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FRENCH LAND FORCES SUPPORT: LOOKING FOR THE BEST BUSINESS MODELS

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Photo: A French Convoy in Afghanistan
(Credit: French Ministry of Defense, ECPAD,
2008)

IN THE EYE OF THE HURRICANE

LAND FORCES MCO:

LOOKING FOR THE BEST BUSINESS MODELS

This article follows one published in Military Logistics International in the Fall 2008 and entitled “In the Eye of the Hurricane: French Army Support on the Move”. The latter described the broad range of reforms under way within the French Army support organization and structures, while the focus of the following article is to assess the evolution of the new deal in the making between the military and their land forces MCO (“Maintien en condition opérationnelle”, i.e. Maintaining in Operational Conditions) suppliers.

Since the Fall 2008, the context of reforms set up by the Sarkozy government seems to have fast-forwarded both process and outcome with the single-minded concern of promoting innovation, reactivity and efficiency in the way business is being done all across the defense board. Two major events have been crystallizing such an evolution, i.e. the French increased Afghan commitment, with the reintegration within NATO’s Command structure in the background, on the one hand; the economic crisis and the sense of urgency which emerged from it on the other hand. Both have been prompting the Ministry of Defense under Hervé Morin to take action and search for the best available solutions in town as far as acquisition and MCO are concerned. It is especially true for the Army, as it builds its new processes while providing the bulk of deployed forces across the board and being on the forefront of a slightly different type of ground war in Afghanistan for French troops. As General Elrick Irastorza, Chief of staff for the Army (CEMAT, *Chef d'état-major de l'armée de terre*) recalled in front of the parliament in October 2008: “*With 10,250 men deployed in operations, 4,250 in short-term presence and sovereignty missions, 5,750 mobilized on a permanent basis as part of the alert capability (“alerte Guépard”) and about a thousand spread across the national territory [for homeland security purpose] in the framework of the Vigipirate mission, the Army is clearly an operational army and above all an Army widely deployed, as it provides 80% of the personnel deployed in operations.*”

This article assesses why, as General Jean-Tristan Verna in charge of the Army’s DCMAT (*Direction Centrale des Matériels*), put it “*one can now move*” as far as reforming business as usual in the world of ground forces MCO is concerned, and tries to identify the parameters of an ideal Public-Private Partnership between the Army and its ground equipment support contractors.

FAST-FORWARDING CHANGE: “WHY WE CAN MOVE”

“It is the conjunction of two factors, which are allowing us to go ahead on the path of change: first, the pressure for savings initiated as much by the State as by the private sector, which is leading to an optimization and streamlining of resources to avoid redundancies; secondly, the opportunity to start a fresh dialogue on support and maintenance with firms already involved in the renewal and the emergence of a whole new generation of ground equipment”, was noting General Verna a few months ago. Recent events have proven him right, as things are indeed moving rapidly both on the government’s side and the industrial side.

Promises kept: growth in MCO expenditures confirmed

The human cost of the transformation of the French armed forces amounts to the vanishing of 54,000 jobs out of a total of 320,000 civilians and military MoD personnel over the next seven years: the Army alone will have to let go of 24,500 persons, among them 5,100 MCO staff. “*The RGPP (révision générale des politiques publiques) will lead to the reduction of 1,100 civilians and 4,000 military personnel out of a total of 17,000 maintenance specialists*”, recalls Colonel Bienfait, in charge of the MCO Bureau within the Army chief of staff (EMAT, *Etat-major de l’armée de terre*). “*This represents in many ways a second revolution, the first one being the end of the military conscription, in the sense that it is a whole part of the military apparatus which disappears.*” Indeed, proportionally, the *MCO terrestre* is the one sacrificing the most personnel on the altar of change, followed by the *MCO aéronautique* which will loose slightly more jobs (5,245), but out of a larger initial pool of personnel (22,000). Such a bleed might not be done in vain however, if the trend set by the recently adopted 2009-2014 Program Law lasts. Indeed, 100 billion Euros should be devoted to the modernization of military equipment over this period, with a 10% increase in the acquisition budget for 2009, to which one needs to add another 10% increase linked to



the stimulus package adopted by the Sarkozy government at the end of 2008. For MCO alone, 2.9 billion Euros are planned, hence an 8% jump. The promise made by Hervé Morin has indeed been kept, as savings have already been generated and acquisition reforms are under way. The savings already available come from the tightening of the forces linked to the new “operational contract” (both in terms of wages - about 100 million Euros - and the sale of real estate assets estimated at 1.1 billion Euros), as well as from the sale of airwaves (about 600 million Euros). In addition, several initiatives within the Program Law correspond to long-awaited reforms on the part of the military and especially support personnel: overseas deployments (OPEX), traditionally paid afterwards on existing budgets, have been entered as such – for a sum of 510 million Euros for 2009 - within the emergency funding reserve each minister has as part of its overall budget.

In parallel with the general resetting of the French Army forces, the MCO structures foreseen in the “Maintenance 2010” plan will be put in place on January 1st, 2010:

- The SIMMT, *Service interarmées de maintien en condition opérationnelle des matériels terrestres* (Interarms Structure for the Support of Land Systems) will succeed to the DCMAT and will oversee the MCO of land equipment of three services as well as the SEA (*Service des essences des armées*), traditional independent service in charge of fuel supply for the armed forces. Its tasks include the management of spares and full equipment, MCO contracting to the private or the public sector, the supply of spares and equipment to the forces, as well as the preparation of future equipment support systems;
- The SIMTER, *Service de maintenance industrielle terrestre* (Industrial Maintenance Service (Land)), will act as project manager, but will also be in charge of the operational training of the MCO personnel ;
- The COMMT, *Commandement de la maintenance terrestre* (Command for the Maintenance of Land Systems), will oversee the operational side of support done at the level of the forces (within the SMR, *Section de maintenance régimentaire*).

Indeed, a general redistribution of tasks is to occur between the SMR and the sites in charge of industrial support (RMAT, *Régiment du matériel*, and BSMAT, *Base de soutien du matériel*), as the levels of support are being split in two like in the aeronautics sector. The BSMAT also referred to as EMI, *Etablissement de maintenance industriel* (industrial support facility), are being reduced to three major poles of competences: the tanks in Gien, the wheels in Clermont-Ferrand and the arms systems in Nouâtre. To be closed eventually are the BSMAT of Guéret, Neuvy Pailloux, Fourchambault (the site remaining for the outsourced MCO of the VAB, *véhicules de l'avant-blindé*, by Renault Trucks Defense), Saint-Florentin, Langres and Phalsbourg (attached to the SIAé).



PG = Parc de Gestion

To this new organisation must also be added various axis of reforms underway which will affect and influence its implementation, among which are:

- ✓ APIC, *Approvisionnement des pièces communes* (Common Spare Supply), was initiated in 2006 to outsource the supply of some 120,000 consumable spares and should be implemented by 2011 : the idea is to mimic the success of Michelin and its 4-day tire delivery directly to the U.S. armed forces: in France, this corresponds to the general trend to outsource the spare stock management to the MCO provider, hence getting rid of Army depots. Indeed only one site, the “*Magasin d’approvisionnement unique*” of Moulins, will remain under governmental control.
- ✓ SIMu, *Service Interarmées des munitions* (Interarms Munition service), is to be launched by 2012 and will depend on the Joint chief of staff via the newly created EMMP, *Etat-major de montée en puissance* (Surge Chief of Staff).

- ✓ COMIAS, *Commandement interarmées du soutien* (Interarms Support Command), which goes hand to hand with the establishment of interarms defense bases, the BDD (*Bases de défense*), which support will be joint and more centralized: by 2014, there should be around 50 BDD (out of a total of 87) where the current 330 different Army sites will be redeployed.

A definite sense of urgency

In addition to the rapid pace of reforms set up by the RGPP and the White Paper, a new sense of emergency has emerged from the increased French commitment in Afghanistan and the death of French soldiers: the ambush in the Uzbin Valley against the 8th RPIMa (*Régiment parachutiste d'infanterie de marine*) in August 2008, which lead to the worst losses by French troops in one single attack since the Algerian war, has indeed in many ways been a wake-up call to place the protection of the troops at the top of the list of the priorities. As the Army Chief of Staff, General Elrick Irastorza, put it in a speech in front of the National Assembly Defense Commission and the Senate Foreign affairs, Defense and Armed Forces Commission a few months later, “*the death of our ten friends in the Uzbin Valley recalled our citizens and at times our own troops that, behind the always misleading terms of peacekeeping and stabilization missions, lie genuine war operations with all their consequences, and that once one has chosen this profession, one does not pick his missions anymore. (...) After this tough period, the times for doubts and procrastination are over, and action should prevail, while all commanding officers, from generals to corps commanders, have received their roadmap for the conduct of change.*”

The drive has been to find the best short-term solutions to provide the French infantryman with adequate equipment. Traditionally disliked on-the-shelves options, such as the acquisition of Buffalos, are now being implemented as interim solutions, while accelerated acquisition processes have been activated in order to meet Urgent Operational requirements. These UO could actually be doubled to reach 200 millions Euros in 2009: they have included in particular the purchase of 250 IED-resistant PVP (*petit véhicule protégé*) built by Panhard for this fiscal year and next year’s, instead of the initial 150 which were to be delivered.

Such an evolution was paradoxically rendered possible by the occurrence of the financial crisis, which lead to the 26 billion Euro stimulus package President Sarkozy decided in December 2008: it is indeed at the Panhard main site that Hervé Morin chose to reveal the details of his ministry’s share of



PVP (credit: French Army)

the latter, i.e. 2.25 billion Euros, aimed at giving a hand to defense industries, especially in the vehicle, naval and ammunition sector. For 2009 and 2010, this means a total acquisition budget of 1.425 billion Euros, which will be spread till 2015-2020 according to projected delivery schedules: this is actually another first in the history of French acquisitions, as the DGA inaugurated global multiyear contracts which will give industries a long-desired better long-term visibility. The protection of land troops is among the first priorities of the defense stimulus package with in addition of the PVP, the order or more Caesar canons, more Leclercs, more VBCI (*véhicules blindés de combat d'infanterie*), more “Félin” battlegear (*fantassins à équipements et liaisons intégrés*), and of course more MCO for all the above and more spares (38 million Euros are to be dedicated for extra spares). This push is already having an impact on the companies’ latitude to hire this year (60 to 80 extra jobs at Panhard; 50,000 extra hours of work at Nexter; etc...).

This surge can be moved forward, because the industrial fabric is there and because its timing corresponds to the production phase of several major arm programs: the conjunction of investments with the renewal of the equipment of land forces in complete mutation allows the emergence of a new type of dialogue between the public and the private sectors in the field of MCO.

JUMPSTARTING A NEW APPROACH: LOOKING FOR NEW BUSINESS MODELS

If the conditions for the Army to outsource its MRO have been ripe for some time given the shrinking of the fleet and of the armed forces format, they are now being enhanced by the current economic context: because of the past tendency within the MoD to use support as an “adjustment variable”, the EMAT’s thinking in the past years has largely evolved in favour of outsourcing, or rather “partnering” with private players, for rationalizing purpose, as well as paradoxically a greater stability in terms of spares and services availability. Indeed the evolving contracting framework could offer better long-term supply security and guarantees than potentially fluctuating defense allocations in this area. The ratio till recently was about two-third MRO done internally and one-third outsourced: just with the reduction of 5,000 Army support staff, this could translate to about 150 million Euros available for further outsourcing over the years, according to a rough EMAT estimate. General Verna believes that “*a State capability is indispensable in order to limit supply risks and absorb demand peaks*”, but he advocates a new upstream approach to precisely better regulate supply and demand: when dealing with outsourcing, “*one has to ask the following questions: what is the end-goal? What is the best analytical process? What is the best price? What should be the best leverage on each side?* So

that a virtuous circle emerges between public and private partners creating a genuine win-win situation”, he explains.

Panhard, Wärtsilä and RDT: PBL pioneers?

The EMAT and the DCMAT have actually been at the forefront of creating such a dynamic ever since 2006, when the very first major global outsourcing contracts were awarded to Panhard, Wärtsilä, as well as *Renault Trucks Défense* (RTD). Multiyear and performance-based, they dealt with existing equipment and were part of what is referred to as SSPP contracts for Post Production Support System (*Système de soutien post-production*).

- ✓ The first one awarded to Panhard was a ten year-contract and covered the maintenance, repair and spare delivery for 10,000 vehicles (160 Sagaie tanks, 1,600 VBL – véhicules blindés légers -, and 9,500 P4 jeeps). Its value ranged between 14.4 million Euros and 27.4 million on a yearly basis.
- ✓ The second one relates to the MCO of the Leclerc engine V8X 1500 built by the Finnish company Wärtsilä, as well as its electronic auxiliaries: initially for ten years to cover 516 engines for 355 Leclercs, the contract could actually be indefinitely extended through the lifecycle of the latter (i.e. about thirty years), as it paves the way for future tank engine MCO contract. In addition to the maintenance, repair, updates (obsolescence treatment) are included, while on site visits by technicians can be done to limit transfer costs. The remuneration is based on “tank hours”. As for the rest of the Leclerc, Nexter recently obtained its maintenance and spare management in connection with the 12th BSMAT (Gien). The MCO of the Leclerc is a clear priority for 2009 after years of logistical nightmare and the goal set by the RGPP is to reduce its overall maintenance cost by 20%.
- ✓ The third pionnier for innovation MCO contract for land equipment is the Franco-Swedish company Renault Trucks Defense (RTD), which constitutes a true “success story”, as it fully merged both the company’s and the DCMAT’s interests (see below).

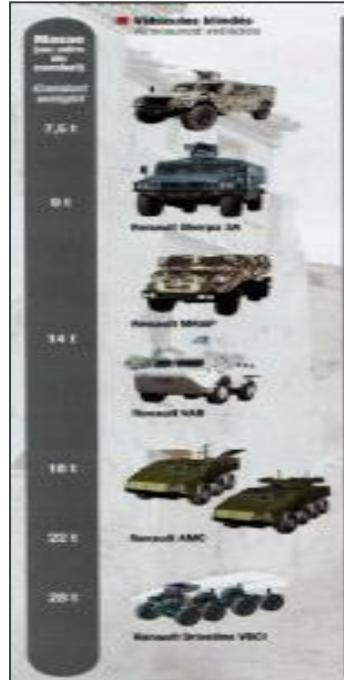
RTD: pionnering PBL in France

The deals struck with the Franco-Swedish company (RTD is a subsidiary of the Volvo group) are considered a genuine success story, because of their innovative characteristics. As described in a DCMAT brief given to MLI, when restructuring became unavoidable on the Army support side, a partnership was first developed between the DCMAT and RTD between 2002 and 2007 to facilitate the progressive transfer of a RTD unit of production on the DCMAT site of Fourchambault (15th BSMAT – *Brigade de soutien des matériels de l'armée de terre*) to maintain the Army's VAB (véhicules de l'avant blindé) fleet, i.e. 3,834 vehicles with twenty five different versions which are in need to be operational till 2021. The site and its skills were hence preserved by becoming the repairing facility for VABs.

A second phase of the contract was concluded last year for eight years (four years renewable, hence ranging from a minimum of 82 million Euros for four years and a maximum of 278 million Euros over eight years) and plans for VABs' global MRO, including the upgrade with Syracuse and SIR systems but also the dismantling of the fleet; a third phase is already planned to have RTD fully manage the VAB's MRO for the total duration of its life-cycle. A second contract concluded in October 2007 completes the partnership DCMAT-RTD: the latter is a ten year contract (one year plus nine conditional yearly renewals) for the maintenance and upgrade of 50% of the overall French Army truck fleet, i.e. 7,535 trucks (1,000 VTL, 805 TRM, 2,530 TRM2000 and 3,200 GBC180).

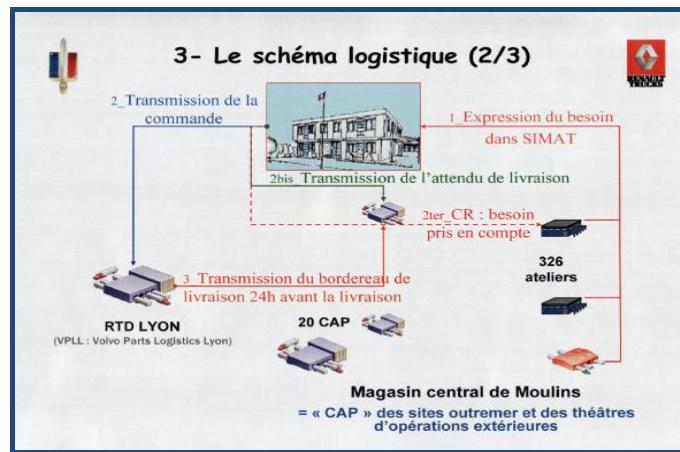
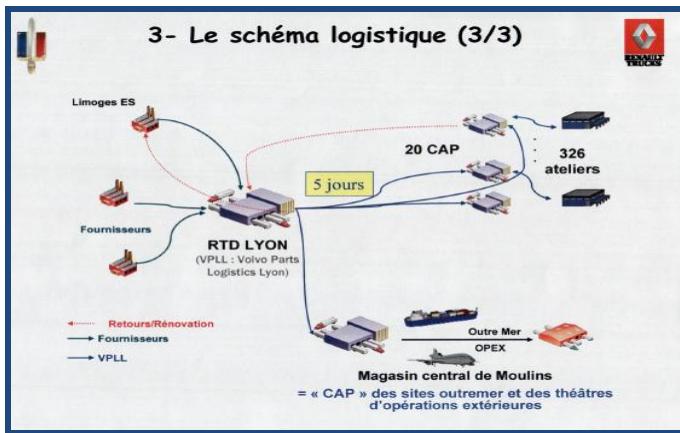
The amount of the contract in 2008 was 21 million Euros and estimated to range between 210 and 434 million Euros over ten years. Besides its length in time, the originality of this PPP has been three-fold: the negotiation of a fixed-price package guaranteeing the French Army a full support on the basis of a global mileage calculated on a yearly average per vehicle as well as delivery of spares within five business days directly to the military support units (CAP in French for "Compagnies d'approvisionnement"). RTD is in addition committed to update the fleet and treat obsolescence all throughout its life-cycle. The obligation of results, translated into global mileage and a spare availability rate in this particular case, within the whole logistic supply chain is therefore increasingly becoming the norm and sole responsibility of the private sector, while the military can better refocus on more operational tasks and missions. The condition for success of such an endeavor has been the establishment of a trusting and constant dialogue between dedicated teams on each side, facilitated by the availability of the right analysis and communication tools.

Indeed, such an evolution of the supply chain has been greatly enabled by the development and customization of specific software between the two parties involved, i.e. the Army's SIMAT IT system (*Système d'information de la maintenance de l'armée de terre*). Such a tool allows a better traceability of vehicles and spares, while favouring a better technical feedback (Retex) and an "end-to-end approach" also rather new in France.



Source: DCMAT brief, June 2008

The direct involvement of RTD has brought about an optimization of the delivery system for spares and a simplification in terms of contract processes, while formatting the new logistic flows as close to the needs of the combatant as possible: because RTD can rely on the distribution network of the Volvo group (centralized in Lyon), the major depot of Moulins which traditionally feeds overseas and OPEX CAP, has been able to considerably reduced its stocks (and therefore its managing costs) as a direct consequence of this new public-private partnership. This has been an ongoing process with constant room for improvement as information tends to be better shared among the parties involved on the ground, the support depots and authorities and RTD.



Source: DCMAT, brief, June 2008

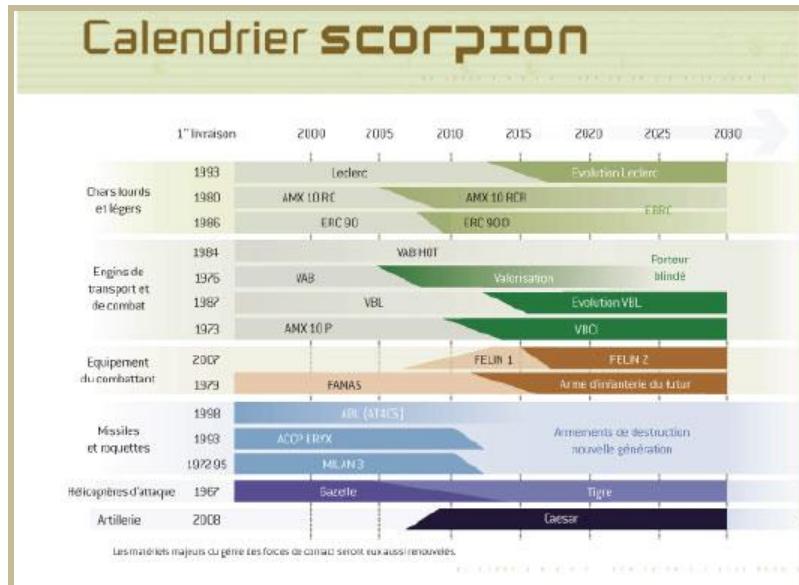
MCO contracts signed since then tend to include most or all of these characteristics (multi-year; fixed-price; performance-based; end-to-end; direct delivery to units; etc) and are negotiated on a case-by-case basis generally with the constructors. It is for instance the case of the contract awarded to Nexter for the VBCI, which the group builds with RTD. The MCO contract amounts to 350 million Euros and runs till 2015. Nexter has the obligation to ensure a 95% readiness in OPEX.



The older the system the harder it is to put a cap on MCO costs, since they were not included initially and technological progress tends to pull them up: “*for a classic system, MCO cost used to range between 3 to 5%; for integrated systems, it goes up to 5 to 8%, nay even 10% over their full lifecycle*”, says Colonel Bienfait. The hope is therefore to come up with a way to integrate these costs as soon as the equipment is conceived: studies are indeed planned for that purpose and Scorpion should be the laboratory for a totally new approach, from birth to retirement, for MCO. By 2025, the goal is to have a fully interoperable system of systems similar to FRES in the UK or FCS in the United States. French and foreign (i.e. Boeing) are already positioning themselves for this new opportunity to be a full participant to the modernization of the French Army. Nexter and EADS Defense & Security signed an agreement in 2008, while Thales is said to be interested with potential partnerships with Safran, Panhard and/or Bertin.



Source: SIRPA Terre, 2009



Source: http://www.defense.gouv.fr/terre/base/dossiers/scorpion/calendrier_scorpion

If the introduction of a brand new generation of equipment allows to have a new look on the way MCO has been negotiated so far, these new contracts could depend, as well as influence, the future French defense industrial landscape: Nexter is as a matter of fact at the center of this problematic, in the sense that various alliances are being considered both nationally and internationally and as the stabilization of the company's revenue is related to an increase in services leaving the Leclerc area gradually behind (three years ago, it represented 56% vs 10% today). The trend to diversify toward the MCO market is indeed general and civilian logistic companies are also starting to be attracted by the prospects offered on the DCMAT's side. An increase in competition even in a sector in the process of being consolidated can only help refine the ideal public-private partnership.

Seeking the best public-private balance

A Performance-Based Logistics (PBL) approach is in effect being implemented in France, whereby the industry is now welcome to offer customized approaches and solutions to a variety of maintenance and support challenges in terms of the type of equipment being considered, its lifecycle phase, and its planned employment (support location or in deployment). The EMAT is still refining its approach as far as the degree of outsourcing/partnership being considered in the long-term is concerned, but a general rule of thumb is starting to emerge: the same way the aeronautic sector tends to reserve “strategic” assets to state support capabilities, land equipment

susceptible to be deployed in high-risk theaters of operation requires the keeping of “internal” support competences. It is particularly the case if the latter has a long lifecycle, but it does not preclude working with industries for specific targeted services and industrial support (NSI) as long as it is not deployed. Indeed, the MCO of every “disposable” equipment with a short lifespan is encouraged to be fully outsourced: everything in between can be negotiated on a case-by-case basis. The French authorities also tend to include within the contracts being awarded to the private sector some kind of insurance policy, which translates in the inclusion of “transferability” (of competences) and “reversibility” (of outsourcing) provisions, aimed at compensating for market and supply base potential fluctuations or managing an expected crisis surge. Such a concept only works if the government maintains a minimum competence portfolio in the outsourced field, if there is room for maneuver for potential transfer recipients, i.e. if a genuine competition exists, and if a minimum basis of trust is generated – conditions which may appear rather contradictory at times -.

Looking for the best PPP and breaking the walls of mistrust

Government/Military leadership parameters	Private MRO provider parameters
Equal footing negotiation/transparency	Clear guidelines/information sharing (especially “lessons learned”)/visibility
Cost-effectiveness (cost control) /stability/predictability	Cost-effectiveness (process optimization/return on investment)
Customized and Innovative solutions (e.g. no “silver bullet” approach; evolution towards overall equipment or mileage/flight or tank hours guaranteed availability contracts (“ <i>contrat à engagement de disponibilité opérationnelle</i> ” in French))	Global servicing vs accountability (penalty system; conditional renewal)
Ability to transfer and reverse/fear of being trapped and competence losses	Long-term commitment/fear of investments losses/risk taking to balance out

Several existing MRO contracts negotiated in the past couple years have reflected these concerns on both sides, which have been in a position to negotiate win-win contracts: success came from precisely overcoming fears and prejudice on both sides and finding a workable compromise for the long-term. As far as clear guidelines are concerned, the involvement of a body like SIMMAD (*Structure Intégrée de Maintien en Condition Opérationnelle des Matériels Aéronautiques du Ministère de la Défense*), the upcoming SIMMT (*Structure Intégrée de Maintien en Condition Opérationnelle des Matériels Terrestres*) for land equipment, is crucial in the early back-and-forth negotiation process. However, it is not enough, as such interaction does not obviously stop with the signing of the contract, especially when the latter is groundbreaking: another common condition for success seems to be the mix of personnel civilian and military (or former military) involved in its implementation. The synergy of the French government reconversion policy for the military, the involvement of industries to create a partnership favouring the use of reserves and outsourcing could actually provide the bedrock for future successful ventures in this area.

These contracts have already all in common to have overcome one of the major hurdle, which has been the traditionally short-term duration of orders, via so far up to ten-year long commitments on both sides: if the private sector has to assume all the risks under the threat of penalties and/or non-renewal of the contract, the military tends to be protected by - usually yearly - re-assessment clauses. Both sides win in terms of long-term stability, since the government is guaranteed the requested level of services overtime, while the industry can plan ahead on the basis of a regular predictable yearly income. Several hindrances however remain in order to achieve the ultimate partnership: cost-control for the MRO of new-generation equipment is one of them. “*The renewal of the Army’s equipment allows a full review of MRO practices, with a modelisation process of metrics under way*”, says Colonel Bienfait, who welcomes any suggestion industries would have in terms of cost-control especially during the first phase of the introduction of a new equipment. The inclusion of support in the early phase of the conception of any equipment is as a result increasingly acknowledged as a necessity. As Fabrice Lievin, Vice-President Services Development Strategic Coordination at EADS, put it “*the A400M should be the very last European contract whereby support is not thought through and conceived from the very beginning*”. Indeed, although EADS has been pioneer in this area, the feeling expressed by Fabrice Lievin and his colleague Jean-Pierre Souzy (Mission services) is that in spite of this obvious ‘stretched hand’ policy on behalf of the EMAT, government practices still miss a lot of flexibility. The legal framework, called “*Code des Marchés Publics*” is in need for reform to open up, while processes are still considered too long. A simplification and rationalization of the acquisition and MRO process, including as far as finance procedures are concerned through the CHORUS initiative (new government-wide management system), are however under way and could indeed deeply reform defense business practices in France for the decades ahead. Some obstacles remain (such as the weight of VAT as a hindrance to outsourcing), but research is being done to improve government efficiency (e.g. by centralizing and accelerating the process

of MCO-related bills). The classic divide between acquisition on the one hand, and support on the other could also be revisited to favour a more global approach, including its dismantlement phase – or “cradle-to-grave approach” as the US Navy rightly describes it - by program. More and more, does one see French RFPs systematically include in the requirements “easy and cost-effective to maintain”, while there is a real demand for industrial help to phase out vast numbers of outmoded Army equipment (see infra) in the years ahead via re-cycling for spares or destruction.

Retrait du service des principaux parcs											
Parc retiré du service	Age moyen	09	10	11	12	13	14	15	16	17	18
Gazelle	25			100							
Leclerc S1 OPS	10		80								
AMX 30 B/B2	33	500									
AMX 30 D	31	80									
ERC 90 E	22	25									
ERC 90 D	22			160							
AUFI	27	210									
AUFI TA	27		37								
TRFI	19			100							
Mortier 120	35		150								
LRM	17		30								
AMX 10 P	33		550								
VAB	29			1 000							
PFM (modules)	23		100								
P4	26			9 000							
SUMB	40	500									
TRM 2000	24			5 000							
GBC 8KT	47		4 000								
TRM 10 000	29			2 000							

Source: French Army, 2009

AN END TO “BUSINESS AS USUAL”

Even though the transformation of MCO contracting is far from being over, a dialogue is hence now open and should help accompany the rupture affecting the way business has been done for decades within the French Army. Several trends could impact on such an evolution as well in the longer term. Indeed, the occurrence of the economic crisis in the Fall 2008 and the launching of a major stimulus package by the Sarkozy government in its aftermath are turning out to be the catalysts of changes in the defense sector, which, if they were in the making, might not have necessarily been at the top of the list of the reforms underway.

- ✓ Among them, the willingness to involve more systematically small and medium-size enterprises in the defense business as well as the ambition to develop major competitiveness clusters able to compete internationally could become major drivers of change in the “*MCO terrestre*” community, as the latter is looking for new approaches and innovative solutions. EDEN (European Defense Economic Networks) is an exemple

of these competitiveness clusters and gathers since the end of 2008 small and medium-size companies based in the Rhône-Alpes region, while encompassing work beyond the French borders.

- ✓ In addition, the involvement of the Elysée in openly supporting French defense industries in their arms exports policy has already been helping the latter securing some opportunities (detail of importance, the application process has been reduced by half). This has an impact on the MCO sector as well, since firms increasingly tend to propose global services including support to foreign partners.
- ✓ Another key governmental objective is to emphasize sustainable development, an area in which the French Army has been involved for some time (e.g. biodiversity respected in training camps; encouragement by DCMAT to purchase “eco-responsible” items; etc) and where industries are starting to be increasingly involved: the phasing out of old equipment seems to be where the biggest eco-friendly demand is.
- ✓ The French presidency of the European Union during the last six months of 2008 has also been a springboard for several initiatives meant to boost French and European capabilities, which could impact the French Army MCO sector, especially as far as its research and technology base is concerned (Military Erasmus; Franco-German high-level group on arms industries; etc): this concern has been translated in actions via an increase of R&T spending meant to preserve French skills, Minister Hervé Morin acknowledging a change of course on this front in recent months, while a strong executive push can only influence the evolution of the general industrial landscape.

The reintegration of France into all NATO's military command structures and a more active French participation on the Afghan front could also impact on the evolution of the French Army and their support capability, since both NATO and the EU are very much in favour of pooling logistics and support resources under common international initiatives.

What is certain is that new sets of rules are being developed so that a true “win-win” situation emerge among all MCO players. The economic crisis brings opportunities, but also of course its challenges, the biggest one for the latter being to be able to master cost-control in the short term: on the government side, reforms has its internal costs, including initiatives to prevent and contain social unrest, as trade unions fear the consequences of what they perceive of an excessive outsourcing process. On the industrial side, demonstrating their ability to offer the best solutions and the lowest prices often requires an initial investment and comes at a time of

hardship, especially for smaller-size businesses. A genuine balance remains therefore to be achieved across the board, in the same vein as the recently concluded MCO agreements, so that to the “right amount at the right time” approach now expected by the DCMAT matches the “right risk-sharing” one on the supply side.