Study on business co-operation potential and opportunities

in the sector of car components

FRANCE

1.- General information of the country and market information. France.

Area : 550 000 km²
Population : 60 millions
Capital : Paris
Official language : French
Official currency : Euros €
Political system : Republic
Parliament : Assemblée nationale et Sénat
President : Jacques CHIRAC
Prime minister : Jean-Pierre RAFFARIN

Fifth worldwide by GDP, the number-three exporter of services and the number-two source of foreign direct investment, second only to the US, France is an economic power to be reckoned with, benefiting from its central position in Europe, the world's largest market.

Not surprisingly, France also has proven appeal for foreign investors, ranking first worldwide alongside China for total FDI inflows, and fourth for productive investment contributing to growth and employment. This clearly reflects its importance as a springboard for success in Europe.

France is a land of business and entrepreneurs, counting nearly two and a half million companies. These include world leaders across all sectors, benefiting from the internationally recognized expertise of their management teams.

Not the least of strengths is a long-standing tradition of industrial innovation. French engineers have frequently played a pioneering role in the emergence of new technologies, illustrated by the launch of the Queen Mary 2 and development of the Airbus 380 and TGV high-speed rail, as well as successes in areas ranging from smart cards to nuclear power and medical research.

High R&D spending, highly qualified research staff and a favourable working environment make France a natural standard bearer for Europe in major projects for international cooperation.

France also benefits from the quality of its education system, ensuring that technicians, supervisors, engineers, government employees and others in key positions have the training they need to do their jobs efficiently. The French labour force is creative and conscientious, as is demonstrated by one of the world's lowest rates of absenteeism. And productivity is among the highest for any major economy, topping performances in the US.

France's attractiveness as a business location is now a priority of the government's economic policy, marked by a commitment to structural reforms such as that of the pension system. Looking ahead, action to enhance attractiveness will benefit from the support of the recently formed Strategy Council. This brings together leading international business people to advise the Prime Minister on the strengths France should make the most of, as well as on areas where progress is needed.

(Source: AFII)

2.- Market information - industry

France is ranked third in industrial activity in the European economy immediately behind Germany and the United Kingdom. This represents 15% of European industrial production. Eight active sectors dominate the economy:

The Automobile Industry:
The world production of French builders has reached a new record in 2003 with nearly 5.75 millions of vehicles.
French builders have realized 10% of the world total sales.

Material Processing:
Michelin is the world leader in tire production. Saint-Gobain holds the same position in the production of glass and is the second largest exporter. France and Great Britain are ranking in 2nd position in Europe in the plastics industry.

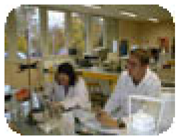
Construction and Public Works:
In 2003, estate building sector has reached a turnover of 124 billion Euros, and it should increase in 2004 due to new housing to be built. Sales of new houses have in fact increased by 20,9% in 2003 . This sector employs 294 000 companies and 1 .4 millions people.

Telecommunications Industry:
Today, France is catching up with 3.4 millions broad band Internet connections and is 3rd on the European broad band market. French individual owners of mobile telephones amounts to 42 millions, representing 69% of the French population. New information and communication technologies represent 11 % of the market share of the French industry.

Aerospace Industry:
The European Group EADS (European Aeronautic, Defence and Space Company) is the result of the merging of the French Matra Aerospatiale, the German Daimler Chrysler Aerospace and the Spanish CASA, and has now reached the third Group on the world. EADS and Ariane (world leader in space transport) are all increasingly recognized on the world stage.

Agro Business:
With a 131.2 billion Euros turnover in 2001, this sector is the leading French industry. This sector represents 21.9% of the whole turnover of the French Industry.
The 4 250 businesses in the sector employ 418 000 people (third French employer). France is number one in Europe with 21.1% of the European total, ahead of Germany.

The Chemical Industry:
This sector employs 236 300 people with a turnover of 84.5 billion Euros. In 2002 the French chemical industry was classified as the first exporter (excluding food product and energy).
France is also the second world producer in Europe and the third world exporter of chemical and pharmaceutical products.



Luxury Goods and Fashion:

This sector generates a turnover of nearly 39 billion Euros. With the world leader, l'Oréal, and many other well known companies in the field, France is the first world exporter of perfumes and cosmetics with 35% of the market share.

The industrial structure is characterised by the predominance of SMIs (enterprises of 20 to 499 employees). Indeed, they constitute 96.1% of manufacturing, employ 53.1% of the workforce, and produce 41.4% of turnover.

(Source: Uccife)

3. Overview of the car part sector in France

3.1 Market profile

One in ten of France's working population is employed in the automotive sector, making it by far the biggest employer in the country – a vast domain covering an infinite variety of different types of work, form industrial to business and including services, with important spin-off effects for the national economy.

Nearly 2.500 000 workers divided as follows

42.84 % passengers / goods transportation

18.36 % raw materials and services
13.46 % manufacturers
5.23 % equipment suppliers
20.11 % business repair service and recycling

The main employers are:
- Manufacturers, PSA Peugeot Citroën employs 199 900 people throughout the world, 124 700 of these work in France, and out of a total of 130 740 employees, Renault employs 76 300 in France.
- Equipment suppliers, especially Faurecia and Valeo, with 128 000 employees,
- Subcontractors, tier-two, three etc… foundries, mechanical pieces, plastic etc… with 459 000 employees,
- Business, repair, service and recycling companies with 493 000 employees.

The cumulative turnover or French constructors and equipment manufacturers operating within the country accounts for more than 115 billon euros, while the business and car repair sectors make up around 114 billion euros. This gives a total of 15.4 % of French exports.

The production of French vehicles reached 5.75 million units in 2003 or nearly 10% of the total world production (60.6 million units). French manufacturers and equipment suppliers have a business presence on every continent, partly as a result of establishing production plants, but also because of the large number of vehicles exported to these continents

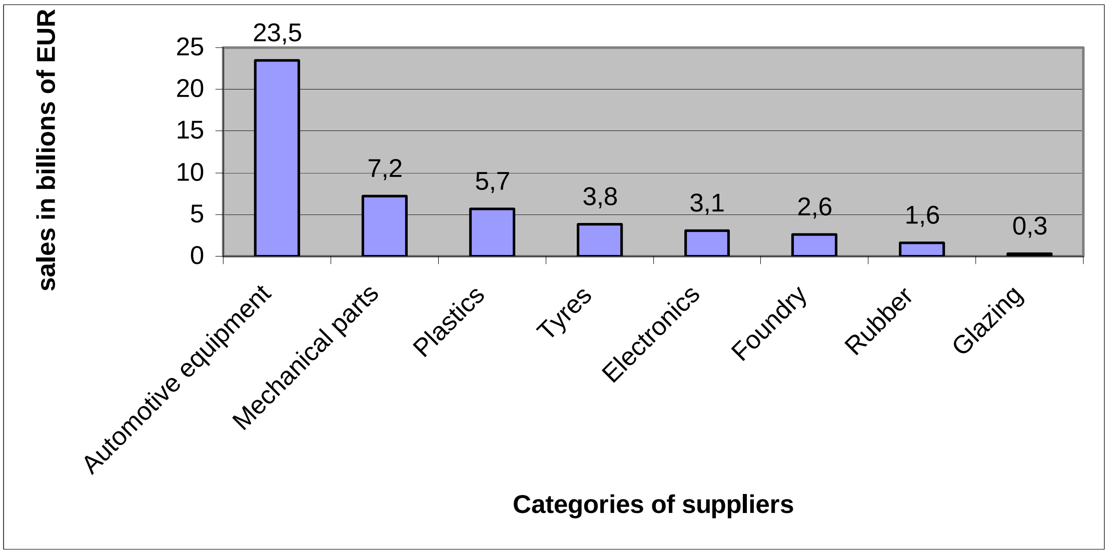
73 % of sales by French automobile manufacturers are achieved outside France and they hold 25 % of the European market. Renault and Peugeot believe that their future lies in internationalisation. The objective of these two French groups is to hit the four million mark for cars sold by 2006 in the case of PSA and 2010 for Renault.
The French equipment manufacturers have a similar aim. With a presence in 26 countries, Valeo is now celebrating 10 years operation in China. Faurecia, one of the world leaders in seats, cockpits, doors, acoustic modules, front chassis sections and exhaust systems, employing 60 000 staff across 160 sites in 27 countries is opening a technical development site in Japan.

This aggressive international policy has not been at the expense of French jobs, in 2003, nearly 60 % of the French carmakers worldwide production rolled of a production line in France.

3.2 Main sub sectors and companies, average size of companies, production means and level of technology

Automotive suppliers in France
In 2003 the automotive component supply industry as a whole employed some 300 000 people and posted sales of € 47.8 billion. On an average, automotive suppliers are responsible for 75% of the industrial cost price of a passengers car produced in France. The remaining 25% correspond to assembly.

Categories of suppliers (sales in billions or EUR)



Source: CLIFA

Manufacturers of automotive equipment and parts in France

Automotive equipment manufacturers (within the meaning of France's official classification of activities) integrate an important part of the other suppliers' production. As such they are the carmakers' closest partners. They are fully responsible for their products from design to distribution, through development and manufacturing.

Manufacturers plants in france

Manufacturer	Vehicle	Town
Alpine	Clio sport, Espace III, Mégane Cabriolet	Dieppe (76)
Citroen	Xsara, C5	Rennes la Janais (35)
PSA	307, 406, 607	Sochaux (25)
PSA	807, Expert, C8, Jumpy	Hordain (59)
PSA	206, 307	Mulhouse (68)
PSA	206	Poissy (78)
PSA	Saxo, 106, C3	Aulnay (93)
Renault	Megane II, Scenic	Douai (59)
Renault	Kangoo, Express	Maubeuge (59)
Renault	Lagune II, Vel Satis, Espace IV	Sandouville (76)
Renault	Twingo, Clio	Flins (78)
Smart France	Smart	Hambach (57)
Toyota	Yaris	Onnaing (59)

Key-figures of the automotive component industry
(343 Z classification only [tier-one suppliers], based on 2001 data – French Ministry of industry, 2003)

	2003	Share of the motor vehicle industry	Share of the manufacturing industry (including energy)
Number of companies	310	41.27%	1.08%
Number of employees	127 992	34.84%	3.35%
Sales (ex. VAT in millions of EUR)	23 573	17.46%	2.89%

French carmakers global production:

The world motor vehicle production (passenger cars + light commercials or light duty vehicles + heavy duty vehicles + busses) was on the rise in 2003 (+2.9%) to 60.6 million units. The higher growths were achieved in countries of the Asia-Oceania zone (+9.4%) and those of Central and Eastern Europe (including Turkey), with 11.3%. In the European Union and the NAFTA countries the motor vehicle production decreased by 0.4% and 3% respectively.

With over 5.7 million motor vehicles, of which 57% were manufactures on the French territory, the French carmakers' global production increased by 1.8% to reach a next record level in 2003.

Evolution in French carmakers' production including Dacia and Samsung

2003/2002	France	Outside France	Total
PCs	-4.2%	+11.7%	+2.05%
LDVs	-0.1%	+1.1%	+0.49%
HDVs	-5.7%	+0.7%	-4.46%
Buses	/	/	/
Total	-3.8%	+10.1%	+1.81%

Source: CCFA

Geographical breakdown of the top fifteen passenger cars (PCs) only

	2002	2003	
Japan	8 618 354	8 478 328	- 1.6%
Germany	4 825 662	4 891 524	+ 1.4 %
USA	5 018 777	4 509 565	-10.1%
France	3 292 797	3 220 329	-2.2%
South Korea	2 651 273	2 767 716	+4.4%
Spain	2 266 902	2 399 238	+5.8%
China	1 101 696	2 018 875	+83.3%
UK	1 629 934	1 657 558	+1.7%
Brazil	1 520 285	1 504 998	-1.0%
Canada	1 369 042	1 339 607	-2.2%
Italy	1 125 769	1 026 454	-8.8%
Russia	980 061	1 010 436	+3.1%
India	703 948	906 851	+28.8%
Belgium	936 903	791 703	-15.5%
Mexico	960 097	780 819	-18.7%

Source OICA

OEM automotive parts sales (OEM automotive parts means any component, system or module sold to carmakers for the purpose of assembly on vehicles production lines)

OEM automotive parts sales reached € 20 billion in 2003, a slight 0.66 % decrease on the previous record year. This result must be considered in the light of a 2.2 % drop in vehicle production by all the carmakers operating on the French territory.

Motor vehicle production has somewhat changed from 2002 to 2003 as multi-purpose vehicles, M1 vehicles and M1 minivans have increased both their share of the French production (35.5% in 203) and their volume (+5.1%). On the other hand the 12.4% drop in production of M2, M2 minivans and E segment vehicles, whose equipment content is fairly high, largely contributed to the decrease in OEM automotive parts sales.

Breakdown of motor vehicle production in France per segment

Production in France	2003		2002		Variation
Segments	Units	Share	Units	share	2003/2002
A+B	1 527 389	42.2%	1 569 444	42.5%	-2.7%
MPVS/M1 minivans	1 286 099	35.5%	668 446	33.1%	+5.1%
M2 minivans + E	585 400	16.2%	668446	18.1%	-12.4%
Large DLVs	172 689	4.8%	180 766	4.9%	-4.5%
HDVs+Buses	48 442	1.3%	50 084	1.4%	-3.3%
TOTAL	3 620 019	100%	3 691 888	100%	-1.9%

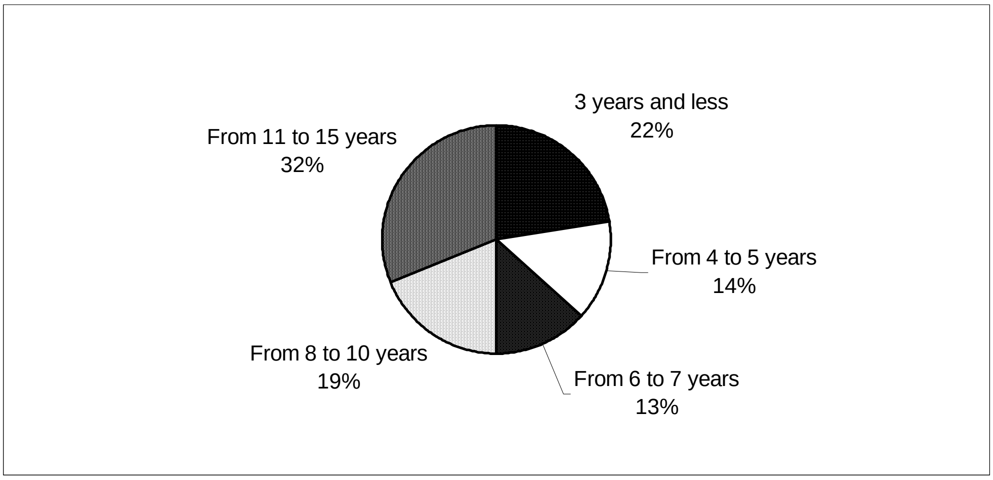
Source CCFA

Aftermarket automotive part sales (Aftermarket includes OES+IAM)

Automotive component manufacturers' sales to the after market increased by 0.74% to reach more than € 3.5 billion in 2003.
This evolution is mainly due to two factors, namely:

1) the increase in the motor vehicle population worldwide, and more particularly in France where the population of light vehicles (passengers cars and light commercials) exceeded 35 million units in 2003, i.e., 5 million more than in 1995. Thanks to the French carmaker's good results, the French motor vehicle population has been increasing in Europe for the past five years, thus benefiting to aftermarket automotive sales;
2) the aging motor vehicle population in France: the average age of a passengers car was 7.7 years in 2003, vs 6.6 years in 1995. Half of the vehicles on the road in France today are more than eight years old.

Age breakdown of French vehicle population

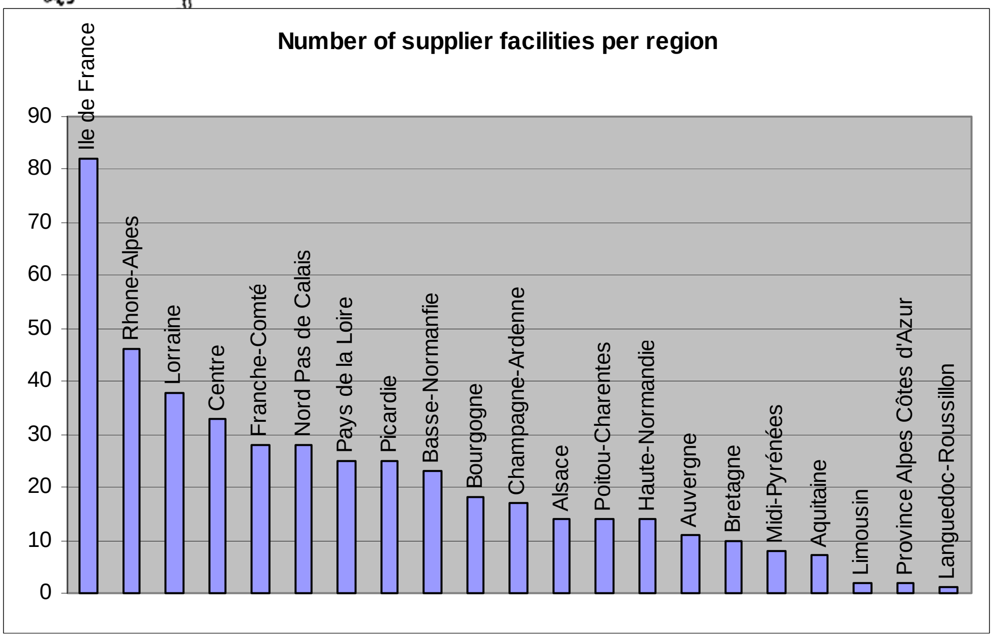


Source: Equipment and Transport ministry

Workforce

Companies employing more than 500 people account for 70 % of the automotive component industry's total sales and headcount. However the French automotive component industry is composed of SMEs mainly, which represents 80% of the total. Six regions host 57% of the facilities and 55 % of the workforce.

Répartition géographique des équipementiers automobiles



Workforce breakdown	Number of Companies 2003	%	Number of employees 2003	%
< 50	88	28	2 463	2
51-200	80	26	9 188	7
201-500	80	26	25 476	20
501-1000	32	10	23 975	19
1001-2000	16	5	23 547	18
> 2000	14	5	43 343	34
Total	310	100	127 992	100

The total working population was in slight decrease in 2003 (-1.4%), with 127,992 persons employed at December 31st. The workforce breakdown shows an increasing proportion of executives and technicians, who now count for 34.7% of the total. The population of engineers and executives is younger than the average working population as a result of the efforts made to hire this category of employees over the past ten years. Feminization of the workforce is noticed in every category of personnel. Lastly apprenticeship is on an upward trend for professional A levels, vocational training certificates and engineer qualifications.

Strong representation of foreign suppliers

With global competition becoming tougher, automotive equipment manufacturers must get a foothold in every market. Owing to its privileged geographical situation and the quality of its infrastructures and workforce, France is a highly - coveted country. In actual fact 139 foreign companies are established in France. These companies achieve 57.7 % of the industry branch's sales (€ 13.6 billion) and employ 56.4% of the total headcount (72.200 persons).

4. Co-operation potential with other European companies (EU with new and future members of EU, and new and future members of EU with EU) Business opportunities

4.1 Export from traditional EU and 4.4 Export from the Central and East European countries to traditional EU

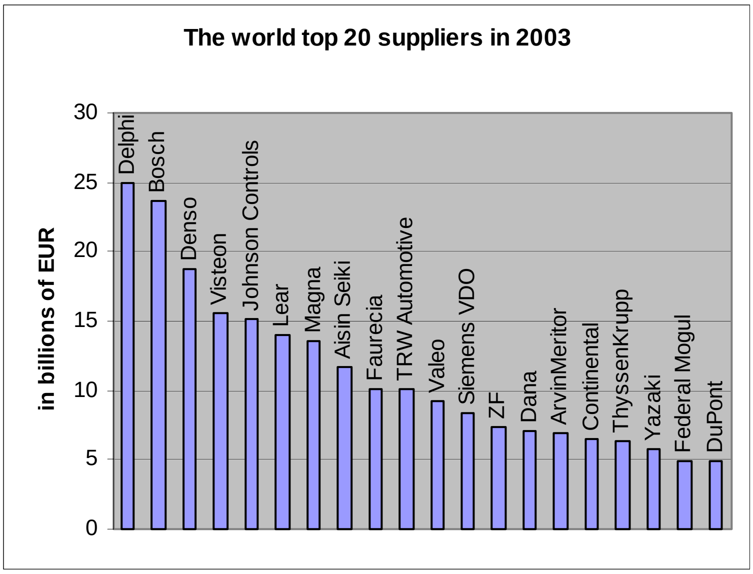
In 2003 exports of automotive equipment and parts went down by 0.5% to € 14 206 million while imports rose by 7.9% to € 12 759 million. This trend (imports up, exports down) was observed throughout the year. France's trade deficit with Germany and Italy increased by 40.5% and 17% respectively. The balance remained positive with Spain and the United Kingdom, despite significant drops (- 4.3% and -10.4 %). France's trade surplus with Central and Eastern European Countries too decreased by 29%

French automotive equipment industries European partner countries

	Imports (millions of EUR)			Exports (millions of EUR)			Balance			Coverage rate	
	2002	2003	Ev	2002	2003	Ev	2002	2003	Ev	2002	2003
EU	10 726	11 466	+6.9%	12 878	12 668	-1.6%	2 152	1 202	-44.1%	120%	110%
Germany	4 596	4 807	+4.6%	3 624	3 442	-5.0%	-972	-1 365	-40.5%	79%	72%
Spain	1 785	1 915	+7.3%	3 956	3 993	+0.9%	2 171	2 079	-4.3%	222%	209%
UK	920	1 068	+16.0%	2 180	2 196	+0.8%	1 259	1 129	-10.4%	237%	206%
Italy	1 823	1 935	+6.2%	1 026	1 004	-2.2%	-797	-932	-17.0%	56%	52%
Belgium	577	578	+0.2%	698	713	+2.2%	120	135	+11.8%	121%	123%
EFTA	196	168	-14.4%	112	141	+26.4%	-84	-26	-68.6%	57%	84%
Central/Eastern Europe	905	1 125	+24.4%	1 289	1 396	+8.3%	384	271	-29.5%	142%	124%
Total Europe	11 827	12 759	+7.9%	14 279	14 206	-0.5%	2 452	1 447	-41.0%	121%	111%

Customs statistics analysed by FIEV

4.2 Know-how



Two out of the world top 20 suppliers, Faurecia and Valeo are French.

The know how of the French suppliers covers the whole range of the automotive industry

4.3 Investment

Manufacturers

The 2010 foreseen demand is the key of the attractive side of the new member states.
To collect this medium term potential manufacturers usually started with strategic purchases of local companies in the prolongation of technical assistances as it was the case for VW, Renault or FIAT.
The market share for Dacia (Renault) is actually 45% in Romania.

After investing in their sales networks, outsider manufacturers now base their industrial establishment on a critical mass of sales as PSA or Toyota did, which clearly targeted Central Europe in their Pan European strategy.

At the manufacturers' level, the French automotive groups now rank 2 and 3rd in Central Europe in spite of their natural geographical distance. But the positions and the strategies of Renault and PSA group are different:

The Renault-Nissan group improves its European market shares thanks to the new member states (18.6% against, 13.7% in the EU of 15), backed up by their three production bases localised in this regional areas: Slovenia (CLIO), Turkey (Thalia and Megane) and, more recently in Romania with the brand DACIA.

This group distinguishes itself from its competitors by the localization of its factories, but also by its products strategy, with a vehicle, Logan, respecting the European standards but dedicated primarily to the markets of lower income.
The Logan launching in 2004 was at the level of price announced of around 5000 euros ex VAT. The success of the project rests in particular on the significant part of components locally manufactured. (175.000 Logans could be produced this year).

Conversely, the market shares of PSA group remains under their level in EU 15, in spite of a very strong progression between 1998 (6.2%) and 2004 (10.2%).
With the enlargement, the geography of the factories of PSA presented an image of hypertrophy in the western countries regarding the new structure of the actual and potential demand of the Union.
Hence PSA has chosen to settle within the hart of the current automotive pole by investing in Trnava, Slovakia and together with Toyota in Kolin, Czech Republic. These factories will directly benefit from the existing externalities provided by the suppliers and the demand.
Thus the manufacturers will be able to approach these markets; Germany included; in the same conditions of production as one of his large European competitors, Volkswagen.

Subcontractors

Some Slovakian examples

The French car industry uses competences and competitiveness of the Slovak companies for preparing seats, building heavy tools and moulds and manufacturing axles and gear boxes.

Together, the principal subcontractors (AVC, Fragokov, Chemes, Flamadtool, Kuster, Makyta, Mkem, Mopeds slovakia....) realize more than 30 million euros of turnover with Renault and about 10 million euros with PSA group.
Roussel Partners (Prospective et outillage) carries out plastic injection in partnership with Slovak companies, specialized in the design and the manufacturing of moulds.
Slovakia is a country of industrial co-operation in particular in the form of partnership which is crowned with success.
The principal French investment to date is Plastic Omnium close to Bratislava.
Faurecia provides to Volkswagen door trimmings for Golf as well as dashboards and consoles for Polo.

Some Hungarian examples

Michelin (approximately 2000 people, consolidated turnover 2003 in Hungary of 400 Million Euros) has modernized several Hungarian sites since its establishment in 1996 and follows this way by building a new tires factory for personal vehicles in Nyiregyhaza.

Valeo (approximately 800 people, turnover of 80.5 Million Euros) works with the producers of heavy lorries (Daimler Crysler, Man and Volvo) and continues to sign new contracts with manufacturers of personal vehicles (FIAT, BMW...)

Le Bélier (more than 1000 people, turnover of 82 Million Euros in 2002) , with its factory of Ajka, produces 12 thousand tons of cast iron parts per annum with the chill casting technology and between 2.5 and 3 thousand tons per annum with the technology of die casting. The production of the second factory in Snolnok has to be added to these figures.

Source: mission économique