

Defence and Aerospace

IMPORTANCE OF THE SECTOR

In spite of pressure due to the current important slowdown in activity, this industry remains one of the largest in the Western world. The sector is characterized by its concentration (the 10 largest companies generate \$20 billion, 75% of the industry's sales), and its specialization (the aeronautics and electronics industries produce 54% and 26% respectively of Defence sales). It is important to note that military and civilian activity are closely related, particularly in the aerospace and electronics industry.

The sector is heavily oriented toward exports (more than 60% in the case of aeronautics), and the French government is often involved, either directly through the General Delegation for Armament (Délégation Générale pour l'Armement-DGA), or through the participation of state companies (Aérospatiale, Snecma, Thomson, etc.).

The French government's decision to reduce its level of military spending has, and will continue to have, an impact on the considerable decrease of this industry's activity. Faced with this situation, and a worldwide decrease in military activity, the industry is forced to adjust and rationalize its operations. Orders for the coming years will decrease by up to 50%, which is a source of great concern.

BUDGET AND MILITARY PROGRAMME LAWS

Until very recently, France operated a 5-year budgetary system called Military Programme Laws (Lois de Programmation Militaire-LPM) which allocate the budget for military equipment purchases only. The enforcement period for this Law will be reduced to three years in 1993, which will seriously affect the industry's planning and programming system. This new transitional law (scheduled to be adopted in mid-June 1992) foresees a zero growth of expenditures for military equipment in constant francs (102,9 billion FF in 1992). As a result, expenditures for equipment will be lower than expected, and many programmes will be postponed, or cut back (e.g. light armoured vehicles, Leclerc tank, Tiger helicopter for ground support and anti-tank operations, third generation anti-tank missiles, Rafale airplane).

TRADE WITH CANADA

Industrial and commercial relations between France and Canada in the defence and aerospace industry have expanded substantially over the past five years. Since late 1987, Canada has signed a contract with France and Germany for the tripartite construction of a reconnaissance drone aircraft (CL-289). For its part, France's Sécurité Civile has placed an order with Connair for close to \$50 million in fire-fighting aeronautic equipment (turbo-engines for Trackers, purchase of F27, etc.). It has also signed a contract with Canadair to purchase 12 amphibian airplanes (CL-415) for \$300 million. On the Canadian side, the Ministry of Defence also signed an industrialization contract in 1992, as the first stage of the purchase programme of military equipment (Engin Eryx) for \$100 million. This purchase is conditional on generating an industrial