The French and British as Customers for Defence

by John Howe CB, OBE

John Howe is Vice Chairman of Thales UK. Before joining the company, he had a distinguished career in the UK Civil Service, his final post being Deputy Chief Executive of the Defence Procurement Agency. In this article, he compares the different approaches required in dealing with the French and British MoDs.

The French and British governments are the two largest customers of Thales. We naturally regard them as perfect customers in every respect and hope to go on doing business with them. So, if a hint of criticism enters anywhere in this article about either of them, that is simply the result of an editorial mistake! Having accepted, rashly, an invitation from *RUSI Defence Systems* to compare, from the perspective of a company with a big presence in both countries, France and the UK as customers for defence, I will navigate between Scylla and Charybdis.

Similarities

Journalists dwell on differences. There has been no shortage of these – during the Iraq crisis in particular – but the UK and France have a huge amount in common, as we remember in this year of the centenary of the Entente Cordiale, which Thales has been proud to sponsor. They have a deeply entwined history; their economies are closely similar in size; and their populations almost identical. They have, in many ways, very similar views of themselves: a confidence in their national identities, and a colonial experience which, though firmly in the past, has left its trace in their taking, more than other European nations, a global view; which in turn leaves its mark in their defence commitments and their attitude to the importance of military capability and its projection overseas. Both take pride in their military competence. They are quite close in what they spend militarily and in the size of their armed forces.

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It is sometimes claimed that the UK gets rather more bang per buck in terms of effective deployable military output for the money spent on defence. This is difficult to demonstrate objectively. The active French armed forces are slightly larger, numbering some 259,000, to the UK's 213,000. Of the French military, some 13 per cent are stationed abroad or involved in overseas operations. The British proportion, not counting troops in Northern Ireland, is 22.5 per cent. UK's defence expenditure of $37bn is slightly smaller than the French $40bn and represents 2.4 per cent rather than 2.5 per cent of national GDP. (These figures relate to 2002 and are taken from the IISS 2003 Military Balance, with any arithmetical errors of interpretation wholly mine.)

The Differences

There appear to be some significant differences in how the money is spent. In the schedule of arms orders and deliveries from 1999 to 2003, published in the IISS military balance 2003, of the 50 French programmes listed, 24 are procured domestically; 23 through international collaboration (almost wholly European); two from other European countries; and one from the US. Of the 58 UK programmes, 33 are procured domestically; 11 through international collaboration (8 within Europe and 3 with the US); two from other European countries; and 12 from the US. The lists include projects of widely differing types and sizes, but the key differences – the extent of France's involvement in European collaboration and the UK's openness to procurement from the US – are striking.

From a UK perspective, the French and UK approaches to procurement have traditionally been seen as very different. Since the UK procurement reforms of the mid-1980s, the British have characterised their approach as based on competition in an open market, uninfluenced by preference for domestic sources except in a very small number of key strategic areas; the discipline of the commercial contractual relationship with suppliers, coupled with an emphasis on prime contracting in which risk is passed to the supplier; and relative indifference to the consequences for domestic industry of the results of competition. France's approach has been perceived as a contrasting one much more driven by considerations of long-term industrial strategy, less emphasis on competition, resistance to encroachment by US suppliers, and a much closer linkage than in the British case of industrial and procurement policy with wider national policy considerations. It is, however, fair to add that the range of rival defence companies in France has meant that national competition between key players has been strong. France has been seen as regarding industrial strength as an important national defence asset.

This traditional set of contrasts was always something of a caricature. France's procurement has for some time been much more pragmatic than this stereotype. France is often perceived as a closed and protected market in which foreign firms are not encouraged to trade or invest in the way that international firms are in the UK. The French would argue that this contrast is unfair and overdone. No non-French firm has made the effort to invest in France that, for example, Thales has in the UK. The French point out that 80 per cent of their procurement is now competitive. Thales' own experience is that it has to compete hard to win contracts there, and though it would be fair to acknowledge that the competition is still largely French, there are counter examples: to take just one, in the notoriously nationally-based ship-building industry, the competition to build hulls for the new French intelligence vessel was won by a Dutch firm.

France has been less willing than has the UK to look to US sources of supply. Perhaps the lack of a 'special relationship' with the US explains this, but the Thales-Raytheon joint venture in the field of air defence systems – a pioneering transatlantic joint venture in defence – demonstrates how France is fully prepared to engage with overseas partners, including the US, where the relationship is one of equality.

Equally, on the UK side, the customer was never as indifferent to the health of the industrial base as the caricature implied. There is a record of considerable investment in research and technology, though the research budget has declined over the years, and MoD has always been highly supportive of export efforts and has taken great pride in their success.

Convergence

Which brings me to the theme of convergence. The similarities between the French and British approaches to procurement and their behaviour as customers far outweigh the differences. In the UK, the political necessity for the (then) new Labour government to demonstrate good value for money for its investment in defence, in the face of competing claims on the public purse from health and social programmes, led to the Smart Procurement reform programme. In France, too, there is an active programme of procurement reform to maximise the military capability that is secured from the budget, a high proportion of which has been invested in nuclear programmes. Successive heads of the Délégation Générale pour l'Armement (DGA), recruited from industry, have introduced private sector business practices.

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The pressures, and the urgency, of improved performance have been rather similar, if a little earlier in origin, in the UK. In both cases, budgets are increasing and the emphasis is on turning this into the timely delivery of capabilities – the 'faster' in 'faster, cheaper, better'. The article in the August 2002 issue of RUSI's *World Defence Systems* by Colonel Thierry Carlier brings out the similarities between the French and British approaches to procurement: the emphasis on project teams, on managing risk, on the role of the prime contractor, on a through-life approach to procurement, and on innovative approaches to financing.

But the process of convergence is certainly not one-sided. If there are ways in which France is moving in the same direction as the British, there is a new emphasis in Britain on a joined-up industrial strategy and better leveraging of investment in defence technology. UK's Department of Trade and Industry (DTI) has announced a welcome increase in its support for technology, and the UK MoD is exploring new ways of achieving mutual support from government and industrial investment in technology, for example through such initiatives as Defence Technology Centres. The intellectual problem of how to marry the identification of priority areas for technology investment with a policy of competition in procurement has not been wholly solved, though the answer probably lies in the distinction between research activity that is well up-stream of particular project applications, and competitive procurement.

Summary

To sum up, therefore:

- Procurement policy in France, with an emphasis on European collaboration, has had an international policy dimension that has been less evident in UK procurement.
- The approach to procurement in both countries is on a convergent path, though there remain differences. In particular, the British approach with its emphasis on the authority of project team leaders remains more 'bottom up' than the French.
- Both countries lay emphasis on competition but in the UK, much more than in France, this means that US giants are in competition with domestic contractors.
- The procurement organisations in both countries are under intense pressure to improve their performance for rather similar reasons.

What is the bottom line of all this for an international company like Thales? One conclusion we can draw is that Europe can do a great deal more to build on its technical and industrial strengths. Colonel Carlier, in the article already quoted, mentions the Letter of Intent initiative to harmonise military requirements and remove practical obstacles to co-operation, and OCCAR. We would add to this that it is urgent that European governments lend their weight to making the new European Defence Capabilities Agency a success in tackling Europe's shortcomings in defence capability and harmonising efforts in research and technology. As a company with a major footprint in several European countries, we would strongly endorse the importance of these aims. ■