

3.10 France

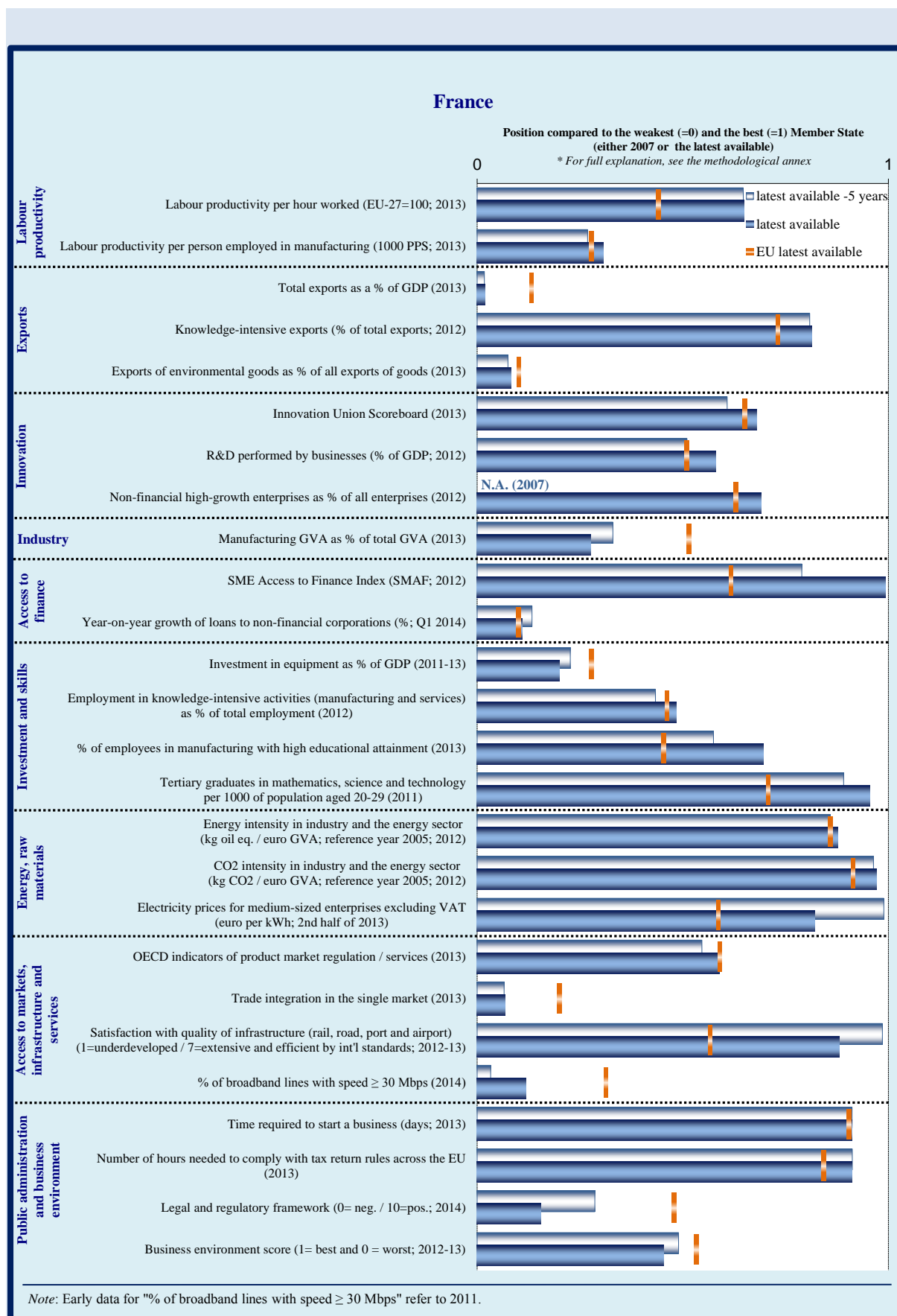
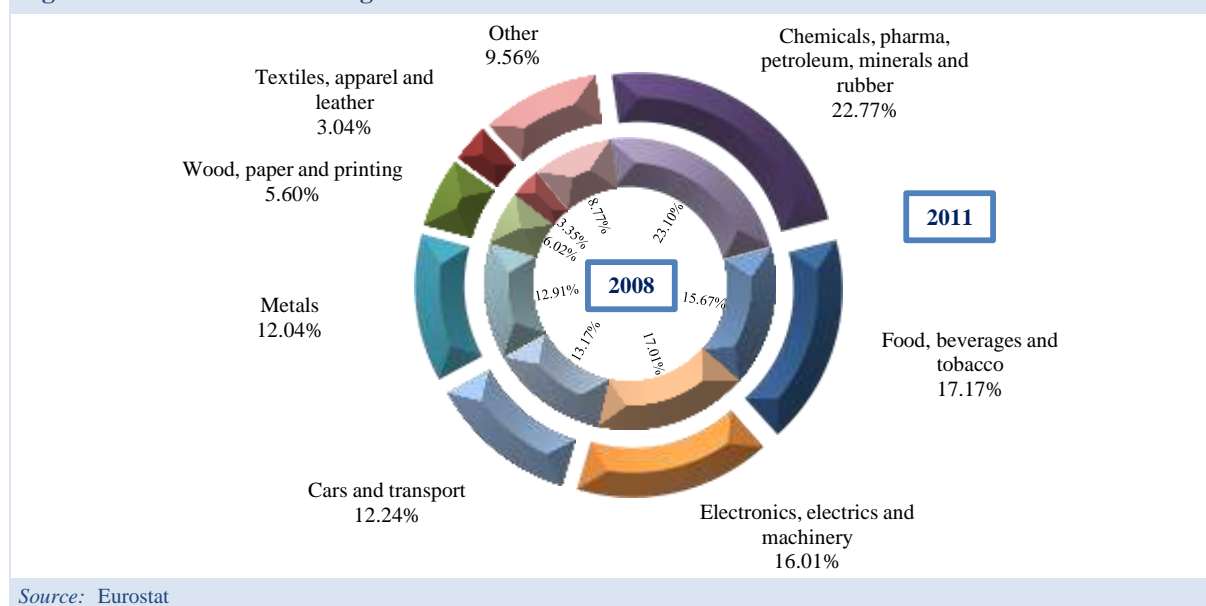


Figure 3.10.2: Manufacturing sectors — France

3.10.1 Introduction and performance

Manufacturing competitiveness has been undermined by cost and non-cost factors in recent years, while exports maintained their levels. In 2013, GDP grew by 0.3 %, unemployment increased to 10.3 % and public debt reached 93.5 % of GDP. Manufacturing contribution to the French economy decreased from 11 % in 2008 to 10.25 % in 2012 and is lower than the EU average (15.3 %). In terms of the sectoral breakdown, France is specialised in goods and services of medium-high innovation, in sectors that are both technology-driven (e.g. manufacture of aircraft and spacecraft, pharmaceuticals), and marketing-driven (e.g. luxury goods industry, cosmetics). Compared with other Member States, France is less specialised in high innovation sectors such as electronics and computing machinery.

Although labour productivity was 15.4 % higher than the EU average in 2012, the increase in labour costs has deteriorated the profitability of French industrial firms, dampening their ability to invest and upmarket. Gross operating surplus of manufacturing firms fell to 28.9 % of value added in 2012, while France's market share of global merchandise exports stabilised at 3.1 % over the last two years, down from 4.7 % in 2000. France has not reduced the gap with EU leaders in terms of innovation, although R&D intensity reached 2.29 % in 2012, with an annual average growth rate of 1 % over the period 2010-12.

In 2014, the government has put competitiveness at the centre of its economic policy. It has announced a EUR 20 billion cut in labour costs through a tax credit, and measures to cut an additional EUR 10 billion by 2017. The government is also planning to decrease corporate taxes and give a new impulse to the modernisation of public administration and improvement of the business environment. Moreover, a new industrial policy strategy has been developed, the tax credit on research activities has been maintained and new funds have been allocated to promote innovation. These reforms are ongoing and might bear their full fruits in terms of improved competitiveness in the long term.

3.10.2 Access to finance and investment

France is among the best countries for delivering access to debt financing for small and medium-sized enterprises (SMEs) and above average for equity financing. The French banking system has weathered the financial crisis relatively well due to the resiliency and good capitalisation of banks. The creation in 2013 of a unique institution (Bpifrance) in charge of managing public funds and guarantees and seeking to facilitate access to finance can further improve these results. Investment in equipment as a share of GDP fell by 5.5 % in the 2011-13 period, compared with 2006-08, mainly as a consequence of weak demand and negative expectations of entrepreneurs.

Bank lending

New credits amounted to EUR 52 billion in the third quarter of 2013, while they had reached a peak of EUR 83 billion in the first quarter of 2008, partially due to the ongoing debt mix rebalancing of French non-financial companies. Surveys of both banks and SMEs indicate that access to finance is good and report a greater availability of credit for investment in 2013. These evidences are mainly a consequence of lower demand for loans and the conditions for working capital financing have deteriorated due to increasing demand and to the high stock of private debt of companies. The amount of outstanding credit to SMEs in December 2013 was EUR 36.1 billion, up 0.5 % compared with 2012. The trend of new credit for the period 2006-12 is decreasing, despite the positive impact of the 'Médiateur du Cr dit' (credit mediator), which helped 4077 companies with financing issues in 2012, reporting a success rate of 58 %.

Venture capital and other finance

The government has taken some measures to improve alternative forms of financing and prevent possible tensions connected to the structural high dependency on credit and the limited self-financing capacity of SMEs. A dedicated listing platform has been created and the implementation of crowd-funding platforms has been promoted. To direct savings towards business the taxation on capital gains has been reduced and new financial products have been developed. However, the share of household savings directly invested in industry is low. Real estate represents two thirds of household assets, while the remainder is mainly oriented to short-term and low-risk products (mutual funds, government bonds).

3.10.3 Innovation and skills

R&D intensity is below the national target of 3 %, due mainly to the sectoral composition of the economy, where medium-high and high-tech manufacturing sectors represent a relatively modest and decreasing share. ⁽¹⁾ Low R&D intensity in the private sector accounts for most of the gap, as it reached 1.5 % of GDP in 2012, compared with a value approaching or above 2 % in the best

performing countries. Despite the erosion of France's industrial base, business R&D expenditures in current prices increased by 22 % between 2007 and 2012, to which recent government efforts in favour of business R&D might have contributed.

Innovation

France has not caught up with innovation leaders and remains among the followers, with a performance just above the EU average ⁽²⁾ in 2013. Relative strengths include international scientific co-publications, non-EU doctorate students and the population with tertiary education. Relative weaknesses are in non-R&D innovation expenditure, community trademarks and knowledge-intensive services exports. ⁽³⁾

Some measures have been taken by the government to increase innovation in 2013. The tax credit on research (CIR) has been continued and an innovation tax credit for SMEs was put in place. Fiscal advantages for young entrepreneurs and innovative start-ups have been reinforced and a new EUR 12.5 billion tranche of the 'Investment plan for the future' has been decided, including EUR 1.7 billion for industrial innovation. Implementation of the 34 plans under the new industrial policy strategy has started, led by industry managers. The government has pursued a retargeting of the 'P les de Comp titivit ' policy aimed at increasing their impact in terms of growth and jobs, while the 'France Broadband' plan should ensure the access of French households to a high speed infrastructure by 2017. In addition, the 'New deal for innovation' has been launched, composed of four themes and 40 actions. Among these, the 'Concours Mondial d'Innovation' combines financing tools to support the commercialisation of new products and services, and the 'La French Tech' programme aims at structuring 'favourable ecosystems' for start-ups, to accelerate their growth and their international visibility. In addition, the strategy focuses on making technology transfer more efficient, including measures to promote entrepreneurship in universities, to increase the efficiency of public funding and to reduce the risk of overlaps and duplications.

These measures should have a positive impact on innovation in the coming years. However, the

⁽¹⁾ The medium-high and high technology sectors represented 40 % of value added in manufacturing in 2010, a 4 % decrease since 1999.

⁽²⁾ Source: Innovation Union Scoreboard 2014.

⁽³⁾ See the Commission Communication "Research and Innovation as sources of renewed growth" (COM(2014)339 final)

coherence and the impact of the resources dedicated to spur business investment in R&D and innovation performance were only partially monitored and evaluated, negatively affecting the potential of France's innovation strategy.

Skills

The educational system and the share of the population having completed tertiary education are above the EU average. Nevertheless, concerns about a skills mismatch and low adult participation in lifelong learning (5.7 % in 2012) should not be underestimated.

The government has taken two main initiatives in this respect: the reform of tertiary education and reform of vocational training. The former aims at improving the employability of researchers, the relations between academia and industry, and the efficiency of management in academic institutions. The latter transfers responsibility for lifelong learning to the regional level, clarifies the overall governance of the system and dedicates more funds to jobseekers and companies with fewer than 10 employees. In addition, it foresees the creation of a personal training account that should facilitate access to training that is particularly difficult for older and low-skilled workers and for the unemployed.

In addition, specific measures have been taken to promote apprenticeships, as the number of new entrants in saw an 8.1 % decrease compared with 2012, at odds with the government's commitment to the objective of 500 000 apprentices by 2017.

3.10.4 Energy, raw materials and sustainability

Energy use and price

With a level of per capita emissions at 8.2 tonnes of CO₂ per year, France is among the industrialised countries with the lowest emissions, and business benefits from an energy price below the EU average. The share of energy from renewable sources grew to 13.4 % of gross final consumption in 2012, which is below the EU average (14.1 %) but in line with the planned trajectory toward the target of 23 % set for 2020.

The government has committed to improve energy efficiency and achieve the target of a 17.4 % reduction in final energy consumption and has developed a comprehensive policy package for industrial and tertiary sectors comprising financial incentives, regulations and support for information and audits. In 2013, a series of measures were adopted to accelerate the uptake of renewables and to increase their share in energy consumption.

A number of infrastructure projects are ongoing to improve the energy network and reinforce the electricity interconnection of France with neighbouring countries. Similarly, the gas network is being strengthened and ongoing projects should improve interconnection, in particular with Belgium and Spain, by 2015.

Other sustainability issues

The landfill tax is currently low compared with other Member States, reducing incentives for recycling. A number of reforms are considered as part of the 'Second roadmap for ecological transition' defined in September 2013. However, the actual measures remain to be fully defined and implemented, while further efforts seems to be needed to increase the share of recycled materials and the incentives to reduce waste.

3.10.5 Access to markets, infrastructure and services

Single market

Restrictions on access to and exercise of professions in the services sector persist and affect the potential growth of the sector, that is composed mainly of SMEs and account for 14 % of French GDP and 14.6 % of employment. Burdensome regulation concern notably legal form, shareholding structure, quotas and territorial restrictions. The simplification exercise initiated in November 2013 provides an opportunity to reform rules in services; so far restrictions have been eased for a limited number of professions and barriers still exist in the health sector, for legal professions and for taxi services.

The government committed to improving the competition environment through the 'Act on the modernisation of the economy' and through measures such as easing capital requirements for accountants or

removing the active marketing prohibition for lawyers. The recently adopted law on consumer protection reduces restrictions in a number of sectors and introduces a collective redress mechanism that could spur competition. However, the authorities have not undertaken any horizontal assessments of the necessity and proportionality of restrictions affecting regulated professions so far.

In the retail sector, which contributes 4.3 % of GDP and employs 7.5 % of the workforce, requirements for the opening of trade outlets have been reformed, simplifying the procedure for delivering authorisations, while the ban on ‘sales at a loss’ still has an adverse impact on competition and on consumers. Restrictive requirements affect the structure of the market in the already concentrated grocery retail sector.

Internationalisation

Competitiveness of manufacturing is adversely affected by the relatively small size and low profitability of firms, in particular due to the high tax burden on labour, which reached 26.6 % of value added in 2012 ⁽⁴⁾ and is among the highest in the EU. Non-financial companies are among the least profitable in the EU in terms of gross operating surplus, after suffering a 3 % decrease since 2008 while the average firm counted 5.8 employees in 2012, compared with 6.4 on average in the EU. These characteristics hamper the ability to invest and engage in export activities.

The government committed to reinforce the capacity of firms to compete in international markets, by reducing labour costs and corporate taxes and developing a comprehensive strategy focusing in particular on supporting SMEs internationalisation. This strategy couples the rationalization and improvement of financial instruments, through the constitution of the ‘Bpifrance export’ label, with a reinforced promotion of national products and services.

Business services and network industries

Entry barriers in the transport and energy sectors are still hampering the efficient functioning of the market. France has not opened up its domestic rail

passenger market to competition, except for international services. A reform of the railway system has been launched to make it financially more sustainable, although it risks restricting access to the network for alternative operators.

Progress has been made in phasing out regulated prices in electricity and gas for non-household customers and in developing inter-connections. However, market concentration both at wholesale and retail levels remains high and the decision to postpone the tendering of hydro-concessions, which represent some 20 % of the total installed electricity capacity, is a missed opportunity to attract investment and to develop competition.

Infrastructure

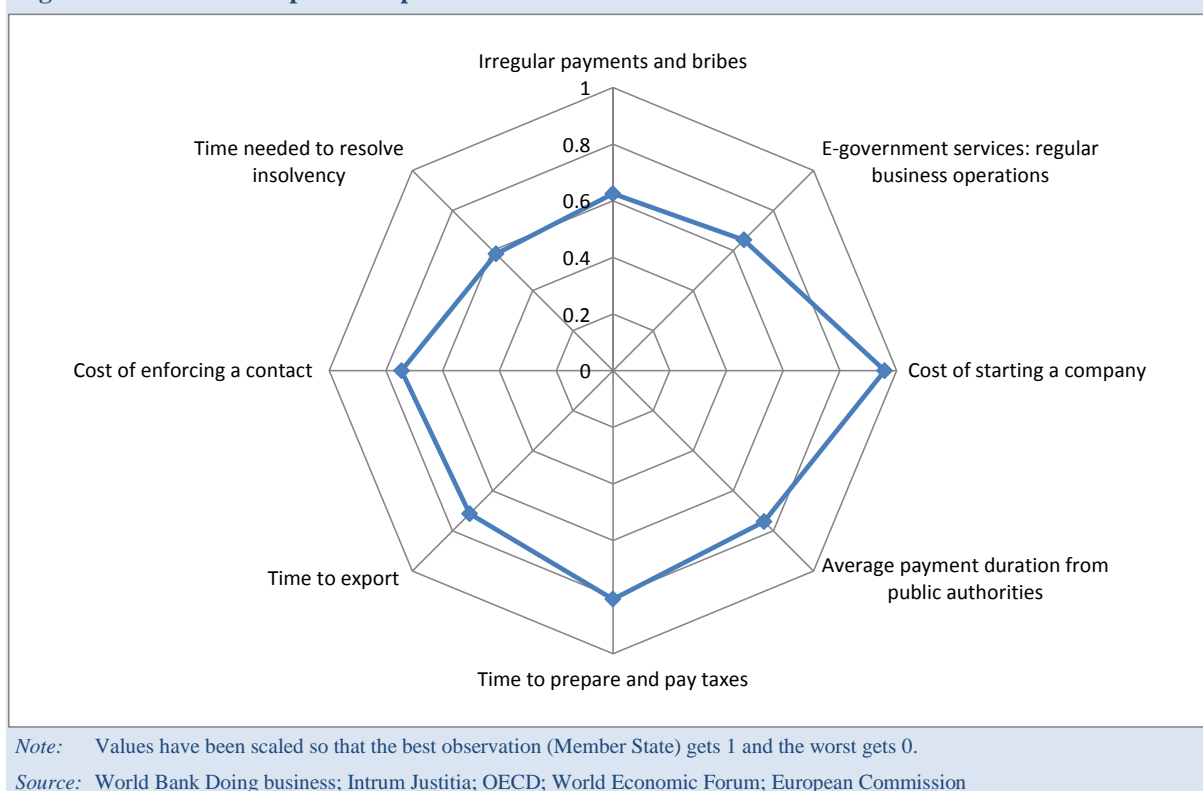
The low capacity of cross-border connections for both freight and passenger transport, in particular with Spain and Italy, represents a constraint for French competitiveness. In addition, ports perform unevenly and are not exploited to their full potential, limiting their contribution to growth.

3.10.6 Public administration and business environment

France was ranked 38th globally and 16th in EU in the World Bank’s Doing Business report 2014, down three positions with respect to 2013. There is considerable scope for improving the business environment, which is perceived as a burden to the growth and export potential for SMEs. Overall performance is dragged down by the number of administrative procedures needed to comply with taxes and register property, by the instability of legislation and by the numerous regulations associated with size-related thresholds, which reduce SMEs’ incentives to growth.

The procedures and costs for starting a business appear favourable with respect to the EU average, as do the costs for enforcing contracts. The SME test, which consists of analysing the effects of a legislative proposal on SMEs, has been partially implemented as a pilot exercise while making it a systematic procedure could allow a better targeting and coordination of new measures in favour of competitiveness.

⁽⁴⁾ Source : Eurostat – Prélèvements fiscaux et sociaux/valeur ajoutée, sociétés non financières et sociétés financières, 2012

Figure 3.10.3: Overall profile of public administration — France

Administrative modernisation

The government committed to implement a decentralisation strategy. This aims at simplifying the public administration by better coordinating the actions of central administration with local institutions and determining the responsibilities for implementation of reforms. The development of a French point of single contact is a priority and the latest data on the use of this tool are encouraging. However, accessibility for service providers from other Member States is difficult and the number of procedures that can be completed online is to be increased. Take-up of e-procurement is rather low as many regions, counties and towns have their own, often non-interoperable, systems.

Reducing administrative burden

A comprehensive policy framework aimed at reducing administrative burden was launched with the appointment of a minister for state reform and simplification and the creation of a business simplification committee. The implementation of the ‘simplification shock’ led to the adoption of the ‘law for the simplification and the securing of enterprises’ life’ and to the creation of a national council, which presented 50 priority measures in April 2014. Two

laws have been adopted to simplify relations with public administration and to allow the government to legislate by decree in a number of areas related to the business environment. Other encouraging measures are in the pipeline for adoption, including the ‘tell us only once’ and the ‘tacit consent’ principles in correspondence with public administration, and the ease of social declarations for small and micro enterprises.

Facilitating tax payments

The number of taxes paid by companies is high and procedures are complex. The administrative fiscal burden is expected to be reduced as part of the ongoing review of fiscal policy. A number of taxes affecting small niche markets and entailing low returns have been identified although so far no concrete actions have been taken to comprehensively address this issue.

3.10.7 Conclusions

Restoring the competitiveness of industry is the key challenge of the public reform agenda. The export performance and labour market conditions have deteriorated in the last decade, although the former

has stabilised over the last few years. Investment in R&D has increased but the gap with EU innovation leaders has not been reduced. Addressing the low rate of profitability of firms is a major concern, since low profits reduce a firm's capacity to invest, innovate and internationalise, adversely affecting the capacity to grow and create jobs.

The government is committed to this objective, addressing both cost and non-cost competitiveness. It is implementing a number of measures to reduce labour costs, improve access to finance, rationalise public intervention, support innovation, encourage entrepreneurship and improve the business environment. Further measures have been announced for the coming months, in particular for administrative simplification.

The announced measures seem to be in line with France's ambitious objectives in terms of competitiveness and innovation. Improving coordination among different actions addressing cost and non-cost factors, for example through enhanced *ex ante* impact assessments and *ex post* evaluations, could ensure a more efficient allocation of public resources, maximising the beneficial effect on growth and competitiveness.