

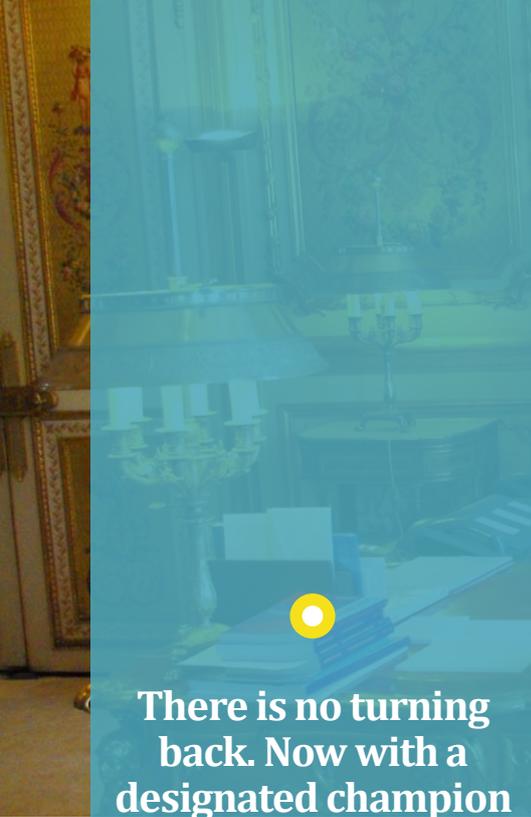


France 2017 elections in perspective

Episode 2:
The left wing primaries, the true
kick-off of the Presidential campaign

January 30, 2017

BRUNSWICK



There is no turning back. Now with a designated champion for the Socialist Party, the five major candidates running for the Presidency are in the starting blocks. Only three of them – Le Pen (far - right), Fillon (right) and Macron (center left), seem capable of making it to the two-person second round. The wild card Mélenchon (far-left) should however not be forgotten, as well as veteran Bayrou (center-right), who has not decided yet whether he will run. Both recent primaries have shown that in France, as elsewhere, the unexpected is likely to become the routine.

Benoit Hamon, the radical outsider of the left wing primaries, has surprised everyone by defeating Manuel Valls, former Prime Minister, and Arnaud Montebourg, former Minister of Economy. A repeat of what François Fillon did two months ago when defeating Nicolas Sarkozy and Alain Juppé. The right-wing primaries gathered over 4 million voters but only 2 million voters showed up for the left-wing primaries, calling into question the real legitimacy of the designated candidate of the Socialist Party.

The decline of the Socialist Party

Similar to Bernie Sanders in the USA or Jeremy Corbyn in the UK, Benoit Hamon has radicalized the debate within the Socialist Party: his utopian vision has prevailed over a pragmatic social democratic approach. The unsuccessful policies of the past years, both to decrease unemployment or to encourage business, has fed resentment towards this approach and has materialized in the very low turnout for the left wing primaries. It could well be that Hollande's disastrously unpopular presidency has not only been fatal to his own political career but could also be fatal to the Socialist Party.

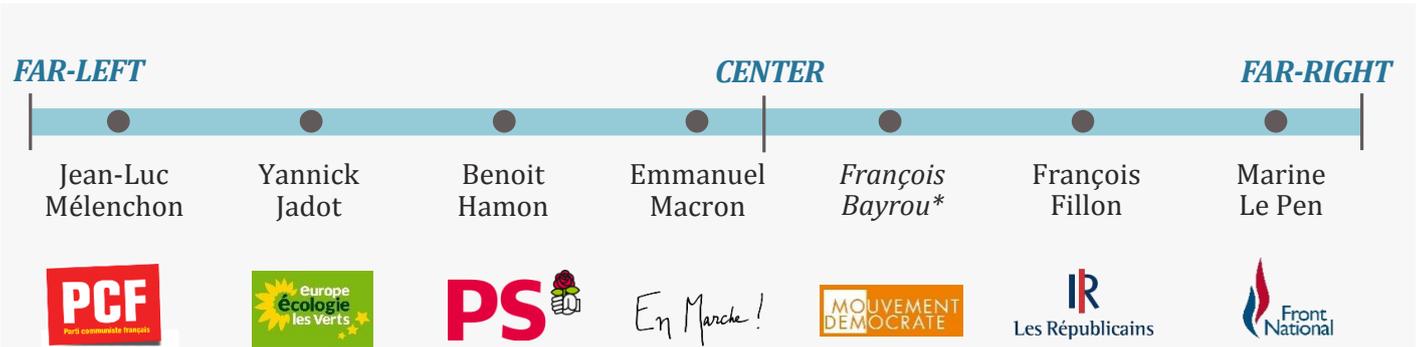
Growing populism

France has not been left unscathed by the profound anti-establishment movements that have hit the UK and USA – and which threaten other European countries like Italy, the Netherlands or even Germany. Hamon's anti-austerity stance has probably been fed by this trend in the left primaries but, moving forward in the Presidential campaign, other truly populist candidates will draw more benefits from it: Jean-Luc Mélenchon on the far-left or Marine Le Pen on the far-right.

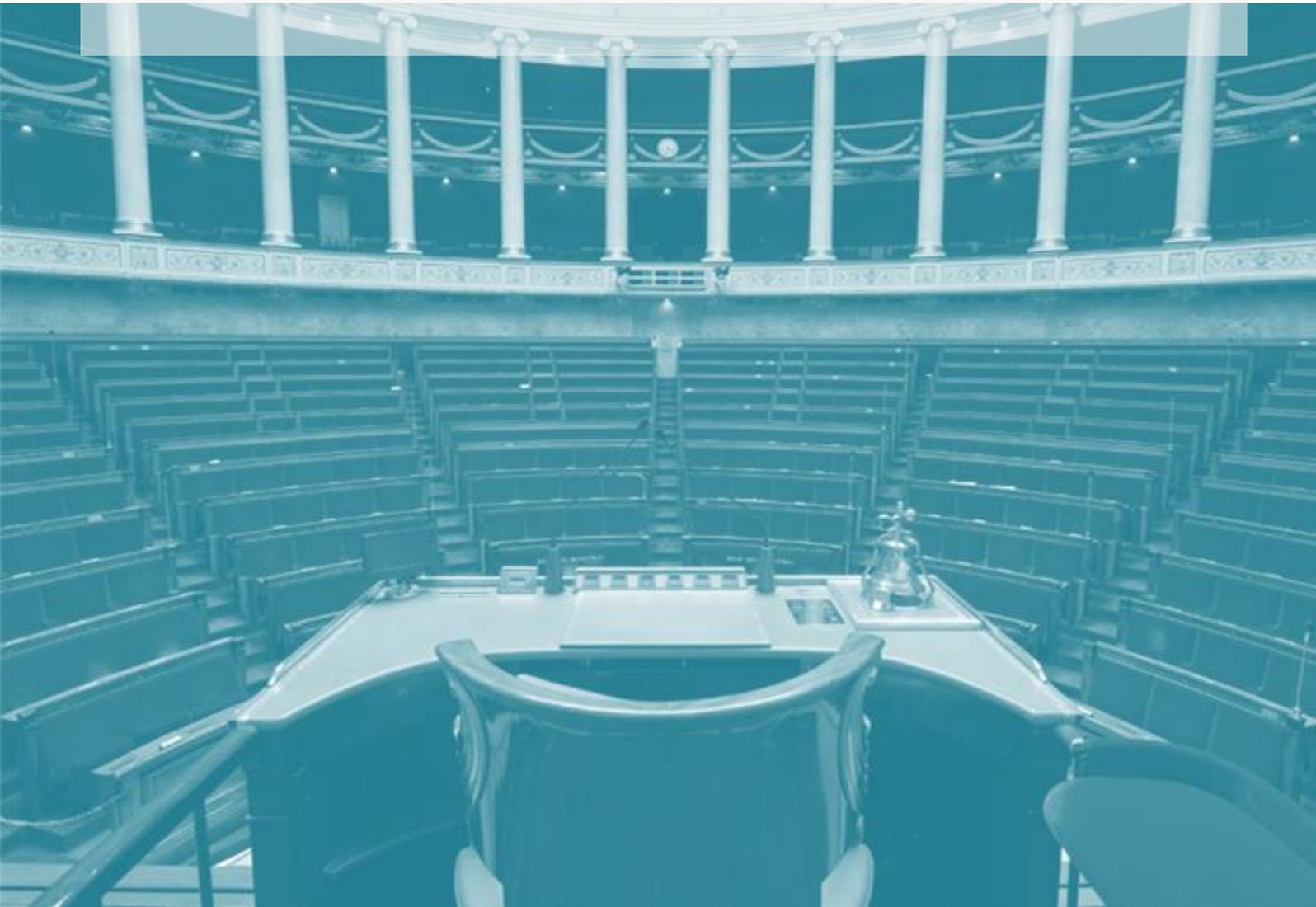
Macron, the real winner of a primary that wasn't his own

While the left's primary debate was mired in idealist proposals, Emmanuel Macron, former Minister of Economy who refused to be part of that process, has continued to generate strong enthusiasm, gathering thousands at each of his meetings. With a liberal-conservative candidate on his right and a radical-utopian-socialist on his left, not to mention the extremists of both sides, Macron has a wide space to occupy in the center. Over the past weeks, he has been extremely smart at successfully filling that gap. There is one question remaining though: will François Bayrou, the historic representative of the center-right run for the Presidency himself or announce his support for Fillon, or for Macron? The coming weeks, revealing the final details of the main candidates' programs, will be critical, and the French roller coaster is not over yet.

Left to right, the contenders



(*): unclear if he will run himself or support one of the other candidates



The 5 main contenders

Hamon, the socialist utopian

A rugby fan, Hamon, 49, began his political career in the 1980s as a student activist.

He got involved in the Socialist Party through the Young Socialist Movement of which he became President. Throughout his career, he has dealt with three parallel political lives: Within the Socialist Party (being one of the leaders of its left wing with Arnaud Montebourg - "les frondeurs", the rebellious leading the socialist opposition to Hollande's policy in the second term of his mandate), as an elected official (member of the European Parliament, member of a local authority in the Greater Paris Region, and currently a member of the Lower House of the French Parliament) and as an active part of the Government (as a member of Martine Aubry's staff when she was Minister of Labor and a Minister himself at the beginning of Hollande's mandate, in charge of Social Economy, and later on - although briefly - in charge of Education).

More spending, more State interventionism and a new Constitution

His program outlines radical ideas such as a monthly universal basic income of about €750 per person, the recruitment of thousands of new civil servants (including teachers and policemen), an increase of civil servants' wages and of the legal minimum wage for all employees by 10%, and a 32-hour working week.

Very unclear when it comes to the financing of those measures, he proposes to tax industrial robots, to fight against tax evasion by large multinational companies, to strengthen constraints on stock options and to reinforce taxation on households' assets.

He also proposes to legalize marijuana, to cancel the inter-EU debts of Member States, to create a "humanitarian visa" for refugees, aimed at facilitating

immigration into Europe.

He also strongly advocates a greener economy, making the energy transition towards renewable energies the highest priority.

Hamon also wants to reshuffle the French institutions in order to narrow the gap between politicians and citizens and involve the people in the decision making process, creating de facto a 6th Republic in France.

His challenge in the campaign

will be to avoid a complete disaster for the Socialist Party, after Hollande's withdrawal. He desperately needs to reunite the left if he wants to avoid a humiliating 4th position in the first round but so far he has received a blunt "no" from Jean-Luc Mélenchon.

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RATHER LOW

Likelihood of reaching the second round:



The 5 main contenders

Fillon, the conservative marathon-runner

François Fillon, 62, is a career politician, with four decades of experience. Elected the youngest MP at age 27 in 1981, he has held offices at all levels of the political landscape, several times as Minister (incl. Labor and Education) until his appointment as Sarkozy's Prime Minister (2007-2012).

A right-wing centrist, he holds free-market and pro-business ideas and has built a reputation for being a cautious but determined reformer (he carried out two pension reforms). Claiming his catholic faith and culture, he is a moderate European (he voted against the Maastricht Treaty) and embraces a traditional stance on social issues. Discreet and scandal-free, at least until this recent month (see below), Fillon has a style which contrasts with that of the extrovert and buoyant Sarkozy.

François Fillon advocates a shock therapy program for the French economy and a pragmatic stance on foreign affairs. The vision behind this program is his alarmist diagnosis of the French economy, which he described back in 2007 as being "bankrupt". With "liberation of the economy" at the top of his program, Fillon advocates a profound change of the business environment, based on increased flexibility of the labor market and significant tax breaks for companies.

In-depth reform of the French State and pro-business measures

His key measure to trigger a "shock of competitiveness" is to end France's emblematic 35-hour workweek. From a tax perspective, Fillon has committed to a reduction of business taxation by as much as €50bn starting in January 2018. This includes cuts in corporate charges on wages (40bn €) and a lowering of the

corporate tax rate (10bn€) from its current level -33.3% -to around 25%, a rate that is much closer to the EU average. In addition, the French "ISF", or "Solidarity Tax on Wealth," would be scrapped in order to encourage investments in SMEs. He is betting that he will boost the economy in the first two years of his mandate by focusing on businesses rather than households and pushing through corporate tax relief. In order to restore France's public finances and structural growth, Fillon's ambition is to complete a deep and radical state reform. To do so, he proposes a cut of 100 billion euros in public expenditures over the next 5 years. His flagship proposal is to cut 500,000 public jobs within 5 years (roughly a 10% cut). In the same vein, he also wishes to align the pension status of public sector workers with that of private sector workers by pushing back the retirement age from 62 to 65.

A pragmatic foreign affairs policy

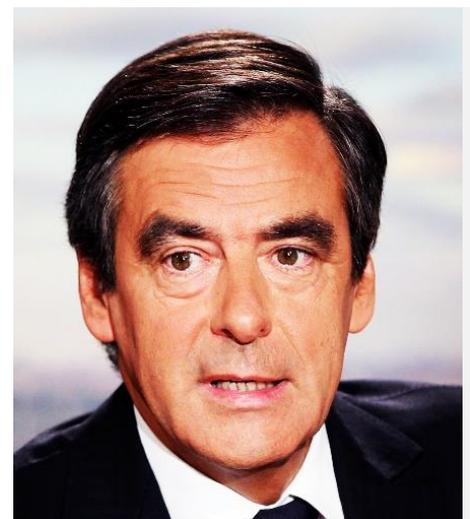
Fillon has not been very forthcoming on foreign policy so far. Defending a "Europe of nations to ensure sovereignty": Fillon does not want more integration at large in Europe and believes that the powers of the European Council should be increased vs. the European Commission. He believes that the revival of the Franco-German relationship depends on France's ability to reform itself and therefore to regain economic credibility in the eyes of its German partner. Fillon advocates dialogue with Russia which he believes is the only way to put an end to the war in Syria and defeat ISIS. For him, isolating Russia could be damaging not only for French interests but also puts global balance at risk. In contrast, Fillon has a much stronger stance against China: he believes there should be clearer rules of reciprocity between China and Europe on trade.

His challenges will be to overcome three key obstacles: Perception of his program, Macron and ethics.

- Gathering large support for implementing his radical reforms and demonstrating that these are financially realistic will be critical. Since his victory at the right-wing primaries last November, Fillon has been violently attacked by many due to his "ultra-conservatism", "putting the French social welfare system at stake".
- The rise of Emmanuel Macron is a real threat for Fillon as they are both fighting to attract centrist voters.
- Fillon, who has always promoted high ethical standards, is facing a scandal following revelations by the satirical weekly *Le Canard Enchaîné* that his wife might have been employed as his parliamentary assistant without doing any proper work. Those allegations have prompted France's financial prosecutor to open a preliminary investigation. May be a fatal blow to his candidacy.



Les Républicains



RATHER HIGH

Likelihood of reaching the second round:



The 5 main contenders

Macron, the trans-partisan meteor

Former advisor to President Hollande (2012-2014) and former Minister of Economy and Finance (2014-2016), Emmanuel Macron, 39, is the fresh young face in the Presidential election race.

A graduate of the elite French school ENA (*Ecole Nationale d'Administration*), Macron joined the political game three years ago, after having worked as an investment banker at *Rothschild* in Paris. As Minister of Economy, Macron attracted mainstream attention with the "*Loi Macron*", a bill aiming at reviving the French economy by shaking up an over-regulated economy, fighting corporatism and promoting targeted business-friendly policies. Key measures include loosening Sunday-trading rules, deregulating certain professions such as notaries and liberalizing the French inter-city coach industry to foster competition with trains. Since he stepped down from the government in August 2016, Macron has taken a clear anti-system stance, refusing the traditional logic of parties, and running independently by founding « *En Marche!* » (« *Moving on!* ») – his own party, which is « *neither on the right, nor on the left* ».

At the core of « *En Marche!* », is Macron's pledge to regenerate the political landscape: the belief that politics should not be a profession per se but a limited-in-time commitment which could be embraced by any French citizen at some point in time in their life. Macron's fresh trans-partisan approach to politics combined with great communication skills have electrified the campaign: he has unexpectedly raised great enthusiasm – first in Paris and then throughout the country – becoming the third man of the election. Macron is a center-left candidate and a social-liberal reformist. He is perceived as a pro-

business candidate and has gained support from a number of French business leaders. Macron has not yet presented a proper electoral program. However he has unveiled a range of key proposals during campaign speeches, as well as in his book "*Revolution*" published in November 2016. Macron's central idea is the urgency to « *unblock France* » by dealing with the root causes of the situation and tackling them at the core.

Unblocking the labor market, fostering innovation and entrepreneurship, and reinforcing sovereignty at European level

Reaffirming « *labor value* »: allowing all French citizens to « *live by their work* » (vs. a culture of assistance) is one of Macron's major ambitions. So far, he showcased only one key reform, which is to decrease wages' taxation for the lowest-paid workers. Reforming the labor market for more « *flexicurity* » – a combination of flexibility for businesses and security for workers: Macron wants to put an end to the 35-hour workweek which he considers a brake to French businesses' competitiveness. He proposes to modulate the number of working hours through negotiations at corporate level. At the same time, he advocates a profound reform of continuous learning so as to reinforce workers' rights and give them adaptability to new jobs throughout their work life. Macron also wants to foster entrepreneurship through further administrative simplification – a huge potential task he has not clarified yet. Reshaping the French education system, which fails to provide equal opportunities for success is also an objective for him. Reforming the system includes giving more autonomy to schools and promoting apprenticeship. Finally, he proposes to rebuild Europe's sovereignty, focusing on five priorities:

reinforce security, complete the monetary union, boost foreign trade, accelerate the ecological transition and join the digital economy. In particular, Macron insists on reinforcing Europe's security shield to protect its borders.

His challenge in the campaign will be to translate his popularity into actual votes and for that he would need to:

- Build and showcase a clear and strong program, demonstrating that he has broad enough shoulders to become President,
- Prove that he has the nation-wide base to win the legislative elections, as having a majority in Parliament is key to being able to conduct reforms,
- Preserve his trans-partisan approach by carefully managing his supporters from the Socialist Party.

En Marche!



Likelihood of reaching the second round:

RATHER HIGH



The 5 main contenders

Le Pen, the established far-right populist

Marine Le Pen's National Front is France's leading party by votes with the highest score in two of the last national elections, in 2014 (European elections) and again in 2015 (local regional elections).

This year, nearly all the recent polls – for what they are worth – place her ahead in the Presidential election race and systematically qualified for the second round. She finished third in the previous Presidential elections, in 2012, with 18% of the vote. She is convinced 2017 will be a different story. The turning point in her fast track political career came when she became the leader of the National Front in 2011. Since then, she has been consistently working on further broadening her electoral base, by reaching out to the middle classes, the jobless and those forgotten by the elite and opposed to the fast train of liberalism and globalization. Way before Trump and the Brexiters, she has promoted populist themes which resonate with a vast spectrum of voters, riding on their fears of a gloomy future or their contempt for the “European bureaucracy.” White-collar voters, left or right, today openly express support, something they would not have dared to even whisper years ago. Marine Le Pen has worked hard to distance herself from the outrageous discourse and radical xenophobic stances of the “old” National Front. The climax of this sanitization campaign was reached in 2015 when she excluded her own father, Jean-Marie Le Pen, founder and Honorary President of the party, from the Party's executive bureau.

Marine Le Pen today coasts on this populist rhetoric and polished tone. She for instance denies being anti-Muslim and chooses to speak about French identity and Christian roots, even if at the core, her stances on Islam, immigration and integration of foreigners remain as tough as her father's. She also blurs the

lines on major social issues while openly chasing LGBT support, although a vast majority of the Party's core supporters are still strongly pro-life and anti-same sex marriage.

This vast process of transformation, which many argue has been more cosmetic than a deep reboot, comes at a huge cost. From the inside, the National Front is torn in two. Tensions are high between Marine's core team and the conservative old guard, led by Marine's young niece, Marion Maréchal Le Pen.

Anti-immigration, protectionism and soft *Frexit*

Three months away from the first round, Marine Le Pen is preparing for the final battle. A formidable speaker, media savvy, she is not intimidated by any opponent and remains in full control of her image. She is weak and uneducated on economic issues but unshakable on those issues in debates. Her detailed electoral program will be revealed on February 4th but no real surprise is expected: the main focus will be on social issues in favor of middle classes, pensioners and SMEs, with an increase of the minimal wage and a pension age threshold at 60 years. She claims the tax system will be reviewed for fairness and to prefer French nationals for jobs and social benefits. Marine also cleverly wraps her anti-globalization mantra up in a more moderate protectionism but maintains that the Schengen agreement (no border control between the EU Member States but the UK and Ireland) should be torpedoed and that taxation of imports should be increased. Finally, her claims of abandoning the Euro have also been rephrased into a strange dual approach, where both a new domestic currency should coexist with the Euro, the latter being confined for the export business of major companies.

Her main challenge lies within the mechanics of the French electoral system itself. Indeed, one cannot forget that more than 50% of the national votes are needed to be elected President, given the two-round system for the elections. This remains a very high bar for Marine Le Pen. Opposition and detestation of her ideas remain deeply rooted in the nation and so far all parties left and right have always maneuvered together to isolate the National Front in the final round. Last year during the regional elections, her Party came out on top in the first round in many regions, sometimes by scores averaging 40%, but was defeated in all regions in the second round. Marine Le Pen's program has been embellished and window dressed on many fundamental issues but it remains extreme on many points and economically unrealistic. Can the great communicator sell it to the French this time?



Likelihood of reaching the second round:



The 5 main contenders

Mélenchon, the extreme leftist rabble-rouser

Jean-Luc Mélenchon, 65, candidate of the far-left, is a veteran politician with over four decades of political experience.

He has held offices as Senator, Minister of Professional Education in Lionel Jospin's socialist government, and has been a Member of the European Parliament since 2009. A member of the Socialist Party for more than 30 years, where he embodied the extreme left-wing of the party, he broke free in 2008 and founded his own leftist party, called "Parti de Gauche", inspired by the German "Die Linke" movement. Having already run in the 2012 presidential election, in which he ended up in 4th place with 11% of the votes, he is running for the second time, with a newly created political movement called "La France insoumise" ("The rebellious France"), also supported by the Communist Party.

He embodies the anti-business and anti-capitalist left and appeals to the "left of the left" electorate. He has been one of the fiercest opponents of Hollande's presidency as well as a strong detractor of Le Pen, whom he nevertheless failed to beat in the 2012 general election, when they faced each other in the same constituency. Since he voted against the European Lisbon treaty in the 2005 referendum, he has been tirelessly fighting the mechanics of the European Union, and pleading for a reinforcement of national sovereignty, especially on currency issues. He has in particular been a staunch critic of Angela Merkel's conservative policies. He recently converted to ecologist ideas. Described as a « populist » by his opponents, he is famous for his fiery rhetoric.

Mélenchon has launched a large participative consultation to build his program which is so far largely inspired by his 2012 program.

A new participative Republic, an anti-European stance and the reinforcement of the Welfare State

The key proposals he has unveiled so far are:

- Establishment of a 6th Republic which would be more « *participative* » including setting up of the right for citizens to dismiss an elected representative,
- Democratic refunding of the European treaties, which could ultimately lead to exiting France from European treaties, and potentially from NATO,
- Cancellation of free trade agreements (TAFTA, CETA),
- More wealth redistribution with increase of the net minimum wage at €1,300/month and increase of the public sector wage,
- Rescindment of the recently adopted « *Labor Law* », creation of a 32-hour working week, retirement age at 60,
- Investment in energy transition with a progressive exit of nuclear energy and establishment of a « *green rule* » to protect natural resources even if this results in a higher deficit,
- Separation between retail banks and investment banks.

His main challenge will be to unite a wide left spectrum to qualify for the second round. He benefits from the support of the Communist Party, but will also have to rally the votes of the smaller far-left candidates (Nathalie Artaud and Philippe Poutou) as well as of the green candidate (Yannick Jadot). With Hamon's program very close to his, Mélenchon will also need to accelerate the tone and format of his campaign to differentiate himself and ultimately defeat the Socialist Party's candidate.



RATHER LOW

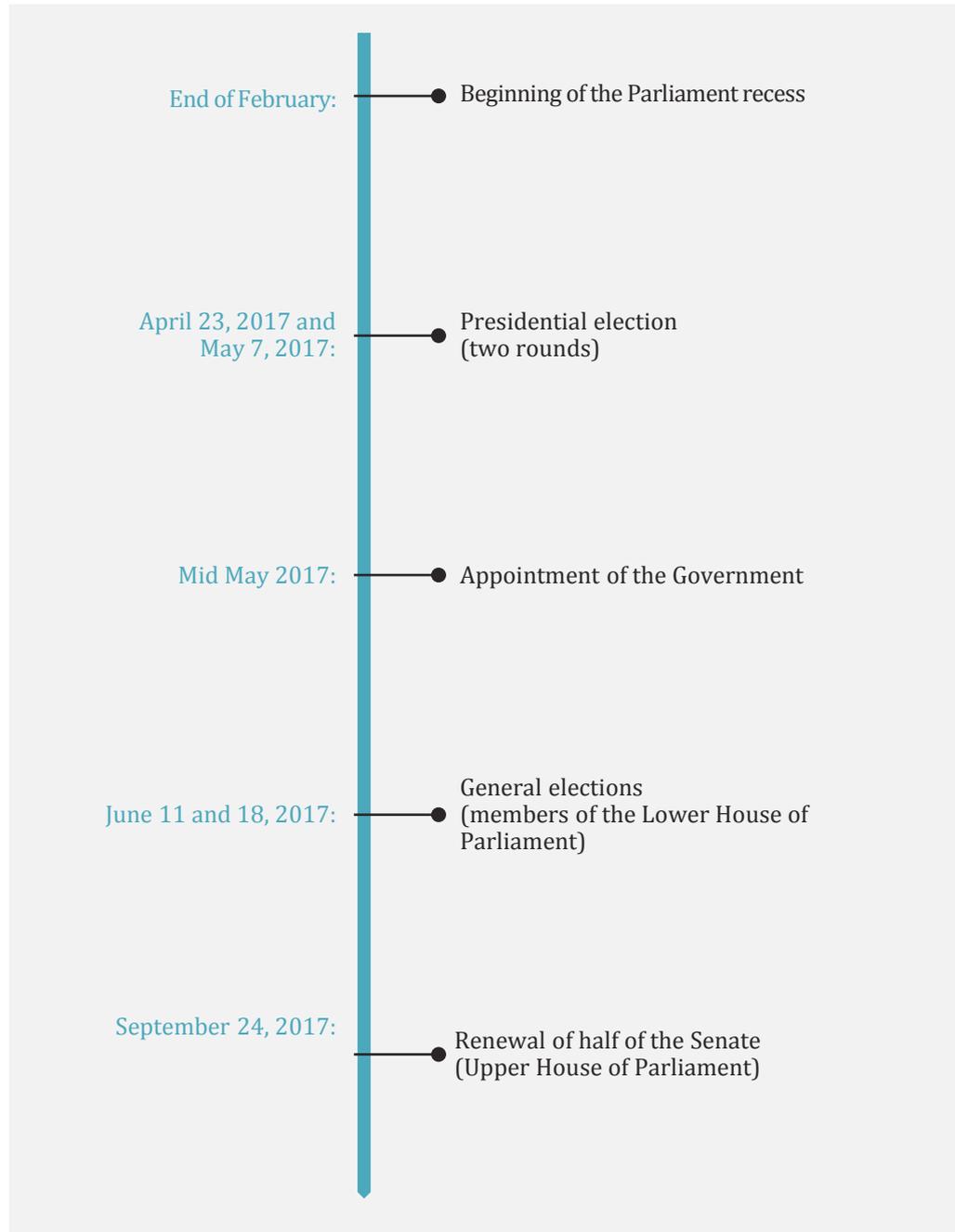
Likelihood of reaching the second round:



Upcoming electoral milestones

Getting a majority in Parliament will be the first headache for the newly elected President.

It needs remembering that immediately after the Presidential election (two rounds on April 23rd and May 7th), the elections for the Lower House of the Parliament (*Assemblée nationale*) will be organized (two more rounds on June 11th and 18th). These will either confirm a true mandate for the newly elected President by giving him a full majority or restricting his power with a narrow majority, or, worst case scenario, no majority at all.



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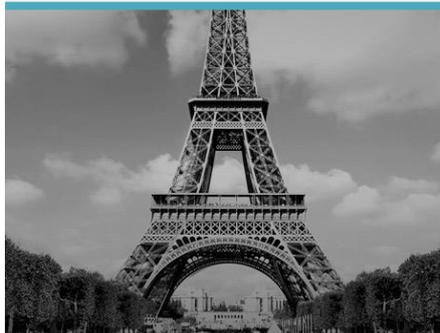
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