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Mittal reprieve comes at a high price for Hollande

NEWS Analysis
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FRANCOIS Hollande's bid to rescue steel furnaces in France's historic industrial heartland was to be the mark of a president on the side of the workers and a state with the courage to bring a multinational to heel.

But the two-month standoff over steel giant ArcelorMittal's Florange plant in Lorraine has unnerved investors in the eurozone's second-largest economy, confused unions and exposed Mr Hollande's government to international ridicule.

His Socialist allies have hailed as a victory a late-Friday compromise under which ArcelorMittal agreed to invest €180m to expand the site near the German border over five years and hold off making forced redundancies. But as the European steel sector struggles to cope with overcapacity, the furnaces themselves will remain shuttered for now, and questions remain over the exact fate of the 630 or so workers employed there and further funding needed for expansion.

With unemployment at 14-year highs of 10% and his popularity ratings at record lows for a president only half a year into his mandate, there was clear political advantage for Mr Hollande to lock horns with Indian steel magnate Lakshmi Mittal.

But the result is at best a no-score-draw, and the tactics used — antibusiness rhetoric and the threat of nationalisation — could damage his wider reform effort.

While his pugnacious, micromanaging predecessor Nicolas Sarkozy led from the front, Mr Hollande let his ministers lead the fight, creating confusion over who runs industrial policy.

Arnaud Montebourg, the firebrand leftist industry minister who pushed the nationalisation option hardest, declared Mr Mittal persona non grata in France and revealed he had found an anonymous potential buyer ready to invest in the plant.

That was lapped up by critics, including London mayor Boris Johnson, who told executives in New Delhi that the "sans culottes" revolutionaries had taken control in Paris and advised them to bring their investment rupees to Britain.

Mr Montebourg later retracted his personal attack on Mr Mittal but then had to watch as aides of Prime Minister Jean-Marc Ayrault, who announced the final accord, briefed media that his putative investor was neither "credible nor solid".

Facing opposition calls to resign, Mr Montebourg went on local television on Saturday to announce he had Mr Hollande's support and insist he felt "not betrayed, merely let down" by the outcome.

But worse than the damage done to the credibility of one of Mr Hollande's most high-profile ministers, many fear the cacophony further shakes France's image as a place to do business just when it needs all the help it can get to avert recession.

"It has been a disaster," a senior French banker said as the episode unfolded. "Even for sophisticated investors who understand that in France there is a difference between the rhetoric and the reality, this is hugely unnerving."

Elie Cohen, economist at the CNRS public research institute, told the commercial i>Télé network that by raising the option of nationalisation, Mr Montebourg risked encouraging copy-cat demands by workers at other struggling sites.

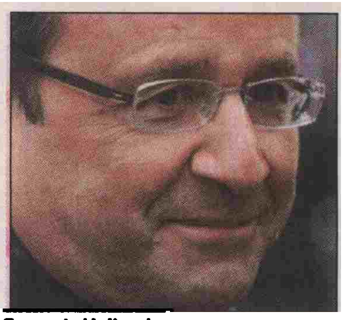
It is still too early to say whether the Florange wrangling will hurt foreign investment in France, which Bank of France data show has grown modestly since the 2008-09 global turndown to hit €30bn or 1.5% of output last year.

Barely noticed last week, US online giant Amazon said it was opening a new distribution centre in northern France that will create up to 2,500 jobs — four times the number at the Florange furnaces and a reminder that 80% of France's economy is now in the services sector. Vital to France's long-term prospects is whether in coming weeks Mr Hollande obtains the overhaul of the country's unwieldy and expensive labour regulations which he has tasked employers and unions to achieve in negotiations by year-end. For that, France's trade unions must make unprecedented concessions to allow business more flexibility in hiring and firing. But the government handling of the Florange tussle has left many labour leaders feeling betrayed.

"Until the last minute, basically, we were made to believe that temporary nationalisation was a given," Edouard Martin, head of the Florange chapter of France's large CFDT union, told RTL radio.

"We did not understand this last-minute fix-up in which Jean-Marc Ayrault unveils an option never before discussed. We get the feeling he was lying to us all along."

A big test now will be whether unions have been riled so much that they stonewall in the labour reform talks. It could also make some more prone to protest if the government makes the extra public spending cuts that analysts say could be needed next year to ensure France hits its deficit-cutting target.


Francois Hollande

For now, both sides hope the battle of Florange is over.

ArcelorMittal has welcomed a deal that includes commitments on voluntary redundancies and redeployment of furnace workers elsewhere in its French activities that go little beyond what it would probably have offered without government intervention.

Mr Hollande's office concedes he did not manage to get the furnaces reopened as he has promised, but it may not be the end of the story. Referring to the nationalisation threat, one aide noted: "We are still keeping that revolver on the table."

Reuters