Report from Paris by Laurent Murawiec

Knives out against Creusot-Loire

Infights and economic incompetence are wrecking one of the most technologically advanced industrial firms.

The reason why one of the world's leading high-technology heavy-industry companies, Creusot-Loire, filed with a court last month to seek protection from its creditors has more to do with warfare among political and business mafias than with industry. But the effect might well turn out to be the ruin of one of France's best industrial corporations, the one which has been chiefly responsible for the country's highly successful nuclear equipment program, through its subsidiary Framatome.

A few years ago, Creusot-Loire had 40,000 employees, and was engaged in a diversified spectrum of high-technology mechanical engineering: nuclear reactors, fast-breeder technology, high-speed trains, metro equipment, gas compressors, oil-research equipment, hydraulics/hydroelectrical technology, and specialized military equipment, as well as specialty steel and traditional steelmaking. The massive slowdown of the French nuclear program decreed by the Socialist government, the slump in steel demand, and the world economic depression caused losses to soar. When Creusot-Loire's parent holding corporation Empain-Schneider was nationalized in 1981, the company remained without any lead shareholder—other owners being the Paribas investment bank and the AGF insurance group, both nationalized as well.

By November 1983, tough negotiations took place between the Creusot-Loire (CL) board, the government, and the nationalized banks which are the main creditors: 3 billion francs in losses had reduced the balance sheet to a situation of net negative worth, with the shareholders' capital and reserves totally eaten up. A 5.5-billion franc injection was allocated, not enough either to keep CL afloat or to allow it an efficient reorganization. The price to pay was the sale of 20% of Framatome to the Atomic Energy Commission and the sale of specialty-steel subsidiaries worth 1.25 billion francs at the price of one franc. Remarkably, these subsidiaries had been the only French steelmakers not to receive any government subsidy.

Four thousand jobs were lost in 1983, and another 6,000 will be shed this year. The consultant hired to come up with a restructuring plan proposed to shrink operations to 10,000-13,000 employees. Losses in 1984 are expected to top 700 million francs, while 400 million francs has had to be set aside against losses made by CL's troubled U.S. subsidiary, Phoenix Steel. In this context, a test of wills developed between CL's board and the government and bank creditors, the former demanding a further cash injection to consolidate the situation, the latter refusing—and broadly hinting that they preferred a bankruptcy reorganization followed by a drastic shrinkage program.

CL now has three months to devise a reorganization plan, including proposals for repaying all creditors within three years, to be developed under the eye of a court-appointed curator. But indications emerge that this is not simply a depression-time story of industrial troubles. CL and Empain-Schneider have a long history of politically motivated hanky-panky. In the 1960s, Belgium's Baron Empain took over Schneider against the will of the French government, triggering a political row; in 1969, the company was nonetheless chosen to be the chief industrial operator of the nuclear program against fierce competition from other groups, which also developed into a major flap. Later, Baron Empain was kidnapped and savagely treated, never to regain control of the company's operations, a mystery the police never solved; in 1981, the parent holding company was nationalized and a purge undertaken.

An unnecessary bankruptcy might ruin CL. It will certainly accelerate dismantlement of some of its technological capability. A significant redistribution of industrial power is to be expected; the business and political mafias in the senior levels of the civil service, of the banks, and of industry are clearly sacrificing the industrial tool to political designs and power schemes. Thus goes industrial life in Socialist France.

A massive wave of industrial asset-stripping is to be expected, owing to France's deepening indebtedness, which had *Fortune* magazine rail that it was "starting to look like a Third World debtor." To extricate themselves from the hideous financial mess their own policies have exacerbated, the Socialists can be expected to plunge headlong into an orgy of improvised and incompetent measures based on the principle, "Take money where it can be grabbed." Assets accumulated in the high-technology sector of the economy, particularly in the huge nationalized sector, are a prime choice for this kind of squandering. To pay interest, the Socialist government will sell the capital at bargain-basement prices.