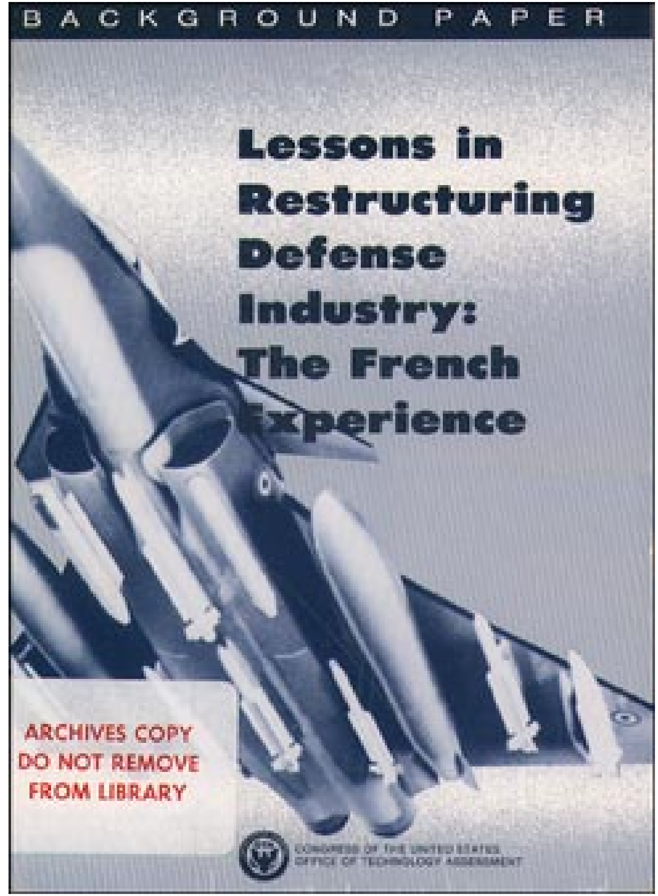
Lessons in Restructuring Defense Industry:
The French Experience

June 1992

OTA-BP-ISC-96
NTIS order #PB92-208172



Recommended Citation:

U.S. Congress, Office of Technology Assessment, *Lessons in Restructuring Defense Industry: The French Experience-Background Paper*, *OTA-BP-ISC-96* (Washington, DC: U.S. Government Printing Office, June 1992).

For sale by the U.S. Government Printing Office
Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328
ISBN 0-16 -037940-7

Foreword

In conducting its assessment of strategies for the transition to a smaller but still robust U.S. defense-industrial base, the Office of Technology Assessment (OTA) has considered how other Western countries with sizable defense industries are responding to the new security and fiscal environment. France is arguably the foreign case most relevant to U.S. policy. Possessing the world's third largest defense industry after the United States and the former Soviet Union, France has global security interests and is the only European power capable of developing the Ml range of major weapon systems, including fighter aircraft, main battle tanks, nuclear-powered submarines, aircraft carriers, nuclear weapons, and a panoply of missiles.

This background paper first describes the structure and management of the French defense-industrial base and then reviews a variety of strategies the French Government and industry are pursuing to rationalize the base, while preserving key technological assets and strengthening the competitive position of French defense contractors in world markets. France has faced the problem of overcapacity since the late 1980s and is already implementing some of the policy options for the United States in the 1990s discussed in the OTA report *Redesigning Defense. These* strategies include consolidation, diversification into the civil sector, shifting emphasis from procurement to R&D, integrating civil and military production, and international collaboration. While not all French efforts have been successful, and some actions taken by the French Government would not be appropriate to the U.S. economic or political context, the French experience provides interesting and useful lessons for the United States in planning its own restructuring efforts.

The French Government engages in long-term planning and various forms Of administrative guidance to ensure the financial and technological health of the defense industry. In contrast, the U.S. Department of Defense relies primarily on market mechanisms rather than government intervention. As the U.S. defense base shrinks, however, this traditional laissez-faire approach runs the risk that firms that are the sole source for key components or that possess critical design and manufacturing skills may go out of business or leave the defense market. The French approach of devising coherent policies to preserve the core competencies of the defense industry is therefore worthy of consideration by U.S. policymakers.

In researching this background paper, OTA conducted interviews with several French Government and industry officials, whose names are listed in the appendix and whose contributions are gratefully acknowledged. As with all OTA studies, however, the content of this background paper is the sole responsibility of the Office of Technology Assessment and does not necessarily represent the views of our advisers and reviewers.

John H Gibbons

JOHN H. GIBBONS
Director

Lessons in Restructuring Defense Industry: The French Experience Advisory Panel

Walter B. Slocombe, *Chair*
Caplin & Drysdale Chartered

Richard Bohlen
Consultant

Robert Calaway
President
Resource Management International, Inc.

Gordon Corlew
Vice President, Engineering and Production
AIL Systems Inc.

Jacques S. Gansler
Senior Vice President
TASC

Julius Harwood
Consultant

William W. Kaufmann
Professor
John F. Kennedy School of Government
Harvard University

Gen. P.X. Kelley
USMC (Ret.)

James L. Koontz
President & CEO
Kingsbury Machine Tool Corp.

Thomas L. McNaugher
Senior Fellow
The Brookings Institution

William McNeill
Professor Emeritus
Department of History
University of Chicago

John Mearsheimer
chairman
Department of Political Science
University of Chicago

William J. Perry
Chairman & CEO
Technology, Strategies and Alliances

Donald W. Putnam
Corporate Director
Contracts and Technical Analysis
General Dynamics Corp.

Jack Ruina
Professor of Electrical Engineering
Center for International Studies
Massachusetts Institute of Technology

Howard D. Samuel
President
Industrial Union Department AFL-CIO

Wickham Skinner
Professor Emeritus
Business Admi̇̇ns“stration
Harvard University

Gen. William Y. Smith
USAF (Ret.)

James Solberg
Professor
Engineering Research Center
Purdue University

Leonard Sullivan
Consultant
System Planning Corp.

Adm. Harry Train
USN (Ret.)
Division Manager
Strategic Research and Management Services Division
Science Application International Corp.

Gen. John W. Vessey, Jr.
USA (Ret.)

Albert Wheelon
Consultant

NOTE: OTA appreciates and is grateful for the valuable assistance and thoughtful critiques provided by the advisory panel members. The panel does not, however, necessarily approve, disapprove, or endorse this report. OTA assumes full responsibility for the report and the accuracy of its contents.

OTA Project Staff—Lessons in Restructuring Defense Industry: The French Experience

Lionel S. Johns, *Assistant Director, OTA*
Energy, Materials, and International Security Division

Alan Shaw, *International Security and Commerce Program Manager*

Jack H. Nunn, *Project Director*

Ivan Oelrich

Jonathan B. Tucker

Christopher Waychoff

Administrative Staff

Jacqueline Robinson-Boykin, *Office Administrator*

Louise Staley, *Administrative Secretary*

Contractor

Madeline Gross

Outside Reviewers

Philippe Caduc
Charge` de Mission
Secretariat Generale de la Defense Nationale

James Compton
Office of the Under Secretary of Defense for Acquisition
Department of Defense

Henri Conze
President
Henri Conze International

Murielle Delaporte
President
Defi Consultants

Jean-Francois Delpech
Director
CREST/Ecole Polytechnique

Ellen L. Frost
Senior Fellow
Institute for International Economics

Edward A. Kolodziej
Dept. of Political Science
University of Illinois

Col. Philippe Labernede
Defense Cooperation Attache
Embassy of France

Robbin F. Laird
Director, Soviet and European Affairs
Institute for Defense Analyses

Andrew Moravcsik
Dept. of Government
Harvard University

David S. Yost
Dept. of National Security Affairs
Naval Postgraduate School