

SYMPOSIUM

Governmental Assistance for Industries and Businesses

The French response

Tokyo, December 16, 2009

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AVOCATS A LA COUR

"The crisis we're going through is not transitory. It is not a mere economic crisis the scars of which are likely to disappear quickly.

This crisis is also a structural crisis. It will durably affect the economy, society and politics. (...)

Because the crisis we are going through is going to change everything, our response must anticipate such change. It must prepare for the future. (...)

Our response to this crisis is massive investment, because it is the best way to support growth and save the jobs of today, and the only way to promote the jobs of tomorrow."

Nicolas Sarkozy, President of the French Republic, December 4, 2008

1. Industry-Related Policies

- A- Precrisis existing Governmental Assistance Programs (E.U and France)
- B- Special Programs devised as a response to the 2008 Crisis
- C- Role of the *Fonds Stratégique d'Investissement* (FSI)

2. Assessment

3. Perspectives

- New French industrial policy to be made public in February 2010
- The “Big Loan”

Governmental Assistance Programs

A – Pre-crisis existing industry - related policies:

At the European level :

The role of the European Investment Bank (EIB)

At the domestic level :

I - Competitiveness clusters

II - Assistance and financial support to French Small and Medium-Sized enterprises (SMEs) through **OSEO**

Pre-crisis European support policies

- The European Investment Bank (EIB) was set up in 1958 by the 6 initial Member States of the then ECC. It is now owned by the 27 EU Member States.
- The EIB raises substantial volumes of funds each year on the capital markets (nearly EUR 60 bn in 2008 / 7.850 bn JPY) which it lends on favourable terms to project furthering EU policy objectives; the EIB operates on a non-profit maximising basis and lends close to the cost of borrowing.
- Projects financed (or guaranteed) by the EIB must satisfy at least one of the six EIB lending objectives:
 - supporting development in the less favoured regions. In 2008, EUR 21 billion (2,750 bn JPY) were devoted to projects located in so called “assisted areas”. The main industry sectors benefiting from loans at subsidized rates were essentially transport and telecommunications infrastructure, urban infrastructure, health and education infrastructure;
 - supporting the capex needs of small and medium-sized enterprises (SMEs);
 - supporting new strategies in the EU environmental policy (e.g urban transport projects, projects aimed at reducing industrial pollution, improving water distribution systems and wastewater treatment);
 - supporting R&D and innovation, promoting information and communication technology;
 - promoting transeuropean networks (transport + energy)
 - funding energy related projects (renewable energy projects, energy efficiency projects...).

Pre-crisis European support policies

■ Historical lending activity:

- Borrowers: public bodies and private enterprises.
- Sectors: sectors of the economy provided the project satisfies at least one of the six lending objectives mentioned above:
- Type of facilities: as a rule, the EIB lends up to 50% of the cost of a project either through direct lending or loans to commercial banks to fund their own facilities by way of so-called “intermediate loans”, i.e. lines granted to banks and financial institutions to be on-lent to SMEs (or to projects of less than EUR 25 M (3 bn 272 M JPY) in all-in cost).

■ Issuance of guarantees:

- The EIB provides guarantees for senior and subordinated debt raised by eligible borrowers. Guarantees are either standard guarantees or debt service guarantees (similar to those offered by monoline insurers).

■ “Anti-crisis” measures:

- In 2008, the EIB increased its overall lending for SMEs by more than 42%. As a result, the EIB loans to SMEs worth EUR 8.1 bn (1,060 bn JPY) last year - more than half of this in the fourth quarter alone.
- The EIB announced that, for 2009 and 2010, it should increase its total lending capacity by some 30% (EUR 15bn / 1,963 bn JPY). Additional global investment value expected should reach around EUR 72bn 9,420 bn JPY). Lending to SMEs should rise by 50% compared to 2008.

I - competitiveness clusters

- A competitiveness cluster is a tool created in July 2005 to bring together in one flexible framework, the Cluster, companies, research centers and educational institutions (the “Cluster’s Stakeholders”) in order to develop synergies and cooperative efforts. Cluster partners may also include local and national authorities.
- Goal/ambition: to favour synergies and innovative joint projects to give their Stakeholders a chance to become national and international leaders in their fields
- Each competitive cluster draws up a five-year plan, reflecting each Stakeholder’s vision. The Government accompanies Cluster development at both local and national levels:
 - through financial support for the best **R&D and innovation platform initiatives** via invitations to compete for innovative projects (EUR 720 M / 94 bn 198 M JPY) spent in 2006-2008) ;
 - through financial support for **collective actions** initiated by Clusters in areas such as transport, aeronautics and aerospace, biotechnology and health, agribusiness and bio-resources, energy and environment...
 - by facilitating transfers of technology, know-how, licenses developed by State controlled research centers.
- 71 competitive clusters were labellised since 2006. In 2007, 5,000 companies (80% of which were SMEs) were cluster Stakeholders.

II – Assistance and financial support to French SMEs

- OSEO was set up in 2005. It is a public entity controlled by the Ministry of Economy and Industry but it has subsidiaries which are commercial corporations, wholly or partially owned by the State.
- Like the Small Business Administration in the US, OSEO's mission is to provide assistance and financial support to French SMEs in the most decisive phases of their life cycle.
- Three functions: supporting innovation, financing investment and cash flow needs alongside private banks and guaranteeing banking loans and equity capital participations.
- OSEO's involvement in a project is to work as a leverage to obtain private financings. According to OSEO, EUR 6 bn / 785 bn JPY of loans and guarantees made/issued by OSEO should – and in fact did - more than EUR 14 bn / 1,831 bn JPY of private financings to 80,000 enterprises per year.
- **Innovation:** In addition to the above, OSEO can make grants and 0% interest rate loans . OSEO can also provide quasi equity ("*prêts participatifs*") to help fund companies developing innovative techniques.
- **Financings and co-financings alongside with commercial banks,** can be short, medium or long term financings but also leasings and financings of receivables (factoring).
- **Guarantees:** up to 70% of the risks assumed by the banks (or by venture capital providers).
- Already quite active before the crisis (EUR 365 M / 47 bn 765 M JPY of grants, EUR 2.8 bn / 366 bn JPY of guarantees and EUR 6.9 bn / 903bn JPY of financings and co-financings in 2007), OSEO is the cornerstone of the special assistance program to SMEs launched in October 2008.

Special programs to overcome the financial crisis

B – New policies/schemes devised as a response to the crisis :

I - Implementation of an economic stimulus package

II - Special assistance program to small and midsize enterprises

III - Special assistance to the automotive sector

IV - Special assistance program to banks

Special programs to overcome the financial crisis: Stimulus Package

I - The Economic Stimulus Package

- On December 4, 2008, President Sarkozy undertook to cause the State to provide EUR 26.5 bn / 3,468 bn JPY of State aid and investment to boost the economy. In January-February 2009, new measures were adopted to supplement the initial plan launched mid-December 2008, increasing the package's envelope to EUR 33 bn / 4,319 bn JPY.
- Two objectives: (i) accelerating the speed of economic recovery and (ii) targeting industries likely to foster the economic growth, globally.
- The package of public expenditures, tax exemptions/reliefs, loans and guarantees, is to have an effect on public "investment expenditures" contributions by State controlled entities and infrastructure financings, equity funding of companies and improvement of their cash position and allow the most exposed categories of the population to maintain their consumption level.
- 75% of the stimulus package was to be injected in the economy in 2009, 25% in 2010.
- Published figures as of November 2009 tend to indicate that the 2009 objective will be reached.
- Total cost for years 2009 and 2010: 40 to 47 billion euros / 5,236 bn JPY and 6,153 bn JPY.
- The difference between the initial forecasted figure of EUR 33 bn and the estimated 40/47 is mainly due to the success of some of its measures, i.e. tax reliefs improving corporate tax payers' cash position, payments made to public authorities/local governments by the FCTVA ("TVA" = Value Added Tax (VAT)), i.e. the Fund to set up to refund VAT paid by such on their investments.

Special programs to overcome the financial crisis: Stimulus Package

1) PUBLIC INVESTMENT EXPENDITURES

- Envelope: EUR 10.5 bn / 1,374 bn JPY for direct investments to be launched in 2009 and 2010; funding shared between the State (EUR 4 bn / 523 bn JPY), State owned companies (EUR 4 bn) and local authorities (EUR 2.5 bn).
- Type of investments: national railroad network infrastructures, energy and postal services, renovation of State owned properties accommodating schools and universities, prisons, courthouses, monuments, etc,...), research and support for local authorities.
- Projects: 1,000 projects were announced in December 2008. As of November 2009, most of them have been launched. 2010 target: 1,200 projects launched.
- In addition to the above EUR 10.5 bn envelop, the guarantee of the State may be granted to PPPs (public-private partnerships). In practice, the State would guaranty up to 80% of the amount of loans granted by commercial banks to corporations signing public-private partnerships.
- Amount of guarantees to be made available: EUR 10 bn / 1,309 bn JPY.

Special programs to overcome the financial crisis: Stimulus Package

2) EQUITY FUNDING OF PRIVATE COMPANIES/RESTORING OF THEIR CASH POSITION

- Envelope: EUR 11,4 bn / 1,492 bn JPY
- Technique: tax reliefs such as:
 - accelerated refunds of the advance payments made by companies on their yearly corporate income tax. By the end of June 2009, 25 667 companies benefited from the measure, 25 322 of which were SMEs, for a total of 6.5 billion euros / 851 bn JPY,
 - immediate repayment of carry backs, without having to wait until the statutory five years period. At the end of June 2009, 2.2 billion euros had been paid to 21 270 companies, of which 20 676 SMEs. The cost of such measure is estimated at 4.5 billion euros / 589 bn JPY,
 - immediate payment in cash of the tax credit for R&D expenditures (i.e. the “Credit Impôt Recherche” which was, instead of a deductible allowance, allowing innovative companies to benefit from a tax credit equal to 30% of some R&D expenses) ; such tax credits were normally to be used over the next 5 years as a credit against taxes then due. 10 882 companies including 9 716 SMEs received 3.4 billion euros / 445 bn JPY of such immediate payments (June 2009 figures),
 - payment monthly rather than quarterly (or annually) of VAT tax credits. 131 967 companies, of which 115 889 mere SMEs received 3.3 billion euros / 432 bn JPY of VAT tax credit payments at the end of June 2009.
- The final cost for 2009-2010 will exceed by far the initial estimate for these measures. The tax component of the recovery plan initially estimated at 11.6 billion euros / 1,518 bn JPY is likely to cost over 15.8 billion euros / 2,068 bn JPY for 2009 alone.

Special programs to overcome the financial crisis: Stimulus Package

Other measures :

- A EUR 1,000 «cash for clunkers » bounty for each purchaser of a new clean/green car provided the purchaser craps his previous car which must be over 10 years old (reduced to 7 or even less by some car manufacturers). Mid November, 500.000 «cash for clunkers » had already been paid to individuals. Cost for 2009: around EUR 520 M / 68 bn JPY to be compared to a projected figure of EUR 220 M / 28,8 bn JPY. This measure, slightly amended will be renewed in 2010.
- Low income housing construction program. In November 2009, 100.000 low income housing units had been launched and prefinanced.
- Setting up the FISo, an “investment” fund, with a budget of EUR 1.3 bn / 170 bn JPY for 2009-2010, the resources of which are in fact to be used to support the purchasing power of low income consumers. For the moment, only EUR 200 M / 26 bn JPY have been spent by the FISo.

Special programs to overcome the financial crisis: SME plan

II – Special assistance program to small and midsize enterprises

- A special support program to SMEs is being implemented since 4 October 2008. This program is inspired by the US Small Business Act.
- October 2008 measures:
 - EUR 22 bn / 2,880 bn JPY was budgeted in October 2008 by the State in order for commercial banks (EUR 17 bn / 2,226 bn JPY) and OSEO (EUR 5 bn / 654 bn JPY) to finance SMEs.
 - OSEO increased by 50% its financing/co-financing capacities and set up a new guarantee fund with a EUR 1bn / 130,9 bn JPY envelope to guaranty short term financings, provided they were converted into mid/long term.
 - For plant and equipment purchased between October 2008 and December 2009, an exemption of the business tax ("*taxe professionnelle*") was decreed. Full exemption of social security contributions for very small companies (i.e. less than 10 salaries) hiring new recruiting was also decreed. Duration of the measure: until June 2010.
 - Reduction of payment delays of all commercial invoices : by statute, the standard term became 60 days maximum instead of 90 days.
- December 2008- February 2009 (stimulus package):
 - An additional EUR 5 bn / 654 bn JPY was made available to OSEO to finance SMEs or to issue guarantees to their lenders.
 - The State counter guaranteed CCR (France's n°2 reinsurance company) for its credit insurance coverage benefiting to SMEs.
- October 2009: The business tax (EUR **36,8** bn / 4,819 bn JPY paid in 2008 by 3.7 M companies, individual tradesmen and professionals) was definitely abandoned.

Special programs to overcome the financial crisis: SME plan

■ Assessment :

➤ 22.000 enterprises supported by OSEO since October 2008

- EUR 3.3 bn / 432 bn JPY of short term loans granted to SMEs with OSEO's guarantee
- EUR 1.2 bn / 157 bn JPY of loans co-financed by commercial banks and OSEO
- EUR 1.1 bn / 144 bn JPY of capex loans granted to SMEs with OSEO's guarantee

Special programs to overcome the financial crisis: Assistance to the automobile sector

III – Special assistance program to the automobile sector

- A special support plan in favour of the automobile sector was launched on February 2009, including:
 - EUR 6,5 bn / 851 bn JPY of quasi equity made available by the State to car and trucks manufacturers (mainly Renault and Peugeot-Citroën) in exchange for commitments to develop clean/green cars/engines.
 - EUR 1 bn / 131 bn JPY of refinancing offered to the finance subsidiaries of car manufacturers.
 - EUR 400 M / 52 bn JPY of R&D support in the form of loans and/or grants for the development of electric cars.
 - EUR 600 M / 78 bn JPY granted to a dedicated public investment fund known as the F.M.E.A operating alongside the FSI (see below). Purpose : participate to the recapitalization of suppliers and subcontractors of car manufacturers.
 - EUR 1 bn of OSEO's guarantees to secure loans granted to suppliers and subcontractors.

Special programs to overcome the financial crisis: Assistance to Banks

IV – Special assistance program to banks

■ **The French Economy Financing Company (SFEF). It is held by the French State (34%) and by French banks.**

- purpose: raise money on the international markets under the State guarantee, and relend such to French banks.

In 2009, the SFEF lent EUR 77 bn / 10,087 bn JPY to banks; average rate of interest: paid by banks in 2009 : 2.7%.

■ **Setting up of the SPPE to hold the State's new participations.**

- Purpose: preserve financial stability and prompt commercial banks to resume lending.
 - Technique: subscription by the State to super-subordinated instruments issued by the banks which constitute core capital.
 - Resources: bonds/notes issued by the SPPE guaranteed by the State.
 - The SPPE was initially created to rescue Dexia, a bank specialised in loans to local governments. The SPPE channel was then used to provide support to all French banks.
- ### ■ As of November 1, 2009, all French banks (but for one notable exception) reimbursed their advances to SPPE. SPPE now holds only around EUR 7 bn / 917 bn JPY of preferential shares and super-subordinated instruments (compared to EUR 20 bn / 2,621 bn JPY two months ago).
- ### ■ The initial caps that the Government had in mind initially for this program, i.e. a global amount of EUR 360 bn / 47,178 bn JPY was in fact never reached (360 = EUR 265 of refinancing by SFEF + EUR 40 bn of recapitalization by SPPE + EUR 55 bn of direct guarantees granted by the State).

The Strategic Investment Fund (FSI)

C – Role of the Strategic Investment Fund (FSI)

“French enterprises need confident and stable investors; not those of the type which have a hidden agenda in the back of their mind, i.e. those buying French enterprises to transfer their business abroad, or investing simply for short swing profit. French “entrepreneurs” need investors interested in what the business will be worth in 5 or 10 years, not in two months.”

Nicolas Sarkozy, November 2008

The Strategic Investment Fund (FSI)

- The FSI was set up on 19 December 2008 and is a part of the global 2008/2009 economic stimulus package.
- The FSI is a commercial company (“société anonyme”) controlled by the State and by the “Caisse des Dépôts et des Consignations”, a State controlled public entity (“*Etablissement Public*”) with an essential role in the financing of the French economy, generally known as “CDC”.
- It is often referred to as the first **French sovereign fund** even though in the past, the Caisse des Dépôts et Consignation already played this role.
- Mission: to invest in strategic companies driving the growth of the French economy and in up-and-coming ground breaking SMEs and encourage co-financing.
- Technique: subscription of equity and quasi-equity; the FSI’s constant policy so far has been to take a **minority stake** in the firms it invests in.
- Budget: **€20bn / 2,620 bn JPY** for 2009 (€14bn / 1,834 bn JPY of assets contributed by its shareholders and €6bn / 786 bn JPY of liquidities)
- In January 2009, as part of the special plan in favor of the automobile industry (see above), the FSI set up the FMEA (fund for modernization of the automobile suppliers), alongside with Renault and Peugeot-Citroën (50/50) to invest in equity in strategic automobile suppliers.
- In October 2009, the FSI launched a new equity financing program for the SMEs using “new” instruments such as convertibles and equity injections not directly by the FSI but by a new fund (FCDE) co-financed by the FSI, banks and insurance companies.
- Last, on October 26, 2009, the FSI announced that it entered into a partnership with 6 of the 10th first international pharmaceutical laboratories to set up a dedicated investment fund of EUR 140 M / 18 bn JPY in the biotechnologies sector.

The Strategic Investment Fund (FSI)

■ Assessment: EUR 1.5 bn / 196 bn JPY should be invested at the end of 2009 (in November 2009, the FSI holds participations in 44 companies). The FSI plans to invest between EUR 2 bn / 262 bn JPY and EUR 3 bn / 393 bn JPY each year.

■ Participations in excess of 5% :

	38.00%		18.80%
	33.30%		14.55%
	26.12%		13.67%
	23.80%		8.00%
	20.00%		7.40%
	19.28%		5.44%

The Strategic Investment Fund (FSI)

■ Other participations :

vivendi

AIR LIQUIDE

**Schneider
Electric**

vallourec

Lagardère

ALTRAn

IMERYS

UBISOFT

**ZODIAC
AEROSPACE**

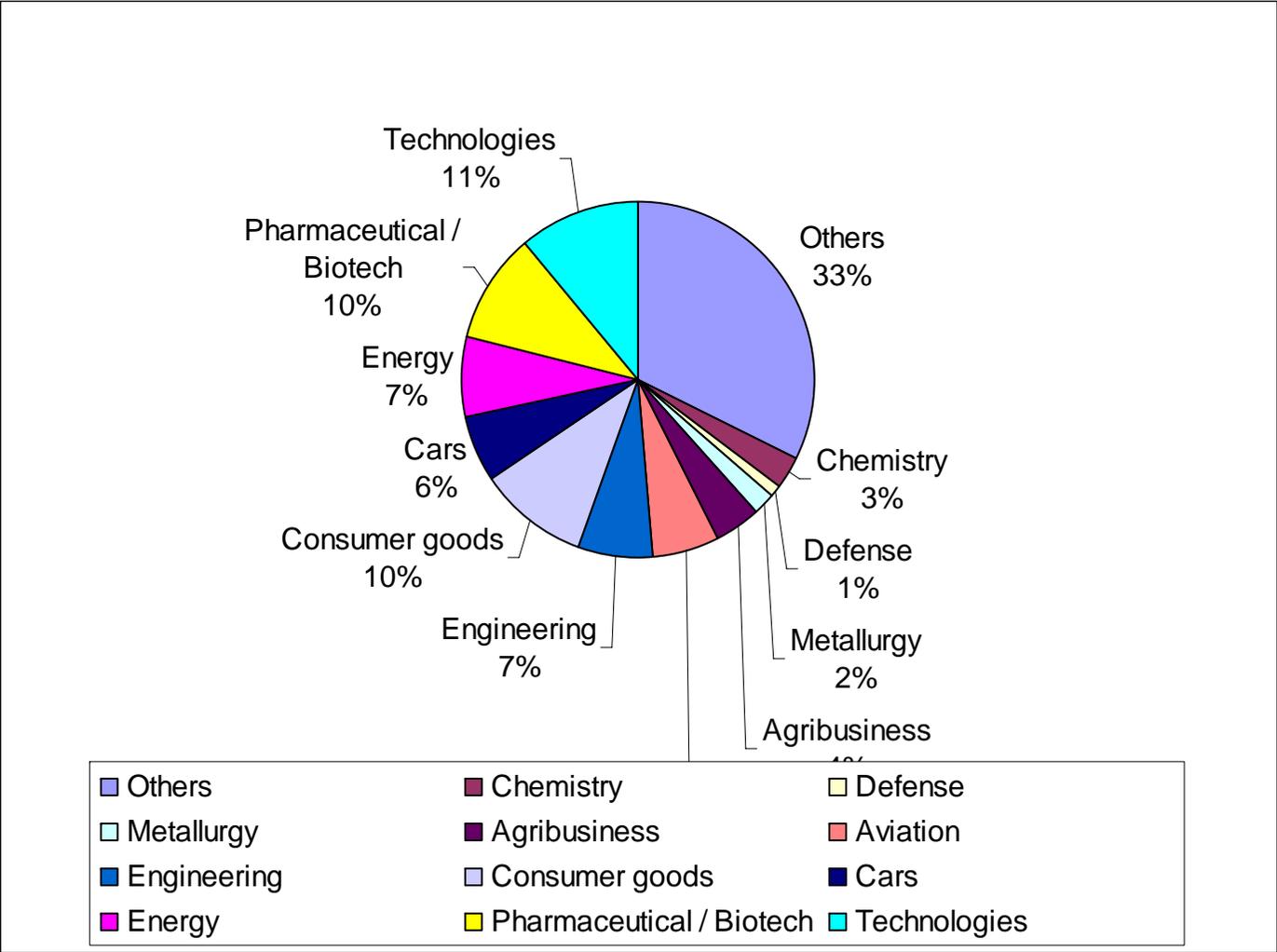
Alcatel-Lucent

sodexo

DANONE

The Strategic Investment Fund (FSI)

Industry Sector



1. Assessment

Not surprisingly the issue of the efficiency of the French support policies soon became a political one

2. Perspectives

A- A new industrial policy to be made public in February 2010

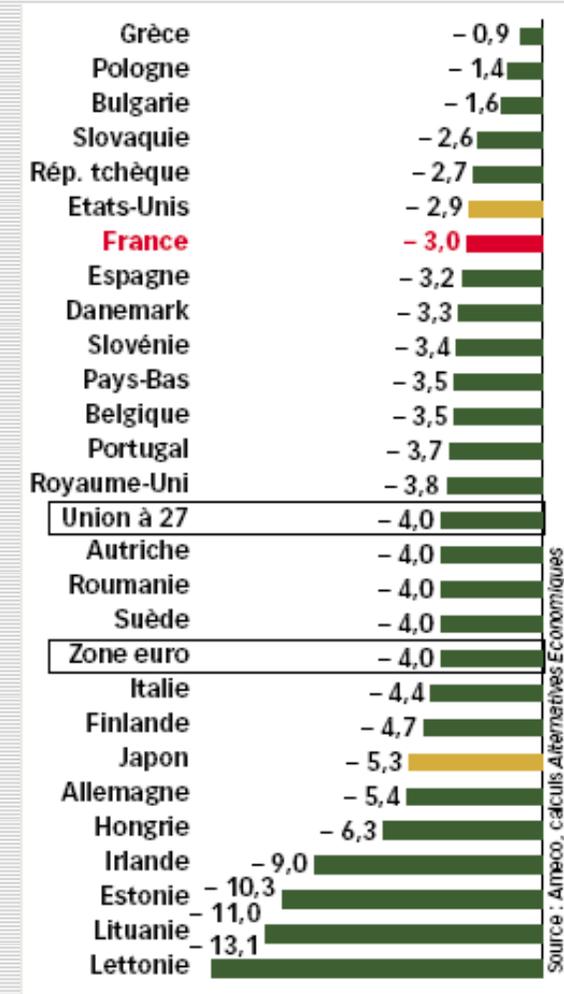
B- The so-called national “Big Loan”

Assessment

Facts :

- France is less affected by the crisis than other countries.
- The so-called “French model”, often criticized overseas as a dated and inefficient mix of State involvement and private enterprise, was, at least to some extent, used as a model during the crisis by other countries (including the US).

Croissance du PIB prévue en 2009, en %



- In 2006, according the latest available report on French support policies, public support to companies amounted globally to EUR 65 bn / 8,518 bn JPY.
- “Traditional” sources of support before the crisis : the State, the 22 regions, the 100 departments, the various administrations, public bodies and agencies through a series of measures the total number of which in 2006 exceeded... 6.000 (six thousand) !!!
- One of the unexpected positive effect of the crisis is to further the acceptance among French politicians and voters of the idea that only global programs, as opposed to hundreds of piecemeal measures (see above figures), have a measurable effect on the economy. As a result, only such global programs are compatible with the need that any measure be temporary and assessable in its results, which need was clearly expressed by French tax payers and relayed by France’s President, Mr. Sarkozy, in his December 4, 2008 above mentioned speech.

A – A new industrial policy to be released/presented in February 2010

On October 15, 2009, the French Ministry of Economy and Industry launched a vast countrywide consultation on French industrial policy through workgroups set up region by region, and at the State's level. Each workgroup is to make proposals to the Government before January 2010.

B – In August 2009, the French government announced, and on December 16, 2009 decided to borrow on the international market an additional EUR 22 bn to finance strategic investments (“le Grand Emprunt”) to which should be added EUR 13 bn coming from the reimbursement by the banks of the advances made to them in 2009 (see above slide 17).

The total, i.e EUR 35 bn, will be used to finance investments complying with identified strategic priorities. Electric cars, wind power and broadband internet are among the industries lining up to receive their share of the so-called “Big Loan” program.

Access to the Loan proceeds will be conditioned on the borrower obtaining contributions for an equal amount from other sources, thus allowing the EUR 22 bn / 2,879 bn JPY envelope to ultimately yield EUR 60 M / 7 bn 861 M JPY worth of new resources.

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