

# French economy overview

## February 2009

### I. Economic policy Overview

The French economy is ranked fifth-largest in the world after the United States, Japan, Germany, and China.

**Economic structure:** The current government is a centre-right administration. Despite significant liberalization over the past 15 years, the government continues to play a significant role in the economy and still owns shares in corporations in a wide range of sectors, including: banking, energy production and distribution, transportation or telecommunications. This differs from countries like the U.S or U.K where most of these companies are privatized.

**Taxation:** The tax burden rose in the 1990's. Although it has been more stable in the current decade, it remains well above the average EU. The standard rate of corporation tax is 33.3%. The standard rate of value-added tax (VAT) is 19.6% (5.5% however for some fields of activity). Rates of income tax have been falling for several years (particularly at the top end). In 2008, the maximum tax as a share of personal income was reduced to 50%, from 60%. A reform of the local business tax, *taxe professionnelle*, is under consideration, in order to encourage greater business investment: it may be removed in 2010. This is one of the measures announced recently by President Nicolas Sarkozy to struggle against the current economic crisis.

#### **President Sarkozy's rescue plan for the world economic crises:**

It consists of €26-billion stimulus package and the creation of a Ministry of Relance whose head is Patrick Devedjian.

President Sarkozy has put forward a stimulus plan made up mostly of massive investment in public works projects and measures to shore up hard-hit businesses, on top of multi-billion-euro bank bailouts.

This prelaunch plan breaks with French tradition by focusing on stimulating investment, rather than consumption. It seeks to bolster companies' cash flow by bringing forward €11.4 billion in tax credits, tax rebates and other state debts owed to businesses, and accelerating €10.5 billion in public infrastructure investment.

The package also set aside funds to help the country's automotive and construction industries, two sectors that have been hit particularly hard by the current slump in demand.

Among the planned investment projects Sarkozy outlined are €4 billion in state spending on military, research and infrastructure projects. State-owned companies like the national railways, the Paris urban transport network and Électricité de France will step up their investment by another €4 billion. Meanwhile, €1.8 billion was earmarked for the housing sector, including funds to renovate state-owned housing for the poor and to broaden subsidies for no-interest housing loans. Among the measures dedicated to the auto industry is a provision giving households a €1,000 rebate if they replace a vehicle more than 10 years old with a new car emitting less than 160 grams of carbon dioxide per kilometer.

Sarkozy's plan is expected to widen the French deficit to 3.9 percent of GDP next year and add €20 billion to French debt.

**Unemployment:** The number of jobseekers has increased by 45 000 in December 2008. It reaches 2.11 million (i.e. an unemployment rate of 7.7%), which represents an increase of 11.4% over one year.

**Innovation:** President Sarkozy recently urged a broad update on research and innovation. The president launched a national strategy to boost R & D in France. In a recent report, the Parliamentary Office for evaluation of scientific and technological choices noted the extreme urgency of "bringing back France in the vanguard of innovative country ".The research budget of France in 2008 is estimated at 42.7 billion Euros: 20.8 billion Euros (48.2%) come from public funds and 22.1 billion Euros (51.9%) are provided by private companies. France has spent last year 2.16% of its GDP on R &D (whereas in Germany this figure reaches more than 2.5%, 3.6% in Japan and 4.8% for Israel!) Nevertheless, France is still ranked second at the European Union level and fifth in the world for patents.

**Leading sectors of the economy:** Leading sectors in France are agribusiness, telecom, aerospace and defense, pharmaceuticals, construction and civil engineering, chemicals, automobile production as well as services such as tourism but also banking, insurance or consulting.

**Competitiveness clusters:** Currently, there are 71 competitiveness clusters in France acting in various domains (Biotechnologies and health, Aeronautics, Consumer goods, Energy, Telecom, Chemistry, Food-processing Industry etc.). Bringing together the industrial, scientific and academic players in a given local area, these competitiveness clusters provide a source of innovation, attraction and encouragement for companies to remain in the area.

For more information: <http://www.competitivite.gouv.fr/spip.php?rubrique45&lang=en> (English version).

## II. Economic outlook

- The international financial crisis has increased the risks surrounding the economic forecasts and the prospects for political stability. Supporters of the president Sarkozy, in the UMP party, have a large parliamentary majority and the government should have little trouble steering legislation through parliament. Societal opposition to structural reforms is likely to grow, however.
- According to the Organization for Economic Cooperation and Development, the French economy will contract by 0.4 percent in 2009, falling into its first recession in more than 15 years.
- The Bank of France anticipates a contraction in GDP of 0.6% in first quarter 2009. This decline would mark the entry into recession in France, after a fall of 1.1% of GDP in the fourth quarter of 2008.
- The forecast for the coming months remains in a downward trend in all sectors except consumer goods and food industries.
- Years of fiscal laxity by successive administrations means that there is high possibility that the general government financial deficit breaches the 3% of GDP limit set by the EU's Stability and Growth Pact. The deficit is expected to remain above 3% for much of the forecast period, but by appealing to "exceptional circumstances" causing weak growth, France should avoid financial penalties. Following recent cuts in official euro area interest rates, further reductions are expected in 2009.
- A gradual recovery should take hold from 2010, on the assumption of more stable conditions in financial markets, lower inflation and interest rates. However, weak external competitiveness will mean that France will struggle to grow much faster than by 2% even as global economic conditions improve. The euro is forecast to remain broadly stable during the forecast period. The trade balance will remain in the red, but will be partly offset by surpluses on the services and investment income accounts.

<b>Key indicators</b>	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	0.9	-1.2	0.4	1.4	1.9	2.1
Consumer price inflation (av; %)	3.3	1.6	1.4	1.8	2.0	2.0
Consumer price inflation (av, %; EU	3.6	1.8	1.5	1.9	2.1	2.1

harmonised measure)						
Budget balance (% of GDP)	-3.0	-4.6	-5.0	-4.1	-3.0	-2.4
Current- account balance (% of GDP)	-1.9	-2.2	-2.0	-1.9	-1.8	-1.7
Short-term interest rate (av; %)	4.8	4.0	3.6	3.9	4.2	4.2
Exchange rate US\$:€(av)	1.46	1.29	1.30	1.33	1.35	1.37
Exchange rate¥:€(av)	151.53	124.65	124.80	126.87	128.49	128.78

(Source: The Economist- 12/18/2008).

### III. Foreign trade

France is the fifth-largest exporter of goods and the fourth-largest exporter of services in the world. The value of goods exports in 2007 totaled US\$546bn, while the import bill reached US\$600.9bn, resulting in a trade deficit of US\$54.9bn. As it has been the case for several years, France posted surpluses on the services and investment income balances. Nevertheless, the current account recorded a deficit of US\$31.3bn, or 1.2% of GDP.

In 2007, the French leading markets were Germany (14.5%), Spain (9.6%), Italy (9.2%) and UK (8.4%).

France's main suppliers were: Germany (16.7%), Belgium and Luxembourg (8.7%), Italy (8.6%) and Spain (7%).

#### Trade between France and Israel

Economic Franco-Israeli exchanges have doubled in ten years. France is the 9<sup>th</sup> Israel's supplier and its 11<sup>th</sup> client (information released on 6 November 2008 by Ubifrance for first quarter 2008).

The volume of trade continues to grow and reached the record-figure of over 3.3 billion dollars for 2008 (+ 12.2% compared to 2007). Israel mainly exports cosmetics, automotive products, plastics, pharmaceuticals, chemical and construction products as well as aircraft and aerospace parts and technologies.

Israeli imports, for their part, are primarily oriented towards chemicals, transport equipment and high technology.

Nevertheless, we may notice that, in recent years, the Israeli imports of French products and services increase faster than the pace of French exports towards Israel.

In parallel, the balance of trade between France and Israel is in deficit at the expense of Israel because of the progression in French exports of course but this is mainly the result of the decrease in imports of Israeli products.

Additionally, French companies are well represented in Israel (those with production sites as Veolia, L'Oréal, Vilmorin and Dassault Systems, Sodexo, Euro RSCG, BNP Paribas and CIC as well as those who have commercial outlets for companies such as Sanofi Aventis, Alstom, Alcatel, Schneider Electric and Michelin).

In the same way, the Israeli investment in France is strengthening, particularly in real estate but also in industry and many Israeli companies are now based in France: Israel Aircraft Industries (Aeronautics), Yarden, Agrexco (food), Comverse, ECI Telecom and Alvarion (Telecom) and Aladdin and Checkpoint (IT).

#### IV. Business opportunities

- Environment

**1/ France has made Clean Energy a priority.**

- **Wind and solar power:** they are at the heart of a big new push by the French government to increase the renewable part of the country's total energy consumption from 6.7 percent in 2004 to 20 percent by 2020. The government has set the target of raising its installed capacity for wind power from 810 megawatts (MW) in 2006 to 25,000 MW by 2020. With just 810 MW of installed capacity, France is the third biggest market in Europe behind Germany with 2233 MW and Spain with 1587 MW. Also, installed capacity for photovoltaic (PV) power is to increase from 32.7 MW in 2006 — about 100 times less than Germany — to 3,000 MW by 2020. In addition, 5 million solar thermal units are to be installed in buildings by 2020, 80 percent of these in homes. Biomass accounts for two thirds of all the renewables used in France today and hydro power for another third. Solar and wind power still play a marginal role.
- **Fuel alternatives:** First and second generation bio-fuels. For example, Airbus A380 commences alternative fuel test flight programme. This is the first commercial aircraft to fly with a synthetic liquid fuel processed from gas (Gas to Liquids – GTL) in a three hour flight between Filton, UK and Toulouse, France: this is only the first step of a long-term Airbus testing phase to evaluate viable and sustainable alternative fuels for the future.

- **The reduction of carbon-dioxide emissions**, with a particular focus on the development of electric vehicles run on new-generation batteries with high-energy density or electricity produced by fuel cells ( piles à combustibles). Using the latest electronics, these batteries provide a vehicle with a minimum range of approximately 150km. Authorities are increasingly sensitive to the need for hybrid or totally electric vehicles in cities.
- The French government designated transport policy a priority during the **Grenelle Environment Round Table** in 2008. The aim of the Round Table, which was instigated by Nicolas Sarkozy, the French President, was to define the key points of government policy on ecological and sustainable-development issues for the coming five years.
- **Relevant French companies:** EADS (Airbus is an EADS company), SEV (Electronique Serge Dassault) and Heuliez, Veolia, Accord, Renault (Better Place project already at work...) Peugeot, Citroën, BP, Mairie de Paris, régions françaises, EDF, GDF Suez, Areva, Ministère de l'écologie, de l'énergie, du développement durable et de l'aménagement du territoire etc.

## **2/ Water policy: treatment and protection**

- The latest technologies as RO, UF, Ozonation as well as traditional as Filtration, Oxidation, Ion Exchange, UV sterilization, applied for specific actions as Iron removal, Manganese removal, Nitrification... are sought for.
- Various subjects are in constant development: health and drinking water, hydropower, waterways, wastewater management ...
- Relevant companies to contact: Mairie de Paris, the Regional Directorate of Environment (DIREN) Ministère de l'écologie, de l'énergie, du développement durable et de l'aménagement du territoire, Suez environment and Lyonnaise des eaux, Veolia, Saur-Seche etc.

- **Pharmaceutical industry and Biotechnology**

Biotechnology plays an increasingly important role in the health industries, but also as regards environment, agriculture, agro-food, and innovative industrial processes.

In the health sector, the discovery of new treatments is more and more using biotechnology to find the causes of diseases, develop, test and produce specific drugs.

**Relevant companies or organizations to contact:** Sanofi Aventis, Servier, Biomérieux, Nantes Métropole, Grand Lyon, Evry Genopole....

- **Nanotechnologies**

**Nanosciences** (Scientific studies on the nanometric scale, i.e. at a billionth meter level, or, in other words, at a molecular level) and **Nanotechnology** (the applications of Nanosciences in everyday's life, with an economic impact) constitute a strategic field of scientific research.

These sectors are highly competitive, fast-growing and provide enormous economic potential in many domains: microelectronics, information technology and telecommunications, medicine and biology, material sciences and chemistry, food-processing industry, defense and environment among others.

All these categories can be grouped together in three main headings:

1/ NANOBIOSCIENCES (related to In vitro and In vivo diagnosis, new drugs and improvement of their performances, regenerative medicine....)

2/ NANOMATERIALS (Carbon nanotubes 100 times more resistant and 6 times lighter than steel, Titanium oxide nanoparticles used as solar filters in cosmetics, silicium nanoparticles to increase tyres resistance etc.

The users are companies such as Arkema, Rhodia, Saint Gobain, Arcelor, L'Oreal, PSA, EADS, SNECMA, ONERA, Thalès, Air Liquide...

3/ NANOELECTRONICS (smaller but larger memory for computers, PDA, mobile phones....., Microsystems, molecular electronics, anti-collision radar systems, homing missiles, agribusiness, power components.....)

According to various unofficial sources, it seems that a **French Nanotechnologies Pole** is under preparation insofar as President Sarkozy decided, notably, to promote Nanotechnologies as a national priority.

Additionally, President Sarkozy announced the doubling of the budget allocated to research on Nanotechnology (Nicolas Sarkozy's speech during the conclusion of the first "European sessions on innovation", held in December 2008, Paris). Consequently, public investments are expected to increase from 175 to 350 million Euros over the next five years...

- **Organic products:**

Strong demand in all domains: food, cosmetics, domestic hygiene....

**Relevant companies to contact:** Natoora, Florame, Sanoflore, Agrocomm...

- **TELECOM :**

In constant evolution with the presence of companies such as Orange Group France, SFR, Bouygues Telecom, Cap Gemini, Alcatel Lucent, Thalès, Thomson....

- **DIY ( Do It Yourself ) and decorating shops:**

There are many D.I.Y. stores throughout France, namely companies such as Leroy-Merlin, Bricorama, Castorama, Mr Bricolage, Bricomarché...

Decoration and "home staging" are becoming more and more popular among the French population. Many companies are influent in that domain: Maisons du Monde, Pier Import, Casa, Alinea, But, Fly etc.

## **V. Doing Business in France**

2/ How to do business in France?

Israeli companies may find on IFA (Invest in France Agency) website the basic rules applying to international companies that locate business activities in France. Intended as

a practical review of the general situation, it presents key information about legal, tax and labor issues to facilitate companies' decision-making.

<http://www.invest-in-france.org/>

Invest in France Agency provides assistance at every stage of the investment process. IFA works closely with 22 French regions to act as your main contact, providing legal and tax advice, help during the set up process and after-care service. The quality of service provided by IFA to new businesses is key to the success of your investment project in France.

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