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IS THE FRENCH ECONOMY REALLY READY TO DEAL WITH THE CORONAVIRUS?

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Ministers Le Maire and Pannier-Runacher have just announced support measures to enable the French economy to overcome a sharp slowdown in activity in a number of sectors. Do they amount to effective emergency first aid?

In reality, they are essentially a reminder of existing tools typically applying to the management of companies in difficulty and which are familiar to all industry professionals, who particularly use them in pre-insolvency procedures (ad hoc mandates or conciliation).

As such, they first include postponement of the payment of tax and social security contributions, though it is specified that this will take place on a case by case, sector by sector basis. It is not specified whether special units will be set up at local level to deal with every financial director, but one would assume, having regard to the large number of cases that might quickly arise, that suitable arrangements should be put in place.

There are then measures relating to business financing, and especially the management of defaults in the context of loan repayments. Again, these measures involve management on a case by case, sector by sector basis, but, if the relationship with the banker is not particularly close and/or if the loans are substantial and involve a number of establishments, it would be preferable to open an ad hoc mandate or conciliation procedure as a matter of urgency to obtain the assistance of a professional who can deal centrally with requests for accommodation and provide a channel for negotiations with the banks. In fact, in such cases, it is particularly inadvisable to act alone, even in a health emergency such as the one we are experiencing now, because aligning different establishments to a common position concerning the postponement of payment deadlines requires a certain amount of authority and experience in dealing with banks, which the borrower does not necessarily have.

With regard to the intervention of the BPI, one cannot be too optimistic at this stage and we will have to await the first examples of intervention to see precisely what the scope of this mechanism is. However, it is necessary for the banks to play along with liquidity loans of this kind that are granted in an emergency, because the BPI's only role is to guarantee them.

As far as suppliers are concerned, and if payment difficulties accumulate due to the decline in cash flow at the most vulnerable companies, the government also recommends great tolerance, particularly on the part of large companies. Since it cannot be written into a law or a decree, such "discipline" will also only be of any use if "major customers" observe payment periods and do not seek to string them out, and if credit insurers exercise restraint. In this case, again, if the situation becomes problematic, and before commencing insolvency proceedings, where the difficulties enter the judicial arena, it is of course recommended to seek assistance, and this is precisely where an ad hoc mandate or conciliation becomes useful in finding solutions with suppliers and creditors.

The government refers to credit mediation but this body does not appear to be technically suitable or to have the necessary authority to take very swift action and to ease the pressure on businesses that are suffering.

Other measures could be mentioned, such as partial staff layoffs or the removal of penalties for delays in public procurement contracts, but in summary, what is clear is that at this stage at least, the government does not have a "magic wand" to reverse the impact of the Coronavirus.

It is more a question of recalling that the pre-insolvency procedures exist and that they provide proven mechanisms that can be used to intervene and which, through dialogue, make it possible to alleviate difficulties, in particular with postponements, rescheduling, moratoriums and emergency financing, before it is too late and before the arrival of a state of cessation of payments. This is where we are and certain sectors such as the tourism, hotel and events industries are particularly affected. Other sectors such as retail, which are already vulnerable, and industries which obtain supplies in Asia, will be affected very soon.

However, there is a concern that these non-coercive tools will quite soon become ineffective in dealing with the scope of the crisis.

The government should therefore consider even more concrete measures, in particular including the setting up of a one-stop shop to defer the payment of tax and social security contributions, the simplification of applications and an expedited review system.

With regard to emergency financing, consideration should particularly be given to requiring a significant effort on the part of banks, again including expedited application processes. In this case, the State can provide real added value by convincing banks to act for the benefit of the economy.

These are just some areas that could be considered to prevent the health crisis (which we hope will quickly disappear) leaving a major mark on an economy that was already struggling to grow.



