

FRANCE ATTRACTIVENESS SCOREBOARD

2012 Edition

French Ministry for the Economy and Finance

French Interministerial Delegation for Regional Development and Economic
Attractiveness (DATAR)

French Strategic Analysis Center (CAS)

The Invest in France Agency (IFA)

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INTRODUCTION

INTRODUCTION

France is a major player in the international investment arena. More than 20,000 foreign companies currently have operations in France, while 30,000 French companies have set up business in foreign markets. France has a long history of welcoming foreign business, as the first companies began to arrive in the mid-nineteenth century.

Foreign companies in France have since multiplied and diversified. In the last 10 years, more than 6,000 new foreign investment projects have created 330,000 jobs in France. The global economic crisis has not reversed this trend: since 2008, each week, 13 foreign companies, on average, have chosen to establish or expand their operations in France.

While the majority of new investments are from OECD countries, companies from emerging economies, particularly China and India, are increasingly setting their sights on Europe. At the same time, investments are burgeoning in technology-rich activities. Over the last 10 years for instance, France has welcomed more than 320 foreign investment projects in research and development.

The economic stakes are high. Foreign companies employ nearly two million people in France, accounting for one-third of exports and 20% of business expenditure on R&D. New foreign investments also generate some 30,000 jobs each year.

However, nothing can be taken for granted, for at least two reasons. Firstly, the sovereign debt crisis has placed the European Union at the heart of various debates, while at the same time confirming Europe's capacity for responsiveness. The fact that France, like its European neighbors, is a member of a large European market is one of the principal reasons for its attractiveness in the eyes of international investors.

Secondly, the global economic crisis has intensified competition among European countries, which have taken measures to attract foreign investors. Safeguarding existing foreign operations in France and drawing in new projects to expand and modernize sites have become major challenges. Regardless of the type of project involved, investors compare locations and force them to compete against one another.

In this regard, global rankings and international investment reports provide investors with information concerning the economic competitiveness and attractiveness of different countries. However, these analyses are based on a variety of different evaluation methods, which often rely on composite indices that combine economic data and insight from corporate executives.

Our “France Attractiveness Scoreboard” uses a different approach, which separates the analysis of objective information relating to investments, and the factors influencing location choices, from the analysis of viewpoints regarding France’s economic attractiveness.

In previous editions of this publication, France was compared with 11 OECD countries (nine EU Member States, the United States, and Japan). In this third edition, the comparison has been expanded to include Sweden and Austria.

An analysis of economic indicators highlights France’s attractiveness as an investment destination, in view of its location within Europe, the size of its domestic market, the quality of its infrastructures, and the skill of its workforce, as well as the quality of life it has to offer.

This publication also presents three additional areas of analysis. The first presents insight from foreign decision-makers and emphasizes how France’s advantages as an investment destination are now receiving greater recognition, particularly as a result of the promotional efforts undertaken in recent years. The second, more conventional in nature, addresses regional economic development, discussing the economic contributions made by foreign businesses in France. The last area of analysis focuses for the first time in this publication on the role of companies from emerging economies in the international investment arena.

SUMMARY

Economic attractiveness can be defined as the capacity to attract new business and mobile factors of production (capital, skilled labor, etc.) to a specific destination. This capacity is related to a wide range of macroeconomic criteria. Key indicators include market size, human resources, research and innovation, infrastructure, administrative and financial environments, investment and labor costs (including taxation, which plays a significant role), as well as quality of life. Each subject is discussed with reference to specific indicators.

For each attractiveness indicator, France is compared with 13 other countries: 10 European countries with GDP per capita among the highest in Europe and/or whose market is comparable in size to France's (Austria, Belgium, Finland, Germany, Ireland, Italy, the Netherlands, Spain, Sweden and the United Kingdom), Poland (a large, centrally located country in Eastern Europe), the United States, and Japan. Whenever possible, these countries' relative performances are compared with the European average.

FRANCE'S ATTRACTIVENESS TO INVESTORS: OBSERVED FINDINGS

The countries compared with France in this report are:

European:

- Austria
- Belgium
- Finland
- France
- Germany
- Ireland
- Italy
- Netherlands
- Poland
- Spain
- Sweden
- United Kingdom

Non-European:

- Japan
- United States

Summary of principal outcome indicators

Indicators	2012 Edition France's ranking among the sample of 14	Leading countries among the sample of 14	2012 Edition France's ranking among the 2011 sample	2011 Edition France's ranking among the 2011 sample
Foreign investment projects in Europe (2011)	2	United Kingdom, France	2	2
Proportion of foreign students enrolled in advanced research programs (% , 2009)	2	United Kingdom, France	2	2
Market share for hosting foreign students (% , 2009)	4	United States, United Kingdom	4	4
Foreign direct investment (FDI) inflows (US\$ billion, 2011)	4	United States, United Kingdom	4	4
Contribution of foreign subsidiaries to value added in the manufacturing sector (% , 2009)	7	Ireland, Poland	5	5
Inward FDI stock (% of GDP, 2011)	9	Belgium, Ireland	7	7

Summary of principal attractiveness criteria (indicators sorted from most to least favorable)

Indicators	2012 Edition France's ranking among the sample of 14	2012 Edition Leading countries among the sample of 14	2012 Edition France's ranking among the 2011 sample	2011 Edition France's ranking among the 2011 sample
Tax incentives for corporate R&D (% of GDP, 2009)	1	France, Belgium	1	1
Trademark applications (Per 1 million inhabitants, 2010)	1	France, Austria	1	1
Electricity rates (€/kWh, H2, 2011)	1	France, Sweden	1	2
Market share of investment funds in European industry (% , December 2011)	1	France, Germany	1	1
Leading passenger airports in the EU-27 (Millions of passengers, 2010)	2	United Kingdom (London Heathrow), France (Paris Charles de Gaulle)	2	N/A
Fixed broadband penetration rate (Subscribers per 100 inhabitants, June 2011)	2	Netherlands, France	2	2
Goods transport by rail (Millions of tonnes-km, 2011)	3	Germany, Poland	3	N/A
R&D personnel (Per thousand labor force, 2010)	3	Finland, Sweden	2	2
Access to EU-27 markets (Index, France=100)	3	Belgium, Netherlands	3	3
Revealed technological advantage in environmental management (Index, 2009)	4	Poland, Finland	4	4
Ease of starting a business (Index based on the number of procedures, days and cost)	4	United States, Ireland	4	N/A
Proportion of 25- to 34-year-olds with tertiary education (2009)	4	Japan, Ireland	4	5
Productivity per employee (US\$, at 2011 PPP)	5	United States, Ireland	4	4
Lowest income inequality (Gini coefficient, late 2000s)	5	Belgium, Sweden	3	3
Ease of access to loans (WEF score, 2009-2010)	5	Finland, Sweden	4	N/A
Venture capital investment (% of GDP, 2009)	6	United States, Sweden	5	4
Human resources in science and technology (Share of total employment, 2010)	6	Sweden, Netherlands	5	5
Intensity of R&D activities (% of GDP, 2010)	7	Finland, Sweden	5	5
Implicit corporate tax rate (%, 2010)	7	Netherlands, Ireland	7	N/A
Labor compensation per employee in the manufacturing sector (US\$, 2010)	7	Poland, Japan	5	N/A
Revealed technological advantage in ICT (Index, 2009)	8	Finland, Japan	7	7
GDP growth (% , 2010-2011)	8	Poland, Sweden	6	6
Triadic patent families (Patents per 1 million inhabitants, 2009)	8	Japan, Sweden	6	N/A
E-government availability (Proportion of 20 government services fully available online, 2010)	10	Austria, Sweden	8	8
Nominal corporate tax rate (%, 2010)	11	Ireland, Poland	10	10
Social security contributions (% of total tax receipts, 2009)	13	Japan, United Kingdom	11	10

CHAPTER 1

OUTCOME INDICATORS

I. FOREIGN DIRECT INVESTMENT

II. INTERNATIONALIZATION AND THE OPENING UP OF ECONOMIES

III. STRATEGIC ACTIVITIES

IV. FOREIGN SKILLS

I. FOREIGN DIRECT INVESTMENT

Since the onset of the global economic crisis, France has maintained its place among the leading recipients of foreign direct investment. Initial estimates by UNCTAD (United Nations Conference on Trade and Development) for 2011 rank France ninth in the world; the leading FDI recipients were the United States and China.

Thanks to a significant resurgence in mergers and acquisitions, global foreign direct investment (FDI) flows increased 16% in 2011 to US\$1,524 billion, while FDI inflows to the European Union grew 32%.

The resurgence in global foreign direct investment flows observed in 2010 continued in 2011, with FDI flows rising from US\$1,290 billion to US\$1,524 billion, according to the most recent UNCTAD estimates.

FDI in developed countries (US\$747 billion) increased 21% overall (19% in Europe and 32% in the European Union). Investment in emerging economies (US\$684 billion) increased 11% on 2010.

According to UNCTAD, FDI inflows to France rose 34% in 2011, in contrast to falls in Germany (down 14%) and Spain (down 28%).

With FDI inflows of US\$40.9 billion in 2011, France was the world's ninth largest FDI recipient and the third largest FDI recipient in Europe after Belgium (US\$89 billion) and the United Kingdom (US\$53.9 billion), but

ahead of Germany (US\$42.4 billion) and Spain (US\$29.4 billion) among others.

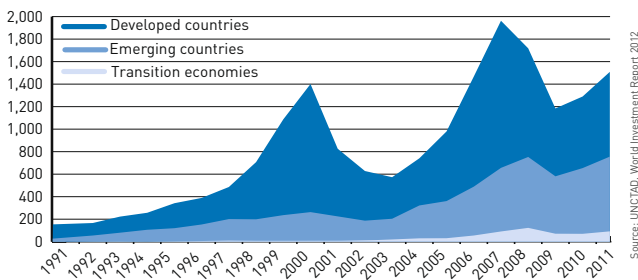
In terms of national wealth (FDI stock/GDP), France has received nearly twice as much foreign investment as Germany or Italy.

France has become considerably more open to foreign investment over the last 10 years: inward FDI stock amounted to 35% of GDP in 2011, compared with 29% in 2005.

The countries ahead of France are generally small economies, like Belgium, Ireland and the Netherlands, where a significant proportion of FDI received is associated with the cross-border transactions of holding companies.

Foreign direct investment inflows (1991-2011)

Current US\$ billion

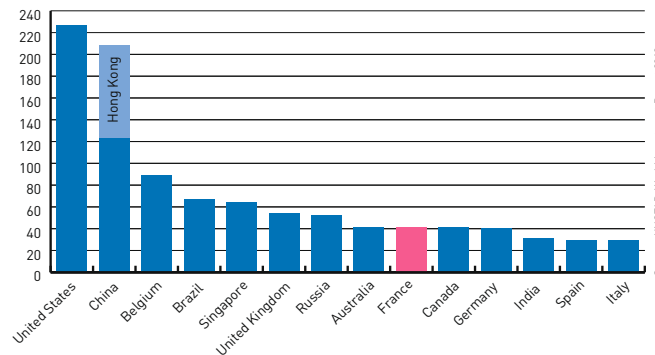


Source: UNCTAD, World Investment Report 2012

Foreign direct investment (2011)

Leading recipients

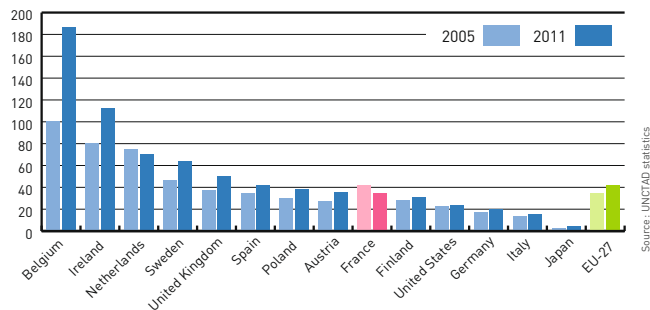
Current US\$ billion



Source: UNCTAD, World Investment Report 2012

Inward FDI stock

% of GDP



Source: UNCTAD statistics

FOREIGN DIRECT INVESTMENT FLOWS, UNCTAD

UNCTAD collects global statistics on foreign investment flows and stocks from central banks, statistics agencies and national governments. A direct investment relationship is deemed to be established when an individual or company (the investor) owns 10% or more of the voting rights in the company (which is then referred to as the direct investment company) or, failing this, 10% of its share capital. Thereafter, all financial transactions between the two companies are recorded as foreign direct investment in the financial account of the host country's balance of payments.¹

Statistics concerning FDI flows illustrate the transfer of capital between foreign companies and their French subsidiaries. They include:

- Share capital operations in the strict sense of the term, including business creations, business acquisitions through the acquisition of shares or earning assets, balancing subsidies, loan consolidations, subordinated debt and bank capital.
- Real-estate investments.
- Reinvested earnings that represent the proportion of direct investment companies' operating income that is

transferred to the parent company over the course of a financial year, less any dividends distributed to the parent company during that year.

- Other transactions, including short-term and long-term deposits, advances and loan transactions between affiliated companies, with the exception of trade credits and loans and deposits between resident banks and their foreign correspondents, which are recorded under "other investments".

¹ Balance of payments method, 05-016z, November 2005.

FOREIGN DIRECT INVESTMENT FLOWS, BANQUE DE FRANCE

- Using the standard international method in the IMF's Balance of Payments Manual (Fifth Edition), **the Banque de France estimates that FDI inflows to France in 2011 were €29.5 billion, compared with €23.1 billion in 2010, a 28% increase.**⁽¹⁾
- **FDI flows from a balance-of-payments perspective and methodological concerns**

The Banque de France specifies that the increase in FDI flows observed in recent years is primarily the result of intra-group loans that partially reflect the growing role of special purpose entities (SPEs). These SPEs are set up in tax havens and their main activity is to hold equity securities in foreign companies on behalf of their parent company and to manage the cash flow between the group's affiliates. These cash flows inflate FDI flows and make it difficult to interpret foreign direct investment statistics.

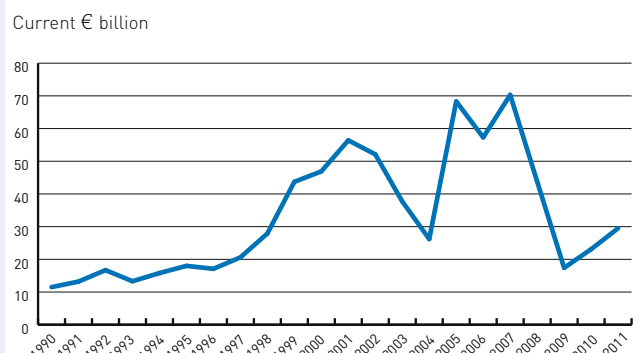
Accordingly, in the latest edition of its Benchmark Definition of Foreign Direct Investment (2008) the OECD recommends that the direct investment operations of (resident) SPEs are presented separately and that the so-called directional principle becomes standard for loans between fellow enterprises (i.e. without direct ties through share capital). Using this methodology adopted by the Banque de France since 2010, lending operations and loans between fellow enterprises are categorized according to the group's ultimate investor (i.e. the group's controlling parent company), determined in France's case on the basis of the INSEE [French National Institute for Statistics and Economic Studies] "Financial Links Between Companies Survey", rather than according to the immediate investor (as is the case for transactions between a subsidiary and its parent company). However, UNCTAD estimates that enable international comparisons to be made are based on previous methodology.

Consequently, the attractiveness of an economy cannot be ascertained solely on the basis of FDI flows that comprise such wide-ranging types of cash flows.

As such, data from individual firms must be used. The analysis should consolidate data on job-creating foreign investment projects, as well as data relating to the contributions that foreign subsidiaries make to economies (employment, R&D, value added). This is the strategy adhered to by the IFA in its annual report on job-creating investment in France.

⁽¹⁾ These FDI inflow data for France are definitive Banque de France estimates.

FDI inflows to France (1990-2011)



	FDI inflows in France (€ billion)		
	2009	2010	2011
Total FDI flows	17.4	23.1	29.5
Share capital	14.5	11.6	12.1
Reinvested earnings	-2.3	5.1	7.0
Other transactions	5.3	6.4	10.3

DIRECTIONAL PRINCIPLE, BANQUE DE FRANCE

The “extended directional principle”⁽¹⁾ involves categorizing loans between fellow enterprises of a multinational group (i.e. enterprises with no direct ties through share capital, or with equity participations in the fellow enterprise of less than 10%) as French direct investment abroad or foreign direct investment in France depending on the residence of the head of the group. Transactions are recorded according to the directional principle on the basis of the “resident” or “non-resident” status in the reporting economy of the **ultimate controlling parent company** of the enterprises.

The direction of influence or control, whether it be direct or indirect, varies depending on the “resident” or “non-resident” status of the ultimate controlling party. In such cases, it is no longer the immediate investor that matters but rather the ultimate investor.

The re-categorization of intra-group loans according to the directional principle necessitates revisions to the geographic breakdown and amounts of foreign direct investment. FDI flows for the years 1999-2009 have been revised downwards, with particular reference to the United Kingdom,

the Netherlands, Belgium, Luxembourg, Germany and the United States, which together accounted for nearly 75% of all revisions. It should also be noted that the Netherlands, Belgium, Luxembourg and the United Kingdom are reputed to host a significant number of special purpose entities and other treasury centers.

This new methodology will become standard for presenting direct investment statistics throughout Europe from 2014.

(1) Cf. section 2.1, page 32, of the 2009 Annual Report of France's balance of payments and trade.

CONTROLLING INVESTMENTS

France is open to foreign investment. Article L.151-1 of the French Monetary and Financial Code establishes the principle of freedom: “*France is free to conduct financial relations with other countries.*”

Like other nations, France reserves the option to impose limited restrictions on this principle of openness. Articles R.153 and following of the Monetary and Financial Code (modified by Decree no. 2012-691 of May 7, 2012) establish a set of restrictions for ‘sensitive’ investments, which can be summarized as follows:

- The restrictions distinguish between investments from European Union or European Economic Area Member States and those from third-party countries, in order to comply with France's obligations under European Union treaties.
- The list of business activities subject to prior authorization is narrowly defined. It covers four areas relating to national defense and seven relating to public order concerns.

Activities subject to prior authorization:

1. Gambling, except in casinos.
2. Private security services.

3. Research, development or production of means to combat the illicit use of biological or toxic agents for terrorist purposes.

4. Communications interception equipment and remote listening devices authorized under Article 226-3 of the Penal Code.

5. Services provided by testing centers authorized pursuant to Decree 2002-535 of April 18, 2002 on security testing and certification for information technology products and systems.

6. Information security products or services of companies under contract to public or private operators of the facilities referred to in Articles L. 1332-1 to L.1332-7 of the Defense Code.

7. Dual-use items and technology listed in Annex IV of Council Regulation (EC) No. 428/2009 of May 5, 2009 setting up a Community regime for the control of exports of dual-use items and technology.

8. Encryption and decryption systems and services referred to in Article 30, paragraphs III and IV, and Article 31,

paragraph I, of Act No. 2004-575 of June 21, 2004 on confidence in the digital economy.

9. Companies privy to national defense secrets as recipients of national defense contracts or to classified information as defined under Articles R. 2311-1 and following of the Defense Code on the protection of national defense secrets.

10. Research, production or trade involving military weapons, munitions, powders or explosive substances, or the war materials and similar regulated under Book III, Title III or Title IV, of the second part of the Defense Code.

11. Companies under contract to supply research or equipment to the Ministry of Defense or its subcontractors in order to provide an item or service in points 7 to 10 above.

Not all countries have chosen to be as transparent and predictable. In many cases, restrictions governing foreign investment allow government authorities room for discretion, which can make investors wary.

The attractiveness of an economy can also be assessed by the number of job-creating foreign investment projects (new production facilities or service centers) and business expansions.

These physical investments from foreign sources have remained buoyant since the onset of the global economic crisis: along with the United Kingdom and Germany, France is one of the most attractive countries for job-creating foreign investment projects in Europe.

Amid a worldwide economic slowdown and intensified competition in Europe, France remained attractive to foreign investors in 2011: 698 new job-creating foreign investments projects were recorded, versus 782 in 2010 and 639 in 2009. Eighty-five percent of these investments were made by European and American companies. Germany and the United States were responsible for 38% of all investments.

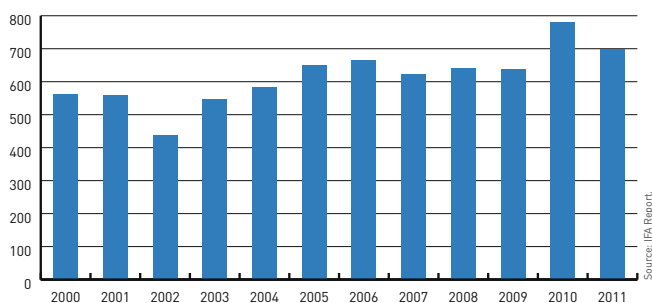
In 2011, France attracted 14% of all job-creating foreign investment projects recorded in Europe.

In Europe, foreign investment projects in 2011 focused primarily on four business activities: “decision-making centers” (38%) “production/manufacturing” (24%), “business-to-business services” (21%) and logistics (7%).

The distribution by sector of foreign investment projects in France was similar to the distribution in Europe as a whole.

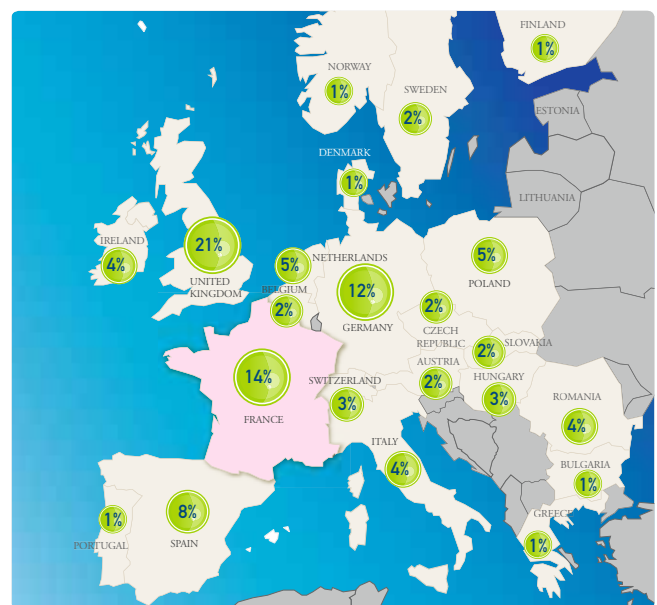
As in 2010, France was among the leaders in attracting foreign manufacturing investment in 2011, particularly in the chemicals, metal and metalworking and agri-food sectors.

Change in the number of job-creating foreign investment projects in France (2000-2011)



Distribution of job-creating foreign investment projects in Europe (2011)

European market share



RECORDING JOB-CREATING INVESTMENTS

The IFA “France Observatory”

Every year since 1993, the IFA Report, produced in association with France's regional economic development agencies, has recorded the number of job-creating investment projects in France initiated by foreign companies.

Four types of job-creating investment are recorded:

- Creations, which reflect the number of jobs created at a new site.
- Expansions, which generate new jobs at an existing site.
- Takeovers, which include jobs that are saved when a foreign company acquires an ailing company.
- Expansions through takeovers, where the jobs counted are those created after a foreign investor acquires a non-ailing French company.

• **Definition of foreign direct investment**

Direct investment is classified as being foreign if it is made by a company that is under majority foreign ownership.

• **Data gathering**

The data in the IFA Report on foreign investment in France are compiled from three sources:

- Investment projects supported by the IFA. The COSPE Project Steering Committee shares data on foreign investment projects with France's regional economic development agencies.
- Projects directly monitored by the IFA's regional partners in France.
- The IFA “France Observatory”, which monitors the international financial press to identify foreign companies that may wish to make an investment in France. Every year, over 600 foreign investment projects are added to this observatory.

European Investment Monitor 2011, Ernst & Young

The EIM database considers job-creating foreign direct investment projects which are either new site creations or expansions such as production facilities, logistics platforms, back office centers, shared service centers, headquarters, R&D centers, sales and marketing offices, etc.

Crossborder Investment Monitor, fDi Markets

Since 2003, the Crossborder Investment Monitor database, generated by fDi Markets using the same techniques as observatories, has been providing data on the investment projects of foreign firms around the world. Only “greenfield” projects (site creations) and expansions are counted. Mergers and acquisitions are not included.

II. INTERNATIONALIZATION AND THE OPENING UP OF ECONOMIES

France is very open to foreign investment. Foreign companies, which only account for 1% of all companies in France, make a substantial contribution to the French economy.

While almost one employee in seven in France works for a foreign-owned subsidiary, in the manufacturing sector, this figure is one in four. Similar levels of openness are seen in the United Kingdom, but France is ahead of Germany and Spain.

The share of foreign investors in the market capitalization of French companies is further proof of the internationalization of France's economy.

In 2009, foreign-controlled companies (Foreign Affiliates Trade Statistics – FATS – recorded by the OECD) were well represented in the manufacturing sectors of leading developed countries. In the European Union, they were responsible for more than 25% of the value added in the sector.

In France, the contribution of foreign subsidiaries to employment (13% in 2009) and to value added (20% in 2009) reflects the internationalization of the French economy.

The contribution of these subsidiaries is more significant in the manufacturing sector, where they accounted for 25% of private-sector jobs and 31% of value added in 2009.

The internationalization of France's economy can also be measured by the contribution of foreign subsidiaries to domestic business expenditure on R&D: 20% in 2009 (compared with 23% in 2003).

While this rate is lower than in the United Kingdom and Germany, it is higher than in the United States (14%) and Japan (5%).

The extent of Ireland's internationalization appears to be the quite unique result of economic development based on opening markets to investment from around the world, particularly from American and European investors.

The large share of foreign investors in the market capitalization of French companies is further proof of the internationalization of France's economy.

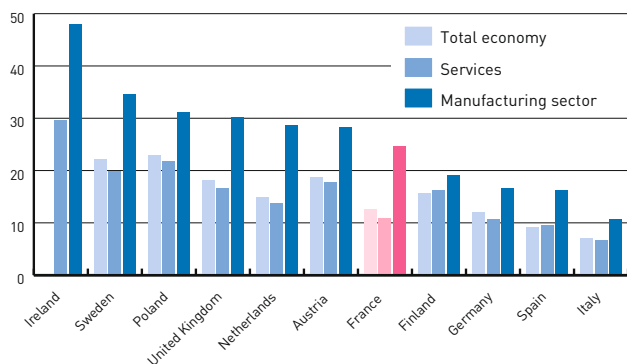
According to the Banque de France, non-resident equity holdings in CAC 40 companies rose to 43.3% at the end of 2011, or €334.6 billion (compared with 41.1% at the end of 2010).

This rise of 2.2 percentage points in the proportion of total equity held is a result of net non-resident investment (1 percentage point), changes to the composition of the CAC 40 (0.5 percentage points), and other reasons (0.7 percentage points, mostly price effects).

The euro zone is the leading source region of non-resident shareholders in French companies (accounting for a little less than half of all foreign ownership), followed by the United States (14.5% of total market capitalization).

Contribution of foreign subsidiaries to employment (2009)

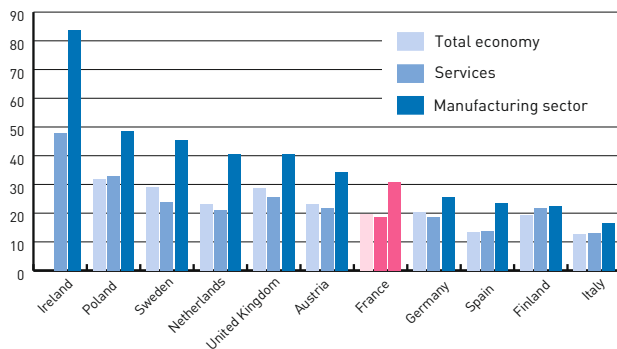
% of total employees



Source: OECD, Inward Activity of Multinationals, 2012

Contribution of foreign subsidiaries to value added (2009)

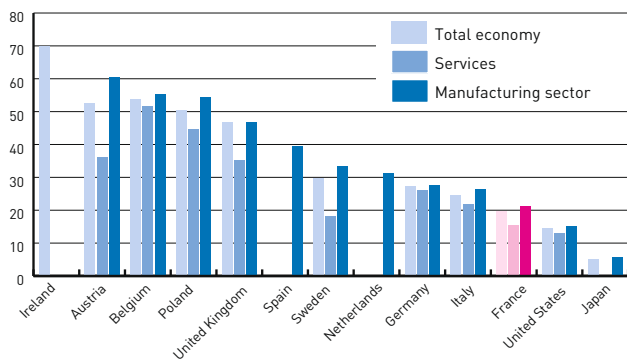
% of total value added



Source: OECD, Inward Activity of Multinationals, 2012

Contribution of foreign subsidiaries to business expenditure on R&D (2009)

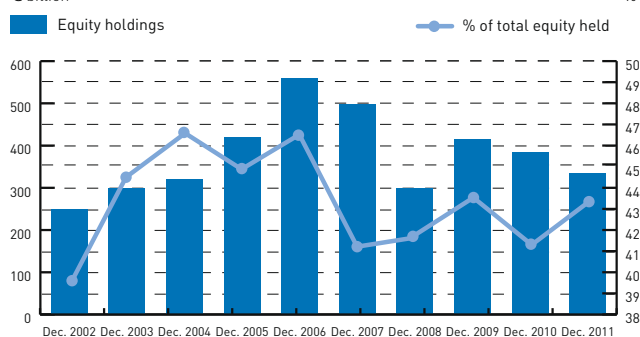
% of domestic business expenditure on R&D



Source: OECD, Inward Activity of Multinationals, 2012

Non-resident equity holdings in CAC 40 companies

€ billion



Source: Banque de France, 2012

III. STRATEGIC ACTIVITIES

The presence of research and development centers and headquarters or registered offices of multinational groups has a domino effect on the rest of the French economy in terms of knowledge and technology transfer. Investment projects like these deserve to be recognized as strategic, as while they may not create the most jobs they do however contribute to France's investment attractiveness.

In 2011, France was the joint second leading recipient in Europe with Germany of new R&D centers and headquarters after the United Kingdom.

France is one of the leading destinations in Europe for foreign R&D projects and headquarters.

In 2011, France was the second leading recipient of R&D activities after the United Kingdom. With 16.1% of all foreign R&D projects recorded in Europe, France was ahead of Ireland (14.4%), Germany (13.8%) and Spain (10.9%).

Foreign R&D investments in France have been on the rise since 2001 at an average rate of around 6% per year. This trend has been accelerating since 2007, with an average of 12% more projects every year between 2007 and 2011. These projects accounted for 7% of all new physical investments recorded in France in 2011.

The number of investment projects to set up company headquarters in France has tripled since 2009 and accounted for 4% of all new investments recorded in 2011.

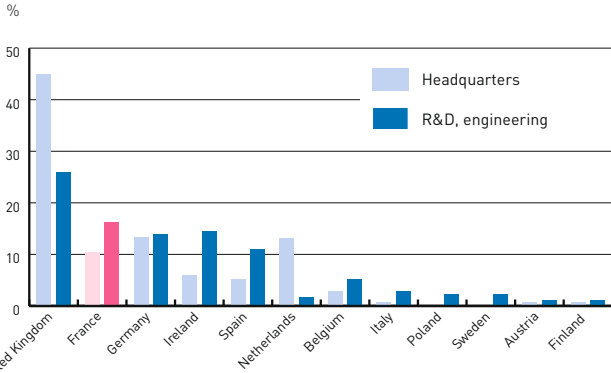
Foreign companies in the pharmaceuticals and biotechnologies and the software and IT services sectors are the leading investors in R&D activities and are responsible in France for one-third of all such operations.

During the last decade, the number of foreign investment decisions in technology-rich sectors has continued to rise.

France is a preferred destination for foreign investments in the pharmaceuticals and biotechnologies, chemicals, medical equipment, and consulting/engineering sectors.

Foreign company investment projects (2011)

Ranking by European market share of projects in R&D and headquarters*

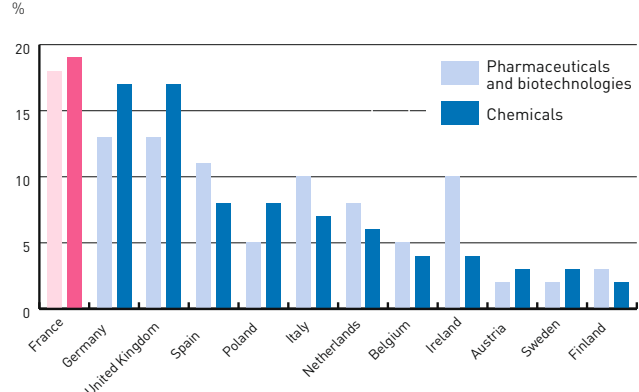


Source: IFA Europe Observatory 2012, IFA-CAS calculations

* In 2011, there were 174 foreign company investment projects in R&D / engineering in Europe and 136 in headquarters.

Foreign company investment projects (2011)

Ranking by European market share of projects in the chemicals sector*

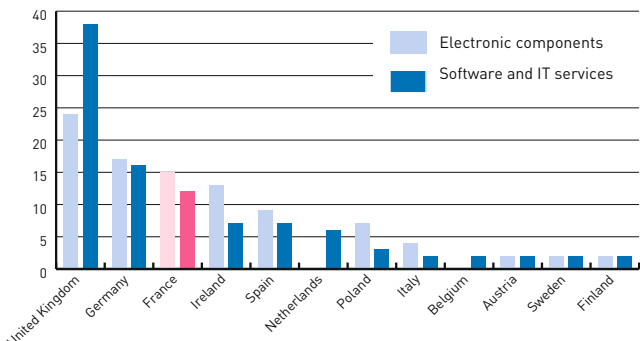


Source: IFA Europe Observatory 2012, IFA-CAS calculations

* In 2011, there were 114 foreign company investment projects in the chemicals sector in Europe and 62 in the pharmaceuticals and biotechnologies sector.

Foreign company investment projects (2011)

Ranking by European market share of projects in the software and IT services sector*
%

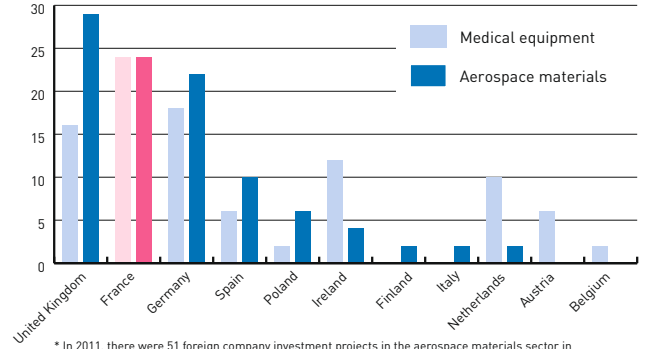


* In 2011, there were 452 foreign company investment projects in the software and IT services sector in Europe and 46 in the electronic components sector.

Source: IFA Europe Observatory 2012, IFA-CAS calculations

Foreign company investment projects (2011)

Ranking by European market share of projects in the aerospace materials sector*
%

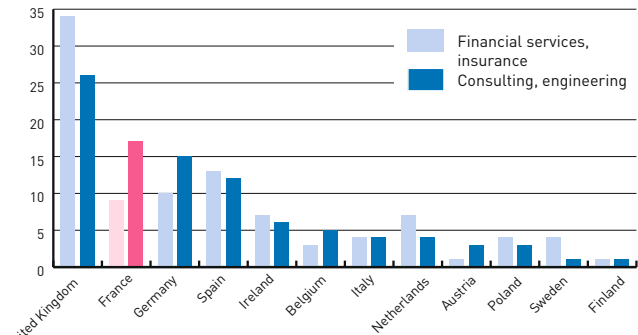


* In 2011, there were 51 foreign company investment projects in the aerospace materials sector in Europe and 49 in the medical equipment sector.

Source: IFA Europe Observatory 2012, IFA-CAS calculations

Foreign company investment projects (2011)

Ranking by European market share of projects in the consulting and engineering sector*
%



* In 2011, there were 278 foreign company investment projects in the consulting and engineering sector in Europe and 136 in the financial services and insurance sector.

Source: IFA Europe Observatory 2012, IFA-CAS calculations

IV. FOREIGN SKILLS

The ability to train foreign-born talent enhances as much as it determines a country's international reputation and attractiveness. In this respect, France is the fourth most popular destination country among our sample (and the fifth in the world) with nearly 250,000 foreign students enrolled in tertiary education in 2009.

Although a considerable proportion of foreign students arrive to France to enroll in research programs, the share of non-national human resources in science and technology is relatively low.

There has been a significant rise in the number of foreign students in recent years. In 2009, more than 3.7 million students were educated abroad, a 77% increase since 2000.

With nearly 250,000 of these students, France is the fourth most popular destination among our sample countries for foreign students after the United States, the United Kingdom and Germany.

In 2009, foreign students accounted for slightly over 11% of all students enrolled in tertiary education in France, which is similar to the proportion in Germany (10.5%), but lower than that in the United Kingdom (20.7%).

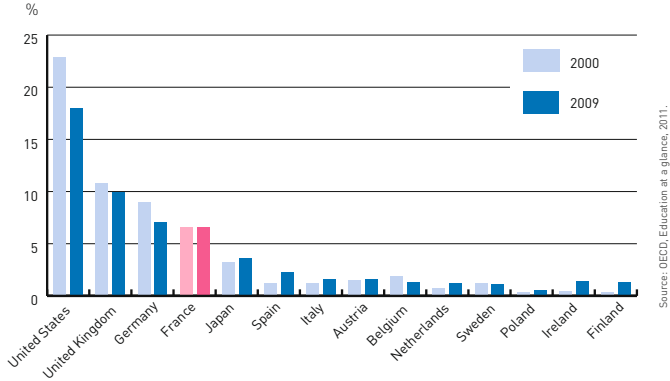
France stands out for its very high proportion of foreign students who have come to enroll in advanced research programs (40.9%).

Africa was the leading region of origin of foreign students enrolled in tertiary education in France (42.9% in 2009), ahead of Asia (22.1%) and Europe (21.1%). In Germany and the United Kingdom, the proportion of European students was much higher (46.9% and 32.4% respectively), as was the proportion of Asian students (37.8% and 49.1% respectively).

Employees working in the science and technology sector make a significant contribution to development in technological innovation.

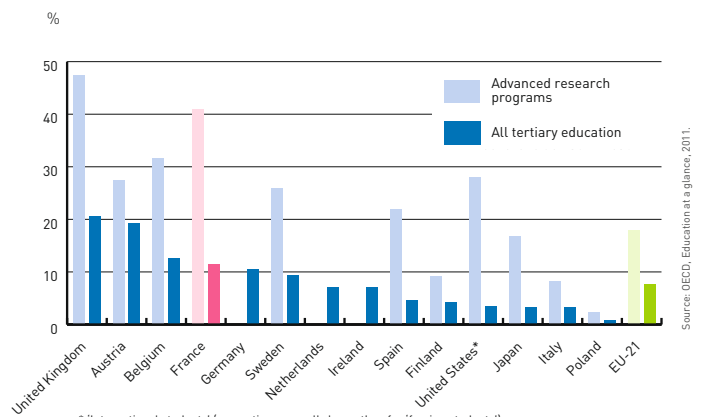
In France, nearly 31% of the workforce was employed in this sector in 2009, and 2.6% of this subset was foreign. While this percentage is lower than in other European countries, it has increased 14% over the last five years.

Market share for hosting foreign students by country of destination*



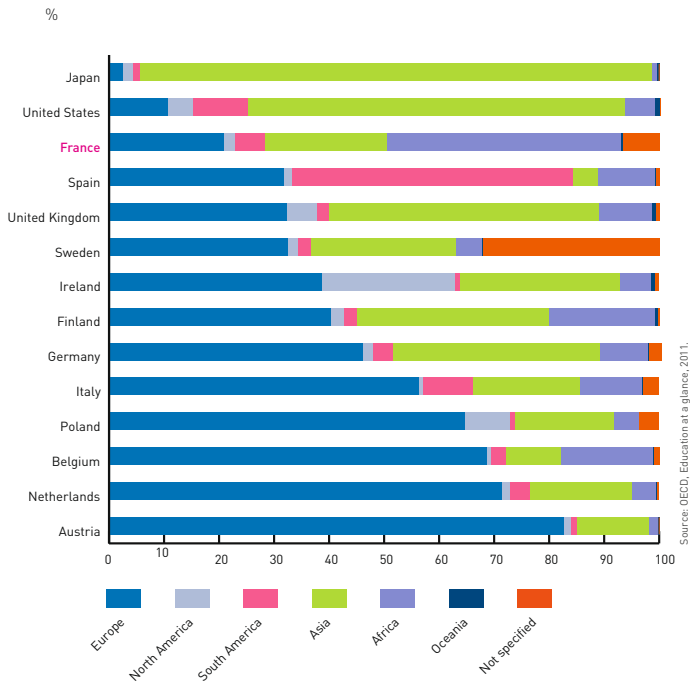
* Students originally from a country other than the country of destination.

Proportion of foreign students in higher education (2009)

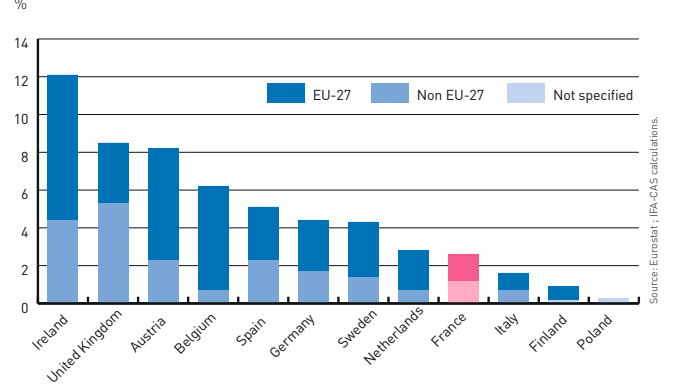


* 'International students' (proportion generally lower than for 'foreign students').

Distribution of foreign students by region of origin (2009)



Share of non-national human resources in science and technology (2009)



CHAPTER 2

ATTRACTIVENESS CRITERIA

- I. MARKET SIZE AND STRENGTH
- II. EDUCATION AND HUMAN CAPITAL
- III. RESEARCH AND INNOVATION
- IV. INFRASTRUCTURE
- V. ADMINISTRATIVE AND REGULATORY ENVIRONMENT
- VI. FINANCIAL ENVIRONMENT
- VII. COSTS AND TAXATION
- VIII. QUALITY OF LIFE
- IX. GREEN GROWTH

I. MARKET SIZE AND STRENGTH

The size and strength of the host country's market (measured inter alia by nominal and per capita GDP) are often decisive criteria for multinational firms deciding where to locate.

In 2011, with a GDP of US\$2,776 billion at current prices, France was the world's fifth largest market after the United States, China, Japan and Germany.

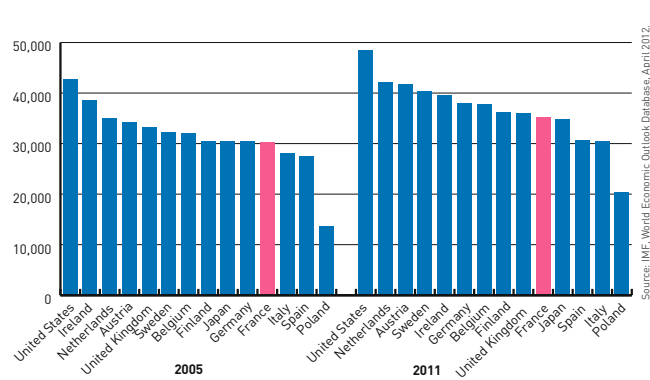
In terms of per capita GDP in 2011, France was comparable to Germany and the United Kingdom, after the United States.

France recorded steady growth in 2011: real GDP increased 1.7%, on a par with the United States and higher than in the United Kingdom (up 0.7%) or Italy (up 0.4%), but not as robust as in Germany (up 3.1%). From 2007-2010, France's decline in GDP (average annual decline in real GDP of 0.5%) was comparable to the slowdown in Germany and the United States (down 0.3%) but much smaller than in the United Kingdom (down 1.2%) or Italy (down 1.7%).

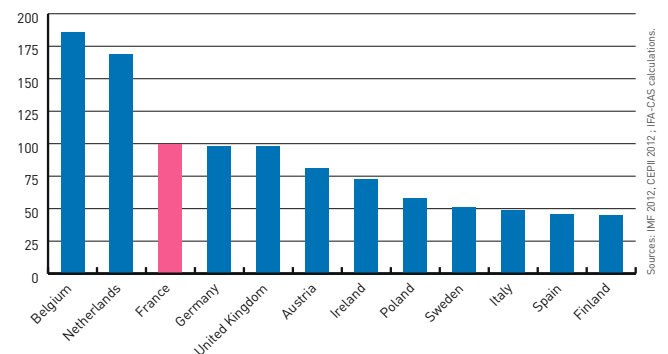
Europe is the world's largest market. EU-27 GDP was estimated to be US\$17,578 billion in 2011, compared with GDP of US\$15,094 billion in the United States.

Thanks to its location and the size of its domestic market, France is a springboard into other European markets. A foreign company will be minded to set up in a country where domestic demand is high and which offers easy access to other European markets. According to this "access to EU-27 markets" criterion, France was ranked third in 2011, slightly ahead of Germany and the United Kingdom.

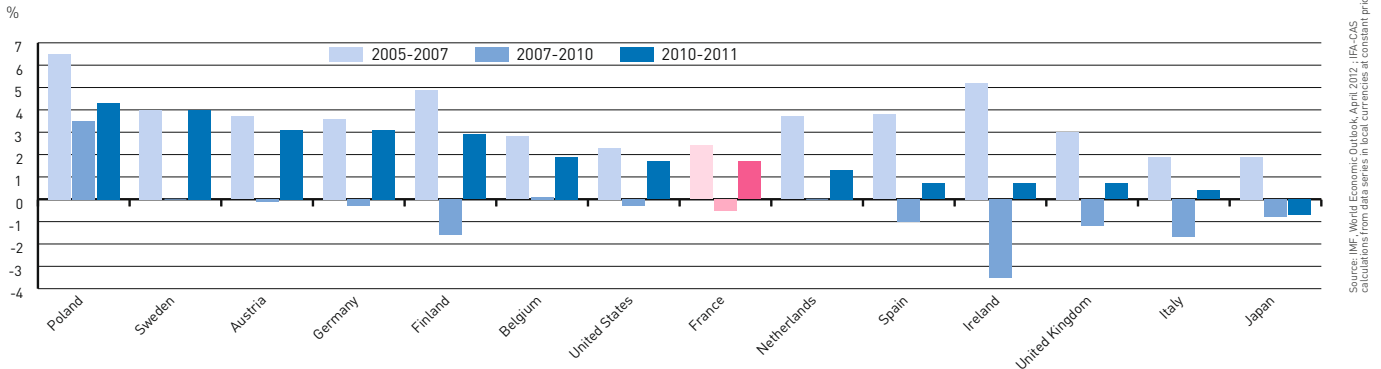
GDP per capita
US\$ at PPP



Access to EU-27 markets (2011)
In comparison with France
Index France = 100

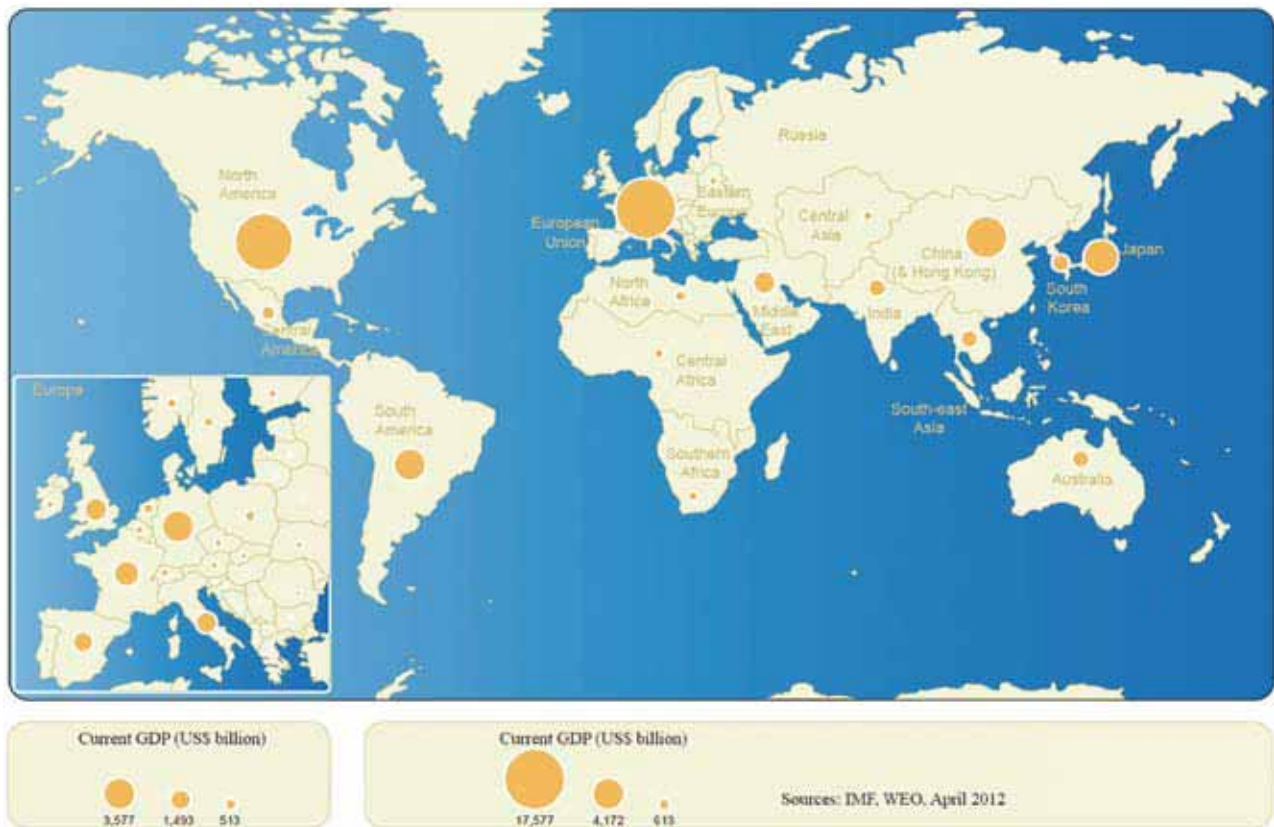


Average annual rate of real GDP growth



Distribution of global wealth in 2011

US\$ billion



Source: IMF, World Economic Outlook Database, 2011

ACCESS TO EXTERNAL MARKETS

The access to external markets variable is based on a broader concept than GDP. It is similar to the concept of trade potential and takes external demand on a country into consideration.

This indicator is calculated for the EU-27 market. Thus for the EU-27 country *i*, it corresponds to the total GDP of all other EU-27 countries, weighted by their respective distance from country *i*.

Companies tap into foreign demand by exporting or by basing their operations overseas. Their performances in this respect have a direct bearing on the competitiveness of the host country. To a certain extent, they determine the attractiveness of economies.

With 3.3% of global goods exports in 2011, France was the sixth-largest goods exporter in the world and the third-largest in Europe, after China (10.4%), the United States (8.1%), Germany (8.1%), Japan (4.5%) and the Netherlands (3.6%).

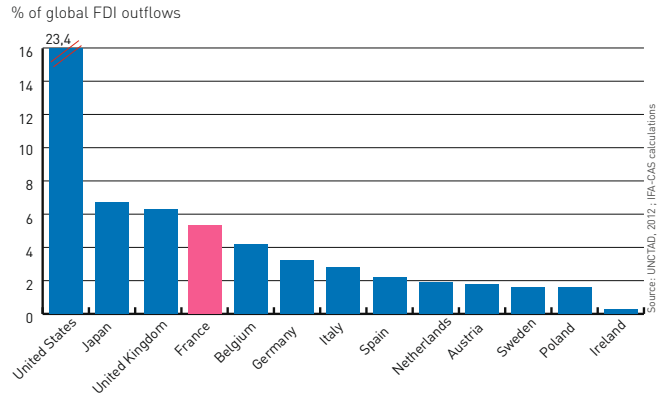
France was also the world's fifth largest service exporter, with 3.9% of the global total, after the United States (13.9%), the United Kingdom (6.6%), Germany (6.1%) and China (4.4%).

Goods exports in France grew by 14.1% in 2011, but at a slower rate than most of the other countries in the sample. French exports from 2007-2010 were down slightly by 2.2%. The 8.0% recovery in 2010 did not make up for the sharp 21.3% decline in 2009. In the previous period (2005-2007), French exports had grown 9.9%, seven percentage points less than Germany but three percentage points more than the United Kingdom.

In 2011, France was ranked fourth in the world for FDI outflows (5.3% of global flows) after the United States (23.4%), Japan (6.7%) and the United Kingdom (6.3%), but ahead of Germany (3.2%).

FDI outflows in 2011 rose worldwide (up 16.7%) and in Europe (up 16.3%) after a period of contraction. France recorded a 17% rise, while Germany experienced a 50% fall.

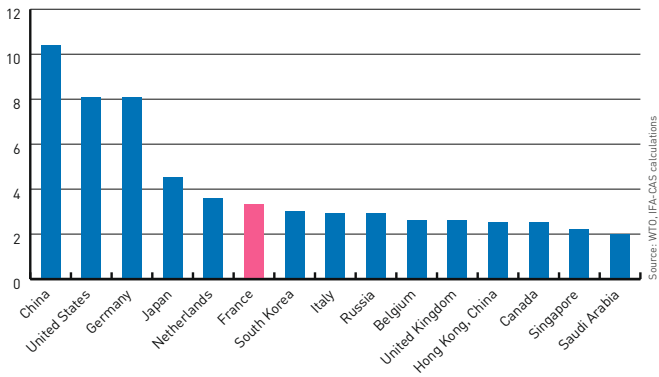
Market share of FDI outflows (2011)



Goods exports (2011)

Market share of 15 leading economies

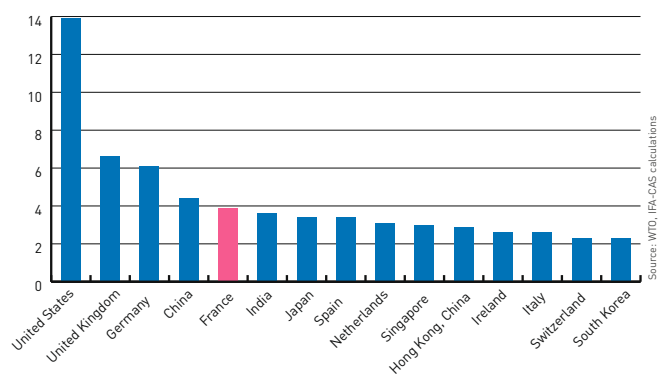
% of global exports



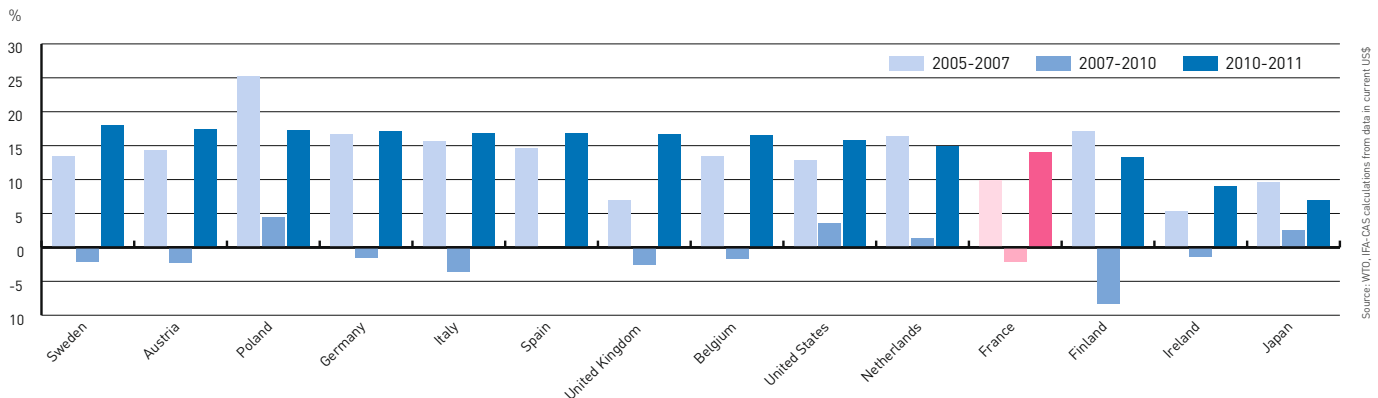
Services exports (2011)

Market share of 15 leading economies

% of global exports



Average annual rate of goods export growth



II. EDUCATION AND HUMAN CAPITAL

France invests heavily in education and has a well-qualified and highly productive labor force. To maintain its competitive advantage, France continues to invest in tertiary education and to strengthen its areas of scientific expertise.

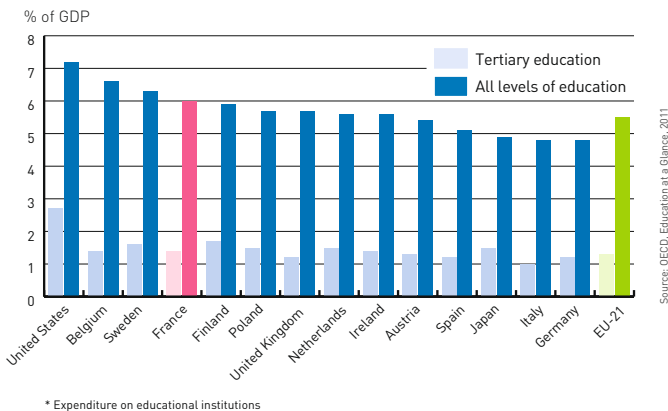
Higher education and training have been identified as strategic priorities for France, receiving €11 billion in funding from the French government's "National Investment Program".

With 6% of GDP being spent on education in 2008, France is among several countries which invest the most in their education system.

If all levels of education combined (from primary to tertiary) are considered, France spends an average of US\$9,600 (PPP) per pupil/student, which is more than Germany (US\$9,100) but less than the United Kingdom (US\$10,000), Sweden (US\$11,200) or the United States (nearly US\$15,000).

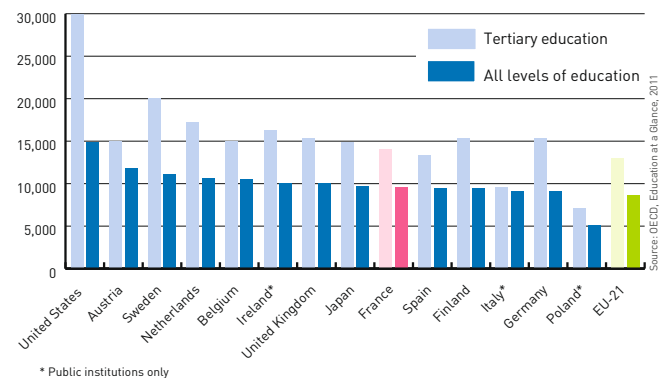
In tertiary education, annual expenditure per student (US\$14,100) is higher than the average for the EU 21 (US\$12,900), but is significantly lower than in the United States (nearly US\$30,000) or Sweden (US\$20,000). With the exception of the United States, the United Kingdom and Japan, education expenditure for tertiary education is mostly government funded. In 2011, public expenditure accounted for 82% of France's total spending in the

Total expenditure on education* (2008)



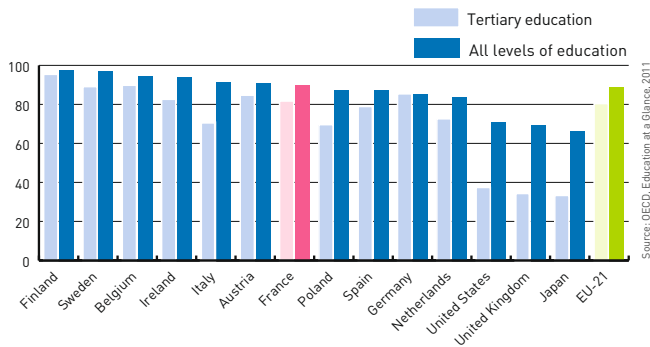
Total annual expenditure per student (2008)

In educational institutions, all services
Equivalent US\$ converted using PPPs



Public expenditure on education (2008)

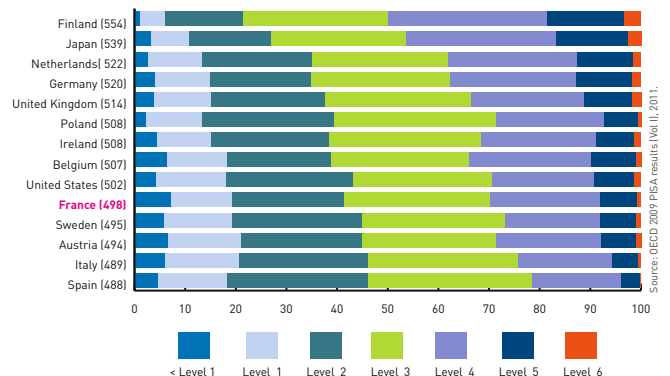
% share of total expenditure



Scientific literacy of 15-year-old students (2009)

In descending order of mean score (in brackets)

% of pupils ranked by level



education sector, slightly more than the average EU-21 country (80%) but below Germany (85%), Sweden (89%) and Finland (95%). From 2007 to 2008, the share of private expenditure rose three percentage points in France.

The OECD PISA survey, which assesses the scientific literacy of 15-year-old pupils, gives France an average ranking: 8% of pupils attained the two highest levels in 2009 (a similar result to Sweden), compared with 9% in the United States, 11% in the United Kingdom, 13% in Germany, and 19% in Finland.

In the 25-34 age group, France has a highly qualified population: 43% of this age group held a tertiary qualification in 2009, a level comparable to Sweden (42%) and the United States (41%) and much higher than in Germany (26%) or Italy (20%).

The tertiary-level educational attainment of the 25-64 year-old age group is 29% in France, which is lower than

in Finland or the United Kingdom (37%) and the United States or Japan (both over 40%). However, this figure can be seen to be increasing steadily once the higher qualification level of younger age groups is taken into account.

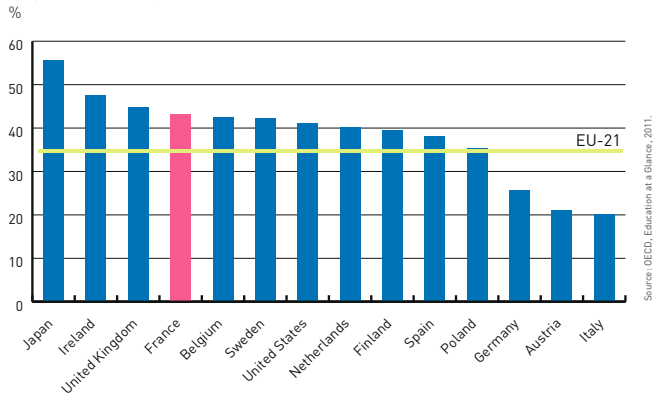
France is ranked in the middle of the pack in continuing education. In 2007, it had a participation rate of 29% for 25-64 year-olds in job-related training and an average program length of 35 hours.

Human resources in science and technology (HRST) are regarded as one of the main drivers of knowledge-based economies. In addition to tertiary graduates, HRST include people employed in scientific or technological occupations that require advanced qualifications.

In France, **this latter category accounted for 34% of total employment in 2010.** France belongs to a group of countries whose share of total employment includes

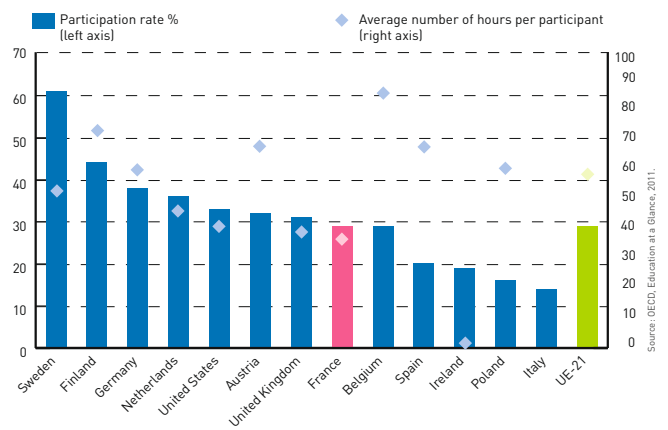
Tertiary education graduates (2009)

Proportion of 25-34 year-olds



Education and training for 25-64 year-olds (2007*)

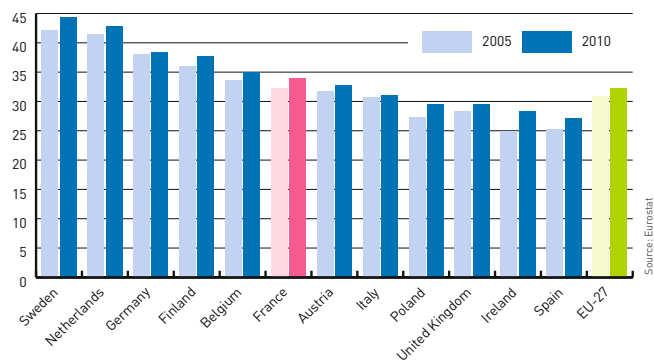
Non-formal job-related training



Human resources in science and technology

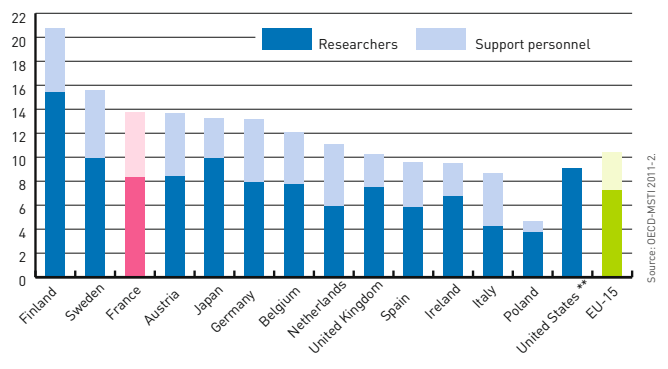
Share of total employment

% of 25- to 64-year-olds in HRST occupations



R&D personnel (2010*)

Per thousand labor force



a significant proportion of human resources in science and technology. France is ranked after Germany (38%) but ahead of the United Kingdom (29%).

Researchers are well represented. With 8.3 researchers per 1,000 members of the labor force in 2009, France was ranked third, ahead of Germany (7.9) and the United Kingdom (7.5). This share has grown 12% since 2005, compared with a rise of 10% for the EU-15.

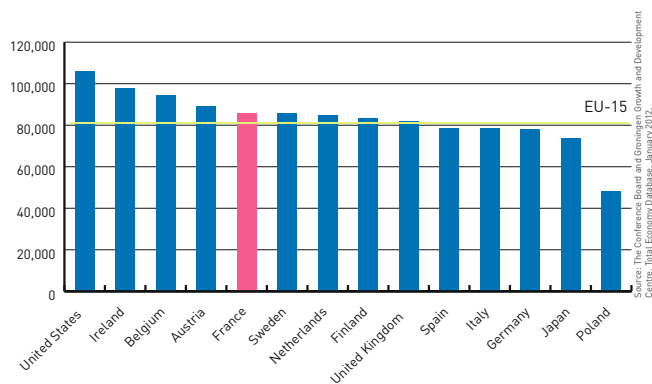
Labor productivity is high in France on both a per-employee and hourly basis.

Between 2007 and 2010, hourly productivity fell in many countries, with the most pronounced declines in the United Kingdom (down 0.6%) and Belgium (down 0.5%). **Hourly productivity in France during this period remained stable**, as in the EU-15 countries as a whole, while it increased in the United States (up 1.6%), Spain (up 1.9%) and Ireland (up 2.2%).

In 2011, hourly productivity rose in nearly every country in the sample. France saw a 0.8% improvement: less than in the Netherlands (up 2.1%), Germany (up 1.6%) and the EU-15 (up 1.1%) but more than in the United States (up 0.6%) and the United Kingdom (up 0.2%).

Productivity per employee* (2011)

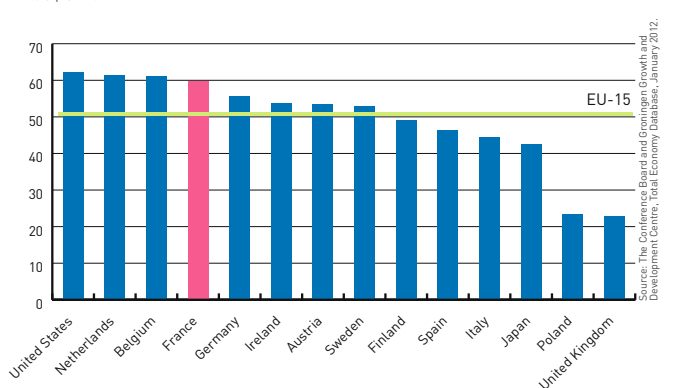
Total economy
In US\$ at 2011 PPP



* GDP per person employed.

Hourly productivity* (2011)

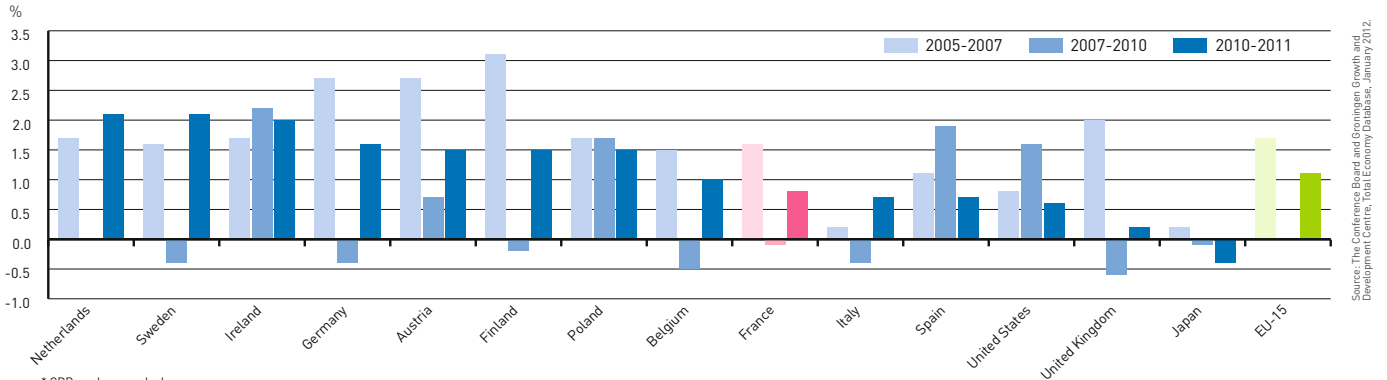
Total economy
In US\$ at 2011 PPP



* GDP per hour worked.

Trends in hourly productivity*

Average annual rate of growth - Total economy



* GDP per hour worked.
IFA-CAS calculations from a data series in US\$ at 2011 PPP.

III. RESEARCH AND INNOVATION

The intensity and quality of existing research and innovation activities are a key factor in attracting technology- and knowledge-intensive investment projects.

After increasing between 2007 and 2009, R&D activities in France remained buoyant in 2010.

France recorded decent performances in business innovations and consolidated its position in the most profitable technological fields. Since 2009, France has been shown to have revealed technological advantages in nanotechnologies and biotechnologies.

With gross domestic expenditure on research and development (GERD) of US\$50 billion (PPP) in 2010, France was ranked sixth in the world, after the United States, China, Japan, Germany and, for the first time, South Korea.

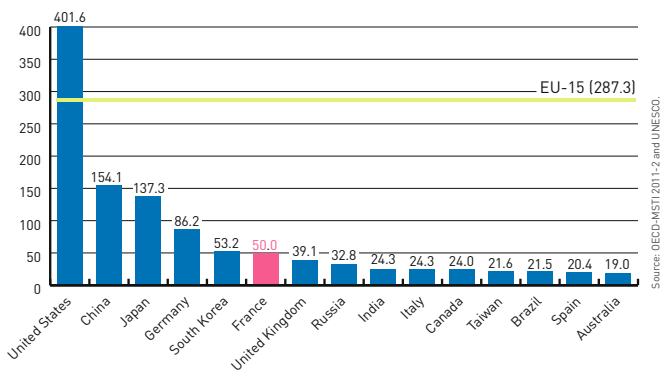
Compared with 2009, GERD increased in France (up 1.4%), but at a lower rate than in 2007-2009 (up 2.7%). In the sample, Poland made standout increases in GERD in the most recent year (up 13.3%) as it did between 2007 to 2009 (up 12.8%).

In 2010, business expenditure on R&D increased only marginally in France (up 0.5%) compared with an increase of 0.9% in the EU-15. The strongest growth was in Poland (up 5.9%), Ireland (up 4.5%) and Germany (up 3.2%), but the weakest growth was in Sweden (down 2.3%), the United Kingdom (down 2.1%) and Spain (down 1.8%).

In 2010, R&D intensity (GERD/GDP ratio) was 2.26% in France, higher than in the EU-15 as a whole (2.06%). It was lower than in Finland (3.87%), Sweden and Japan (around 3.4%), the United States, Germany and Austria

Domestic expenditure on R&D (2010*)

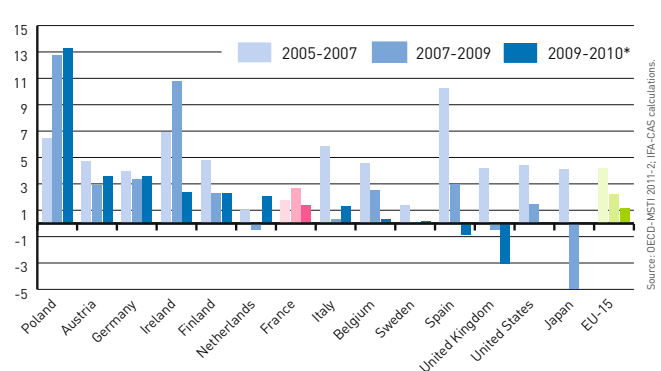
The world's 15 leading economies
US\$ billion at current PPP



* Estimates or forecasts for Germany, Sweden and the EU-15; 2009 for the United States, China, Japan and Taiwan; 2008 for Brazil and Australia; 2007 for India.

Trends in domestic expenditure on R&D

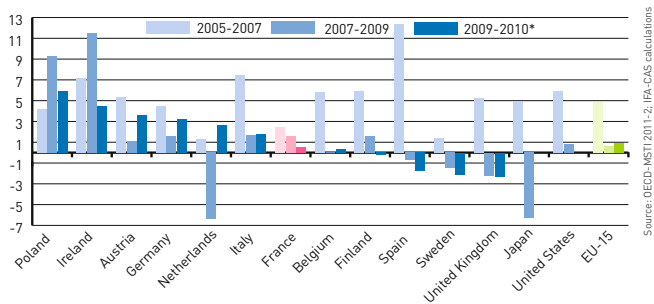
Real average annual rate of growth
%



* Estimates or forecasts for 2010 for Austria, Germany, Ireland, Sweden and the EU-15.

Trends in business expenditure on R&D

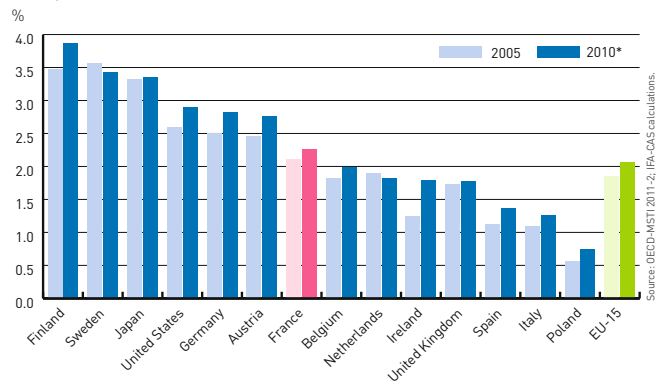
Real average annual rate of growth
%



* Estimates or forecasts for 2010 for Austria, Ireland, Sweden and the EU-15.

Intensity of R&D operations

GERD / GDP

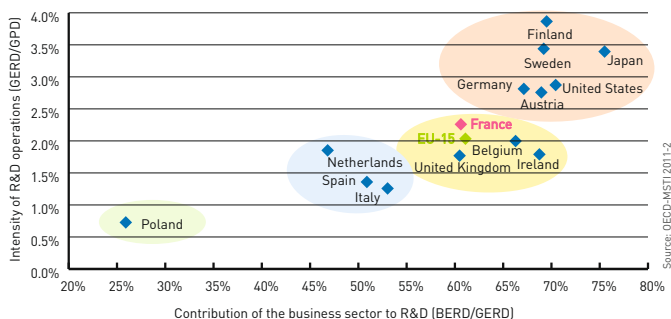


* 2009 for Japan and the United States ; estimates or forecasts for Austria, Germany, Ireland, Sweden and the EU-15.

(with rates ranging from 2.8% to 3.1%). France's position can be explained by its industrial base, which is smaller than in countries with higher R&D intensity. This ratio had been on the decline from 2002 to 2007 (2.24% down to 2.08%), but the trend has reversed since 2007.

Business R&D expenditure only accounted for 61% of GERD in 2010, compared with 76% in Japan, 70% in the United States and 67% in Germany. Like in most of the

Intensity of R&D operations and contribution of the business sector to R&D (2010*)



* 2009 for Japan and the United States; estimates or forecasts for Austria, Germany, Ireland, Sweden and the EU-15.

sample countries, the private sector in France has been contributing less to R&D activities since 2007.

In all the sample countries, SMEs have a lower capacity for innovation than large corporates. France is ranked in the middle, with 49% of SMEs and 82% of large corporates reporting innovations between 2006 and 2008.

Patent indicators are often used to discern a country's performance in technological innovation. The most

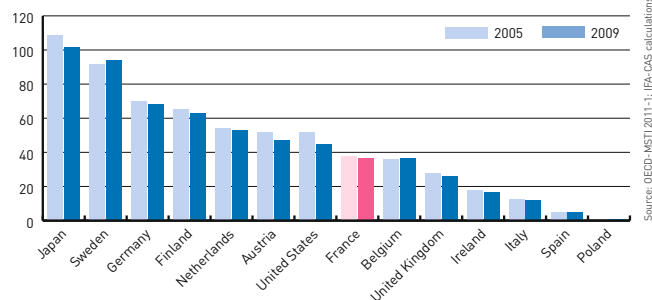
Innovation strategies by company size (2006-2008)



Source: OECD Science, Technology and Industry Scoreboard 2011, based on European Community Innovation Survey 2008 and national sources, June 2011

Triadic patent families

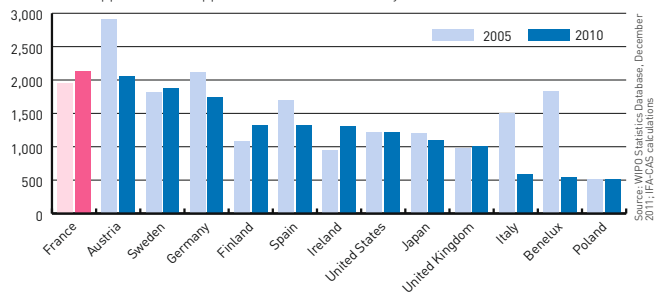
Per million inhabitants
% Priority year, inventor's country of residence



Source: OECD-MSTI 2011-1, IFA-CAS calculations

Trademark applications

Per million inhabitants
Total direct applications + applications via the Madrid system



Source: WIPO Statistics Database, December 2011, IFA-CAS calculations

PATENTS AND TRADEMARKS AS INDICATORS OF INNOVATION ACTIVITY

A patent is an intellectual property title which confers on its holder an exclusive right of use to the patented invention, for a limited period (normally 20 years) and in a specified territory. Patent applications may be for a single country or for a much wider area (the countries of the European Union, for example, in the case of an application to the European Patent Office). A **triadic patent family** is a group of patents intended to protect the same invention that is filed with the three main patent offices: the European Patent

Office (EPO), the United States Patent and Trademark Office (USPTO) and the Japan Patent Office (JPO). The advantage of this concept is that it improves international comparability and targets high-value patents (the cost of patent applications increases with the number of territories for which protection is sought).

According to the INPI (French Patent and Trademark Office): "As intellectual property is defined, a trademark is a 'sign' used to accurately distinguish the products or services of a company from its

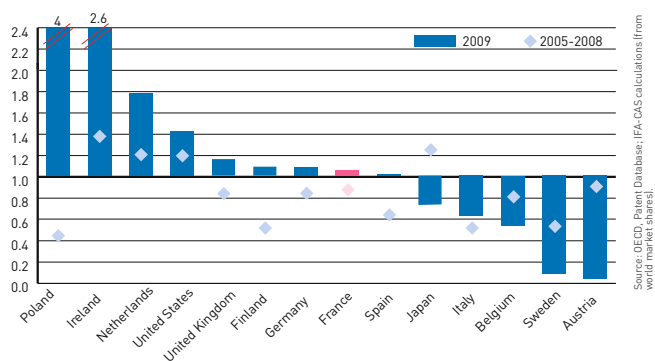
competitors' products or services." Filing a trademark gives the holder exclusive rights of use in the form of intellectual property protection. It is used as a sign that something is new (innovations in products, marketing and services) and imparts advantages on the innovations when new products are introduced on the market. The Madrid System enables the owner to have their trademark protected in several countries at once by filing a single application directly with their own national or regional trademark office.

common indicator used to draw international comparisons is the number of triadic patent families. In 2009, France had filed 37 such applications per million inhabitants, after Japan (102), Sweden (94), Germany (68) and the United States (45).

Trademark applications are used to measure non-technological inventions and service innovations. In 2010, France was the leading country in the sample, with around 2,100 trademarks registered per million inhabitants. The United States, Japan and the United Kingdom registered barely over 1,000 trademarks per million inhabitants.

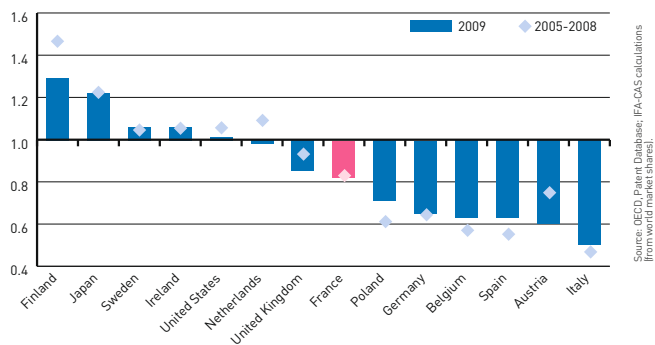
Revealed technological advantage in nanotechnologies

Patent applications via the PCT procedure; priority year; inventor's country of residence



Revealed technological advantage in ICT

Patent applications via the PCT procedure; priority year; inventor's country of residence



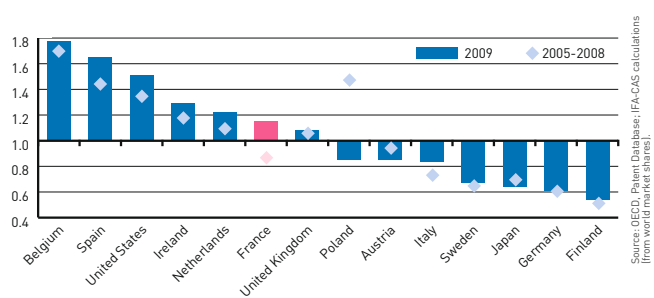
France has consolidated its position in the most profitable technological fields. Compared with 2005-2008, it now enjoys a technological advantage in nanotechnologies and biotechnologies.

It is also highly specialized in environmental management, making it one of the most competitive countries in the field.

However, France has not managed to improve its technological standing in ICT.

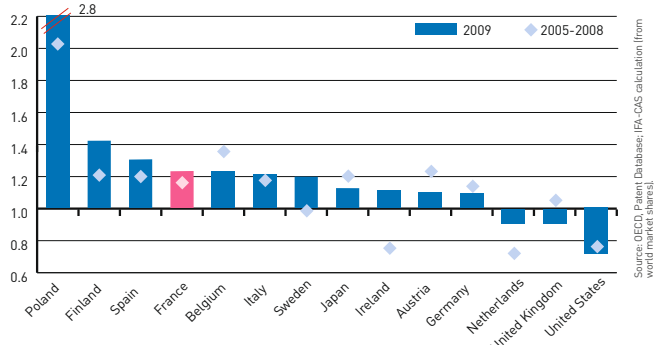
Revealed technological advantage in biotechnologies

Patent applications via the PCT procedure; priority year; inventor's country of residence



Revealed technological advantage in environmental management: air, water, waste

Patent applications via the PCT procedure; priority year; inventor's country of residence



REVEALED TECHNOLOGICAL ADVANTAGE INDICATOR (RTA)

This indicator of technological specialization of a country *i*, in a technological field *j*, is defined by the following ratio:

$$RTA_{ij} = \frac{\text{market share of a country } i \text{ in patent applications in a given field } j}{\text{market share of a country } i \text{ in total patent applications in all fields}}$$

If $RTA_{ij} > 1$, country *i* is relatively specialized in technological field *j* (its market share in field *j* is greater than its overall market share).

The calculation for this indicator is based on patent applications filed under the Patent Community Treaty (PCT – signed by 133 countries, including France), which covers “international” patent applications requesting that protection be filed in several countries at once.

IV. INFRASTRUCTURE

As an investment location, France is characterized by high quality transport infrastructure, providing fast, efficient connections with the rest of the world, especially Europe, Africa and the Middle East. This attractiveness component is an advantage that can have a decisive impact on the geographical distribution of production activities.

Businesses operating in France also gain from an extensive broadband network and electricity at very competitive and stable rates.

France has high levels of state investment (3.1% of GDP in 2011, compared with 2.4% in the euro zone and 1.6% in Germany). Gross fixed capital formation in public services has fallen since 2005 in France and throughout the euro zone (down 7%), but has grown in Poland by a factor of 1.7 and in the United Kingdom by a factor of 3.7.

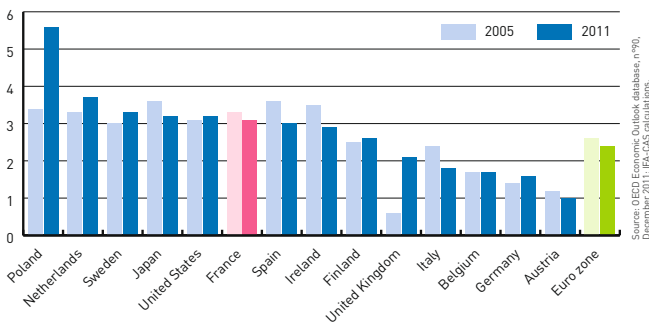
Investments in transport infrastructure in 2009 were equivalent to 0.95% of France's GDP and have remained stable since 2005.

With over 11,000 km (nearly 7,000 miles) of motorways, a rail network of 30,000 km (nearly 19,000 miles) and 5,000 km (2,700 nautical miles/3,100 miles) of navigable waterways, France has an extremely dense domestic transport network. As of 2011, it has Europe's second longest high-speed rail network, after Spain, connecting France to the main capitals of Europe.

The volume of road transport in France is considerable. With over 180,000 tonne-km (over 120,000 ton miles) of freight in 2010, France is ranked fourth among European countries in the sample, after Germany, Poland and Spain.

Gross fixed capital formation in public services

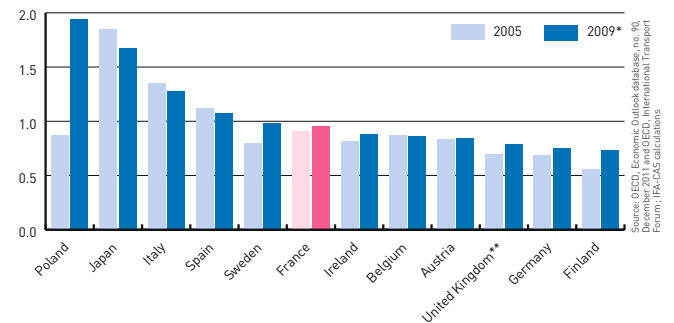
% of GDP



Source: OECD Economic Outlook database, n°90, December 2011; IFA-CAS calculations.

Investment in inland transport infrastructure

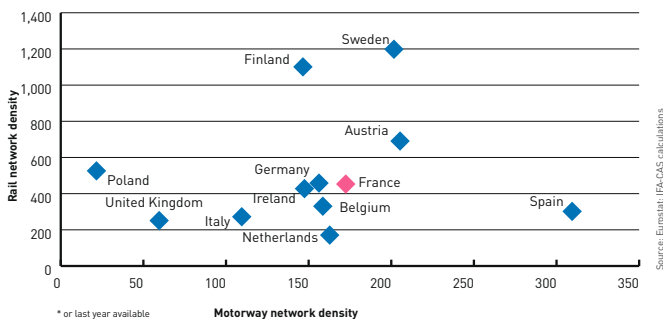
Gross investment as a % of GDP



* 2007 for Ireland, 2008 for Japan, Italy and Austria.
** Excluding investment in navigable inland waterways.

Land transport infrastructure density (2010*)

km per million inhabitants

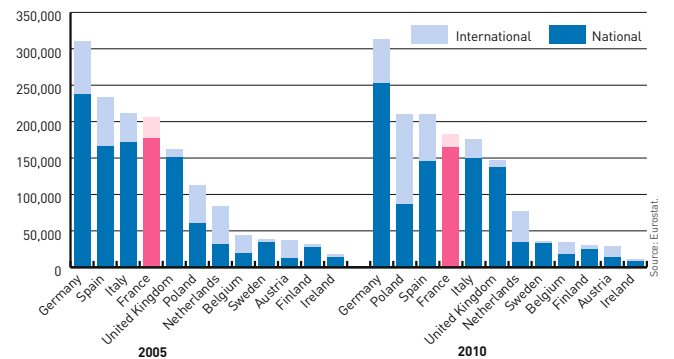


* or last year available

Source: Eurostat; IFA-CAS calculations

Road freight transport

Total load, million tonne-km



Source: Eurostat.

Rail freight transport is also highly developed. With nearly 30,000 tonne-km (over 20,000 ton miles) transported in 2010, France is ranked third among European countries in the sample, after Germany and Poland.

France also boasts a number of advantages in maritime transport. It is flanked by Europe's three large coastlines (the Atlantic, Mediterranean, and the Channel/North Sea) and through its overseas territories has access to four large oceans. In 2010, freight volumes loaded or unloaded in its mainland ports totaled 310 million tonnes of goods, ranking France fifth among the European countries in the sample.

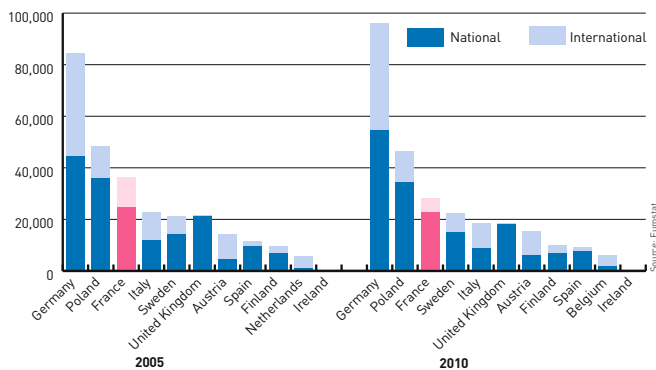
This land and maritime network is supplemented by an excellent air network. France's 78 airports, including six international airports, each record more than 15,000

passenger movements per year. In 2010, Paris' two airports were ranked in the top 15 airports in the EU-27, with Paris-Charles de Gaulle second after London Heathrow in terms of passengers handled and the largest airport for cargo (Airport Council International).

ICT is a decisive factor in the capacity for corporate innovation as it accelerates the spread of information, helps network businesses and makes distance a problem of the past. **Investment in ICT by the economy as a whole (16% of GDP in 2009) is low compared with that of the United States (32%) or the United Kingdom (24%).** It has declined since 2005, as has been the case in many of the sample countries. Conversely, Japan stands out for its impressive push to invest more in ICT, which increased by a factor of 1.6 from 2005 to 2009.

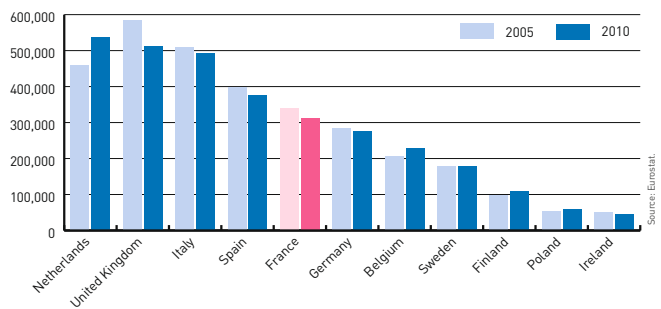
Rail freight transport

Million tonne-km



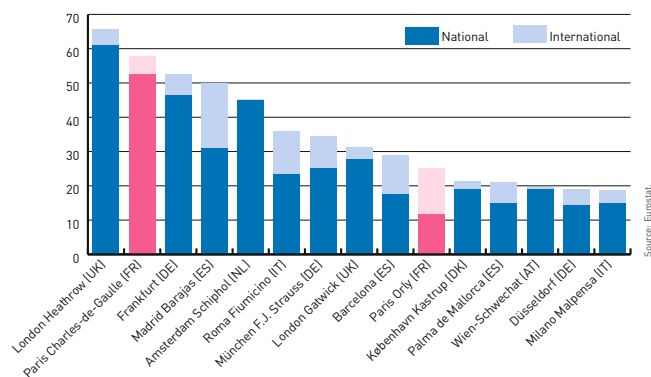
Maritime freight transport

Gross weight, thousand tonnes



15 leading airports in the EU-27 (2010)

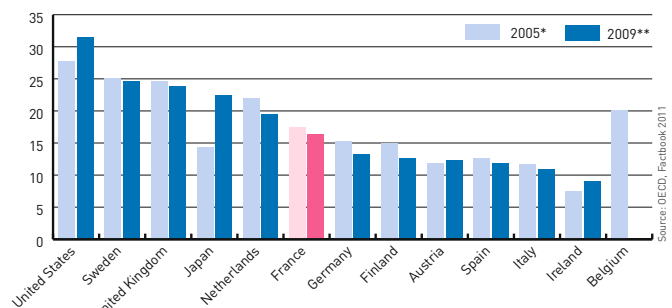
Million passengers handled



Investment in ICT

Share of non-residential gross fixed capital formation

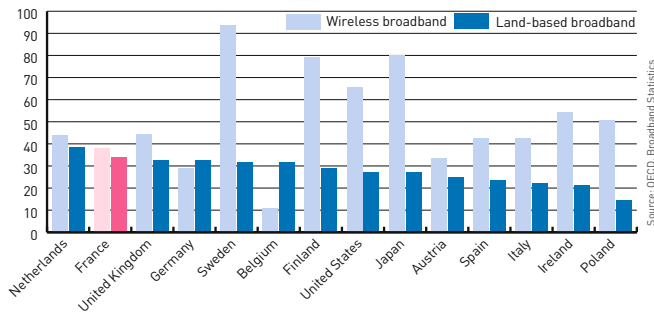
%



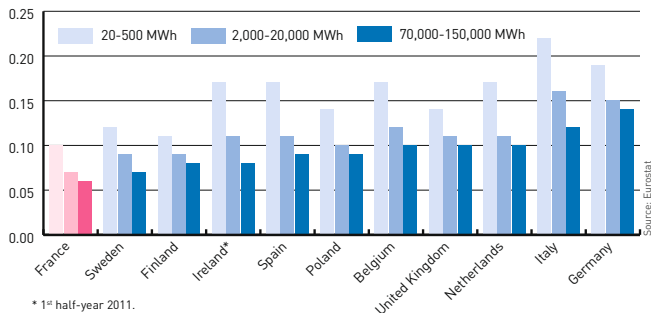
* 2004 for Belgium.
** 2008 for Japan; 2007 for the United Kingdom, the Netherlands and Austria.

As in all the sample countries, the **broadband penetration rate has risen sharply in France over the last few years**. With a land-based broadband subscriber rate of 34% in 2011, France is now second among the sample countries, ahead of the United States and Japan (27%). The **disparities among countries are more pronounced for wireless broadband connections**, with subscriber rates of 94% in Sweden, 80% in Japan and Finland and 65% in the United States, compared with 38% in France and 30% in Germany.

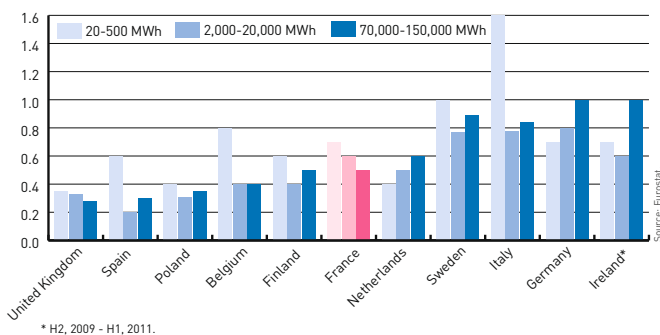
Broadband penetration rate (June 2011)
Subscribers per 100 inhabitants



Electricity rates (H2, 2011)
Industrial consumers by level of consumption
Rate inc. VAT (€/kWh)



Variability of electricity rates (H2, 2009 - H2, 2011)
Industrial consumers by level of consumption
Standard deviation (%) of rates inc. VAT



The French market remains dynamic in terms of corporate real estate, with transactions in 2011 up 9% on 2010. **Paris is well ahead of Europe's other major capitals.**

For companies operating in France, electricity rates are especially attractive. They are among the most competitive and stable in Europe due to successful control of production and the electrical grid.

Indicators for leading European office property markets

	Transactions (m ²)		Vacancy rate (%)	
	2011	2010	2011 Q4	2010 Q4
"Central Paris"	1,972,000	1,810,000	7.6	7.5
"Central London"	1,004,000	1,527,000	6.6	7.5
Munich	883,000	599,000	7.4	9.0
Warsaw	573,000	550,000	6.7	7.2
Berlin	550,000	512,000	6.6	7.1
Hamburg	536,000	505,000	7.3	8.0
Frankfurt	525,000	516,000	13.2	13.3
Dusseldorf	362,000	383,000	12.0	11.5
Milan	339,000	312,000	10.8	10.2
Madrid	333,000	399,000	13.4	12.9
Brussels	321,000	472,000	11.2	11.5
Cologne	320,000	234,000	9.0	8.3
Lyon	262,000	220,000	6.4	7.0
Vienna	220,000	202,000	6.0	5.1
Barcelona	208,000	234,000	14.6	14.0
Amsterdam	185,000	232,000	18.0	19.8
Rome	182,000	208,000	6.2	5.9
Toulouse	130,000	135,000	6.8	7.6
Lille	129,000	180,000	n/a	n/a
Marseille	94,000	128,000	n/a	n/a
Birmingham	62,000	62,000	16.1	15.2
Manchester	60,000	124,000	9.7	9.3
The Hague	57,000	74,000	13.2	13.0
Glasgow	49,000	74,000	10.0	11.2
Edinburgh	46,000	55,000	14.2	14.7

Source: BNP Paribas Real Estate - European Office Market, 2012

Transactions = surface areas for which a lease or a contract of sale has been signed.

V. ADMINISTRATIVE AND REGULATORY ENVIRONMENT

France's administrative and regulatory environment is often a cause for criticism in opinion surveys. According to the criteria used by the World Bank to analyze business environments, France holds a middle-ranking position and receives good marks in the categories of enforcing contracts and starting a business.

While the burden of administrative procedures in the labor market is still judged to be high, France is nevertheless committed to systematic simplification of its regulatory setup.

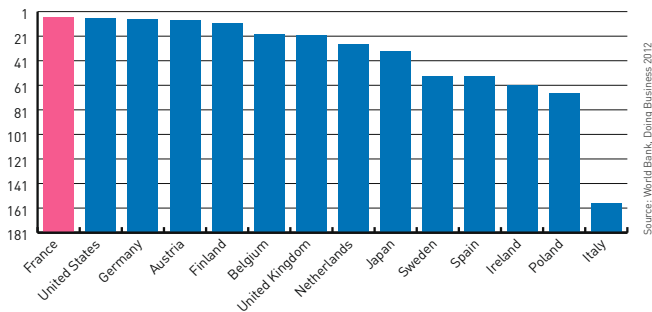
In the World Bank's latest *Doing Business*, which measures the ease of doing business in 183 economies, France was ranked 29th in 2011. The ranking is based on a quantitative analysis of regulations in 10 categories: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

Among the countries sampled, France's best performances were in enforcing contracts (index based on the number of procedures, time they take in days and the cost as a percentage of the claim) and starting a business (index based on the number of procedures, time they take in days, the cost and the minimum paid-in capital requirement as a percentage of per capita income).

The auto-entrepreneur status introduced in 2008 by the French Economic Modernization Act (LME) simplified the operations of for-profit businesses.

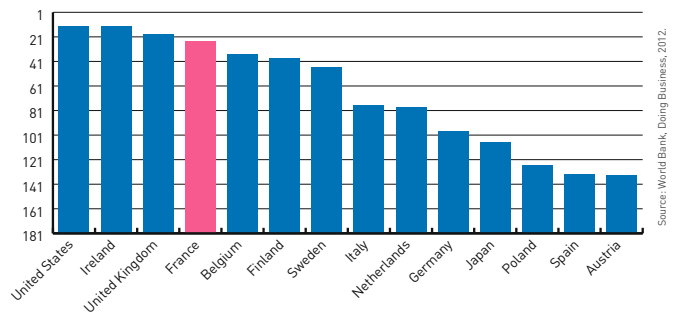
Ease of enforcing contracts (2011)

World rankings



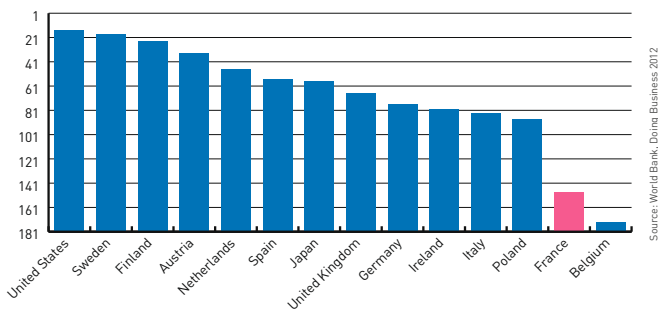
Ease of starting a business (2011)

World rankings



Ease of registering property (2011)

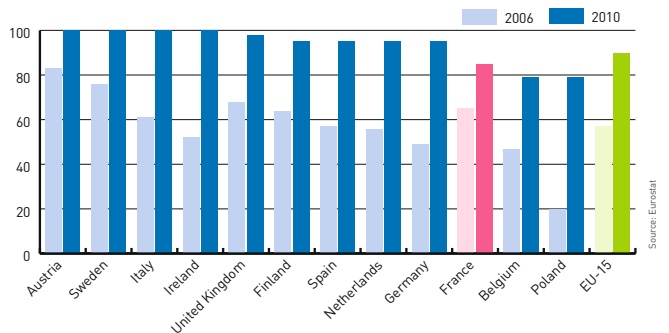
World rankings



E-government availability

Proportion of 20 government services fully available online

%



France is still ranked low by the World Bank for registering property (index based on the number of procedures, the time they take in days and the cost as a percentage of asset value).

With nearly 11,000 government sites and online access to 85% of the 20 basic government services, companies doing business in France can complete a wide range of administrative procedures online, particularly business-related formalities (creation, takeover or sale of a company), social security declarations and tax payments.

In terms of e-government, France is nevertheless ranked below the average for EU-15 countries (90% of the 20 basic government services are online).

According to the OECD's composite indicator, employment protection in France is among the highest in the sample countries.

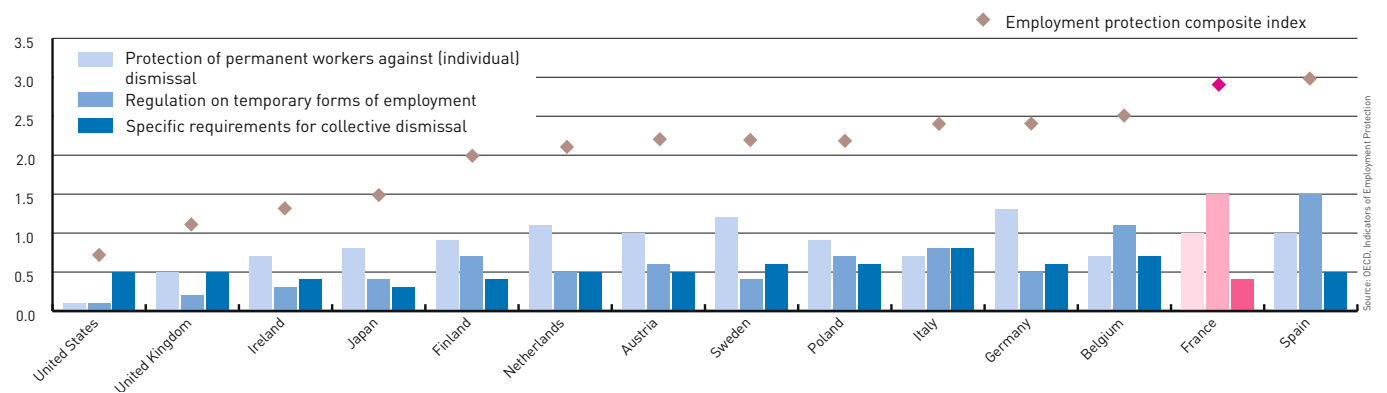
This position is largely due to regulations on certain types of jobs. According to the OECD's data, France does not have an unfavorable ranking for specific requirements for collective dismissal.

According to the IMD, strike action from 2008-2010 resulted in an annual loss of 27 days of work for every 1,000 inhabitants in France, which is comparable to Belgium (28 days) and Spain (27 days), but higher than in the United Kingdom and Germany.

However, it is difficult to make international comparisons since national practices (rights to strike and strike customs) can vary greatly from one country to the next.

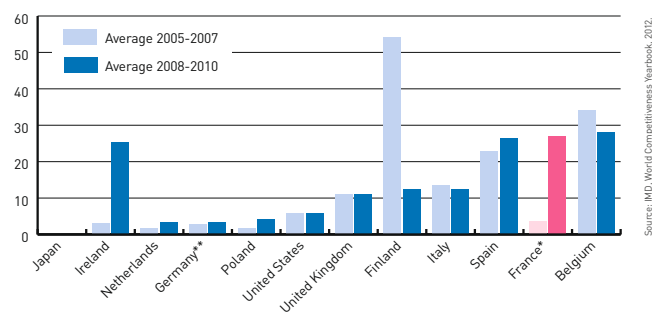
Employment protection (2008)

Scale from 0 (least stringent) to 6 (most restrictive)



Number of working days per year lost to strike action

Annually, per 1,000 inhabitants



* Excluding the public sector, ** Excluding public services

VI. FINANCIAL ENVIRONMENT

Unlike most of the sample countries, bank financing in France has held up well since the onset of the global financial crisis, both in terms of volume and accessibility. France is still well positioned for ease of access to loans, but continues to fall short on venture capital.

The vibrancy of Paris as a financial center remains a key factor in France's attractiveness.

As of late 2011, the market capitalization of NYSE Euronext Europe, the holding company for the Paris, Amsterdam, Brussels and Lisbon stock exchanges, has declined noticeably since 2010 (down 16%). This downturn is more pronounced than in other large financial marketplaces: Euronext US (down 12%), Tokyo (down 13%) and London (down 10%).

As regards asset management, **France tops the sample countries for domiciliation of funds under collective management**, with a European market share of around 17% in December 2011.

To a large extent, business growth depends on access to bank credit. **France is well positioned according to the World Economic Forum Global Competitiveness Report compiled from opinion survey data on credit access.** It is not ranked as high as Scandinavian countries, but is better placed than the United States, Germany and the United Kingdom. The global financial crisis has put pressure on access to bank credit but to a lesser extent than in comparable countries.

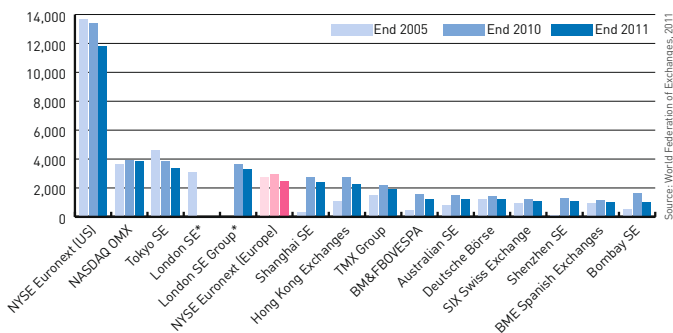
Venture capital financing is a crucial component in the creation of new companies in innovative technology sectors.

In 2009, venture capital investment accounted for 0.05% of France's GDP, slightly more than in the United Kingdom but less than in the United States and Scandinavia, among others. In all the sample countries, 2009 was a year of very weak investments. According to the AFIC (French Private Equity Association), French venture capital investments plunged 23% in 2009. The recovery in 2010 was modest (3.1%) and investment in 2011 fell once again (down 1.3%) due to anemic fundraising from individual investors.

Bond financing in France takes place within a single euro zone market. Financing terms in the euro zone became more restrictive when investors were feeling risk-averse (late 2008 and the summer of 2011), but on the whole financing costs have been on the decline since the global economic crisis began. In France, the bond market plays a key role in the strategy for financing large corporates. **In 2008-2009, and more recently in late 2011, bond financing has taken the place of bank credit for these companies.**

Capitalization of stock markets
The 15 leading stock exchanges

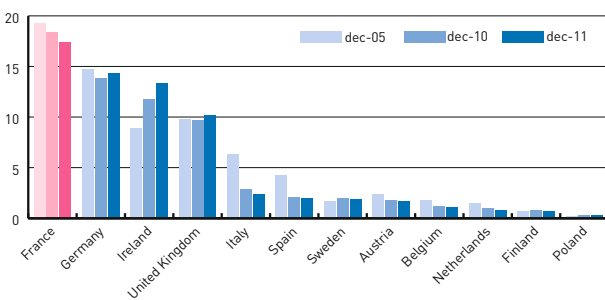
US\$ billion



* In 2010, Borsa Italiana merged with the London Stock Exchange to create the London Stock Exchange Group. From 2007 onwards, data for the London Stock Exchange has been merged with the London Stock Exchange Group.

Market share of investment funds in European industry*

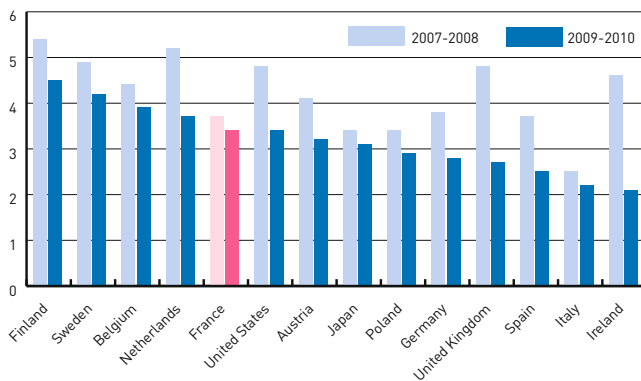
%



* Total net assets (mutual funds under European and French regulation) by country of domicile.

Ease of access to loans

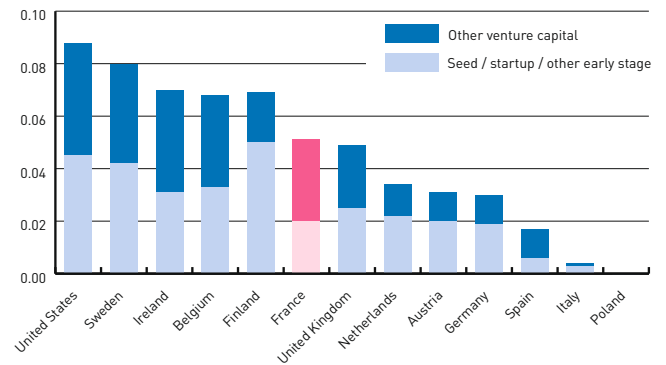
Scale from 1 to 7 from hardest to easiest, weighted averages



Source: OECD Science, Technology and Industry Scoreboard 2011 (data from the World Economic Forum Global Competitiveness Report 2010-2011 and WEF 2008-2009)

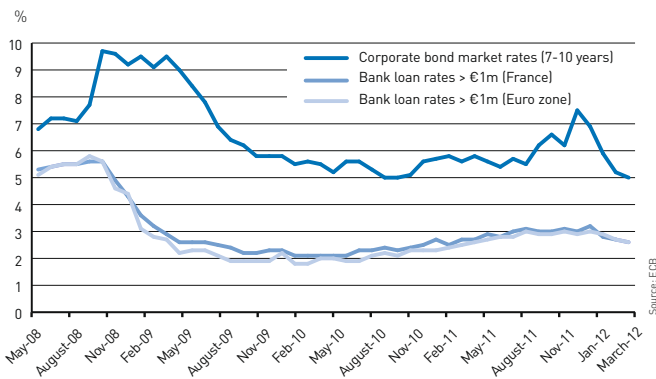
Venture capital investment (2009)

% of GDP



Source: OECD (2011), Entrepreneurship Financing database in OECD Science, Technology and Industry Scoreboard 2011

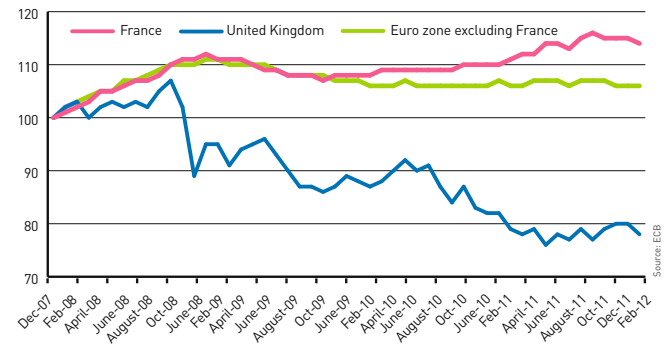
Change in access to corporate bond and bank financing (2008-2012)



Source: ECB

Change in loans to non-financial corporations (2008-2012)

Index = 100 in December



Source: ECB

VII. COSTS AND TAXATION

Labor costs and taxation are presented as weak points for France in opinion surveys. However, France has managed to maintain its cost competitiveness since 2007 and has improved its relative advantage in business setup costs.

The effective tax burden on businesses in France appears to be much lower than the nominal corporate tax rate would suggest.

One of France's strengths lies in the low business setup and operating costs it offers foreign companies. According to KPMG's *Competitive Alternatives 2012* survey, the total sum of these costs (labor, facility, transport, taxes and duties, equipment and energy, etc.) is lower in France than the United States baseline (3.9% less). Among the countries in KPMG's sample, France is ranked third after the United Kingdom and the Netherlands. The United

States, which serves as the baseline for the study, is ranked fifth with setup costs equivalent to Germany but far below those in Japan.

France's cost competitiveness compared with the United States improved in 2011 versus 2010 and 2008, with business setup costs now lower in all the sectors of the study, especially in the R&D sector (9.1% lower). This cost advantage is also marked in the manufacturing sector (costs

3.6% lower than in the United States), putting France in third place. France has also become more competitive than the United States in corporate and digital services.

In 2010, out of the sample countries and across the entire economy, employee income levels in France were among the highest in Europe (around US\$47,000 at PPP),

but significantly lower than in the United States (around US\$61,000 at PPP).

With the exception of a few countries, labor compensation per employee was generally higher in the manufacturing sector than in the economy as a whole. The differential in France was 10% and was much less pronounced than in Germany (34%) or the United Kingdom (48%).

COMPETITIVE ALTERNATIVES 2012, KPMG

This survey compares the cost competitiveness of 113 cities in nine developed countries (Canada, the United States, France, Germany, Italy, the Netherlands, the United Kingdom, Australia and Japan) and five high growth countries (Brazil, Mexico, Russia, China and India). It covers 19 business operations grouped into four major sectors: manufacturing, digital,

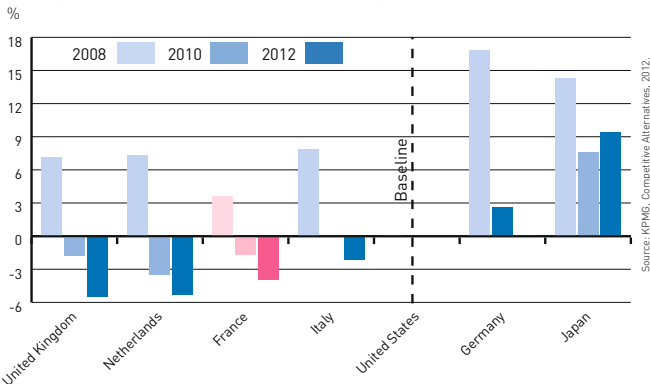
research & development and corporate services). Each representative business project is defined, modeled and analyzed in detail.

International business costs are estimated for a series of 26 significant cost components specific to planning investment projects: labor costs, facility costs, transport, energy, costs related to capital and taxes.

This study also analyzes other non-cost-related factors that may nonetheless influence the attractiveness of a business location. These include labor availability and skills, economic conditions and access to markets, innovation level, quality of infrastructure, the regulatory environment, and also the cost of living and quality of life.

Business setup costs

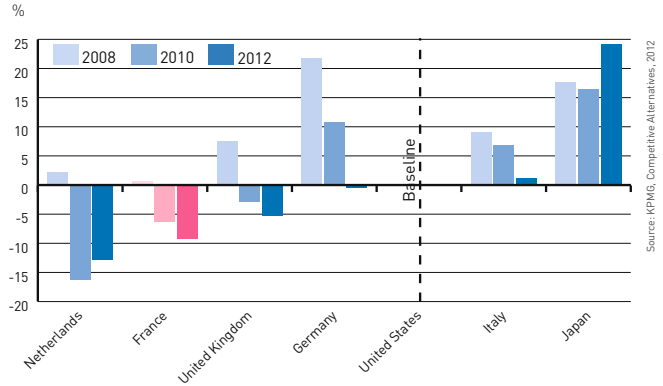
In comparison with the United States - Total economy



Key: In 2012, business setup costs in France were 3.9% lower than in the United States.

Business setup costs

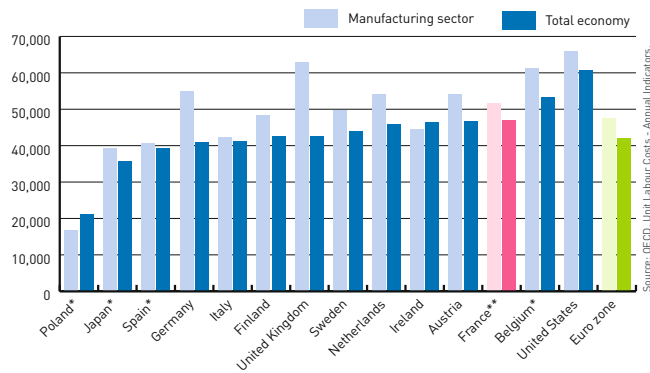
In comparison with the United States - R&D sector



Key: In 2012, business setup costs in the R&D sector in France were 9.1% lower than in the United States.

Labor compensation per employee (2010)

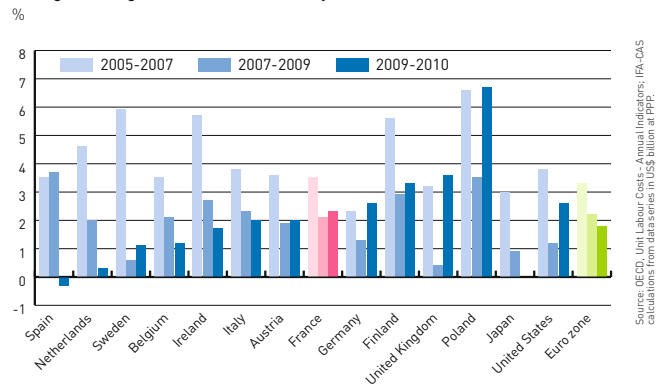
US\$ at current PPP



* 2009 for the manufacturing sector (and for the total economy in the case of Japan).
** 2008 for the manufacturing sector.

Trends in labor compensation per employee

Average annual growth rate - Total economy



Source: OECD, Unit Labour Costs - Annual Indicators, IFA-GAS calculations from data series in US\$ billion at PPP.

From 2009 to 2010, labor compensation per employee in France rose at a faster pace in the total economy than in the euro zone (up 2.3% and 1.8%, respectively), but slower than in Germany or the United States (2.6%) and notably the United Kingdom (3.6%). This increase is similar to the 2.1% rise recorded from 2007 to 2009.

From 2005 to 2007, labor compensation per employee in France rose more quickly in the manufacturing sector (4.1% annual average) than in the economy as a whole (3.5%). This rise is comparable to the increase in the euro zone as a whole (4.2%).

In 2011, unit labor costs for the total economy were up in most of the sample countries. This 1.8% increase in France was less marked than in prior periods but higher than in the euro zone (up 0.8%).

Conversely, manufacturing industry unit labor costs were down in 2011 in the majority of the sample countries, except in the United Kingdom, Japan and Italy. The

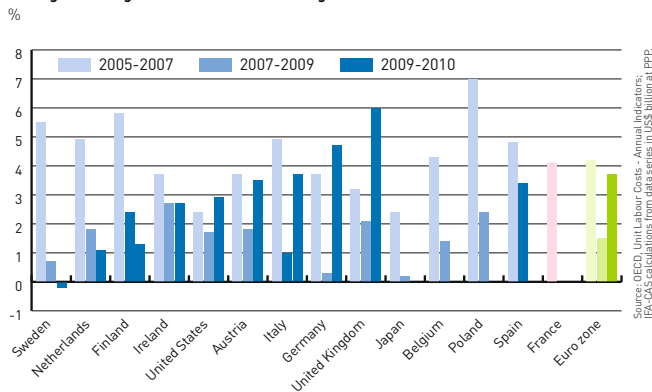
minor decrease in France in 2011 (down 1.2%) came on the heels of moderate gains (up 2.1% on average from 2007 to 2010).

Since 2009, cost competitiveness in the manufacturing sector has improved in the euro zone. This general shift obscures diverging trends from country to country: stability in France, upswings in Germany and Spain, and a slump in Italy. In the previous period (2007-2009), France was one of the most successful euro zone countries in controlling its relative unit labor costs. However, from 2003-2007, only Germany had improved its cost competitiveness.

The trends in the United Kingdom are more varied, with cost competitiveness declining steeply from 2009 to 2011 after seeing sustained improvement between 2007 and 2009, mainly due to an exchange rate effect.

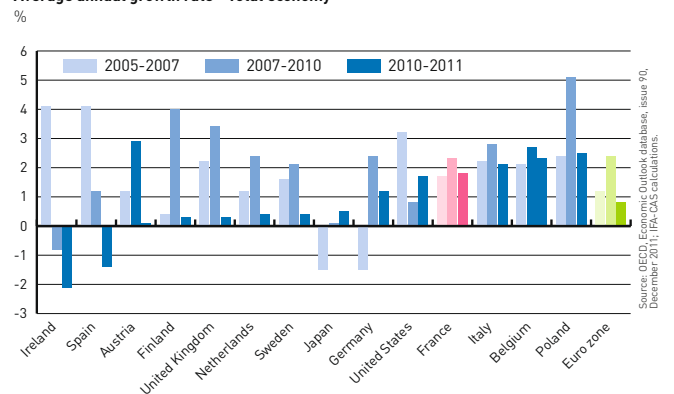
Trends in labor compensation per employee

Average annual growth rate - Manufacturing sector



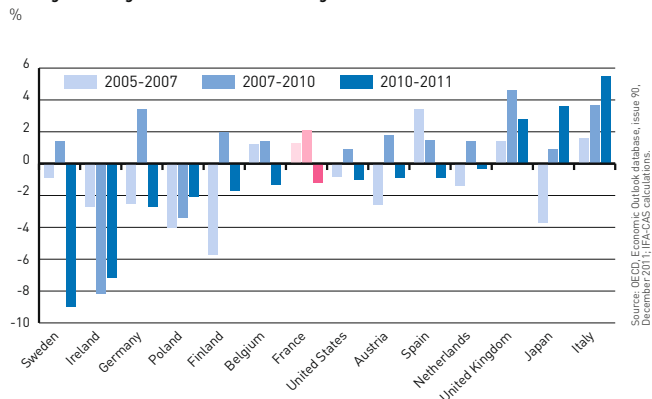
Trends in unit labor costs

Average annual growth rate - Total economy



Trends in unit labor costs

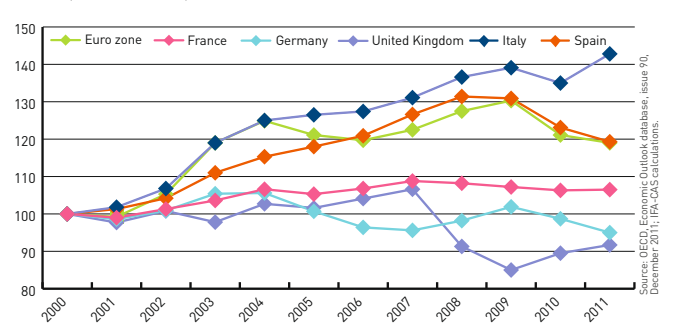
Average annual growth rate - Manufacturing sector



Trends in cost competitiveness* (2000-2011)

Manufacturing sector

Indices [base 100 = 2000]



* Domestic unit labor costs / unit labor costs of competitors.
Note: An increase indicates a decline in cost competitiveness.

Compared with the euro zone, Japan's cost competitiveness has eroded since 2009, but in the United States it has been recovering at a quicker pace.

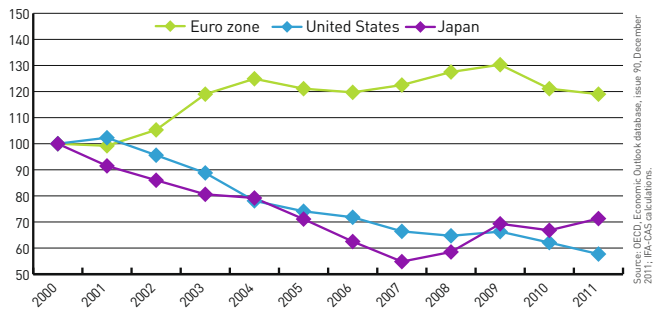
The French tax system is noteworthy for the burden of social security contributions (39% of total revenue in 2010) and, conversely, for the low share of taxes on income, profits and capital gains (22% in 2010).

Total tax revenues* make up a large share of France's GDP (43% in 2010 versus 36% in Germany and 25% in the United States). However, the wide range of benefits funded by social security contributions should be factored in when assessing this rate (see section VIII, Quality of life).

Trends in cost competitiveness * (2000-2011)

Manufacturing sector

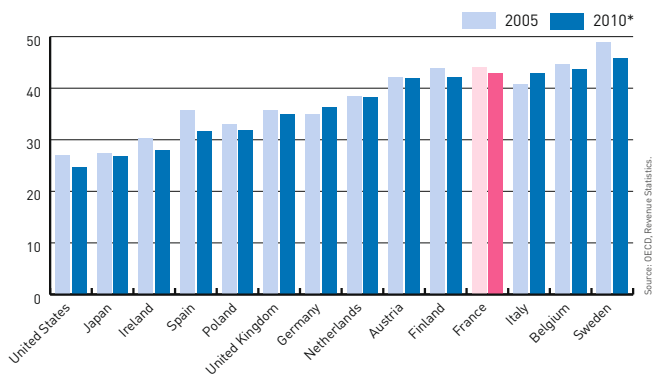
Indices (base 100 = 2000)



* Domestic unit labor costs / unit labor costs of competitors.
Note: An increase indicates a decline in cost competitiveness.

Tax receipts

% of GDP



* 2009 for Japan, the Netherlands and Poland.

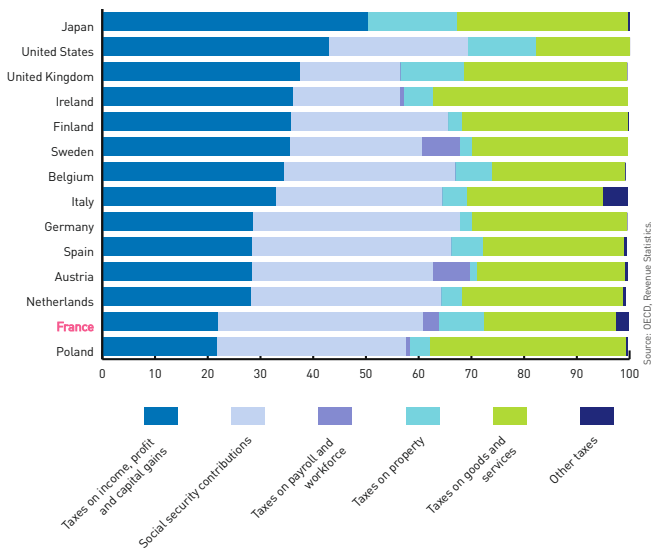
The tax burden on labor is high in France. In 2011, only Belgium and Germany imposed a higher tax burden on a single person without children earning 100% of average earnings. For a one-earner married couple with two children at 100% of average earnings, France imposes the highest tax burden.

Despite one of the highest nominal rates of tax on profits, corporate tax receipts only account for a small share of GDP in France (2.1% in 2010, compared with over 3% in the United States and the United Kingdom), due notably to a relatively narrow tax base.

* More taxes are included in this calculation than those used to calculate the rate of compulsory deductions.

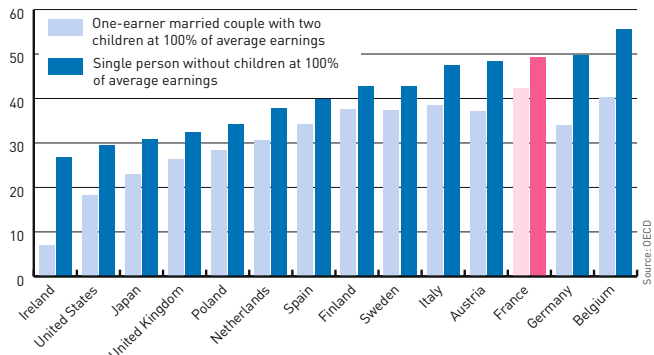
Structure of tax receipts (2010)

% of total receipts



Average tax wedge* (2011)

%



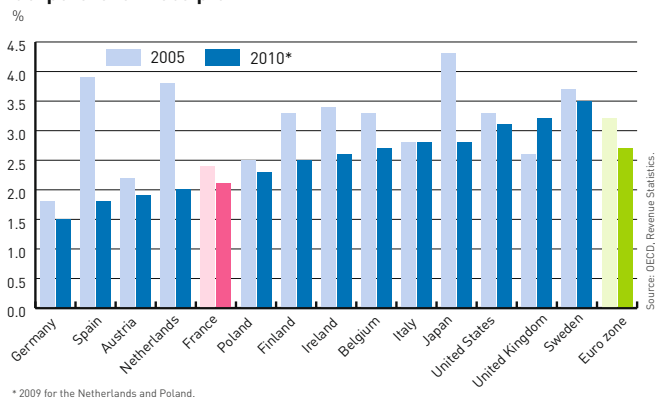
* The 'tax wedge' on labor is equal to the difference between gross labor costs for employers and employees' take-home pay. Above, it is equal to the sum of income tax plus employee and employer social security contributions, less social protection benefits, as a percentage of total labor costs

When corporate tax receipts are compared with net corporate operating profits, France occupies an intermediate position with an **implicit corporate tax rate of around 22% in 2010**. The difference between the nominal corporate tax rate and this implicit rate is a result of reduced rates, different tax bases (mainly capital depreciation rules and the deductibility of borrowing interest) as well as the extent to which different economies are capitalized*.

Since the reform of the research tax credit in 2008, France has been the country that offers businesses the most generous R&D tax treatment.

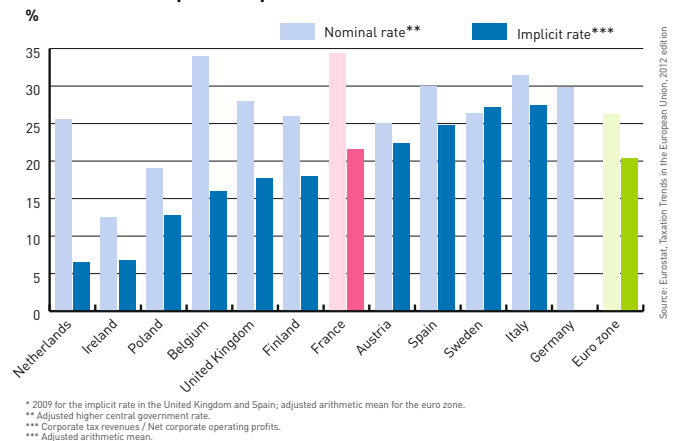
* For a detailed account of the implicit corporate tax rate on profits, see: Partouche H. and Olivier M. (2011), "Le taux de taxation implicite des bénéfices en France" [The Implicit taxation rates on profits in France], Trésor-Éco, No. 88, June 2011.

Corporate tax receipts

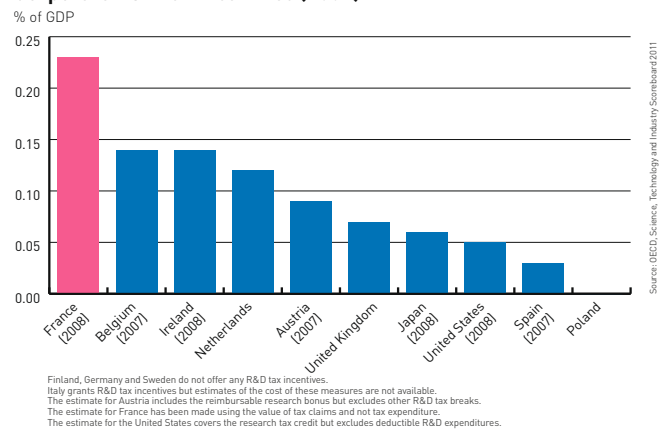


* 2009 for the Netherlands and Poland.

Nominal and implicit corporate tax rates (2010*)



Corporate R&D tax incentives (2009)



REFORM OF THE RESEARCH TAX CREDIT MAKES IT THE MOST EFFECTIVE R&D TAX INCENTIVE IN OECD COUNTRIES

As globalization accelerates, international competition between countries is intensifying. In this context, several European countries have launched government investment programs and introduced tax measures to improve companies' cash flows and to stimulate investment and innovation.

Tax relief varies from one country to the next, but it can take the form of an immediate write-off of in-process R&D, tax credits, or corporate tax relief such as in the United Kingdom.

- **The research tax credit is France's flagship tax measure to encourage companies to expand their R&D operations.** All companies with R&D operations in France, regardless of their size or business sector, are eligible for this measure.

- **The 2008 Loi de Finances (French government budget law) enhanced the research tax credit, transforming it into a very generous incentive and simplifying its administration.**
- The research tax credit is calculated solely on the basis of total R&D spending (the "increase-based" component, determined on the basis of the increase in a company's R&D spending, was abolished).
- The research tax credit is applied at a rate of 30% on the first €100 million of R&D spending (compared with 10% for the volume-based component and 40% for the increase-based component prior to 2008).
- The previous cap of €16 million was abolished and replaced by a new, much more generous ceiling: once R&D expend-

iture exceeds €100 million, a rate of 5% applies to further spending.

- An "entry bonus" is granted to all businesses claiming the research tax credit for the first time or those which have not received it in the last five years. These companies are entitled to a 40% tax credit in the first year and a 35% tax credit in the second year.
- The waiting period for an advanced tax ruling, or *rescrit fiscal* (request for preliminary advice on the eligibility of a research project for the research tax credit), was reduced from six months to three months.
- Since the French government's 2011 budget law was passed, the government fully reimburses the research tax credit to small and medium-sized enterprises the year after the R&D expenditure is incurred.

VIII. QUALITY OF LIFE

The contribution made by government authorities to the provision of collective and individual services (education, healthcare, housing, transport, culture, etc.) has a direct influence on the quality of life of households. The relationship between the public and private sector in the provision of individual services varies greatly from one country to the next. The public-sector dominated setup in France provides access to high-quality free-of-charge services, particularly in education and healthcare.

The international “Quality of life” index published by International Living ranks France as the second best place to live in the world. This index is based on variables relating to cost of living, environment, culture and leisure, political freedom, health, infrastructure, safety and risk, and climate.

During the last 10 years, income inequality has increased in the majority of OECD countries, but is lower in France than in Germany, the United Kingdom and the United States.

The OECD has observed that countries with the most balanced income distribution as measured by the Gini coefficient invest more in social expenditure, as the help provided to underprivileged groups of the population contributes to lowering inequalities.

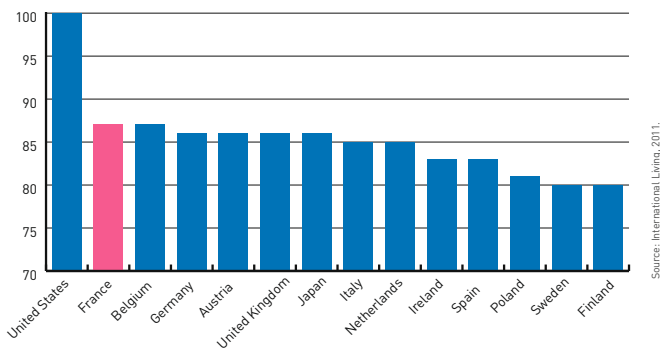
Analysis of social protection spending – covering benefits for disability, families/children, housing, social exclusion, old age, illness and healthcare, social security services and unemployment – substantiates the importance of the targets and specific measures introduced in France.

The public-sector share of social security expenditure is particularly high in France, amounting to nearly 80% of healthcare expenditure and more than 90% of education expenditure.

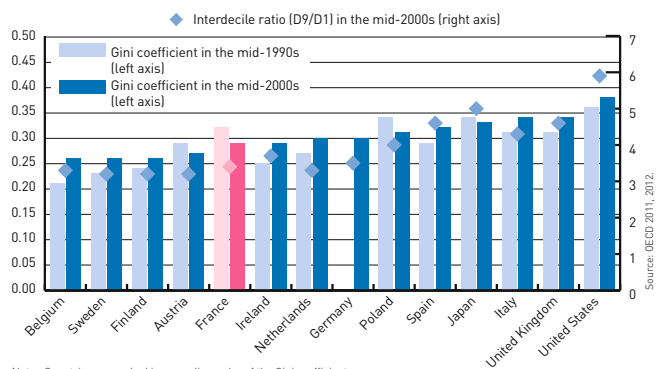
Public spending on social protection accounts for 24% of France’s GDP compared with 21% in Germany, 18% in the United Kingdom and only 9% in the United States.

Quality of life index (2011)

Index US = 100



Income inequality

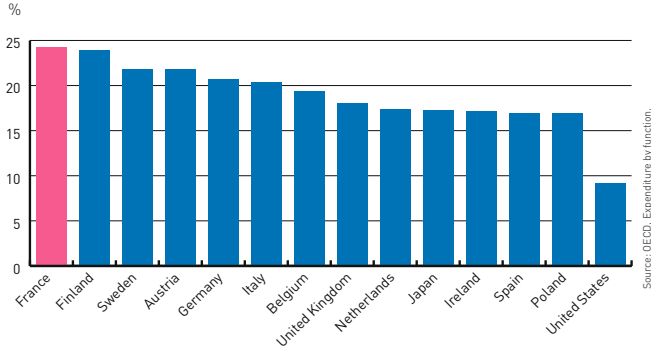


MEASURING INCOME INEQUALITY

Income inequality in a country is usually measured using the **Gini coefficient**, which ranges from 0 (where all incomes are identical) to 1 (where a single individual receives all the income). Income inequality can also be measured using the **income interdecile ratio**, the ratio between the income level above which the wealthiest 10% of individuals are situated and the income level below which the poorest 10% of individuals are situated.

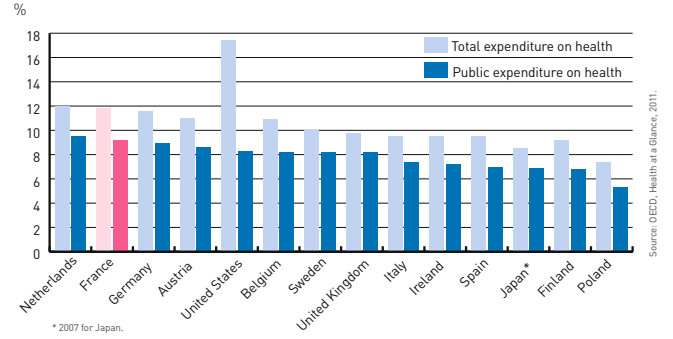
Public spending on social protection (2010)

Share of GDP



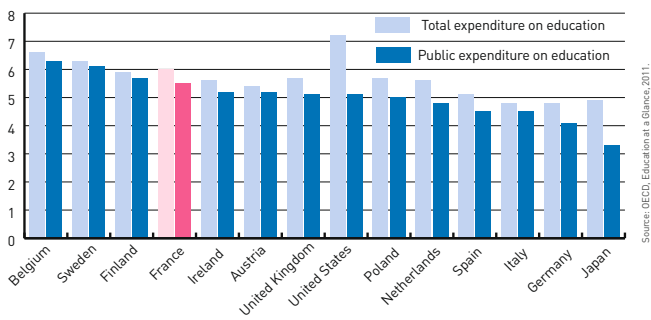
Health spending (2009*)

Share of GDP



Spending on educational institutions (2008)

% of GDP



REPORT BY THE COMMISSION ON THE MEASUREMENT OF ECONOMIC PERFORMANCE AND SOCIAL PROGRESS

Statistical indicators are important when it comes to designing and assessing policies seeking to ensure progress in society. However, disparities exist between the statistical measurement of socio-economic realities and the way that citizens perceive them.

In 2009, a commission chaired by Nobel prize laureate Joseph Stiglitz reported back to the President of France on possible avenues to improve the measurement of economic growth and correct the shortcomings of the long-criticized benchmark indicator, gross domestic product (GDP).

One of the distinctions the report made was between assessing present well-being and sustainable well-being. Present well-being is contingent upon not only financial resources, such as income, but also non-financial dimensions (subjective perception, natural environment).

Although the full list of these aspects inevitably depends largely on value judgments, there is consensus that quality of life depends on health and education,

conditions of everyday life (including the right to decent employment and housing), participation in the political process, people's social and natural environment and factors which define personal and financial security.

The commission also recommended establishing a series of indicators to give the measurement of well-being more importance in economic statistics.

In this context, the OECD has proposed a new, interactive index. The "Your Better Life Index" lets each country measure and compare its wellbeing according to selected criteria. It has 11 dimensions: housing, income, jobs, community, education, environment, governance, health, life satisfaction, safety and work-life balance – which can all be given their own weight in accordance with user preferences.

France is ranked among the top 10 countries on several items, including:

- A good educational system: The average reading literacy score of French pupils was 496 out of 600 in the most recent PISA

assessments (2009) – slightly higher than the OECD average of 493.

- Life expectancy: life expectancy at birth in France was 81 years in 2010, more than a year higher than the OECD average.

- Low pollution levels: the level of particulate air pollution – tiny particles of air pollution small enough to penetrate and damage the lungs – was 13 micrograms per cubic meter in 2011, well below the OECD average of 22 micrograms per cubic meter.

- Public confidence in the political process: political participation was 84% – higher than the OECD average of 72%.

In a challenging economic climate marked by a hesitant recovery, high unemployment, unprecedented volatility in the financial markets and high levels of public debt, the OECD's report entitled "How's life? Measuring well-being" makes individual welfare a focal point of economic, social and environmental policies, presenting a series of comparative indicators on well-being for all OECD countries and, where possible, other large economies.

THE UNDP HUMAN DEVELOPMENT INDEX

Every year since 1990, the UNDP Human Development Report has published the Human Development Index (HDI), which was introduced as an alternative to conventional development measures like income levels and economic growth rates. The HDI reflects a desire for a broader definition of well-being.

The index was created to bring attention to the fact that the ideal measure of a country's development lies in people and their abilities, not simply economic growth. It can also be used to evaluate domestic policy decisions by studying how two countries with the same per capita gross national income can produce such

disparate levels of human development. It is a summary composite index that gauges a country's average achievements in three fundamental aspects of human development: a long healthy life (health), access to knowledge (education) and a decent standard of living (income).

IX. GREEN GROWTH

As energy demands continue to grow and the environmental protection movement gathers momentum, the ability of countries to position themselves in energy and renewable energy sectors has now become a factor in their competitiveness and attractiveness.

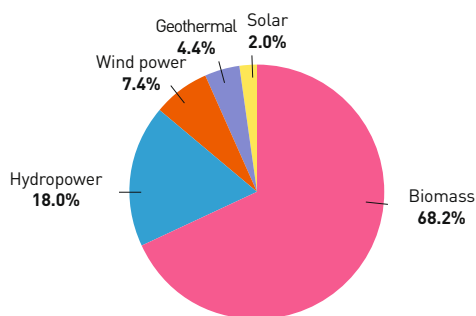
Accelerating global growth has led to a sharp increase in demand for energy products, contributing to a rise in commodity prices and greater greenhouse gas emissions. In 2008, the EU committed itself to reduce its greenhouse gas emissions by at least 20% by 2020, cutting energy consumption by 20% through improved energy efficiency and increasing the share of renewable energies in EU final energy consumption to 20%.

The global economic crisis may have delayed certain investments in the construction of production infrastructure, especially the most ambitious that call for heavy investments. At the same time, however, it accentuates the need for energy efficiency and may provide the impetus for structural reforms that would benefit both the economy and the environment.

In the EU-27, renewable energies accounted for nearly 9% of primary energy consumption in 2010 (the target for 2020 is set at 20%). The two best represented sources in terms of renewable primary energy consumption in 2010 were biomass (66.1%) and hydropower (18.0%).

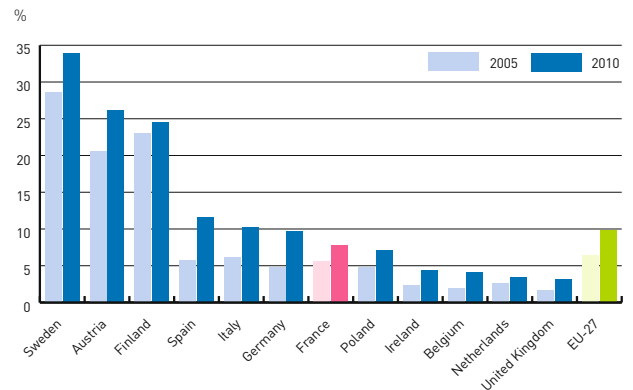
Sweden stands out from the other sample countries, having made renewable energies a substantial source for its gross domestic energy consumption (34% in 2010). Austria (20%) and Finland (26%) also have a high share of renewables. The share of renewable energies in France's gross domestic energy consumption was around 8% in 2010, which is comparable to Germany and Italy.

Share of each resource in renewable primary energy consumption by EU-27 countries (2010)



Source: Eurobarometer 2011, The State of Renewable Energies in Europe, 2011 edition.

Share of renewable energies in gross domestic energy consumption*



Source: Eurostat

* Gross domestic consumption is calculated as follows: primary production + recovered products + total imports + variations of stocks - total exports - bunkers. It corresponds to the addition of final consumption, distribution losses, transformation losses and statistical differences.

In 2010, France was Europe's second largest producer of primary energy from renewable sources (12.5%), after Germany (19.6%), but ahead of Sweden (10.4%) and Italy (9.8%).

Carbon dioxide emission levels per unit of GDP in European economies are relatively low compared with other regions in the world, and relatively uniform within the EU-15.

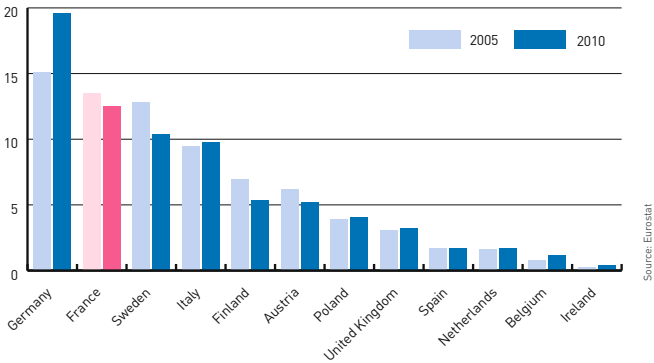
France's very low carbon intensity is partly due to its "energy mix". In 2010, 75% of electricity was generated from nuclear technology, 15% from renewable energy sources and only 10% from fossil fuels. In comparison, fossil fuels account for 59% of electricity generated in Germany and 76% in the United Kingdom.

Hydropower is the workhorse of renewable energy in France, producing 82% of total renewable energy in 2010. France is the second largest hydropower producer in Europe. In 2010, it generated 68 TWh, or 17% of EU-27 output, after Sweden (71 TWh, or 18% of European output).

Wind power is France's second largest renewable energy source for electricity, with 9.7 TWh supplied in 2010 (12% of the total). This energy source has made great strides in France over the last 10 years, although output remains well below that of Spain (43.7 TWh) and Germany (36.5 TWh), which together were responsible for 55% of EU-27 wind power generation.

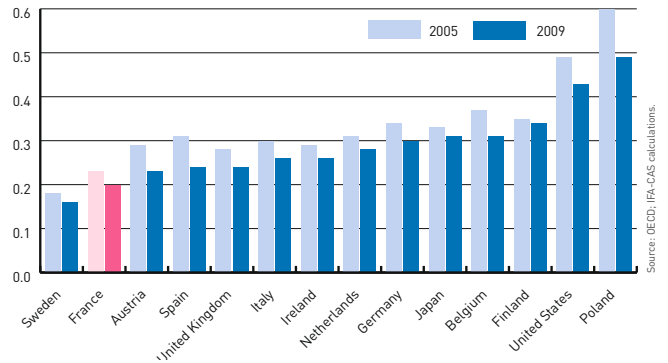
Primary energy generation* from renewable sources

Share of EU-27 total
%



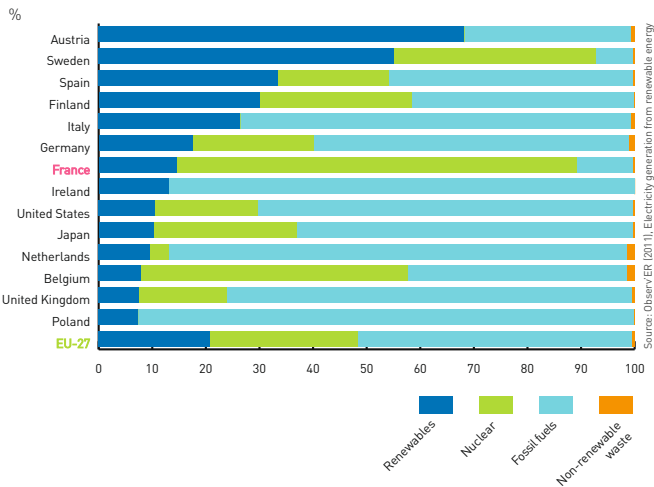
Carbon intensity

CO₂ emissions from fuel combustion per unit of GDP
kg / GDP [US\$ at constant PPP]

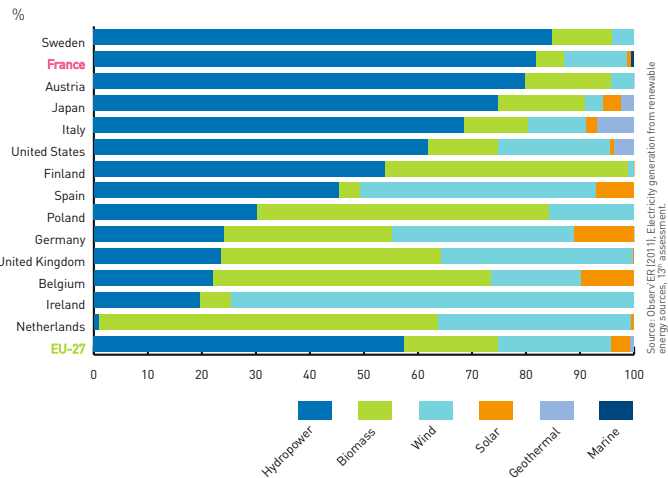


* Any kind of extraction of energy products from natural sources to a usable form is called primary generation. Transformation of energy from one form to another, like electricity or heat generation in thermal power plants is not primary generation.

Electricity generation breakdown (2010)



Renewable electricity generation breakdown (2010)



In 2010, around 5% of renewable energy generation in France came from biomass. Derived primarily from renewable solid biomass and renewable municipal landfills in France, it has significant development potential, given the size of French forest reserves (third largest in Europe).

French electricity produced from biomass accounts for 4% of European output, with Germany being the largest contributor (28% of EU-27 output).

In 2010, renewable energy-based electricity generation was up 11.5% on 2009. Output rose for all sources with hydropower and wind power making important contributions.

APPENDIX A

THE PERCEPTIONS OF FOREIGN INVESTORS

THE PERCEPTIONS OF FOREIGN INVESTORS

Many responses to surveys on France's competitiveness cite the quality of the country's communication and transport infrastructures, education and training, as well as its well-qualified workforce, industrial base and quality of life. Foreign investors are equally appreciative of efforts by local and national government to enhance France's economic attractiveness.

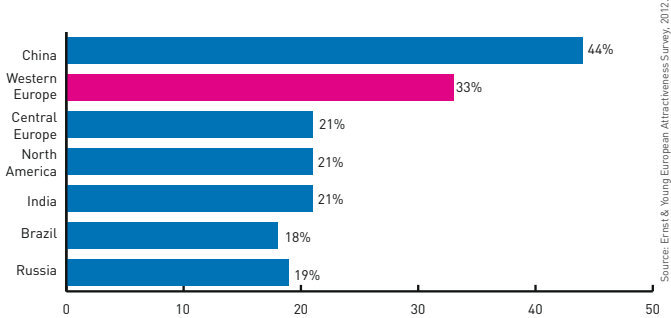
A majority of the foreign executives surveyed in a poll commissioned by the IFA (conducted by TNS-Sofres in October 2011) consider France to be an attractive investment location in Europe.

In Ernst & Young's 2012 "European Attractiveness Survey", 33% of the foreign decision-makers polled considered Western Europe to be the most attractive region in the world for foreign investment projects.

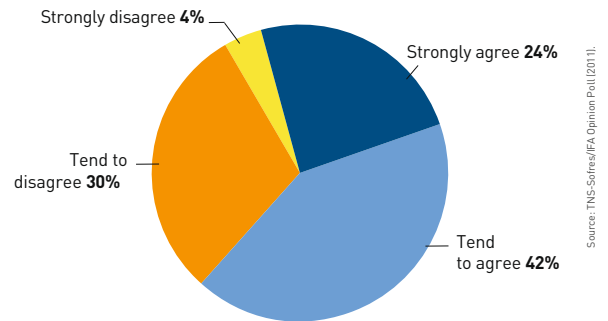
In the TNS-Sofres survey conducted in October 2011, **66% of foreign investors considered France to be attractive as an investment location** (compared with 53% in 2009).

Their confidence in France is confirmed by their plans to expand: 49% of respondents plan to increase their company's presence in the country.

The most attractive regions in the world for foreign investment projects in 2011



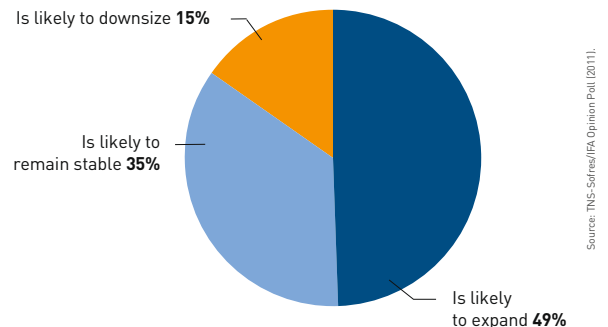
France's attractiveness to foreign investors
Is France an attractive location for foreign investment?



TNS-SOFRES SURVEY ON FRANCE'S ATTRACTIVENESS

In October 2011, TNS-Sofres conducted a survey of foreign executives who had chosen to set up businesses in France. The aim was to identify how France is perceived in terms of economic attractiveness and to gain an insight into how investment location decisions are made. The survey was conducted by telephone and polled 650 foreign companies in the following countries: United States, China, India, United Kingdom and Germany.

Expansion opportunities in the French market
Would you say that your company in France...



When asked what made France attractive to investment, chief executives of companies with operations in France attached greatest importance (over 80% of respondents) to **transport / logistics, the size of the domestic market and communication infrastructure**.

Next, they pointed to France's **economic stability** (79%) and its **industrial base** (78%). Among France's other advantages, a large majority also cited **education and training of the workforce** (76%).

Similarly, 76% of respondents considered the **business environment** a key factor (versus 69% in 2010).

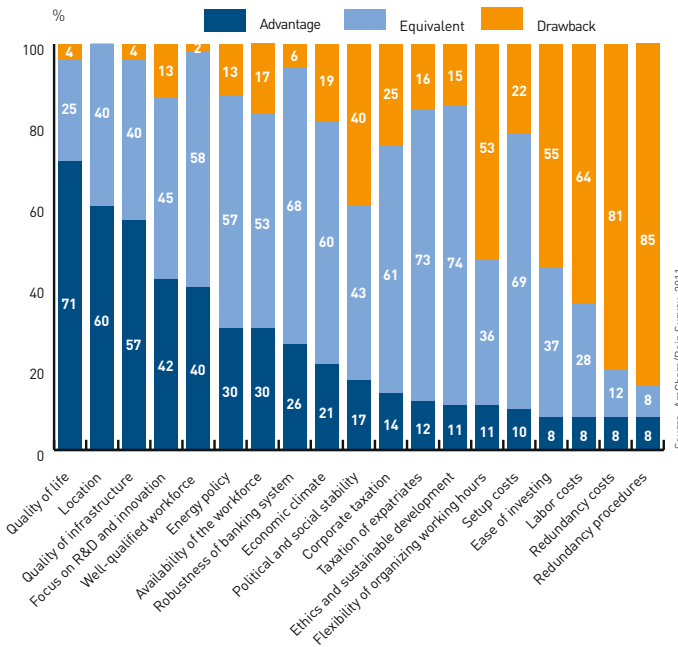
Lastly, the **quality of innovation and R&D operations** was important for 74% of foreign company executives polled (the same figure as in 2010, versus 52% in 2009)

At the same time, 58% indicated that **labor costs** militated against France as an investment location.

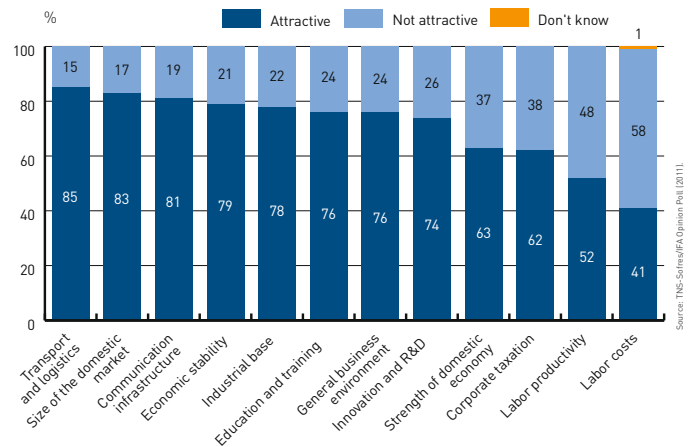
Views on French corporate tax policy have improved. Sixty-two percent of respondents in 2011 found France's corporate tax policy attractive, compared with 52% in 2010 and only 24% in 2009.

The 2011 AmCham-Bain survey revealed that the primary factors influencing the decisions of American investors in France are quality of life, location, quality of infrastructure, focus on R&D and innovation, and a well-qualified workforce. These are followed, in order of importance, by energy policy, the availability of the workforce and the robustness of the banking system. Seventy percent of American respondents acclaimed France's research tax credit as a strong incentive to invest.

France compared with other European countries



How attractive is France for foreign investment with respect to the following criteria?



France's attractiveness for inward R&D investments is principally due its proximity to markets (cited by 77% of respondents). The quality of R&D personnel, partnerships with public-sector research laboratory teams and the proximity of innovation clusters are also acclaimed by around 70% of respondents.

France is recognized as a country that is actively passing reforms to modernize its economy (62% of investors surveyed in the TNS-Sofres poll).

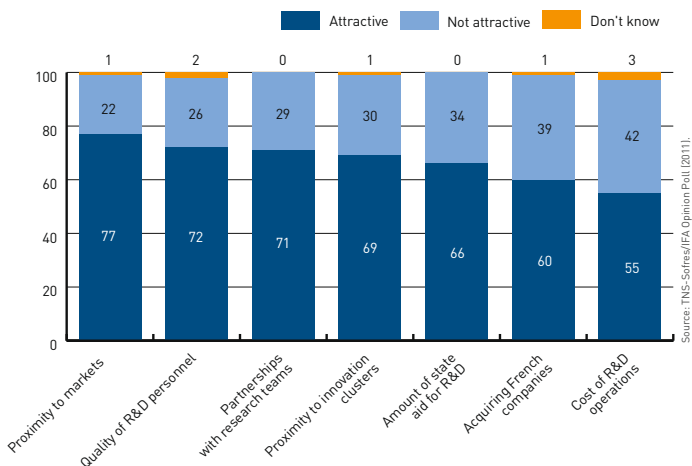
In the 2011 AmCham-Bain survey, American investors located in France cited the positive impact of France's research tax credit (70%) and innovation clusters (60%).

In the TNS-Sofres survey conducted in October 2011, R&D support in France was also largely considered to be conducive to setting up such operations: 88% of foreign company executives polled pointed to the positive role of France's research tax credit, while 94% cited France's innovation clusters.

In all, 82% of executives polled by TNS-Sofres reported that their investment in France had been a positive experience, down slightly on 2010 (85%), but still higher than in 2009 (77%).

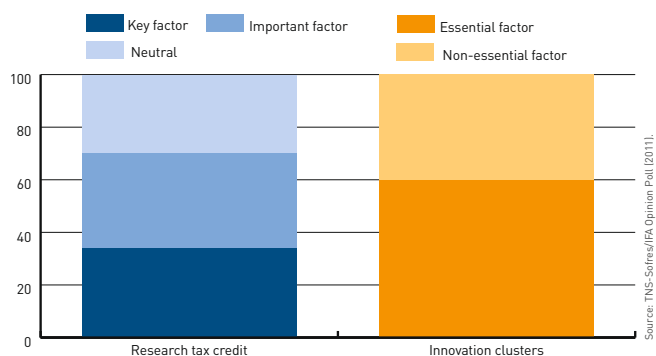
In a difficult economic climate, **France's attractiveness is rising**: 56% of executives polled in 2011 believe that France's attractiveness is good or excellent, compared with only 46% in 2010.

How attractive is France for inward R&D investments with respect to the following criteria?



Investment support in France

How would you rate the impact of...?



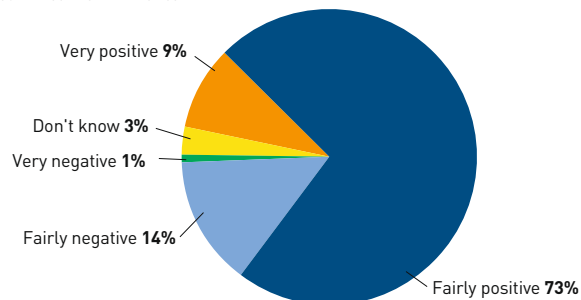
AMCHAM-BAIN SURVEY 2011

First conducted in 1997, the American Chamber of Commerce in France AmCham-Bain Survey gauges the mood of American investors in France and their perception of the strengths and weaknesses of its business environment.

In the autumn of 2011, questionnaires were sent out to executives at French subsidiaries of American companies. Responses were gathered from nearly 60 companies, accounting for a total of over 110,000 employees in France and a combined turnover of more than €25 billion.

Experience of investing in France

How would directors in your company describe the experience of your investment in France?



APPENDIX B

THE DYNAMICS OF FRANCE'S REGIONS

THE DYNAMICS OF FRANCE'S REGIONS

Over the last two decades, France's regions have undergone profound changes, wrought by the combined effects of a variety of factors, most notably globalization, the expansion of the European Union and the development of new information and communication technologies. These regions now operate as a network of ever more numerous business, science, technology, culture and tourism partnerships which are seeking to increase their attractiveness, improve their competitiveness and play a full part in France's open and globalized economy.

1- With this objective in mind, *national government policies on economic attractiveness* seek to find ways for each region to amass a sufficient quantity of business and research activity, companies and services to ensure their competitiveness.

This 'concentration' or 'polarization' model is crucial in fostering a strategy of innovation and growth. It applies first and foremost to France's large cities throughout the country. These large cities are already home to high value-added business activities along with national and multinational corporations, which in turn serve to increase the number of high value-added services in the area and help form ties with other regions, notably by establishing branch offices.

Boosting the potential attractiveness and competitiveness of large cities is a priority for French regional development policy. Consequently, these cities are expected to contribute to national growth, not only through their high-level business activities and impact on national cohesion, but also through the economic development they can spur in the surrounding region.

Regional attractiveness policies also facilitate contact between individuals and companies. This second model complements the first by focusing on partnerships, with a particular focus on transport, innovation clusters and business mini-clusters.

The new paradigm for attractiveness and competitiveness lies in the development of innovation clusters and business mini-clusters, research and higher education hubs and the emergence of internationally renowned universities.

By encouraging and accelerating partnerships amalgamating the country's economic, scientific and technological potential, these nationally led policies lend France's regions greater visibility in Europe and around the world.

2- *France's cluster policies* (innovation clusters and business mini-clusters) generate and support initiatives set in motion by corporate and academic stakeholders in a region.

Innovation clusters are partnerships formed around a joint development strategy by companies, research centers and educational institutes in a given region. This partnership approach gives rise to synergies for innovative joint projects targeting one or more specific markets.

In building networks between innovation stakeholders, France's innovation clusters are targeting the following goals:

- Improving the competitiveness of the French economy by stepping up innovation efforts;
- Strengthening businesses which have a strong focus on technology or creation in French regions, primarily in the industrial sector;
- Increasing France's economic attractiveness through heightened international visibility;
- Encouraging growth and employment.

Business mini-clusters are clusters mainly comprising very small independent businesses and SMEs. They provide companies with material services and, more specifically, help them develop their competitiveness and position themselves in new markets, particularly by offering every opportunity to benefit from innovation. The regional commitment made by these business mini-clusters underpins the strategies undertaken by local authorities to encourage the emergence of these types of clusters.

This policy helps to include business sectors that are either not part of the innovation clusters setup or which have not yet gained sufficient critical mass to be considered as an innovation cluster.

3- Another essential aspect of France's economic attractiveness policy is the development of key transport and digital technology infrastructures.

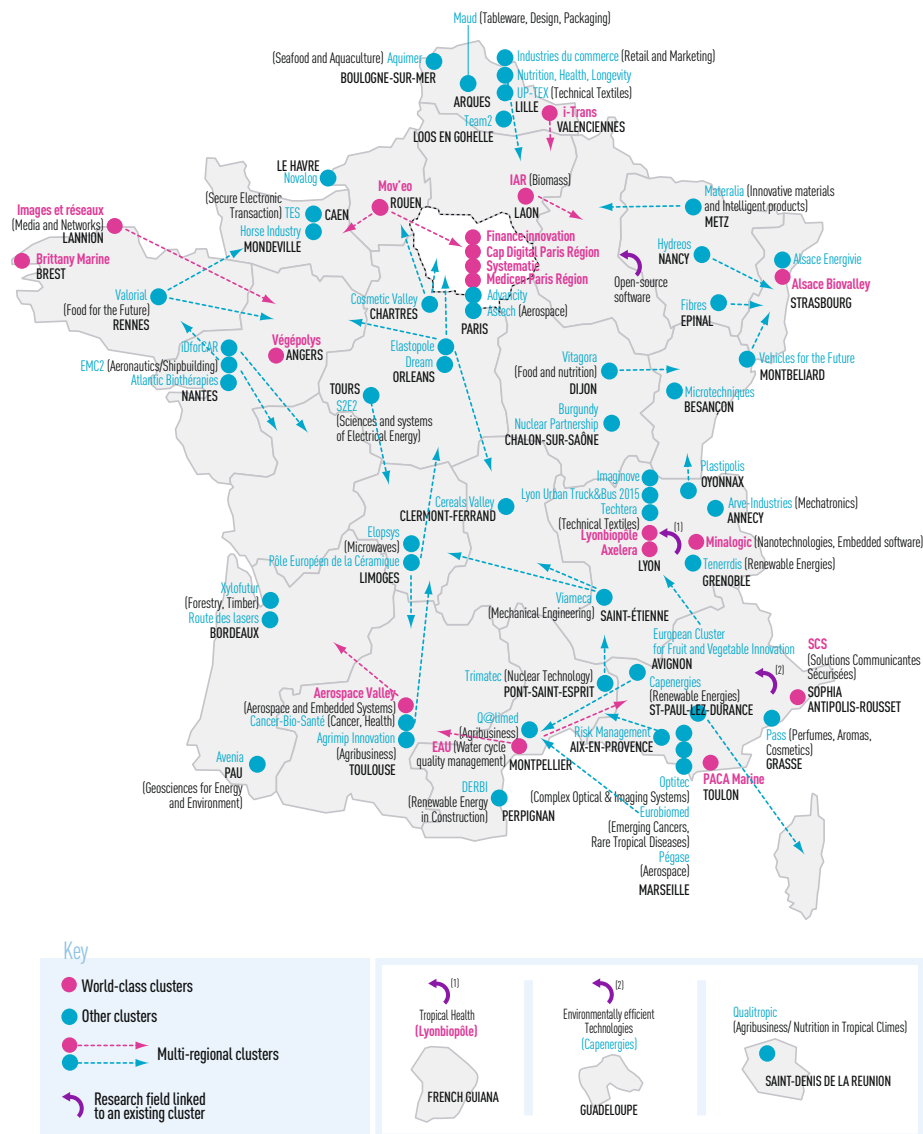
High-speed motorways and TGV rail lines are one of the most effective components of France's regional development. They connect major and minor cities throughout the country to Paris and to each other, forming part of an integrated pan-European network.

Plans call for major new undertakings: tripling the number of high-speed rail lines and a new international airport in western France.

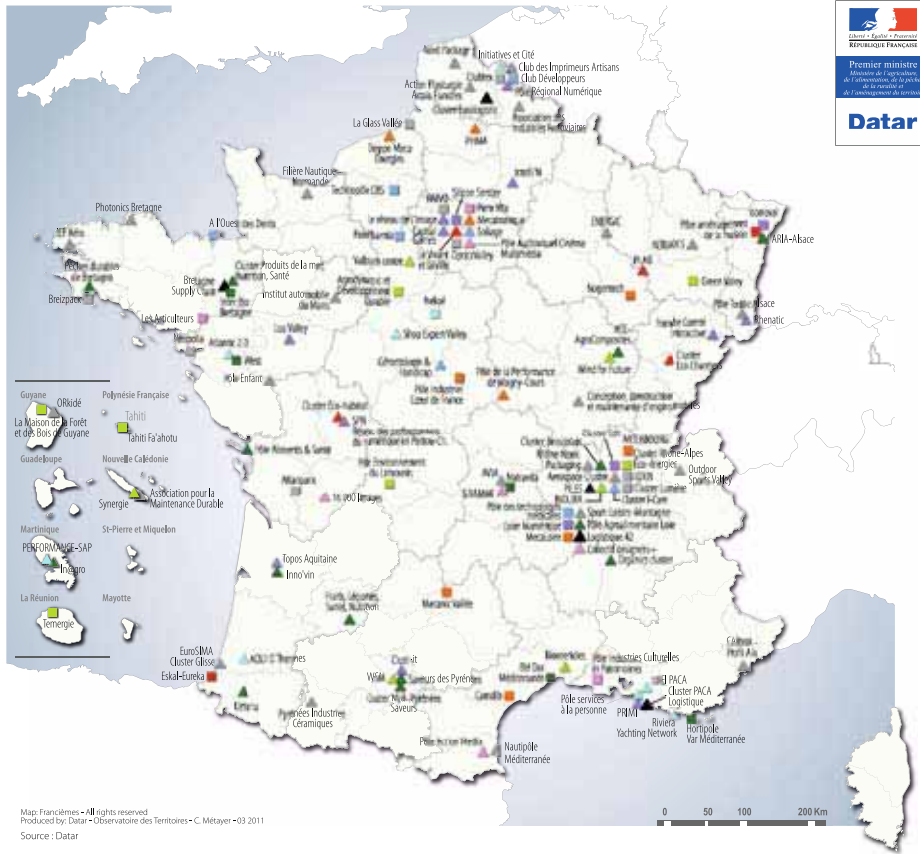
The same approach is being implemented for very high-speed broadband connections. These physical and virtual infrastructures play a vital role in the attractiveness of France's regions.

From now on, France's infrastructure must embrace every opportunity for high speed. The challenge is to increase the potential for competitiveness within companies and in the French economy as a whole, by making the circulation of people, information, capital and goods both easier and faster.













71 innovation clusters



126 business mini-clusters



Business sectors

- | | |
|--|--|
|  Agriculture, agribusiness and fishing |  Creative and cultural industries |
|  Construction and housing |  Healthcare industries |
|  Miscellaneous industries |  Mechanical equipment and metalwork |
|  Digital economy |  Services |
|  Cleantech, bio-resources, water management |  Logistics |
|  Business mini-clusters accredited in the 1 st call for projects | |
|  Business mini-clusters accredited in the 2 nd call for projects | |

REGIONAL DISTRIBUTION OF FOREIGN INVESTMENT PROJECTS IN FRANCE

12.5% of employees in France's private-sector economy (all business activities not related to the government or defense sectors) work for companies under majority foreign ownership. These foreign-owned groups have a considerable presence to the north of a line running from the north-west of Bretagne (Brittany) down to the south-east of France, but are also present in other employment areas (cf. the map below).

In fact, this geographic distribution of foreign direct investment stock corresponds closely to conventional locations for industry in France.

This is largely a consequence of industry being the first sector to be opened up to foreign investment.

Today, more than one-third of manufacturing-sector employees (nearly one million people) are employed by manufacturing subsidiaries of foreign groups.

These foreign group subsidiaries contribute up to 40% of the turnover and value added in French industry.

Service-sector businesses are particularly concentrated in the southern half of the country and still remain less open to foreign investment, although this situation is constantly improving. Services make up a large proportion of the foreign investment flows recorded each year by the IFA and the Banque de France.

This increase in foreign investment should help to improve the presence of the service sector nationwide in view of the more equal distribution of businesses owned by multinational groups, most of which are under majority French ownership and have a large service-sector component (map on left).

Share of employees working for multinational groups

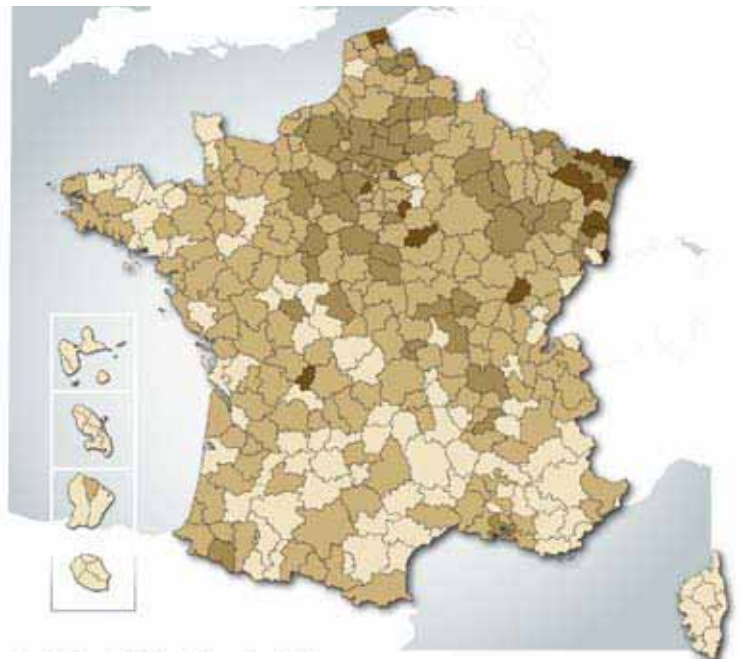


Share of employees in company establishments controlled by multinational groups in 2008
(by employment areas, %)

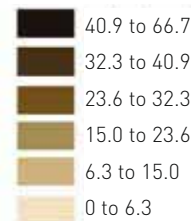


Source: INSEE, CLAP, DGCS calculations

Share of employees working for foreign-owned groups



Share of employees in company establishments controlled by foreign-owned groups in 2008
(by employment areas, %)



Source: INSEE, CLAP, DGCS calculations

APPENDIX C

INCREASING INVESTMENTS FROM LEADING EMERGING ECONOMIES

INCREASING INVESTMENTS FROM LEADING EMERGING ECONOMIES

Leading emerging economies, commonly referred to as the BRICS countries (Brazil, Russia, India, China and South Africa), are becoming major contributors to the global economy. China, which has come to symbolize the rising power of these countries, became the world's second largest economy by GDP in 2010, overtaking Japan, which had held second place after the United States since 1968. One year later, China became the world's largest goods exporter.

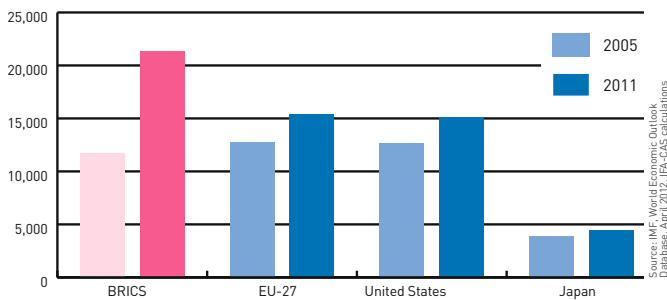
Emerging economies are playing an increasingly important role in foreign investment. While globalization is a relatively new phenomenon for companies from emerging economies, it has rapidly taken on great significance: China is now ranked among the top 15 investors in the world while foreign investments from Russia and India have more than doubled in the last decade. Every year, an increasing number of companies from emerging economies begin to compete in the global marketplace while others go on to become world leaders in their sector.

In 2010, leading emerging economies accounted for 41.8% of the world's population, 27% of the world's GDP (versus 17.5% in 2000) and 19.4% of global exports (versus 10.6% in 2000).

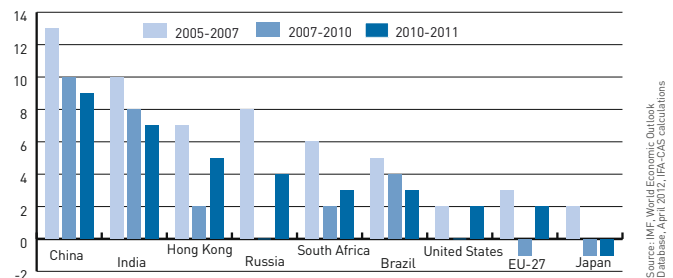
Most of these countries experienced robust growth in 2011, most notably China (up 9.2%) and India (up 7.2%), followed by Russia (up 4.3%), South Africa (up 3.1%) and Brazil (up 2.7%).

These countries do not form a homogenous group. Above all, they have very different standards of living. Russia holds the lead by a wide margin for GDP per capita on a purchasing power parity basis, ahead of Brazil, China and India.

Market size: GDP
US\$ at current PPP



Average annual rate of real GDP growth



Leading emerging economies are now making investments throughout the world. They initiated 13.3% of global FDI flows in 2011, compared with 0.6% in 2000. With US\$149 billion of outflows, China (including Hong Kong) was the second largest investor in the world after the United States.

In 2011, companies from leading emerging economies were responsible for 7% of all job-creating investment recorded. Chinese and Indian companies initiated three-quarters of all job-creating investments made by the BRICS countries.

According to figures issued by UNCTAD, leading emerging economies (BRICS) accounted for nearly 10% of outward FDI stock in 2011, compared with 6.4% in 2005.

The share of all emerging economies in global FDI flows tripled between 2000 and 2011 to reach a total of 26%. Within this group, a growing share is coming from the BRICS countries, reaching 13.3% of global flows in 2011, versus 6.6% in 2005 and 0.6% in 2000.

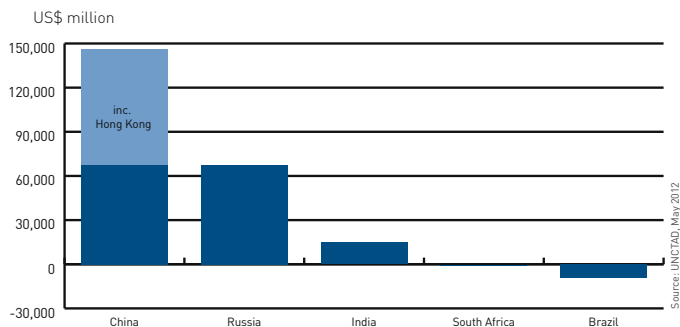
Among the BRICS, China (including Hong Kong) leads the way with FDI outflows amounting to US\$147 billion, followed by Russia with US\$67.3 billion.

During the recent global economic crisis, China set itself apart with a sharp increase in FDI outflows, which rose by an annual average of 46% from 2007 to 2010. These flows began leveling off in 2011, increasing by only around 4%.

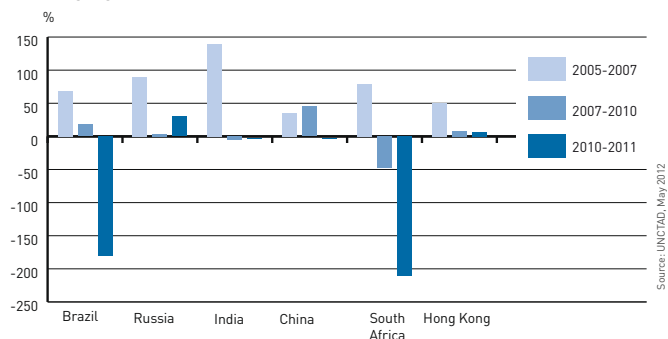
In 2011, FDI outflows from Russia were up 30% on the previous year.

By contrast, there were significant declines in 2011 for South Africa and Brazil, which recorded negative FDI outflows of US\$0.6 billion and US\$1 billion, respectively.

FDI outflows from leading emerging economies (2011)



Average annual rate of growth in FDI outflows from leading emerging economies



Physical investments by companies from leading emerging economies have grown by an annual average of 10% since 2003 (and by 12% in Europe).

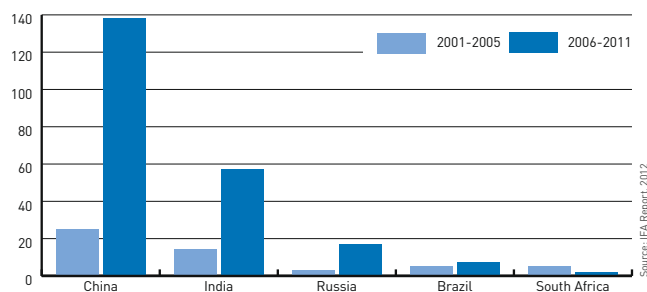
Europe hosts more than one-quarter of foreign investment from the BRICS countries. China is the driving force behind this trend: with almost half of its investment projects taking place in Europe, its investments on the continent are up by 22% since 2003 (versus a 12% rise for investments from the BRICS countries).

In 2011, 5% of the job-creating investment projects initiated by leading emerging economies were in Europe. **France was the third largest recipient** and destination of choice for 12% of such investment projects in Europe, after the United Kingdom and Germany (IFA Europe Observatory).

In 2011, leading emerging economies initiated 6% of all job-creating foreign investments in France, versus 1% in 2001.

Job-creating investment projects by leading emerging economies in France

Total number of projects



CHINA INVESTS IN EUROPE: PATTERNS, IMPACTS AND POLICY IMPLICATIONS

Thilo Hanemann and Daniel H. Rosen, Rhodium Group, 2012

Foreign investment from China has increased significantly in recent years, from US\$3 billion in 2005 to more than US\$60 billion in 2010 and 2011, as China has assumed a major role in the international investment arena. It is the only country among the BRICS whose investment outflows have not declined during the global financial crisis.

EU-15 countries attracted more than 85% of all Chinese investments between 2000 and 2011. The three leading recipients were the three largest economies in Europe: France, the United Kingdom and Germany. **France is the leading recipient in Europe⁽¹⁾ of Chinese investments, with 70 transactions worth a total of US\$5.7 billion.** 2011 was significant for the acquisition by the China Investment Corporation of a stake in Gaz de France for US\$3.2 billion.

⁽¹⁾ The investment presented in this study comprises data from Rhodium Group including site creation projects as well as mergers and acquisitions in Europe. This is a more broad approach than the IFA Observatory and Report, which only measure job-creating investment in France.

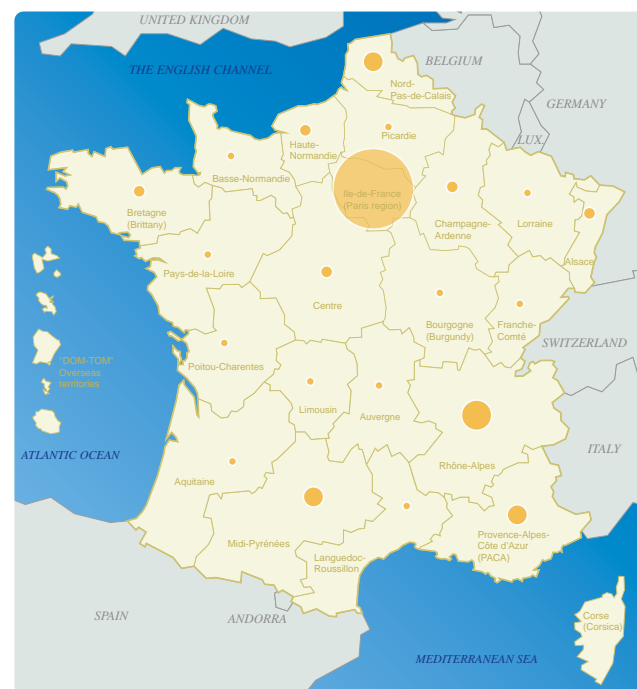
Investments from leading emerging economies were made in all parts of France. But half of all their investment projects were concentrated in Ile-de-France (Paris region).

The top two investors in France from these leading emerging economies were China and India, with 59% and 26% of all projects from the BRICS countries, respectively, between 2001 and 2011.

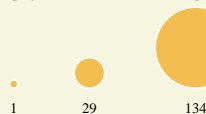
In 2011, China was the 10th largest investor in France. Chinese investments were predominantly new site creations (71%) and primarily involved decision-making centers (41%) and production/manufacturing (24%).

In 2011, India was the thirteenth largest foreign investor in France by the number of job-creating investment projects. Half of these were made by companies in the Information and Communications Technologies (ICT) sector. Indian companies prioritized new site creations, which accounted for over 83% of projects.

Investment projects in France by the BRICS countries, 2001-2011



Number of projects recorded in the IFA Report, 2001-2011

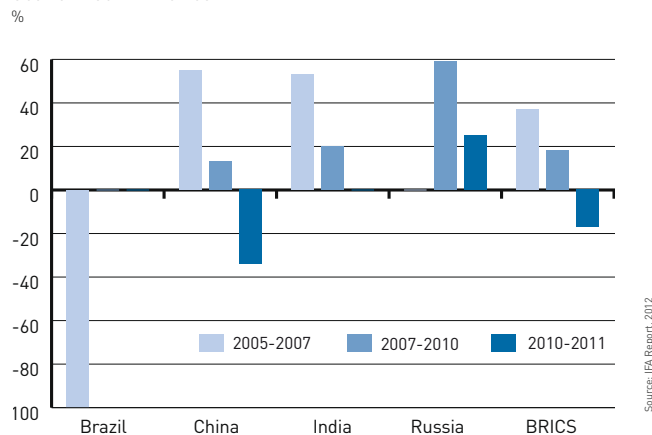


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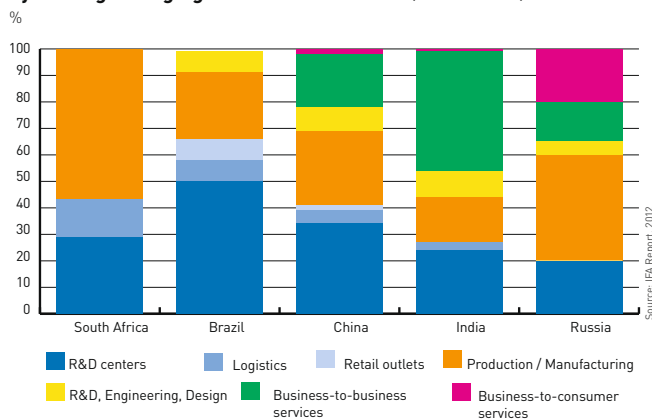
Russian investments in France remained steady in 2011 with five new job-creating projects. Since 2009, most of the Russian projects in France have been in the tourism and catering sector.

South African companies in France have originated two new investment projects since 2009. France is the leading recipient of Brazilian projects in Europe.

Change in the number of investment projects by leading emerging economies in France

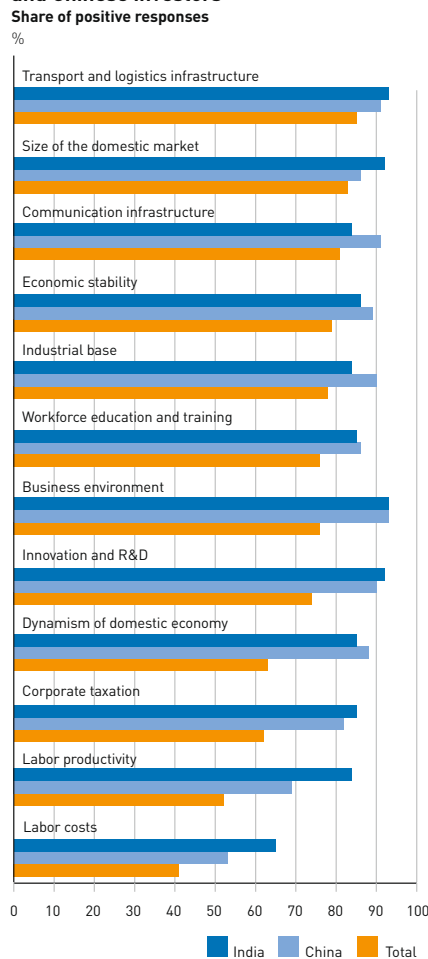


Distribution by business activity of job-creating investments by leading emerging economies in France (2001-2011)



According to the TNS Sofres survey conducted in October 2011 on France's investment attractiveness, 66% of foreign company executives were of the opinion that France is an attractive location for foreign investments. The survey found that Chinese and Indian investors perceive France's attractiveness to be higher (87% and 94%, respectively).

The attractiveness of France's economy, as perceived by Indian and Chinese investors



COMPANIES FROM THE BRICS COUNTRIES THAT FEATURE IN THE FORBES GLOBAL 2000

After a first wave of globalization characterized by regional investments, companies from the BRICS countries have bolstered their presence in the global marketplace since the beginning of the 1990s. A proliferation of investments projects in developed countries has been observed in the last 10 years or so.

Today, more than 70 companies from leading emerging economies feature among the 500 largest companies in the world, as measured by Forbes⁽¹⁾. These include 60 companies from the BRICS countries in 2012, compared with only 26 in 2006. In this index, Forbes lists 29 Chinese companies and 10 Indian companies compared with only five from each country in 2006, and 10 Russian companies compared with only six in 2006.

⁽¹⁾ The "Forbes Global 2,000" lists the world's 2,000 largest companies and ranks them by four criteria: sales, profits, assets and market value.

CONCLUSION

Foreign direct investment flows fell sharply around the world after the onset of the global financial crisis in 2008. In an uncertain environment, France has nevertheless remained attractive as an investment location: its two most successful years in the last decade were in fact 2010 and 2011, when 782 and 698 foreign companies, respectively, chose to invest in job-creating activities in France.

One of the reasons for this is that France's investment attractiveness is based on solid structural factors, which are considered reassuring in a period of crisis. The depth and central location of the French market, which is served by high-quality infrastructure, a skilled and productive workforce and a tradition of industrial excellence, further strengthen France's comprehensive and diversified attractiveness when considered in the round.

However, international investment involves long-term commitments. When choosing a country in which to set up operations in the medium to long term, international investors assess the growth prospects of the market, which rely notably on demographic factors, evaluate the host country's ability to prepare its future, and put a high premium on the stability and predictability of the legislative and regulatory environment.

Stability does not though mean doing nothing – investment attractiveness depends on the responsiveness of governments and the resilience of economies in periods of crisis, as well as on reforms implemented to support competitiveness and growth, whether they are carried out at European or national level.

At the same time, simplified rules and administrative procedures continue to be sought by foreign investors, who also pay attention to the functioning of the labor market. They expect their circumstances to be taken into consideration through measures that make it easier for them to relocate and to subsequently develop their company in France.

Policies to enhance attractiveness, conducted at national or regional level, can secure the long-term presence of foreign companies. Almost half of all new foreign investments in 2011 involved expanding existing locations – which are not only signs of renewed confidence in France but also illustrations of the vibrancy and attractiveness of its regions.

This document was written with assistance from the following French government departments:

The French Treasury Directorate (DG Trésor) advises on and oversees French economic policy under the authority of the Minister for the Economy and Finance. It also promotes French policy in Europe and throughout the world. It lends its expertise in matters relating to forecasting and consulting, regulation, international negotiations, developmental aid, export assistance and foreign investment. The Treasury Directorate oversees the French government's accounts and debt management through the French Treasury Agency (*Agence France Trésor* – AFT) and monitors government shareholder interests through the Government Shareholding Agency (*Agence des participations de l'Etat* – APE). For further information, please visit www.minefe.gouv.fr

French Interministerial Delegation for Regional Development and Economic Attractiveness (DATAR) is an administration under the authority of the Prime Minister which handles interministerial affairs and works on behalf of the Minister for Rural and Regional Development. The DATAR plans, promotes and coordinates French government policies on regional development. In this capacity, it organizes the Interministerial Committees for Regional Development and Growth (CIADT) as well as government meetings for key resolutions on regional development. The Delegation's mission is twofold: to increase the attractiveness of France's regions and ensure their cohesiveness and stability within an enlarged Europe. It oversees the Observatory of Regions, which summarizes and interprets data on the regions issued by government departments, local authorities and public polling and research agencies. For further information, please visit www.datar.gouv.fr

The French Strategic Analysis Center (CAS) is a specialist decision-making advisory body under the authority of the French Prime Minister. Its mission is to advise the government in defining and implementing its strategic objectives concerning economic, social, environmental and technological matters. At the Prime Minister's request, it provides forecasts for major governmental reforms. It also initiates its own studies and analyses as a part of an annual work program. It refers to an 11-member steering committee that includes two Members of Parliament, two Senators and one member of the Economic, Social and Environmental Council (*Conseil économique, social et environnemental*). It liaises with the Prime Minister's main expert and consulting councils. For further information, please visit www.strategie.gouv.fr

The Invest in France Agency (IFA) is the national agency responsible for promoting and facilitating international investment in France. It also coordinates initiatives to promote France's economic attractiveness. The IFA network operates worldwide, with offices in France as well as in North and South America, Europe, the Middle East and Asia. In France, the IFA works in partnership with regional development agencies to offer international investors outstanding business opportunities and customized services. For further information, please visit: www.investinfrance.org

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