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JPRS L/9918

18 August 1981

West Europe Report

(FOUO 39/81)



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ECONOMIC

FRANCE

ECONOMIC CHALLENGES, UNFORESEEN OECD TRENDS FACE GOVERNMENT

Paris PROJET in French Jul-Aug 81 pp 799-804

[Article by Georges Laverdines]

[Text] Standing with windsprayed face at the helm of a small boat being tossed about by a very rough sea: this is how L'EXPANSION chose to present the recently elected president of the republic to its readers.

Is the image exaggerated? The metaphor of the storm here stands for the outburst of the financial forces which one imagines ready to throw themselves against the currency, the fragile symbol of the compass in a difficult voyage. Indeed, the first oil shock was itself followed by major monetary adjustments: one should not be surprised to find that the second produces a new reordering. This seems to be happening in a fairly systematic way. In order to appreciate the freedom of maneuver the new team has, it is first of all necessary to understand the changes under way in the international economic scene. One will then be in a better position to see the exact location of the bow of the good ship "France" at the moment the new ship's crew took over, and comprehend the inflections of course it undergoes in this next leg of the journey.

A World Recession That Is More Persistent Than 1974-1975

The second oil shock came in successive jolts between the spring of 1979 and the end of winter 1980, several months before and after the brief respite of the OPEC [Organization of Petroleum Exporting Countries] conference at Caracas which fixed the price of crude at \$26 per barrel, double the mean price of 1978. Guided by previous experience, forecasters around the world at that time predicted a "downward adjustment" from this 30 percent rate. The consequences for the price of crude oil were immediate; in the case of France, a price increase of 44 percent was recorded between the summer of 1980 and April 1981. It is almost as if the second oil shock had been prolonged by an additional "semi-shock," which in the short term translated into a revival of inflation and a new growth of the external deficit.

Beyond the specific wounds inflicted on France since the presidential election, when even the German mark was heavily hit, we must try to discover the deeper significance of these changes in the exchange rate. Their suddenness is excessive, but doubtless they reflect slow transformations in economic relations. Thus from October 1980 to April 1981, Euromoney depreciated 20 percent against the dollar and 25 percent against the yen; only the pound sterling maintained its parity with the

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dollar. For Japanese currency, it was the inevitable recognition of exceptional industrial success; barely affected by the skyrocketing costs of energy, Japanese industrial production increased 7 percent by volume in 1980, while in the same period it went down 1 percent in Europe and 3.5 percent in the United States; by the end of 1980, Japan's trade deficit, even though it is a big importer of raw materials, was practically resorbed.

Interpretation of the dollar's fluctuations is more complex; its substantial, almost ridiculous, increase in June 1981 most certainly resulted from psychological factors generated by the aura of a realist Republican president, and from technical temporary factors such as the rising interest rates on the money market, which raised the basic bank rate to 20 percent at the end of the first half of 1980. But these disordered movements should not mask the real improvement in American wage competitiveness, nor the innovative force of an industrial web capable of revolutionizing space flight techniques in a 3-year period: after several years of under-valuation engendered by deliberate contempt for external constraints, the strength of the American economy was to return with a vengeance.

In short, the international economy finds itself in a supercooled state, as it waits for a deceleration of American inflation. This is the signal being awaited by the inflexible monetarist who presides over the destiny of the Federal Reserve Board, even if it means provoking a second recession in his country. Already North American price indexes are wavering: inflation was down below an annual rate of 10 percent in the first quarter of 1981, compared to 12.4 percent in 1980. It is no longer unreasonable to hope for a de-escalation of the inflation rate between now and 1981, which would allow the European economies to begin a phase of slow convalescence. They are in fact suffering the effects of a violent devaluation which for several more months will fuel a persistent inflation capable of reducing the increase in household purchasing power to a minimum. But families should also benefit gradually from the competitiveness of their exports, wherever they are in competition with Japan and the United States: the first signs of light at the end of the tunnel can be glimpsed, first of all in the FRG, where there has been substantial improvement in competitiveness for several months, as equipment orders from the OPEC countries return to normal.

France's Economic Policy Choices

Such is the state of the world economy faced by the new managers of the French economy. But where is France in all this? There will be many efforts to come up with the answer to this crucial question, and first of all the testament handed over by Mr Barre, who omits neither the stigmata of the crisis--a budget deficit of [Fr] 43 billion instead of the predicted 30 billion; 1.7 million job-seekers in April 1981 or nearly 7.3 percent of the job-active population; inflation which has slowed down only marginally--nor the surprising results of imperturbably consistent management: the stability of the franc on the exchange market during the monetary hurricane that burst in the fall--despite relatively modest interest rates--, the deceleration in the growth of the money supply thanks to a revitalization of the money market, the re-establishment in 1980 of a balanced budget despite the slowdown in growth.

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France, indeed, has been sorely tested by the second oil shock. It has moved in step with the world economy, but the decline in French industrial production is especially acute: 8.3 percent between February 1980 and February 1981, compared to 5 percent in the FRG and 4.5 percent in the European Community as a whole. Nevertheless, this slump in activity did little to intensify the slowdown in inflation that started in the third quarter of 1980: during 1980, the rate of inflation of prices only declined about a point; in the first months of 1981, it was once again at 14 percent, in other words at the average level of the previous year, as a result of the greatly increased cost of imports. As it did in all the other countries in the Community, unemployment received a strong new impetus: the number of job-seekers grew by 200,000 between December 1980 and April 1981; it is a small consolation that this increase is not as severe as among our neighbors: in March 1981 the unemployment rate in France reached 7.3 percent, compared to 7.5 percent in the Community as a whole, 4 percent in the FRG, 8.8 percent in the United Kingdom, and 10.7 percent in Belgium. The particularities of the economic changes in France during the past year will doubtless be exhaustively analyzed by the new team in power. But right here and now, two explanations can be advanced: the first is to be found in the severe deterioration in the domestic competitiveness of French industry in its own market since 1979; the reasons for this have not been clearly established, the stability of the franc against the German mark since the creation of the SME [expansion unknown] not being the sole cause. The second is doubtless to be found in the sectors protected from international competition; even in 1980 they created large numbers of jobs, despite poor demand, which has not failed to put stress on prices.

At the beginning of June 1981, there was still no perceptible sign of economic recovery. The report on the condition of industry in May was deeply pessimistic and, correspondingly, prospects for domestic purchasing power remained very reserved; on the eve of the presidential elections, intended vehicle purchases remained mediocre. A persistent stagnation in activity up to the summer of 1981 remains the most likely prospect; a prospect which the attacks on the franc and the increase in the basic bank rate to 17 percent since the presidential election have made even more probable.

In these circumstances, one may better understand the extreme moderation of the first economic policy steps taken at the start of the new president's term of office. The 10 percent increase in the SMIC on 1 June was intentionally much more selective than comparable increases in the past could be. The compensatory lowering of social assessments on those making 1.2 times the SMIC had a double purpose: to encourage a ceiling on additional increase, whatever may happen; and to avoid exacerbating by too much the strains on industrial profits, which would then fuel new inflationary tensions. The increases in social services and public spending, though quite spectacular in their presentation, will only have limited impact in the second half of 1981, because of their phasing over time; a revival of the French economy that moved too far ahead of the recovery of its trading partners would once again precipitate a decline in external trade, whose prospects for 1981 are already unfavorable enough.

Such prospects are not able to substantially modify the trends in employment and unemployment: a worsening is to be expected once again between now and the end of 1981. This will force the moment of truth for economic policy. Keeping prospects alive really requires broad consistency in the main lines of macro-economic regu-

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latory policy: monetary policy, budgetary policy, and income policy. Now it is illusory to count in the very short term on the possibility of significantly re-orienting France's trade flows, and in particular of achieving self-sufficiency relatively soon in equipment goods. The new majority that emerged from the ballot boxes on 21 June will have to confront the same choices that toppled its predecessor:

--accepting moderate growth in the purchasing power of wages (a new increase in real prices could push down purchasing power), or choking off the growth in public spending;

- --adapting to unemployment by increased deductions for social assessments, or organizing industrial life in such a way as to reduce the work week without lowering productivity.

In order to make new decisions in the context of such constraints, the new team will have to take into account the attitudes of wage-earners. Above all it will have to overcome the wave of employer skepticism which threatens to engulf it.

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ECONOMIC

ITALY

COMMENTATOR DISCUSSES EAST-WEST ECONOMIC RELATIONS

PM041447 Turin LA STAMPA in Italian 31 Jul 81 pp 1-2

[Article by Frane Barbieri: "If Europe Goes to Siberia"]

[Text] The sudden offensive announced by Haig in the economic sphere reveals Reagan's suspicion that, of the many promises made in Ottawa by the magnificent seven, or if you like six-and-a-half, one will almost certainly not be kept. This is the coordinated containment of industrial trade with the Soviet Union. The polemics between Reagan and Schmidt at the Chateau Montebello were presented in strategic and at times even philosophical terms. The American maintained that a cutback in Western supplies and credit will make the crisis in the Soviet imperialist system break out more quickly, while the German retorted that Western technological aid strengthens the moderate reformist factions in the Soviet power structure, cutting the ground from under the expansionist faction.

In Reagan's view, intensive economic relations give the Soviet Union a hold over the West, while Schmidt thinks that it is the West which will determine future Soviet lines. Nonetheless, even in this case it seems that the crisis comes before philosophy. First it was discovered that trade with the USSR represents not only an inevitable but a natural solution for the Europeans: nobody in Europe exports and offers credit to soothe the Soviet regime; they do it because they do not have better business outlets. Immediately afterward the business was given a philosophical justification. In this case it is not a question of the clash between an open and hence progressive outlook on the part of the Europeans and Reagan's presumably reactionary closed attitude, and of the former's historically inevitable prevalence over the latter. It is rather a question of the simple fact that economic interest had always prevailed over political interest and that policy is determined on the basis of the economy and not vice versa (whenever the reverse happened both the policy and the economy collapsed). Marx remains valid on this point in every sense. It is another matter if this rule is not observed in the countries of so-called real socialism. There politics really does dominate the economy, doing violence to it. But for the capitalist systems to remain capitalist, they are paradoxically obliged to adhere to Marx. The communist systems, on the contrary, preserve themselves by disowning him.

For other markets Europe has always been a processing industry that uses their raw materials and energy. This is how it became an economic power. And only thus can it remain one. Having failed to act fast enough to make the Third World

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not only a secure and stable source of raw materials but even an equally secure and stable new market, Europe's outlets are being increasingly reduced to the vast Soviet sources and markets.

Even tsarist Russia was destined to become the outlet for the European economy. Primarily in view of the collapse of the colonies, the communist regime established in the Eastern Bloc has changed little in this regard. Indeed, to be frank, it is precisely the authoritarian plan-making and centralizing state that inspires trust as a partner among European businessmen. Amid the extreme fluidity of world markets--primarily with the Third World--they feel more secure with the Soviets. As chairman of the German Industrialists Association Wolf Van Amerongen says: "With whom could I feel more secure in business dealings if not with Brezhnev in person, especially when he offers me nothing less than uranium in exchange?" It is clear from his name, moreover, that he is no overambitious progressive.

There is an inherent element of danger in the great Siberian adventure. You can try to diminish, but not avoid, this danger. If the British fail to seize those markets the Germans will, if not the Germans then the French, if not the French then the Japanese, and if the latter withdraw then the Americans will push their way in. The Japanese did involve themselves in Siberia but later withdrew--not for philosophical reasons but because the cost seemed excessive (oil was costing twice as much) and because meanwhile the new Chinese alternative has emerged (offering oil at the same price but with more attractive political prospects).

The supremacy of profit over philosophy has in any case been confirmed by Reagan himself who, though having beaten Carter because of the latter's permissiveness toward Moscow, eventually ended the grain embargo introduced by Carter. It was the ultraconservative Texan ranchers who asked him to. In any case, Europe has many fewer options than the Americans and even the Japanese. If within the framework of these pressures Euro-Soviet plans still do not seem to project far into the future and if the volume of business still does not seem very great, this is due not so much to strategic restrictions as to the bureaucratic sluggishness and the clumsiness with which the Soviets move in the business world.

In fact it is the Soviet leaders who suffer from ideological preconceptions. They always have to supply a theoretical answer to the dilemma posed by the omnipresent priests of orthodoxy: who exerts the most influence or is the most influenced within the trading context and what is the danger of the Western lifestyles and outlooks being imported along with technology? If Soviet trade and business with the West remain restricted, the credit or the blame would be Suslov's rather than Reagan's.

In the inevitable expansion of trading between economies that are basically complementary the greatest specific danger to the West that has hitherto emerged is that of Moscow's skill in manipulating and securing credits. Soon the Soviet zone will hold a total of almost 100 billion [currency unspecified] in Western credits. They bear witness to the anxiety to open up new markets but also to the skill with which the Soviets are exploiting this anxiety so as to promote their own industrial investments and the West's consumer requirements, while

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keeping their own financial resources free for the arms race. There is no need to resort to complex financial calculations to realize that the Soviet Union, with its economy's very low capitalization rate, would never have become the military superpower it is without the West's financial contribution. Be that as it may, this is a danger that must be measured, since it cannot be avoided.

The danger to the West is attenuated by the fact that the great adventure is not without risks for the Soviet Union either. One result of the influx of technologies and the intermingling of the economies has been to strengthen the industrial, as against the military, sector within the Soviet power machine--in other words, the pragmatic and technocratic rather than the ideological and bureaucratic. Both are obsessed by the ancient Soviet complex of encirclement. But whereas the military-ideological sector tries to shake it off by progressively pushing back the borders of the USSR's supposed security (thus transforming the self-defense complex into actual expansionism and turning the "security zone" into a full-scale empire), the technocratic current is discovering that the cost of the unnatural empire (unnatural inasmuch as it is the metropolis that maintains the colonies and not vice versa) constitutes such a burden on the Soviet economy that the latter is grinding to a halt and becoming a subpower.

Consequently both currents are prompted to seek margins of security and perhaps the empire's strength by setting a modern economy in motion, rather than in astronomically expensive weapons. It is impossible to say who will win this very complex match. All that can be said is that it is a match that must inevitably be played. Perhaps the West will thus be forced to "sell even the rope with which it will be hanged." As Lenin forecast, unless the blessed new European left itself finds a rope with which to hang Leninism.

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MILITARY

FRANCE

CHANGES AFFECTING NATIONAL GENDARMERIE OUTLINED

Paris VALEURS ACTUELLES in French 13 Jul 81 pp 23-25

[Article by Frederic Pons: "Armed Forces: The Star of the Gendarmes"]

[Text] In the 14 July parade the gendarmerie always marches ahead of the army troops, clearly separate. That is a tradition, a homage because of its 8 centuries of history. This year, the 83,000 gendarmes perceive another symbol in this arrangement: A sign of the interest focused on the gendarmerie by the new government.

Presiding on 10 July 1981 over the swearing in of the new graduating class of the Gendarmerie Officers' School, Mr. Hernu recalled the decisions made on 10 June 1981 by the Cabinet "to restore its legitimate place to this service which is a moral imperative:" The creation of 1,000 positions for gendarmes, the establishment of a study committee on the revamping of internal regulations, and the conferral of a fourth star on Lt Gen Jacques Boye, inspector general of the gendarmerie. This rank has never yet been conferred on a gendarme.

Aged 58, Gen Boye has retained, from his initial training as a highland infantryman, a sporting constitution and the tan of an outdoor man. He spends 6 months of the year on maneuvers or visiting his units. He does so "to retain contact with his men" but also with the prefects and magistrates.

A close adviser to the minister of defense on matters relating to the gendarmerie, Gen Boye sees to the training and the advancement of each gendarmerie officer. Under his authority two committees are studying the following: The first is studying the status of the gendarmerie in 1981 and the second "the needs of the security of Frenchmen in 1990 and the role which the gendarmerie will be able to play." The initial reports will be ready in October 1982. But already now, the gendarmes told me, "all these committees reach the same conclusion: The need to revamp the regulation of the domestic service."

"The new regulations must modify what is outdated," Gen Boye asserts.

This revamping of the regulations has been the headache of the gendarmerie's general staff for 25 years. Established by a law of April 1798 (28 Germinal of the year 7 of the Revolution), the regulations have been changed--and merely by simple amendments--only in 1820, 1824, 1903, and 1933. When he took office in February 1979, Charles Barbeau, director of the gendarmerie, had committed himself to review the regulations during his first year.

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"The resolve was there but nothing happened," it was said at the general staff.

Yet, some annoyances relating to the regulation of discipline are borne less and less well by the young generations: The unpleasant chores of the barracks, the necessity to live in barracks "mandated by the absolute need of the service," the need to request "duly detailed" permission to receive friends and have pet animals. Hence the joke of the gendarmes: "In view of regulations, women and dogs will be tolerated."

There is especially the need for the permanent availability of the gendarme "soldier of the law," on duty round the clock for his "daily warfare." In some brigades the men put in 70 hours of active duty a week for 3,500 francs a month. Motorized gendarmes are on the move 170 days a year, that is, every other day on the average.

The creation of 1,000 additional jobs is the start of this lightening of duties of the 3,678 brigades, which are thus all slated to increase from five to six men each at least. "Free time" will make its appearance in the gendarmerie. Beginning on 1 Oct 81, each gendarme will be entitled to 48 hours of real rest each week (now it is one a month) and to 4 consecutive weeks of leave in summer.

Is there a cause-and-effect relationship? This is the first time since Cardinal Richelieu (son of a provost) that the minister of defense (or of the armed forces) is the son of a gendarme.

In May 1981 Francois Mitterrand was the first to commit himself when he said: "It will be appropriate to examine the conditions under which a special increase in funds can be approved for the gendarmerie. The capabilities it has must be increased."

This resolve should offset the decrease in credits allocated to the gendarmerie since 1977. With a total of 9.5 billion francs, its 1981 budget was equivalent to 9.1 percent of the total defense budget compared to the 9.8 percent anticipated by the military program law for 1977-82. Expressed in constant francs, this year's budget barely exceeds that of 1976, there being a lag of 110 million francs compared to estimates. This discrepancy has been reflected in the numbers. With no more than 730 new jobs in 1981, the cumulative shortfall in the past 2 years has been 498 gendarmes. The only budgetary item clearly on the rise this year is the data-processing program which was assigned 17.6 million francs in credits.

Two networks have been set up: The "Araignee" [Spider] system for control purposes and the "Saphir" [Sapphire] system being tried out in the Somme region. In this department each gendarme dispatch rider is equipped with a terminal linked to an electronic control center at Rosny-sous-Bois. The latter includes an [electronic] data bank of individuals being sought and of stolen automobiles. "Saphir" saves a lot of time in making connections and in information retrieval. This time saving makes it possible not to lose contact with the population.

In some areas, the gendarmerie is striving to return to foot patrols, always in pairs. The extension of the "Saphir" network, planned in each department, will make it possible to reduce the number of meetings at the brigade level and the excessive number of reports.

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"The statistics explosion has strangled us," I was told at the Melun school. Each administration has earmarked for its own use blanks in questionnaires which include no fewer than 200 items.

It was necessary to limit that. Accordingly, in 1977 a "committee for the simplification of forms" was designated. Reports every 10 years and in 12 copies each have disappeared [from the gendarmerie].

At the same time recruitment has never been better: There are six applicants for every slot. The same success is evident among officers graduated for the major military academies or recruited from among the best noncommissioned gendarmerie officers on a competitive basis. The attractions? "Immediate operational responsibilities," was the answer of the lieutenants who I met at Melun. Additionally, gendarmes benefit from more interesting career development than in the other armed services.

At corresponding ranks, the responsibility of the gendarmerie officer is greater. An example: The brigadier general commanding the gendarmerie legion of Metz has nearly 12,000 men under his orders. His counterpart in the army, the general commanding the territorial military division of Nancy, has half as many troops under his command.

On showing me the fourth star on his sleeve Gen Boye stressed: "This new rank symbolizes recognition of the important role held by the gendarmerie at the side of the three armed services."

Young officers went further. They even expressed the wish for a change at the top of their command through the abrogation of the decree of July 1933 placing a civilian magistrate at the head of the gendarmerie.

"It is not inconceivable to create a chief of staff of the gendarmerie as in the other armed services; the gendarmerie is older."

There are at least 17 candidates for the position: These are the generals of the service. Mentioned are not only Gen Boye, the most senior-ranked officer, but also Gen Rigaud, regional commander in Paris, and Gen Bernadac, regional commander in Lyons. That is where the deputy mayor of Villeurbanne, Mr Hernu, was able to appreciate him.

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GENERAL

INTERNATIONAL AFFAIRS

BRIEFS

FRANCO-SWEDISH ARMAMENTS COOPERATION--France is the country with which Sweden will exchange the largest amount of information in the field of military technology. The agreements already signed with the United States, Britain, and the Federal Republic of Germany being of lesser scope, Marcel Dassault will have access to the technology perfected by SAAB [Swedish Aircraft Corporation] and the LM Ericsson radar system. Comment: The Swedish parliamentary circles which used to oppose France's policy of arms sales were reportedly reassured by the positions taken by the new government. [Text] [Paris LA LETTRE DE L'EXPANSION in French 13 Jul 81 p 4] [COPYRIGHT: 1981, Groupe Expansion S.A.] 2662

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GENERAL

FRANCE

NEW MATRA SPACE CENTER IN TOULOUSE DESCRIBED

Paris AIR & COSMOS in French No 865, 20 Jun 81, p 91

[Article by Pierre Langereux: "Matra Puts a Vast Space Center into Service in Toulouse"]

[Text] Matra has placed in service in Toulouse its new space center for the assembly and testing of satellites and space payloads. The new installations, built in the industrial zone of Palays, near Montaudran, represent an investment of Fr 100 million, financed essentially by Matra. They comprise 26,000 m² of offices and laboratories and 3,000 m² of assembly rooms, including two zones under laminar air flow for work that requires very high cleanliness, as well as an antenna-testing base (without radome) on the roof of one of the buildings for testing the satellites' telecommunications equipment during assembly. In addition, the Matra space center of Palays enjoys the benefit of the proximity of the CNES [National Center for Space Studies] space center in Toulouse, where the SOPEMEA [expansion unknown] has space-testing facilities that are unique in Europe. The staff of the Matra space center presently totals 280 persons, recruited largely from the local labor force. The personnel will reach 350 at the beginning of 1982. Matra plans to increase its total space-division personnel from the present 650 persons (531 at the end of 1980) to 900-1,000 persons in 1983, half of them at Velizy (Products and Technology Department) and half at Toulouse (Systems and Assembly Department). In 1980, Matra had a turnover of Fr 380 million and logged Fr 1.8 million [as published] in orders. Matra anticipates a turnover of Fr 700 million in 1981 and Fr 1 billion in 1983 in the space sector.

The new space center in Toulouse will make it possible to assemble the satellites of six programs per year. It will be used for integration of the five ECS [expansion unknown] satellites, the three Telecom 1 satellites, the Spot 1 satellite, and the equipment cases of the Ariane launcher (four cases per year at present, and five per year starting with the 15th launcher).

But this sizable investment by Matra will come into full utilization with the future programs that Matra counts on obtaining--specifically, the operational Spot satellites; the European ERS remote-detection satellite (which uses the Spot platform); the future European scientific satellite Hipparcos, for which the invitation to bid will be issued in 1981; and the future SAMRO military observation satellites for France.

Matra also hopes to win between three and five telecommunications-satellite programs for export in the coming years, within the framework of the association with British

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Aerospace Dynamics Group and Thomson-CSF within the new GIE [Economic Interest Group] Satcom International recently created for exportation of telecommunications satellites derived from ECS and Telecom 1.

The first invitation to bid to which Satcom International has responded, under the prime contractship of Matra, is that of the Australisat domestic-telecommunications satellite program for Australia. But Matra is also prospecting for other national telecommunications-satellite contracts, notably in Latin America (Colombia, Brazil, Argentina, Mexico, Venezuela), the Middle East (Saudi Arabia, Iraq), and Africa (Niger, West Africa).

Matra considers that the Telecom 1 platform will be very well-suited to these projects. It should be a valid one for at least another 3 years. But beyond that, Matra will have to have a new space platform available, heavier and adapted to the capacities of the new European launchers Ariane 3 and especially Ariane 4.

Matra might also decide to launch into the direct-TV satellites market, taking advantage of the experience of its British associate BADG [British Aerospace Dynamics Group] thanks to the European L-SAT experimental satellite project, which will use a heavy platform of the Ariane class. A decision on construction of the L-SAT satellite is to be taken in principle by the ESA [European Space Agency] in October 1981.

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