

viewpoint

FRANCE'S SUPPORT OF THE AUTO INDUSTRY



Marc Stoessel

When car sales in Europe began to drop last autumn, Renault and PSA Peugeot Citroen responded by reducing output 40%. The cutback, which continued to February 2009, caused an especially sharp drop in vehicle production in France.

Production has since returned to levels in line with actual car sales, but the earlier reductions had a profound impact on suppliers. The government has since implemented longer-range actions to deal with the global slowdown. Marc Stoessel, partner with Ernst & Young LLP in Paris, comments.

What are the major issues for the French car industry?

Liquidity is the most urgent challenge. One of the first things the French government did was change the tax credit for research and development. Normally, R&D costs are eligible for a tax credit after three years. Since January the government has made this tax credit immediately refundable. It also raised the credit to 30% of actual costs and raised the former €10 million cap. The policy is not limited to the auto industry, and it has been especially beneficial to companies with large R&D centers.

In addition, the government advised its treasury officers to be flexible when asked by companies to postpone payments for taxes or social security to address urgent cash shortage issues.

What about sources of funding?

The French government has set up mediator offices in all regions of the country to help companies in their negotiations with banks. Companies can use a Web site to register and receive a response within 24 hours. Since November more than 4,000 companies have used this channel, which is often successful except when companies are already in deep trouble.

Companies can apply to Oseo, a special fund in France, for additional public financing. In addition, companies may be eligible for public funds when they participate in special projects, such as electric car demonstration programs on the regional level.

What do companies need to know when they apply for government aid?

In general, the government's intent is to secure qualified employment in the automotive industry in France, and it is very intent on ensuring that France has a role to play in global technology.

The support the government offers is not limited to

French companies; it is available to all companies that want to maintain or develop business activities in the country. Many companies, for example, want to move low-value work to lower-cost countries but also maintain or expand their R&D or final assembly operations in France.

Applicants should recognize it is very important to discuss their business plans, primarily to substantiate the fact that their activities in France have a future and deserve support. The state representatives are highly professional and well informed, so thorough preparation is a key success factor. Ernst & Young can help in these high-level discussions.

Does the government encourage consolidation within the auto industry?

Most French suppliers are small and local. The French government recognizes that these companies cannot maintain sufficient R&D to remain competitive. Its goal is to encourage consolidation through capital injection to maintain employment in France, especially of highly qualified people in R&D-related efforts.

The government wanted Renault and PSA to take a more active role in this effort. The companies were reluctant to enter into the process, but they finally agreed as a term of receiving €3 billion each in government loans to support their own liquidity issues. The result in February was the creation of a new €600 million fund called FMEA, or fund for modernization of automotive suppliers. FMEA is funded one-third by a state-owned bank and one-third each by Renault and PSA. Its focus is to help viable companies, especially in R&D, in the form of an equity investment. The fund was not created to revive companies that are in essentially hopeless condition. FMEA has been very active and has already identified five investments.



How can Ernst & Young assist companies in these areas?

We can help companies in their relationship with the French government, documenting their plan and cash situation and explaining their intent within France. This can be challenging for companies that are organized on a European rather than French basis, so it's important to be very proactive. Companies must be very transparent with the French government. If the government concludes that you are a valued company for the country and industry, it will help.

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