenc: Biztonságpolitika, SVKH, Budapest, 2001, page 130

[9] ALLIOT-MARIE Michèle: Loi de programmation: un ambition pour la France, pour l'Europe, in: Défense nationale, janvier 2003 (1) pages 5-14

be incomplete, if it were not also expressed in the context of defence.[10] To fulfil these objectives France is a founding member of key international organisations, like the European Union, the North Atlantic Alliance (NATO) the Western European Union and other armaments related organizations.[11]

French arms industry is among the top world arms industries. In the period aborded in the article, France accounted for 9-10 percent of the world arms production, ranking second with the UK, but far behind the USA (46–49 percent).[12] From the early 1980s to 1990, the arms industry enjoyed a steady growth, mainly due to a strong increase in procurement, coupled with exports doubling. From 1991 to 1995 the negative effects of the military expenditure cuts in procurement and free fall of arms exports resulted in a steep decrease in arms turnover.[13] The most critical period was 1993–95, when it was confronted by both the superiority of the US arms industry further strengthened after the Gulf War and cuts in domestic procurement needed for France to comply with the Maastricht treaty's financial requirements. From 1996 on, an energetic action to stimulate arms exports was undertaken by the Balladur, Juppé then the Jospin Governments. It was clear that the government's only concern was to preserve the capacity of the French arms industry to remain a key actor in Europe, whatever the cost might be for civilian industrial activities. The defence sector consolidation plan launched by President Chirac in 1996 covered four sectors: nuclear, ground weapons, electronics and aerospace.

DCN in the naval industry and GIAT Industries in the ground industry were the one single company monopolizing the production.[14] Land system companies and naval shipyards, in contrast of the aerospace sector, have never reached the same degree of cooperation.[15]

In the electronic sector first happened the separation of Thomson S.A. to Thomson-CSF (military activities), Thomson Multimedia (electronic appliances) and to SGS-Thomson (electronic components). Finally the creation of Thales regrouped all the actors of the electronic sector.

Driven by high R&D costs, aerospace companies started to cooperate much earlier than their counterparts in other sectors. In the aerospace sector the merger between Aerospatiale Matra and Daimler-Chrysler Aerospace, soon joined by Spain's CASA and Italy's Finmeccanica. The new company, EADS (European Aeronautics Defense and Space Company) was ranked first in Europe and third world-wide, and it is important to notice that EADS controls 80 percent of the Airbus capital.[16]

SUPRANATIONAL ORGANISATIONS

In spite of the recent consolidation wave, Europe's defence industrial landscape remains extremely complex and differs widely from one sector to the other. Since the last 50 years France always tried to actively take part in the European integration process.

The *Western European Union* (WEU) was founded on the 23rd October 1954 in Paris to become the European collective defence and security organisation. It developed its own military organisation but became a consultative forum of European member states reliant on NATO military resources whenever required. WEU political decisions are taken by the assembly of full members convening twice a year. WEU runs a Paris based International Institute for Security Studies and a Satellite Centre at Torrejón de Andoz near Madrid / Spain. By the end of 2001 the EU took over and integrated the WEU's main capabilities including the mentioned assets.[17]

[10] KAUSAL Tony: A comparaison of the Defense Acquisition Systems of France, Great Britain, Germany and the United States, Defense Systems Management College Press, Fort Belvoir Virginia, 1999 pages 1-17

[11] BENTEGEAT Henri: Stratégie militaire francaise: in Défense nationale, juin 2003 (6) pages 28-40

[12] SIPRI Military Expenditure and Arms Production Project 2003, Source: http://projects.sipri.se/milex/aprod/nationaldata/france.pdf 18 February 2004

[13] SIPRI Military Expenditure and Arms Production Project – June 2003, Source: http://projects.sipri.se/milex/aprod/nationaldata/aprod_usa_fra_frg_uk.pdf 18 February 2004

[14] Source: http://www.dcn.fr/entreprise/histoire.html 2 July 2005

[15] SCHMITT Burkard: The integration of defence and aerospace industries in Europe: towards a European armaments industry? Lecture in PARIS, 30 March 2001

[16] Source: http://www.eads.net/eads/fr 2 July 2005

[17] Source: http://www.assembly-weu.org/en/presentation/presentation.html 2 July 2005

Within the framework of the WEU, the *Western European Armaments Group* (WEAG) and the *Western European Armaments Organisation* (WEAO) were created in order to coordinate research and arms procurement.

The main objectives of WEAG were: more efficient use of resources through, inter alias, increased harmonisation of requirements; opening national defence markets to cross-border competition in order to create a more effective European Defence Equipment Market; strengthening the European Defence Technological and Industrial Base; co-operation in defence research and development.[18]

During its operation WEAG ran three different panels: (I) the promotion of cost effective equipment programmes; (II) defence research and technology prior to the development of weapons, system or equipment; (III) common defence economics policy and armaments co-operation procedures. Furthermore WEAG had an ad-hoc study group on the European Defence Agency via the Armaments Secretariat and WEAG Staff Group.[19]

The WEAO was a subsidiary body of the WEU and shared its international legal personality. WEAO could therefore provide a legal framework for such co-operative armaments activities as WEAG ministers assigned to it. Initially the executive body of the WEAO was the Research Cell, which supported Research and Technology activities of WEAG and was able to place contracts on behalf of participating nations.[20] The WEAO was purposely designed to allow an evolutionary approach to the European Defence Agency.

In the *„Letter of Intent"* (LoI) process, the six major EU arms-producing countries agreed to coordinate the restructuring of their defence industries and to make it easier to engage in cooperative arms projects.[21]

On 9 December 1997, France, Germany and the United Kingdom signed a statement designed to facilitate the restructuring of the European aerospace and defence industries through intergovernmental action. This was followed by a joint statement of 20 April 1998 by the same three nations plus Italy, and Spain, paving the way for the Letter of Intent Treaty signed at Farnborough on 27 July 2000 by the Defence Ministers of the mentioned countries and Sweden. The main objective of the LOI initiative was to put in place the necessary intergovernmental action to facilitate the restructuring of the European aerospace and defence industries, with the emphasis on harmonising existing regulations in order to facilitate cross-border industrial co-operation and mutual trust. The LOI initiative covers six key areas: security of supply; export procedures; security of informations; research and technology; treatment of technical information; harmonisation of operational requirements.

Another body based on a limited membership is the *Organisation conjointe de coopération en matière d'armement* (OCCAR) which headquarters are at Bonn / Germany. It serves as a management organization for multilateral arms procurement projects. It was formed on 12 November 1996 by the governments of France, Germany, Italy and the United Kingdom to rationalise cooperation and manage armaments programmes involving the member nations more effectively, utilising best practices.[22] The principles of OCCAR are: to form transitional project teams, using modern programme management methods; to help consolidate and develop the Defence Technological and Industrial Base; to abandon the principle of juste-retour for a system of global balance, with work share spread across several programmes and over a certain period of time; to give preference in procurement decisions to equipment developed by the partner nations within OCCAR. On 9 September 1998 the Defence Ministers of the four founding nations signed a convention designed to give the organisation legal status. This has now been ratified by the member states, thus creating conditions which will allow OCCAR to issue contracts to companies for those programmes for which it has responsibility, and to employ its own staff.

Until the 1990s, the defence cooperation between European partners was essentially bilateral. Before the Maastricht Treaty, and the „creation" of the EU, the defence related questions remained in national competency. Then the Common Foreign and Security Policy (CFSP) was created within the framework of the second pillar.[23]

[18] Source: http://www.weu.int/weag/index.html 19 September 2006

[19] Source: http://europa.eu.int/eur-lex/fr/com/cnc/2003/com2003_0113fr01.pdf 21 March 2006

[20] Source: http://www.weao.weu.int/site/frameset.htm 11 October 2006

[21] Source: http://www.defense.gouv.fr/dga/fr/les_metiers/cooperer_europe/enjeux/programmes/index.html 9 Mai 2005

[22] Source: http://www.occar-ea.org/occar/portaloccar/occarbase.nsf/vwContentFrame/N254SMTV400SLEREN 23 April 2004

[23] Source: http://europa.eu.int/comm/external_relations/cfsp/intro 2 December 2005

The European Commission (EC) has on several occasions expressed a desire to become more closely involved with European armaments matters in its role as regulator of the single market. In January 1996, the Commission published COM 896 10 final on *„The challenges facing the European defence related industry — contribution for action at the European level"*. This document set down the broad guidelines for EU action.

In December 1997 the Commission produced a paper for EU Council entitled *„Implementing European Union Strategy on Defence-related Industries, COM (97) 583 final"* which sought to facilitate cooperation between member states in the field of defence industrial restructuring. The paper called for the creation o fan integrated market for defence products, based on a proposed CFSP Common Position and Action Plan for defence related industries, using a combination of legislative and non-legislative instruments under the first and second EU pillars. The Action Plan made proposals in 14 different areas.

The newly created European Defence Agency (EDA), as an intergovernmental institution has the task of supporting the EU states in the development of military capabilities for crisis management operations. Its purpose is to coordinate, optimize, and harmonize cooperation between the member states. The EDA has already taken some initial steps towards a more Europeanized armaments policy. For example, the previously presented „inefficient" WEAG and WEAO were dissolved and their projects transferred to the EDA. Also, a systematic integration with OCCAR is currently underway. However the EDA's room for manoeuvre is limited, initial successes are being registered in the regime created in 2006 to promote international tendering of procurement projects and in the joint investment program in the area of research and technology. Accordingly, the success of the EDA as well as any initiative of the EU Commission depends on the political will of the national governments.

Additionally, several NATO bodies deal with the coordination of procurement, standardization, interoperability, and research and development.[24] The cooperation between NATO member countries is based on four major purposes: political; military; social-economic and technological but the main objective is interoperability.[25]

In the NATO there are about 40 different committees and agencies charged of the cooperation. The work is supervised by the Conference of National Armaments Directors and its subordinated committees.

CONCLUSION

In the past France had to possess modern armament capacities to maintain it's world-role and territorial conquests. France lead to perfection her arsenal and technology to own one of the world's best defence industry. On the European continent after World War II, France became an initiator, and took part actively in integration efforts then after the Cold War it's defence industry transformed significantly. In this paper we had a short overview on the French and international defence industry of the post Cold War period.

Since the last 50 years France always tried to actively take part in the European armaments integration process. From the beginning of the European co-operation France had a leading role, but after the collapse of the URSS, and the end of the Cold War, the changes influenced the whole sector. The result of these changes has been reflected in industrial plant closures, job losses, exits from the arms industry, mergers, re-structuring and rationalisation. New forms of industrial organisation have emerged as defence companies have developed their prime contracting and systems integration capabilities for a range of air, land and sea equipment and changed from national to international (global) companies. Defence companies now are competing in an increasingly globalised environment for profits and market shares. However, in Europe these developments have not extended equally to the whole defence industrial sector. The consolidation of production capacities and the creation of multinational corporations have primarily affected the aerospace and electronics sectors. The market segments for land-based

[24] Source: www.nato.org/docu/handbook/2001/hb080501.htm 9 Mai 2005

[25] Source: http://www.cremoc.org/armement.htm#otan 9 Mai 2005

and maritime systems remain fragmented. Even after this difficult period, the armaments cooperation in Europe was largely determined by ad-hoc programs and has hardly had any restructuring effect yet[26]. A present problem is that, many arms-producing states continue to perceive their national independence and the security of supply to their armed forces as being linked to the maintenance of their own armaments industry. An other obstacle is that, the divergent national security concepts result in different demands for capabilities and correspondingly different role conceptions for the national defence industries. There are also varying views as to the role that the state should adopt towards its own defence industry — as a regulator, as a shareholder, and as a customer. Finally only very few European countries have a comprehensive production infrastructure of their own, leading to heterogeneous procurement and market policies. Arms-producing countries often prefer the products of their own industry. Moreover, among the bigger producing countries, there is a continuing tendency to maintain as broad a range of national production capacities as possible. Non-producing countries, on the other hand, do not even necessarily purchase their defence products on the European market, but from the US, for example. Nevertheless European countries and even France are trying to have good relationship with the US „partners".

Keywords: France, armament, defence market, arms industry, post Cold War, international organisations

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