



MINISTÈRE DE LA DÉFENSE

PRESS KIT

4 December 2007

Report to the French Parliament regarding defence equipments exports in 2006

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Foreword by the Minister of Defence

This eighth report on the French armament exports addresses year 2006 and is in line with the transparency which our country has been committed to for several years. It describes to the representation of the People and of the civil society our policy about exportation of military equipment, in which the Ministry of Defence is chiefly involved, in the fields of control and support.

The control and support of exports are two faces of a single policy. With the unceasing increase of international competition, I have decided that one of the Ministry's priorities for the years to come will be to support the exports of defence and security equipment. Hence, in keeping with our policy of control and struggle against proliferation, several measures have recently been taken.

In terms of control, some of the suggestions included in the report set up under MP Yves Fromion, such as the single prior approval or the delivery of global licenses for the least sensitive materials, have been implemented since June 2007. I wanted this approach to be further continued, and asked Defence manufacturers to join in, in order to identify other ways to reinforce our companies' responsiveness on international markets.

In terms of support, measures have been agreed, such as the implementation of the interdepartmental commission for the support of defence and security exports. This authority is in charge of boosting public support to French defence industry exports. A strategic programme for the support of Defence exports should also be proposed to the Prime Minister by the end of the year.

I did wish a specific effort to be devoted to SMEs and SMBs. Joint working groups have been set up to improve direct access to our public markets, upstream programmes and relationships between SMEs and major contractors.

More than ever, defence exports are necessary to consolidate our country's industrial and technological base, as well as its workforce. This is the reason why I shall watch over the dynamism of our support network and the quality of our export control system.

Hervé MORIN

Introduction: an overview of year 2006

The report to the Parliament on the French exports aims at putting forth the basis of France's export policy, its terms and control procedures, the characteristics of the world armament market and, finally, at providing figures pertaining to exports during the year. That report, the first of which addressed 1998, was improved release after release, highlighting France's commitment to transparency in terms of armament transfer.

Publishing this eighth report to the Parliament means keeping France's high level of transparency in terms of armament exports, which is a duty that we have undertaken several years ago towards French deputation, the civil society and the international community, i.e., first and foremost, our European partners.

This report is divided in three main chapters:

- Armament exports' control policy
- Armament exports' support policy
- Detailed results of French armament exports in 2006.

In June 2006, MP Yves Fromion issued his report aiming at beefing up the defence and security exports' public support system. After a full examination, his main recommendations about the evolution of the control system and the enhancement of State support to exports were adopted and began to be implemented in June 2007.

In the field of exports control, they led to a gradual evolution of our procedures about war materials and similar equipment, with the development, for instance, of global licences for the least sensitive exports. Year 2006 also witnessed the deployment of the new interdepartmental information system for exports control (SIEX). It is meant to ease the prior approval and export licence decisions, to improve the quality of instruction procedures and to contribute to reduce the time dedicated to processing.

In the field of State support to exports, the examination, in 2006, of the measures put forth led to setting up, in 2007, the interdepartmental commission for defence and security exports (CIEDES) and to designing a national strategic outline for defence exports (PNSED).

In 2006, French armament export orders amounted to 5.74 billion Euros, and deliveries were up to 4.03 billion Euros, in line with the previous year and with the French long-term average tendencies, typical of the armament market.

The unabridged version of the report to the Parliament on French armament exports can be downloaded in its French version at www.defense.gouv.fr.

1. The control policy for defence equipments exports

1.1. General principles and France's international commitments

At the national level, the war material prohibition principle applies: their holding is prohibited for private individuals, except express licenses delivered under specific conditions. Their trading and manufacturing are subject to a prior licence, restricted in time, granted by the MoD.

At the international level, it is France's constant concern to preserve stability. France's relations with its partner States, especially within the field of armament, are consistent with the UN Charter (article 51) that grants any member State the right to individual or collective self-defence, defining each State's rights and duties to look after to its own security. As a permanent member of the UN Security Council, keen on armament control, France sustains all disarmament efforts, with a view to fight against the proliferation of small arms and light weapons (SALW), weapons of mass destruction and associated carriers. Working for the constant improvement of armament control tools, France intends to beef up regional and international security and stability, thanks to an increased openness and responsibility in terms of the transfer of conventional weapons and dual-use items and technologies, thus preventing destabilizing accumulation.

French policy thus fits within a global context of armament control and takes into account internal conflict situations and serious hindrances to the Rights of Man, external conflict situations and the struggle against terrorism. It also abides by its international commitments, especially by the terms of the EU Code of Conduct on Arms Control which, since 1998, stands as an operational disposition based upon common criteria.

The eight criteria of the EU Code of Conduct are the following:

- The respect for the international commitments of Member States
- the respect of human rights in the end-user country
- The internal situation in the end-user country, especially in case of tensions or armed conflicts
- the preservation of regional peace, security and stability
- the national security of the Member States and of their allied countries
- the behaviour of the buyer country with regard to the international community, especially its attitude to terrorism, the nature of its alliances and respect for international law
- the risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions
- the compatibility of the arms exports with the technical and economic capacity of the end-user country, taking into account that the legitimate needs of security and defence should be fulfilled with the minimum investment of human and economic resources.

Abiding by its international commitments to transparency in the field of armament sales, France declares its yearly transfers in the UN Register, within the Wassenaar Arrangement and the EU Code of Conduct.

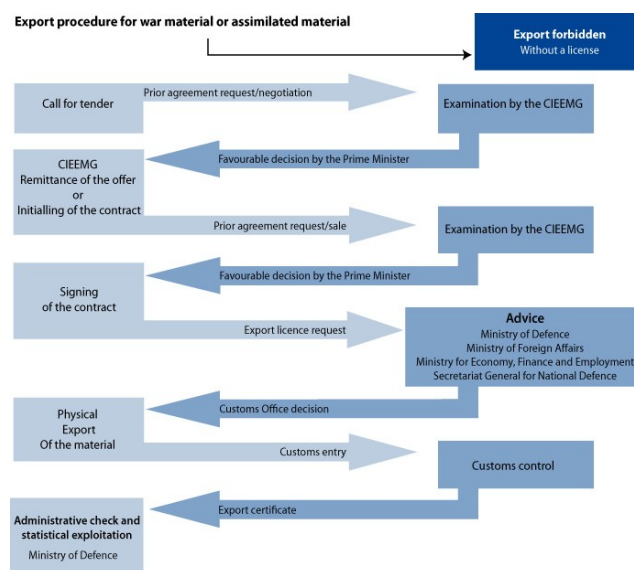
France supports the *Arms Trade Treaty* initiative currently being discussed at the UNO that asks for a "global and legally abiding device", the main aim of which will be to bring the States to adopt responsible, open and adequate rules for the transfer of conventional weapons. It applies a responsible and restricting policy which abides by the commitments taken at the regional and international levels.

France has taken an active part in outlining a guide of the best practices to struggle against destabilizing transfers of small arms and light weapons by air. It thus intends to fight the hijacking of these weapons towards combat zones or countries under embargo, as well as to oppose air transportation techniques aiming at dodging existing controls. This goal is mentioned in the conclusions of the 2006 and 2007 G8 summits and has led to the launch of consultations within the framework of the EU, the OSCE and the Wassenaar Arrangement.

Besides, European cooperation in the field of armament was recently given new impetus, driven by the willingness of all governments to favour the building of a strong European defence industry. This willingness first realized with the signing, by six MoDs, on 27 July 2000, of a Letter of Intent¹ pertaining to the measures aimed at smoothing the restructuring and running the European defence industry. This agreement equals a treaty.

1.2. A rigorous and efficient control disposition

The control disposition implemented by the 18 April 1939 decree law, the terms of which were repeated in the Code of Defence, deals with all steps of the trade of war material, from manufacturing to export. However, the true dimension of control was given by the 16 July 1955 55-965 decree, for the reorganization of the Interdepartmental commission for the study of war material exports (CIEEMG). This text set the composition of the CIEEMG, under the Prime Minister. Its presidency is incumbent to the Secretary General for National Defence (SGDN). Three ministries (Foreign and European affairs, Defence and Finance) are permanent members and have a vote. Depending upon the topics on the agenda, other ministries may voice their opinion. The decree entrusts the commission with a general assignment to reflect upon the direction of exports, and with considering each file as a specific case. Each one is subject to an advice destined to fuel the Prime minister's decision.



¹ France, Germany, Italy, United Kingdom, Spain, Sweden.

The French disposition for the control of armament, dual-use items, and intermediation operations is thoroughly described in the unabridged version of the report which is available in French on the web.

1.3. The evolution of the number of applications considered

The amount of prior approval applications submitted to the administration has undergone some change during the last decade, due to the mutation of industrial structures and the nature of exchanges on the one hand, and the adjustment of administrative procedures on the other. The impact of cancelling prior approvals for prospect operations was limited from 1999, confronted to a strong overall increase of applications. The number of considered prior approval applications – save adjourned files from the previous months – thus underwent a 45% increase from 2000 to 2006, culminating at some 9,000 applications in 2004 – i.e. over 800 applications/month, for the eleven months when the CIEEMG actually sits. This can be explained first by the establishment of such great transnational societies as EADS and Thales, which keep up an industrial cooperation among their various units and have an increasingly open scope on the export. SMEs, newest in the trade, are however the ones that took the bigger part in the increase. With the liberalization of exchanges, they are now able to act as subcontractors for foreign full-line makers. They usually work in the field of detail or spare parts, such as bearings, connectors, batteries, etc. Some of this equipment may, like war material, be subject to export control procedures as “assimilated material”.

After a decrease in 2005, when sales level approvals validity turned to two years, the amount of prior approvals increased over 30% and then came back down to 8,000, that is, about 730 cases a month. This new acceleration seems mainly caused by the renewal of sales approvals delivered two years before. PAs for sales, compared to PAs for negotiating are also in full boom and stand for about 75% of the whole figure. The development of prior global approvals (24 in 2006, that is a 50% increased compared to 2005) should participate in reducing the monthly amount of applications – especially for not very sensitive operations.

1.4. Denials and associated criteria

France notified 85 denials in 2006. The evolution of French denials since the Code of Conduct came into effect is as follows:

Years	1998	1999	2000	2001	2002	2003	2004	2005	2006
1st semester	-	34	46	63	42	50	48	49	51
2nd semester	16	28	66	64	53	52	32	27	34
Total	16	62	112	127	95	102	80	76	85

Source: Ministry of Foreign and European Affairs

The low level of denials can partly be explained by the fact that manufacturers have gradually taken into account the CIEEMG practice.

In 2006, criteria which were stated to explain the denials were the following (some denials being caused by more than one criterion it explains the fact the total sum of the criteria put forth exceeds the number of denials per year):

Criterion	Subject of the criterion	Number of Denials notified in 2006	Number of Denials notified in 2005
1	Respect of the member States' international commitments	17	20
2	Respect of the Rights of Man in the final destination country	5	1
3	Domestic situation in the final destination country (tensions or armed conflicts)	27	23
4	Safeguard of regional peace, security and stability	20	10
5	Member States' national security, and that of their allied and friendly countries	15	4
6	Behaviour of the purchasing countries towards the international community, namely, regarding terrorism, the nature of its alliances and the respect of the international law	0	1
7	Risk that the equipment be hijacked within the purchasing country, or be re-exported in unwanted conditions	9	9
8	Compatibility of armament exports with the recipient country's technical and economic capability	19	27

Source: Ministry of Foreign and European Affairs

The domestic situation in the final destination country (3rd criterion), the safeguard of regional peace, security and stability (4th criterion), the respect of their international commitments by the member States (1st criterion) and the compatibility of armament exports with the recipient country's technical and economic capability (8th criterion) were the most brought forth. The national security of member States and territories whose external relations are incumbent to a member State, as well as that of friendly and allied countries (5th criterion), as well as the respect of the Rights of Man in the final destination country are criteria which have been used more frequently than in 2005.

1.4.1 Geographic dispatching of denials ²

The geographic dispatching of armament exports denials for 2005 for France is as follows:

Geographic areas	Denials for 2006	Denials for 2005
North Africa	14	1
Sub-Saharan Africa	7	11
North America	0	0
Central America and the Caribbean	0	1
South America	6	4
Central Asia	3	3
North-East Asia	12	14
South-East Asia	10	5
South Asia	16	17
Western Europe	2	0
Central and Eastern Europe	10	13
Middle-East	5	7
Oceania	0	0
Total	85	76

Source: Ministry of Foreign and European Affairs

Denials chiefly addressed South Asia, North Africa, North-East Asia, South-East Asia as well as Central and Eastern Europe.

1.4.2 Denied equipments

Defence equipments, of which export was refused, in 2006 as before, are mainly electronic components (transfer of technology), monitoring equipment (video cameras, radars), intervention equipment (helicopters), as well as ammunition and light weapons.

1.4.3 Consultation with EU partners

In 2006, France started off 8 consultation procedures with its EU partners, and answered 23 consultation requests.

1.5. Adjusting control to new issues

Control policies and terms of action are bound to increasingly take into account how transfers evolve (more and more complex and technological operations), the characteristics of production structures (which implies much subcontracting and exchanges among subsidiary companies of multinational groups), and our main partners' practices. The growing interdependence among control systems is unavoidable for industrial and diplomatic reasons. It is very important to the work with our European partners and participates in the overall efficiency of the struggle against armament proliferation and scattering. This evolution also implies an enhanced responsibility from the companies involved and, in some cases, an updating or their internal control systems.

In that context, a parliamentary report was handed in to the Prime Minister by MP Yves Fromion in July 2006. It includes proposals pertaining to the control and support of French armament exports. These proposals were thoroughly discussed by the administration: besides the approval of a number of technical measures destined to

² Dismissed or duplicated denials are not mentioned in the following figures, due to the regular update of duplicated denials. Figures displayed in these tables are valid from the publishing date of this document.

improve the administrative processing of applications and to reduce the time taken, several major trends were selected for 2007:

- experimenting on the single prior approval, by merging the "negotiating" and "sale" steps;
- experimenting on the development of global authorisation procedures, which either aim at replacing a great number of simple licences related to non sensitive operations, or to sustain industrial cooperation involving regular exchange with close partners;
- Adapted procedures for the control of transfers of technology, know how and sensitive information, via intangible and dematerialized ways: the CIEEMG from now on requires that manufacturers implement data security assurance dispositions (DASI) for operations involving such transfers;
- The updating of the 20 November 1991 decree that sets a list of war material and assimilated material, subject to a special export procedure. The aim is to update the current classification regarding technological evolution while including the common list of EU military equipments.

At the same time, the French administration upgrades the processing of applications by implementing the new export control information system SIEX.

2. Defence equipments exports support policy

Defence equipments exports are a part of French foreign and defence policy. They meet legitimate defence and security requirements from client countries, which usually do not have a national industry able to meet all their demands in that field. It is also consistent with the diplomatic and security relation woven by France with other countries. It participates in maintaining Defence technical and industrial capabilities on French territory. It can also help to improve quality while curbing the costs of national material. State support to exports fits within the framework of French and international regulations, outlined in the previous chapter, and of French contribution to international efforts to struggle against corruption within international trade exchanges. Only negotiating and selling that have been authorized by the government after the completion of the CIEEMG process will be granted support by competent State structures. This legitimacy is earned through a demanding procedure through several ministries which implies, on the other hand, that public authorities can then fully commit themselves to exports support.

Improvement of the State defence exports support disposition

MP Yves Fromion's main recommendations to beef up the public support disposition to defence and security exports have been adopted and are currently being implemented. For exports support, two supplementary measures, considered a priority, were adopted:

- On the one hand, designing a strategic plan for defence exports, given the highest level approval. This plan is aimed at providing the interested State services with a common and interdepartmental view of French industrial prospects likely to be granted public support, and thus set up the framework for coordinating their activity.
- On the other hand, the implementation of an interdepartmental commission for defence and security exports, meant to lead interdepartmental thinking and exchanges over strategic topics related to the support to armament export. It also aims at seeing to the implementation of the strategic plan for the support of defence exports (PNSED). This commission was announced by the Prime Minister on 28 August 2007 and installed on October 2007, 1st.

The relationships between France and its foreign partners in terms of defence equipments are consistent, not only with our international defence relation, but also with the principles of our foreign policy. In abidance with our international commitments, especially in terms of armament control, it is a major component of our foreign policy, as well as our cooperation relations or political-military exchanges which we often refer to as strategic dialogues.

Defence relations with allied and friendly countries cover several dimensions:

a defence diplomacy constituent

a military cooperation constituent
an armament cooperation constituent.

Supplying military equipment to a third State has strong political and diplomatic implications for France. It first requires excellent bilateral relations - especially with those countries willing to get the most advanced equipment from us. Be it under the scope of European cooperation or that of the support of armament exports, relations in the field of armament have, for over 30 years, been a main constituent of bilateral relationships between France and its main allies. Once the equipment is sold, it is incumbent to the French selling company to keep up technical and business relations with the partner country. That is crucial to maintain defence relations. A long-term relationship is involved by cooperation on a development programme, as well as by selling a weapons system. This is all the more imperative, since France is involved alongside the manufacturer towards the purchasing country.

Exports also take part in boosting French industrial activity and thus contribute to the persistence of the defence industrial and technological base, which is a token of national independence. They have a triple impact on the French economy in terms of the competitiveness of defence industries, in reducing equipment unit cost, and on the foreign trade balance.

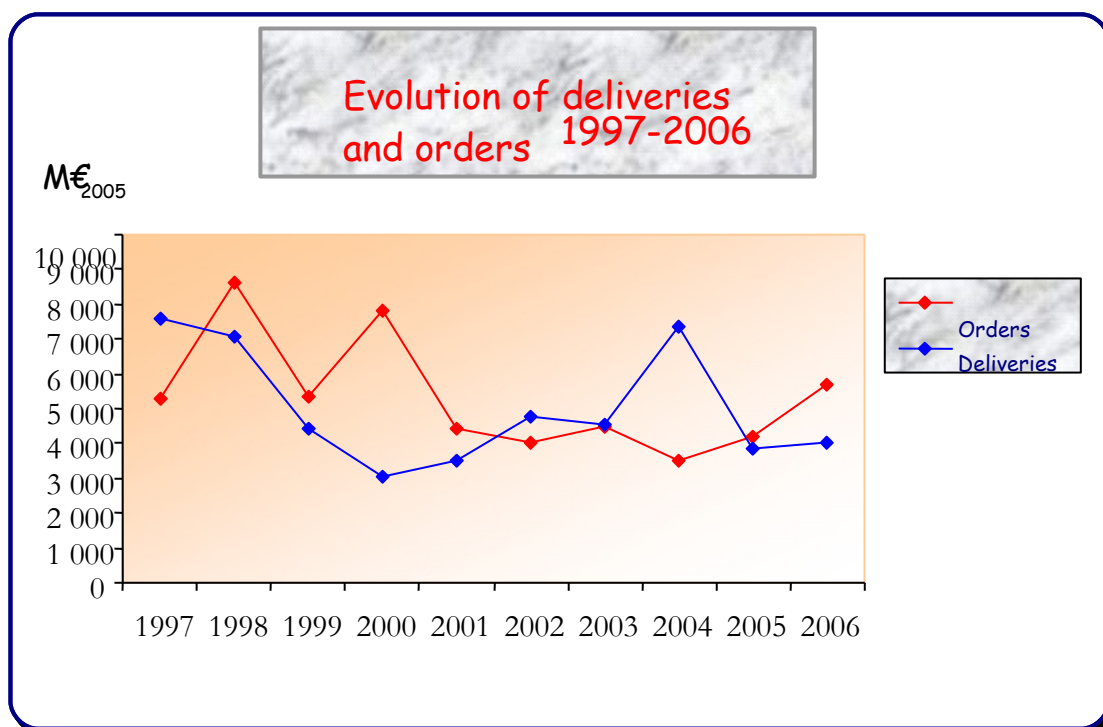
3. Implementation of the French policy for defence equipment exports: detailed results

Since about a decade, the amount of armament transfers has stabilized at an average 55 billion euros. The latest years, however, have witnessed an increase in the world armament market that reached 65 billion euros. Competition is tough and exporting countries are scarce. The market of armament is thus focused on three major suppliers, that is, the United States, the European Union (namely United-Kingdom and France), and Russia. These countries have a significant armament industrial base, and therefore hold the upper segment of first hand equipment – which accounts for the main financial volume. The market of second-hand equipment now tends to weaken. On the other hand, the market of defence materials' renewal and upgrading has increased.

The United States' market share tends to strengthen around 55%, whereas the share held by the EU is about 30%. Since 2000, Russia's results have been increasing. Russia now holds the 3rd position, behind the US and the UK. The progress of its competitive position is the result of a strong political will, of the reorganization of the industrial sector, and of an increase in quality. Other exporters on the market put forth noteworthy ambitions as well. The Israeli equipment manufacturing industry (present for instance in the fields of electronics, UAVs and tactical missiles) is a very serious competitor on many markets, especially in Asia and Eastern Europe. Its market share has stabilized around 5%. During 1996-2006, the four top world exporters (first the United States, then the United Kingdom, Russia and France) accounted for over 85% of the world armament exports. With Germany (which have a strong position in the naval field) and Israel, over 90% of the world trade is covered. China, Italy, Spain, Sweden, Brazil, South Africa and South Korea are the other main exporting countries. New countries such as Pakistan are producers of material of an intermediate technological level, whose low costs meet the demands of countries with limited requirements.

This market could take advantage of equipment renewal cycles – especially for the upper sector of "first hand" equipment for Western exporters – namely that of fighter aircraft. It is however part of a fast-evolving security environment. Technological development and the identification of new threats participate in accelerating material obsolescence. Technological development maintains a great technological gap, especially in the field of aeronautics, where access to the most advanced technology is restricted to a limited number of countries. In order to fill in that gap, importing countries often tend to condition the signing of order contracts to technology transfers. The identification of new threats is a result of a modification in the classification of conflicts. Conflicts in Kosovo, in Afghanistan and Iraq have reshaped staffs' thinking. An increasing trend is witnessed: the implementation of "compromise" forces involving less heavy airland assets (tanks, heavily armed and armoured attack helicopters) and more mobile and airportable equipments but with enhanced protections against threat as IEDs. It is noteworthy that, confronted to terrorist threats from an enemy that becomes increasingly difficult to contain, the concept of Homeland Security is granted greater attention.

3.1 French armament exports in 2006: key figures



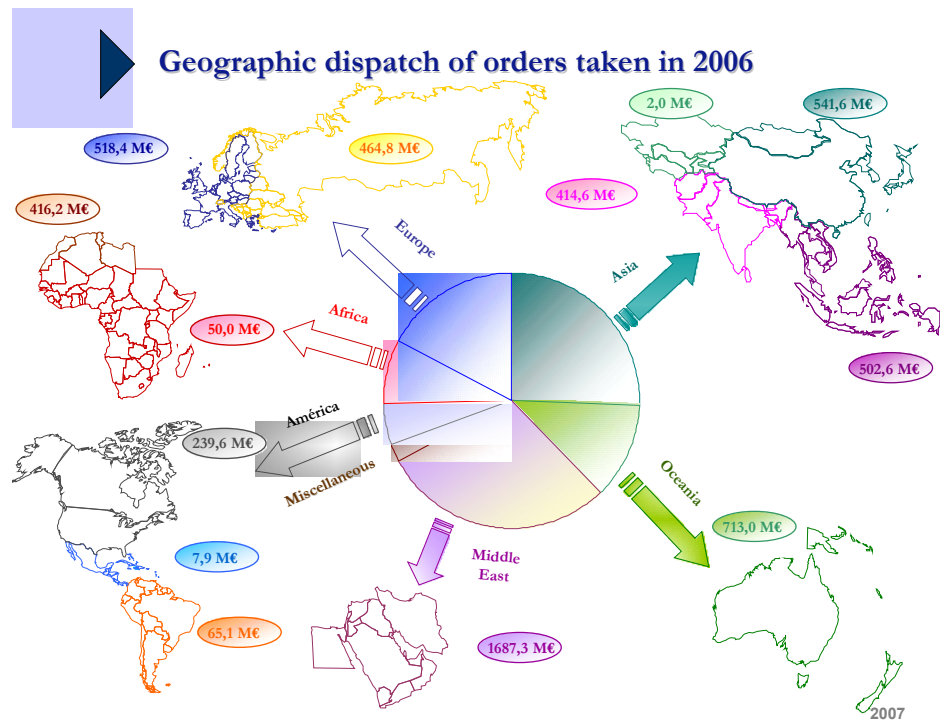
3.2 Registered orders 2006

In 2006, the overall amount of orders taken for export was set to 5.74 billion euros, which is an increase since 2005 (4.1 billion euros). The main registered contracts by France in 2006 (over 150 million euros) addressed:

- missiles for Saudi Arabia and the United Arab Emirates
- NH-90 helicopters for Australia and New Zealand
- helicopters cooperation with South Korea
- artillery gun systems CAESAR in the Middle-East
- helicopters in Bulgaria
- the upgrading of Mirage F1 combat aircraft in Morocco.

Registered orders came from 82 countries. The following graph shows the regional dispatching of the orders registered in 2006³.

³ Geographic areas under study match the ones that were defined in common with France's European partners within the framework of COARM and include all UN associated or member States.



Defence equipment orders to France in 2006 were issued from the main following regions:

- European countries: 17,4%
- Countries of the Middle East: 29%
- Asian countries: 25%.

3.3 Deliveries in 2006

Deliveries of French armament material abroad amounted to 4.03 billion euros in 2006, a figure which has increased since 2005 (3.8 billion euros).

The table below shows the regional dispatch of French armament deliveries in 2006.

