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**COVID-19 AND THE FRENCH DEFENCE
TECHNOLOGICAL AND INDUSTRIAL BASE:
Impact and Policy Responses**

By

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June 2020

*The views expressed here are solely those of the author.
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Comment

ABSTRACT

France suffered an almost total lockdown from 14 March 2020 to 11 May 2020, which then became partial until 2 June 2020. The arms industry was not requisitioned, but activity was not stopped either. A level of 75% of activity was maintained while the Ministry of Defence defined its priority needs during this period of COVID-19 notably towards the armed forces in military operations abroad. The most significant slowdown in activity has been observed in the aeronautical supply chain, which is very dependent on civil orders. There has also been a shortage of supply due to the closure of borders, hampering the progress of cooperative programmes or simply slowing down manufacturing when part of the components come from abroad. Exports have also suffered from this border closure. The measures taken by the French authorities were aimed above all at supporting the companies' cash flow, specifically the SMEs, certain measures being specific to the Ministry of Defence. A toll-free number has been set up for defence SMEs to let them report any difficulties they may have. The Ministry has above all initiated a screening process for the 1,500 companies considered to be strategic, particularly for SMEs when they hold rare skills. It is undoubtedly these companies which will be targeted in priority by the recovery plan in favour of the aeronautical and defence sector announced on 9 June 2020. This plan notably provides for the establishment of an investment fund, the amount of which may reach € 1 billion to help SMEs in the aeronautics and defence sector (many of them being dual). Finally, the Ministry of Defence anticipated orders for € 600 million.

Keywords: *France, DTIB, COVID-19, Lockdown, SME's, Supply chain, Arms export, Recovery plan, Control of foreign investment, Military spending*

THE STATUS OF THE FRENCH DTIB DURING THE COVID-19 PERIOD

In France, lockdown enforcement was decided by a decree of 14 March 2020. This lockdown ended on 11 May with some remaining restrictions, notably on the freedom of movement. The decree of 14 March ordered the closure of certain places sheltering activities likely to gather large amounts of people such as museums, cinemas, restaurants and bars¹. This list was reviewed in the margin of the article 8 of the decree of 23 March 2020, in application of a law passed by the parliament relating to the state of health emergency².

French regulations to counter COVID-19 have not provided for the maintenance or the cessation of activity of French defence companies. The metalworkers' confederation CGT seized the administrative judge in order to enjoin the government to draw up a list, by sector of activity, of the metalworking companies essential to the nation in order to obtain the closure of non-essential companies. If the administrative judge, the *Conseil d'Etat*, had acted on CGT's request, defence companies could benefit from a specific status but he did not take such a position. Yet, the Conseil d'Etat ruled that "the government has chosen [...] not to prohibit the continuation of the activity of companies, particularly metallurgy, other than those listed in article 8 of the decree of 23 March 23 [...] and that this choice is motivated by the analysis of the fact that total lockdown is not necessary to fight the epidemic".³

It was therefore up to defence companies to organise themselves so that they could continue their activity while putting in place protection rules vis-à-vis their employees. If there has been no closure of defence companies, no requisition has been decided. However, companies and French defence industrial association, Nexter on 16 March 2020 and GICAT on 19 March 2020, called for the continuity of defence industrial activities. The

¹ "Arrêté du 14 mars 2020 portant diverses mesures relatives à la lutte contre la propagation du virus covid-19", <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000041722917&categorieLien=id>

² "Décret n° 2020-293 du 23 mars 2020 prescrivant les mesures générales nécessaires pour faire face à l'épidémie de covid-19 dans le cadre de l'état d'urgence sanitaire", <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000041746694&categorieLien=id>

³ "Ordonnance du conseil d'Etat statuant en référé", Fédération des travailleurs de la métallurgie CGT, 18 April 2020, <https://www.conseil-etat.fr/ressources/decisions-contentieuses/dernieres-decisions-importantes/conseil-d-etat-18-avril-fermeture-des-entreprises-de-la-metallurgie>

Minister of defence, Florence Parly, supported this approach by sending a letter to CEOs in which she encouraged them to continue their activities⁴.

As a result, the Defence Ministry's Directorate General of Armaments (DGA) "tried to determine which essential weapons activities were to continue despite the crisis"⁵. Priority was then given to "activities relating to deterrence, domestic and abroad operations, operations relating to the permanent security posture (aeronautical or maritime), and actions in support of maintaining operational conditions so that our armies can continue all of their activities". Prioritisation was discussed through a dialogue framework with defence companies. One of these companies said that it had a business continuity plan providing for specific resilience linked to essential support activities for the forces deployed in operations abroad⁶. Depending on their involvement in the maintenance and support of the equipment of the armed forces deployed in military operations abroad, it was more or less the same thing for other companies.

THE IMPACT OF COVID-19 ON THE FRENCH DTIB

A few defence companies were closed the first week of the lockdown between 14 and 21 March 2020, so that they could adapt their premises to the exercise of a necessarily reduced activity in satisfactory safety conditions, and the activity resumed only gradually by the end of March 2020. Nevertheless, the Brest naval shipyard remained active during the stop-over of the aircraft carrier Charles de Gaulle from 13 to 16 March 2020 in accordance with the MoD priorities in terms of maintenance activities. National Armament Director Joel Barre estimates the activity of the DTIB at 75% during the lockdown period⁷. For prime contractors, teleworking has been used as much as possible in the defence industry, which was allowed because the design offices play a very important role in this industry. Therefore, 46% of the employees were working at home while 30% were on site⁸. As far as Airbus is concerned, the company announced that it

⁴ "Audition de présidents de groupements du secteur de l'armement, Commission de la défense nationale et des forces armées", Assemblée nationale, 23 April 2020, [http://www2.assemblee-nationale.fr/15/commissions-permanentes/commission-de-la-defense/\(block\)/71076](http://www2.assemblee-nationale.fr/15/commissions-permanentes/commission-de-la-defense/(block)/71076)

⁵ "Audition Joel Barre, Délégué général pour l'armement", Commission de la défense nationale et des forces armées, Assemblée nationale, 29 April 2020

⁶ Interview with a defence company

⁷ "Audition Joel Barre, Délégué général pour l'armement", Commission de la défense nationale et des forces armées, Assemblée nationale, 29 April 2020

⁸ Interview with a representant of a prime contractor, may 2020

had put 3,000 of its 48,000 employees in partial unemployment in France, 6% of its workforce. The unemployment rate was certainly higher in the supply chain as the SMEs have more manufacturing tasks and as priority was given to deterrence and support of military operations and less to new manufacturing. According to Joel Barre, the return to normal activity in defence industry is planned between May and the end of July.

One of the main difficulties came from the supply chain SMES: 60% of companies were stopped or very disturbed at the start of the lockdown, which means that globally the level of activity was lower in the supply chain than for the prime contractor since their activity has a more dual nature⁹. SMEs have proven to be more fragile economically, particularly in terms of cash flow, and the dual nature of these companies, particularly in the aeronautical field, has accentuated this weakening because the civil activity has been more affected than the military one. In this situation, the pure players prime contractors played a positive role to mitigate the slowdown of the activity of dual SMEs. We also noted that the sharp slowdown in cross-border trade has affected European cooperative programmes and export in significant proportions. This slowdown was caused by the partial closure of European borders, but also by the slowdown in export licensing since the administration, the DGA and customs operated slower themselves which resulted in the inability to deliver products to customers. It appeared that during a pandemic, the principle of security of supply between European countries no longer existed. This is one of the lessons learned from COVID-19. As far as exports are concerned, the DGA had to support French companies who invoked the force majeure clause included in their export contracts by sending 120 letters to foreign customers with which the DGA had strategic partnerships in order to support the actions taken by these companies to justify the delay in deliveries. In any case priority was given to the French customer over the foreign one.

As for armament programmes that were being carried out, Joel Barre noted at the end of April 2020 that 80% of armament programmes had a calendar lag of 1 to 2 months, with the aim of reducing this delay by the end of 2021. Domestic orders were placed with delay too since the Ministry of defence itself suffered from the effects of the lockdown due to COVID-19.

⁹ Interview with a representant of a prime contractor

The impact of COVID-19 on the defence industry has been significant. Airbus, whose main activity in civil aeronautics was hit hard, announced a net loss of € 481 million in the first quarter of 2020 and a 15,2% drop in turnover to reach € 10,6 billion in the first quarter of 2020 compared to € 12.5 billion in the first quarter of 2019.

As a result, a hiring freeze was decided as well as a waiver of the dividend payment for 2019, a suspension of voluntary funding of supplementary pensions, a gradual € 700 million reduction in capital expenditure to reach € 1.9 billion in 2020, and the suspension of non-essential activities.

SUPPORT MEASURES FOR THE FRENCH DTIB DURING COVID-19

Among the measures taken by the French authorities to support defence companies, a distinction must be made between those which applied to all enterprises, whatever the sector of activity, and those directed specifically to the defence sector.

For the industrial sector in general, there were two main kinds of measures:

- The possibility to put employees on partial unemployment, thus guaranteeing them 70% of their income. The main goal of this measure was to avoid having to lay off staff due to a cessation of activity;
- The guarantee by the state of bank loans for an amount representing up to 3 months of turnover. The aim was to enable SMEs to cope with cash flow difficulties which appeared particularly vital to them.

The Ministry of defence also implemented a number of specific measures.

The first measures aim to preserve the cash flow of businesses, especially SMEs. Therefore, measures to accelerate the payment of invoices have been taken. In particular, to help the SMEs, all invoices of less than € 5,000 have been processed according to an accelerated procedure and not according to the maximum contractual deadline of 30 days. The prime contractors were asked to proceed in the same way with their subcontractors, Nexter even committed to pay them within 5 days¹⁰.

¹⁰ "Audition de Mme Florence Parly, Ministre des armées, et de Mme Geneviève Darrieussecq, Secrétaire d'État auprès de la Ministre des armées", Commission de la défense et des affaires étrangères, Sénat, 10 April 2020

In addition to accelerated payments to companies, a deadline extension was granted for deliveries, thus preventing companies from paying delay penalties.

The DGA set up a support service for SMEs and mid-caps, whether they are subcontractors of prime contractors or direct suppliers to the Ministry of Defence¹¹. Companies were thus able to submit requests related to their situation. As soon as the lockdown ended, the DGA also set up a local monitoring system of SMEs and mid-caps by calling on the resources of the DGA in the various regions, with on-site company visits to identify the problems they face¹².

Finally, one of the possible expected impacts is the weakening of the French DTIB, particularly the SMEs throughout the supply chain faced with takeover attempts which could be hostile. In France, the legislation regarding the control of foreign investments makes it possible to trigger a procedure to examine these investments in the defence sector if the acquisition leads to a takeover of the company. The threshold for triggering this control was set at 25% of the voting rights of the shareholders for nationals not members from the European Union. It was decided to reinforce this control in the second half of 2020 by temporarily lowering the control threshold to 10% of the voting rights¹³.

¹¹ Cellule d'appui aux PME dans le cadre de la crise du COVID-19, <https://www.demarches-simplifiees.fr/commencer/minarm-pme-covid19>

¹² "Audition Joel Barre, Délégué général pour l'armement", Commission de la défense nationale et des forces armées, Assemblée nationale, 29 April 2020

¹³ « Coronavirus, la France va renforcer le contrôle des investissements étrangers », les Echos, 29 April 2020, <https://www.lesechos.fr/economie-france/budget-fiscalite/coronavirus-la-france-va-renforcer-le-controle-des-investissements-etrangers-1199081>

| French Industry Support Measures - Overview | |
|---|--|
| - Restriction to lockdown measures for DTIB | - No but the government asked companies to first honour deliveries of goods linked with dissuasion and ongoing operations abroad |
| - Cash flow support measures | - State guaranteed loans with a maximum amount of 3 months of turnover: non-specific to the DTIB - Accelerated invoice payments |
| - Measures to limit the lay-off | - Status of partial unemployment, thus guaranteeing employees 70% of their income: non-specific to DTIB |
| - Suppression of penalties for delay | - Yes |
| - Specific support to SMEs | - Prime contractors instructed by French Ministry of Defence to accelerate cash payment to sub-contractors - Website and toll-free number dedicated to SMEs throughout the defence supply chain - Creation of a € 1 billion investment fund to support the aeronautical supply chain |
| - Anticipated orders to support industry | - 3 air to air refuelling A 330 MMRT - 8 helicopters HM 225 Caracal - 1 light surveillance and intelligence aircraft - Naval surveillance drones |
| - Measures to protect the DTIB from hostile takeovers | - Law lowering the control threshold for foreign investments to 10% of the voting rights of the shareholders during the 2nd semester 2020 |

SCREENING AND RECOVERY PLAN IN FAVOUR OF THE FRENCH DTIB

The lockdown period having ended, the Ministry of Defence launched a recovery plan based on a screening of the French DTIB. During her hearing before the National Assembly's Defence and Armed Forces Committee on 4 June 2020, the Minister of Defence announced the creation of a task force "safeguarding the DTIB"¹⁴. This task force is

¹⁴ Audition de la Ministre des armées Florence Parly, Commission de la défense nationale et des forces armées, Assemblée nationale, 4 juin 2020, <http://www2.assemblee-nationale.fr/15/commissions-permanentes/commission-de-la-defense>

responsible for mapping around 1,500 companies in order to find support solutions. This particularly targets SMEs with unique skills, which are therefore considered as strategic.

Part of this supply chain is in the civilian aeronautical sector and should benefit from the aeronautical sector support plan made public on 9 June 2020. This plan notably includes the creation of an investment fund which should reach € 1 billion. From the summer 2020 on, an investment fund of € 500 million must be available to support SMEs and mid-caps: Airbus, Dassault, Safran and Thales will invest € 200 million, the French government will provide € 200 million through its investment bank Bpifrance, and a fund manager which remains to be designated will invest € 100 million¹⁵. The credits of this fund should be able to offset the risk of short-term failures by improving their equity and to take a majority shareholding if necessary in SMEs in the aeronautical supply chain, most of which have dual (civil and military) activities.

Secondly, the Ministry of defence participates in the recovery plan in the aeronautical sector thanks to the anticipation of orders. Therefore, such orders respond to needs already expressed by armed forces but that will be met earlier. These orders amount to € 600 million and relate in particular to three multi-role A330 MRTT air to air refuelling aircrafts, eight H225M Caracal transport helicopters, a light surveillance and intelligence aircraft, and naval surveillance drones¹⁶. France had intervened in an identical manner during the economic crisis of 2008.

Finally, the amount of the 2021 defence budget is normally fixed by the 2019-2025 military programming law, which provides for an increase of 4.3% in 2021. Questioned on the subject the Minister of defence indicated on 4 June 2020 that “we have a clear roadmap which is the military planning law”¹⁷, which would suggest that the defence budget would not be affected by the economic and fiscal consequences of the current health crisis. Prime Minister Edouard Philippe was less affirmative when he was questioned on this subject, but he reaffirmed that defence is still a priority¹⁸. In any case

¹⁵ “Le gouvernement français dévoile un plan de soutien de 15 milliards d’euros au secteur aéronautique”, Challenges, 9 June 2020, https://www.challenges.fr/economie/le-gouvernement-francais-devoile-un-plan-de-soutien-de-15-milliards-d-euros-au-secteur-aeronautique_713820

¹⁶ Plan de soutien à l’aéronautique pour une industrie verte et compétitive, 9 juin 2020, Gouvernement, <https://www.economie.gouv.fr/plan-soutien-aeronautique>

¹⁷ Audition de la Ministre des armées Florence Parly, Commission de la défense nationale et des forces armées, Assemblée nationale, 4 juin 2020, <http://www2.assemblee-nationale.fr/15/commissions-permanentes/commission-de-la-defense>

¹⁸ Edouard Philippe, Questions au Gouvernement, Assemblée nationale, 12 mai 2020, http://videos.assemblee-nationale.fr/video.9036699_5eba9be36e2da.1ere-seance--questions-au-gouvernement-12-mai-2020

the decision on the level of the defence budget 2021 will be taken in July 2020. This programming law must however be updated before the end of 2021.

CONCLUSION

If France has not made a distinction between its arms industry and other industrial sectors regarding the lockdown, it appears that it has taken a number of specific measures to support this industry. In June 2020 they were specifically focused on the aerospace sector, with defence orders taken in order to support this dual eco-system and specifically its supply chain. These measures are part of the French policy towards the defence industry with a very active industrial policy in order to guarantee strategic autonomy and security of supply to the French armed forces. ■

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