

# Missing the bandwagon?

The Jospin Government is to reveal its strategy for French aerospace which will also determine the fate of Europe

JULIAN MOXON/PARIS

**A**T THE END of this month, Lionel Jospin's new socialist Government is scheduled to reveal its plans for the re-organisation of France's still largely state-owned aerospace industry.

Jospin's announcement, when it comes, is likely to prove a watershed for European aerospace, determining France's place in the region's consolidation. It is not just French industry which has been anxiously awaiting word of its fate. Players in Germany and the UK have also largely put their consolidation strategies on hold as they wait to see which way France will swing.

What unites them all is the admission that major surgery to the structure of the region's industry is vital to survive the challenge from the emerging US giants. In the space of seven years, a dramatic US re-organisation has seen 23 companies shrink into just three groups.

Most observers believe that time is running out. While Europe dithers, even the monolithic Russian industry is undergoing a major regrouping which is starting to show through internationally, particularly in defence markets.

There is now a real sense throughout the region that time is running out both for Europe and France. Some analysts now raise the previously unthinkable prospect that unless it moves more decisively, France's flagship industry may simply be bypassed by others in Europe who feel that they cannot risk further delay.

The process has not been helped by the confusing signals emerging from the Jospin Government, which follow a 30-month period of disarray propagated by the previous Government's bungled sell-off of Thomson-CSF and continued argument over the planned merger of state-owned Aerospatiale with privately owned Dassault Aviation.

Added to this has been France's



Will the rest of Europe laugh along with Dassault (left) and Jospin?

*"The Government...was considering handing its 45.9% stake in Dassault Aviation to Aerospatiale, a move designed to defuse Dassault president Serge Dassault's staunch resistance to a merger."*

intransigence over converting Airbus Industrie from a loose grouping of four partners into a properly constituted company—a position which has grown from Aerospatiale's resistance to handing over its research-and-development assets to a new company, which would strip away its position as leader of France's civil-aerospace industry.

Having abandoned the idea of disposing of its 58.3% stake in Thomson-CSF to one of two official bidders—Alcatel or Lagardère—Jospin's administration seems to be looking at a remedy based on opening up its capital while preserving a "decisive national interest", likely to be 40%.

A parliamentary report released on 3 September added to the fray by calling for a "complete restructuring" of the defence industry, and suggesting that Thomson-CSF become the heart of a "centre of excellence" around which the rest of French, then

European, defence electronics could consolidate. It also raises the possibility of the Aerospatiale/Dassault merger being enlarged to include Thomson-CSF "...to give real foundations for our defence industry".

Even within France, such an approach does not find universal approval. French securities company Credit Lyonnais Securities/Cholet Dupont produced a report in August accusing the French Government of a "lack of clarity" in its plans. It suggests that the "long-term

survival of business in the defence sector" would be better served by creating a missiles and satellites group through the consolidation of Aerospatiale, Alcatel and Matra, a civil and military group with Aerospatiale and Dassault Aviation and a professional-electronics group through Alcatel, Dassault Electronique and Thomson-CSF.

"This would strengthen their position and allow the integration of European groupings," it adds.

In late August, a new element was added when the Government said that the reform of Airbus had become a "priority", possibly even overtaking the Aerospatiale/Dassault Aviation merger in importance. In a move welcomed by Daimler-Benz Aerospace, the other, 37.9%, Airbus partner, it appears also to have moved towards committing Aerospatiale's civil-research resources to the new company.

Furthermore, the Government suddenly let it be known that it was considering handing its 45.9% stake in Dassault Aviation to Aerospatiale, a move designed to defuse Dassault president Serge Dassault's resistance to a merger with non-privatised Aerospatiale. This would leave the military- and business-jet manufacturer with its desired independence, while linking the two financially, as well as opening the French civil-aircraft sector to incorporation into Airbus. The addition of the new Airbus A319 Corporate Jet to the top end of Dassault's Falcon range has already been mentioned as a possibility.

Re-organising Airbus Industrie and opening the French defence industry to European consolidation are clearly tough questions for the Jospin Government. The issue is whether the Government will be brave enough to make a tough response, potentially flying in the face of its ideological commitment to state ownership and risking alienation from the French unions.

The freezing of the former Government's privatisation plans did little to add confidence to an already ill-defined process. The hope now is that the administration will heed the advice received from European industry leaders during recent Parliamentary hearings and move forward with a solution aimed at European, and not solely French, consolidation. □