

Reindustrialization

AmCham - 12 proposals to reinforce France's competitiveness internationally

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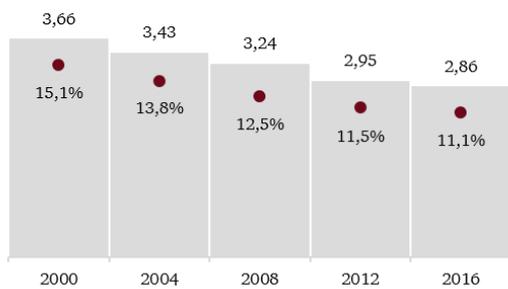
Work towards tax convergence with our European neighbors, through a reduction of the tax burden

Introduction- Industry, one of the main factors of employment and economic growth in France

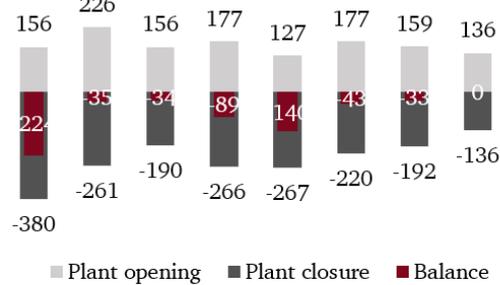
Reinvigorate a sector in crisis by restoring its competitiveness

In 2018, while industry accounted for 2.8 million jobs in France, and continued to create jobs (9,500 net jobs in 2018)¹, its share in GDP fell. France has been experiencing uninterrupted deindustrialization for several decades now. From representing 27,8% of GDP in 1980, to 21,3% in 2000, and 17,4% in 2017, Industry fell to 10,1% of GDP in 2018² (not to mention that it accounted for 3.6 million jobs in 2016³). Industry went from representing 18% of national wealth in 1995 to only 12% today. France's share of European exports continues to decline and industrial margin rates remain three percentage points lower than those of Germany. This weakening of French industry has had a threefold negative impact: on employment (with the loss of one million industrial jobs), on the trade balance (with a record deficit of €62 billion in 2017), and on climate (by boosting imports of industrial goods produced in countries with lower environmental standards than France). **Nonetheless, the industrial sector remains essential to long-term economic growth in France. Industry still accounts for 80% of national R&D investment, 75% of exports and 50% of productivity gains.** France also has many assets to put forward, starting with its geographical position that easily allows for exports both within and outside the EU, as well as its innovative initiatives (such as the Research Tax Credit). **A proactive reindustrialization policy, supported over time by a strong political consensus, is therefore absolutely necessary.**

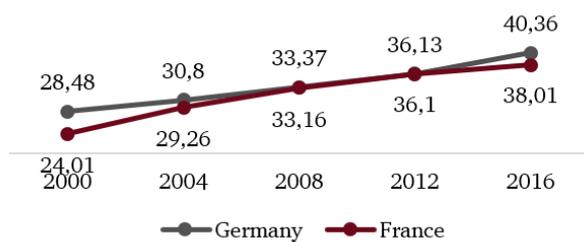
Employment in industry - in millions of people in full-time equivalent (and as a % of total employment)



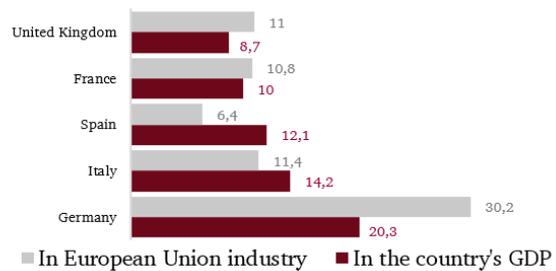
Plant openings and closures in France



The cost in euros per hour of work in manufacturing industry



Weight of manufacturing industry in Europe (in %)



PROPOSALS

OBJECTIVE :

- Accelerate the recovery of French industry

RECOMMENDATIONS FOR ACTIONS

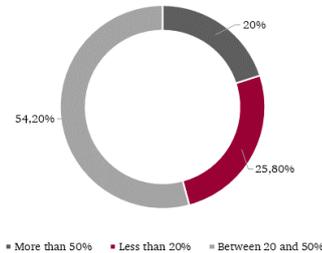
- Remove barriers that prevent companies from producing in France
- Enable and incentivize companies to relocate or develop their manufacturing site in France



Revitalize the job pool

Attract talent to meet industry needs

In 2018, how many recruitments will be difficult?



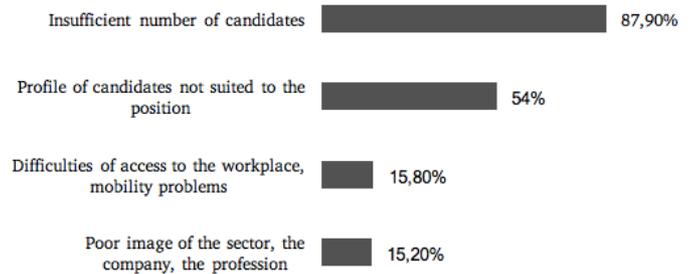
Recruiting qualified labor and ensuring continuing education for workers are both strategic issues for the evolution of industry. The ageing population and the disruptions caused by digitalization are leading to an increased need for specialized skills and jobs. However, the industrial sector is struggling to recruit and suffers from a deteriorated image, particularly among younger generations. This is also due to a lack of initial and continuing education opportunities⁴. A fairly emblematic example of this labor shortage is that of boilermakers. Only 5,250 boilermakers and welders were trained last year in France, for 7,000 recruitment opportunities in this sector⁵.

« In order to attract new talents to industrial jobs and create new vocations, it seems necessary to further develop school-business relationships »

In order to attract new talents to industrial jobs and create new vocations, it seems necessary to further develop school-business relationships. In fact, this would allow to raise awareness among young people about ongoing industrial changes, as well as job opportunities, and the professional environment that industry has to offer. To this end, it would be useful to implement an industry day for primary school students to have the opportunity to visit a factory or manufacturing plant.

In addition, it would be interesting to make the industry week compulsory for all high school students (it is currently run by the French Ministry of economy). This would allow students to get to know production sites in their region. It also seems critical to further develop apprenticeship and work-study contracts, in similar proportions to what has already been done in Germany.

What types of recruitment difficulties do you expect to encounter?



PROPOSALS

OBJECTIVE :

- Increase industry's competitiveness on the job market.

RECOMMENDATIONS FOR ACTION

Create public-private partnerships to attract workers towards industrial jobs :

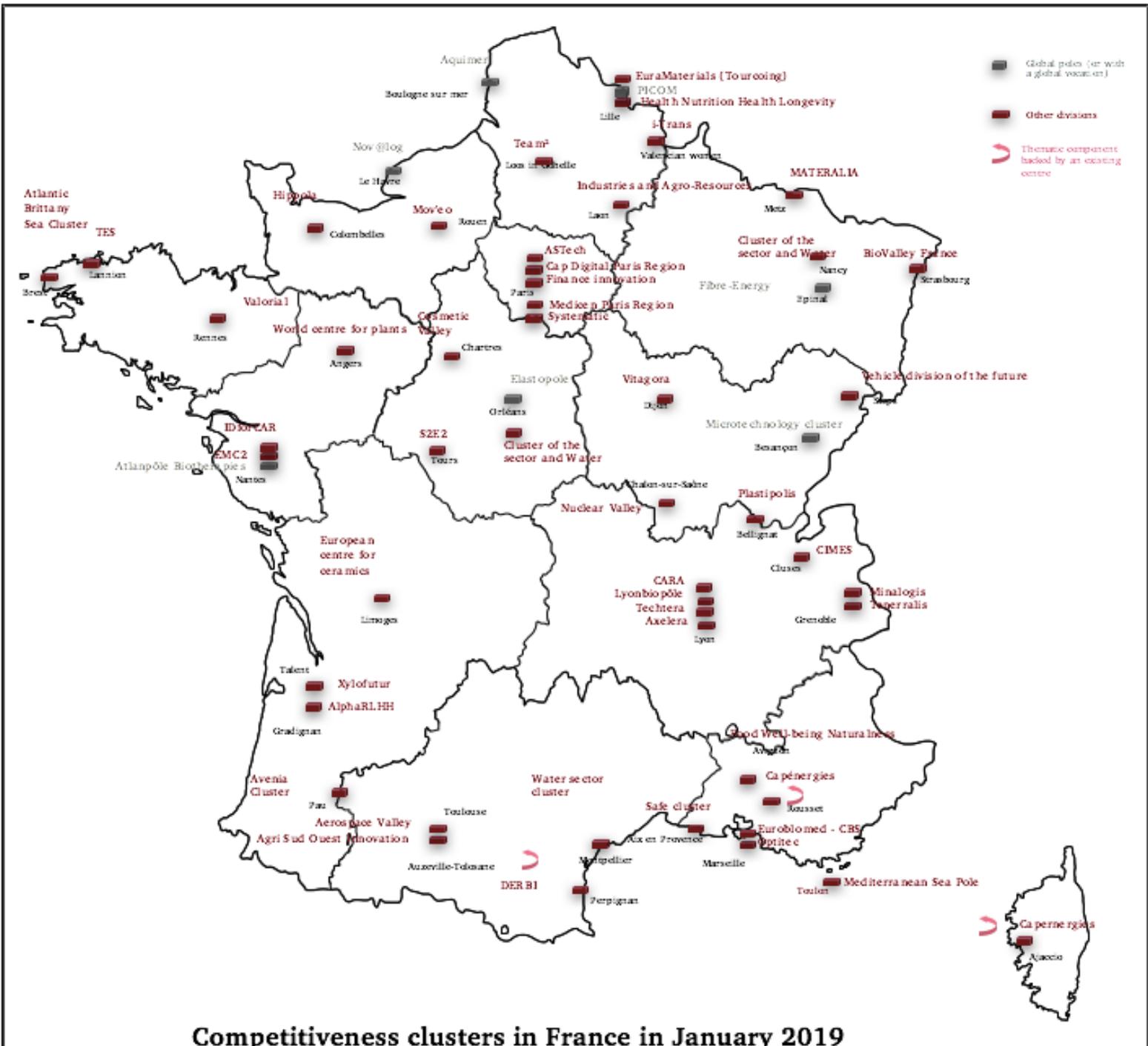
- Create an industry day for elementary school students and make industry week mandatory for high school students in order to introduce them to the different industries present in their region.
- Generalize apprenticeship and work-study contracts.



Sectors and regions

Combine a sector-by-sector approach with a regional approach

French industry cannot be separated from its strong regional presence. In fact, the effects of deindustrialization are best observed at a regional level. As deindustrialization results in the downgrading of many industrial sites, it then leads to a rise in regional unemployment rates. Affected populations feel abandoned by both businesses and the administration and tend to leave deindustrialized regions. Yet, production sites are often what foster social links among local populations, and often times make up the region's economic heart, particularly thanks to competitiveness clusters⁶.



France's reindustrialization must therefore be done through a regional approach, restoring and strengthening the essential link between regions and the economy. The relationship between the central administration and the regional administration, and its governance, must also be revamped in order to increase its effectiveness at a lower cost, particularly relying on relevant industrial sectors.

In order to make the different "filières" (official sectorial industrial networks defined by the French government) even more relevant for companies, these should include the French affiliates of foreign companies, namely in recognition of their positive contribution to the French economy. In 2018, France received 1,323 foreign direct investment projects, and within a year, the number of jobs created or maintained by foreign investors amounted to 30,300.⁷ The definition of a sector (*Filières* in french)⁸ has evolved over time, integrating an increasing number of aspects, including changes in the economic environment, evolutions of industrial strategies, as well as the choices made by public authorities.

From the late 1980s onwards, the "filière" – or sector-by-sector – approach was somewhat sidelined. In fact, economic globalization led to a decline in vertical integration, thus making the approach less relevant. However, recent evolutions (since 2010) have restored the relevance of a sector-by-sector approach. The emergence of new players in the globalized economy, the growth of trade and financial flows, as well as the emergence of new competitors on high value-added products (such as China and India), made it necessary to fight deindustrialization through sustained innovation and research and development efforts.

« French industry cannot be separated from its strong regional presence »

	Turnover (in billions of euros)	Jobs	Contribution to the trade balance (in billions of euros) (if relevant)	Number of companies (if available)
Food	170,6	386 412	38	18 365
Automobile	155	400 000		4 000
Fashion and Luxury	154	616 552	36	
Chemical and material industry	120	332 000		8,770 companies, of which 95% are SMEs/ETIs
Health and Technologies	90	455 000	32	3 100
Aerospace	64	190 000	17	
Timber	53	364 550		60,000 companies with a majority of VSEs/SMEs
Nuclear power	50	220 000	11	2 600
Construction	45	450 000		7,000 companies (60% SMEs)
Mining and metalworking industry	36	110 000		2 650
Naval and maritime industry	27	90 000	16	
New Energy Systems	23	150 000		15 000
Water	20	53 000	8	8,770 companies, of which 95% are SMEs/ETIs
Waste processing and recovery	18,5	125 500		1529 companies and 4330 establishments in France
Electronics	15	250 000		1 100
Railways	3,8	29 000	1	1 300

Indeed, the national industry round table talks (Etats généraux de l'industrie) showed that one of French industry's weaknesses was the lack of solidarity between companies working in the same value chain. To encourage these companies to better identify their common interests and organize more constructive and trusting relationships, the government has established a National Industry Council (NCI) divided into 16 sectors (the aerospace industry, fuelled by its growing number of SMEs, best represents these French sectors of excellence).

Reinvigorating a sector-by-sector approach within the reindustrialization process should allow to better take into account the new common challenges that all sectors face today. Energy-related issues are a good example of how this approach can help tackle these new challenges. Indeed, energy policy is as much a climate issue as it is a competitiveness and attractiveness issue for France. French industry, and in particular "energy-intensive" industries, are among the most efficient in the world in terms of energy and climate efficiency. Driven by competition, rising energy prices and the European regulatory framework, French industry improved its energy intensity by more than 20% between 2002 and 2015. However, while French GHG (greenhouse gas) emissions fell by 20% between 1995 and 2015, mainly due to energy efficiency gains in industry, the national carbon footprint (including imported emissions) increased by 11%, and still continues to

increase today. In order for France's international commitments on climate change not to come at the expense of its energy-efficient industries, it is crucial to support them in their ecological changes, to encourage the relocation of production in France, and to develop new offers by promoting concrete recommendations in cooperation with the different sectors.

This revival can be achieved by reaffirming the role and responsibilities of each sector's strategic committee, with priority given to the flagship sectors of food, automotive, luxury, electronics, health industries and technologies, chemical and material industry, and aerospace.

In addition, as part of the Government's Skills Investment Plan, it is essential to make industrial jobs a priority area for continuing education. Industries must be able to identify the skills that are needed in each sector over a medium to long term period (10 to 20 years) in order to then set up the necessary future partnerships with the State, to bring companies closer to the region in which they are established.

Thereby, along the lines of what the government had in mind for its law on continuing education, it is now necessary to accelerate the implementation of Continuing education agencies in order to allow for the development of training and skills, and better meet workforce needs, with a priority given to high value-added sectors.

PROPOSALS

OBJECTIVES :

- Consolidate the role of "filières", (official sectorial industrial networks defined by the French government), and concentrate investments on the most efficient ones.

RECOMMENDATIONS FOR ACTION:

- Focus investments on certain key high value-added sectors to avoid scattering funds: food, automotive, luxury, electronics, health industries and technologies, chemicals and materials, aerospace.
- Guarantee that labor skills meet industry needs through regional public-private continuing education programs focused on these high value-added sectors. Work hand in hand with Continuing education agencies to reallocate skills to industrial jobs by offering continuing education programs adapted to companies' needs.
- Open up *Filières* to foreign companies established in France.



Facilitate the establishment of foreign investors

Simplify the regulatory environment and the establishment process

The establishment process in France can appear complex for foreign investors due to the multiplicity of actors and the lack of clear information on available assistance for investors. In addition to Business France, regions, and local authorities and sometimes cities have set up economic development agencies. While in some geographical areas these agencies work hand in hand, the myriad of public actors often generates confusion for foreign investors. The complexity and specificities of the French economic environment are an additional challenge. Decisions to invest or not in production is often taken at the European level, if not at the global headquarters level, which might result in choosing locations that have simpler establishment processes, instead of France.

Administrative simplification and normative stability are also essential to reindustrialization. In 2010, the OECD estimated that businesses bear a €60 billion administrative burden, and France was ranked 115th out of 138 by the World Economic Forum in this regard. Complex administrative formalities, along with the numerous public actors involved in the process, are a source of additional difficulties for companies that decide to establish in France. The proliferation of standards and their instability over time, the lack of industrial policy monitoring, as well as the many government announcements without long-term action, generate strong uncertainties for investors, which in turn hinder French competitiveness and job creation.

Administrative simplification must be carried out in order to boost company competitiveness and reduce costs. It is imperative to reduce the workload required for companies to respond to the many requests from French administrations. A drastic and effective reduction of the number of standards is also a priority. The British (one in, two out) and German methods for reduction are good practices to follow. In addition, the elimination of duplication and 'tripling' in state and local government administrations would not only reduce public

expenditure, but also eliminate the unnecessary workload that companies have to bear.

In this respect, the chemical industry is emblematic of certain issues concerning over-regulation. Chemical companies in Europe have to comply with strict – and rapidly changing – legislation, essentially centered on risk management for chemical substances and products, safety and security for industrial installations, and industrial pollution. In order to remain competitive it is important that the development of regulation is done with a full understanding of the issues at national and European level. The European regulatory framework must therefore be applied uniformly. For example, the cost of compliance checks for a facility in France is 25% higher than in Germany. We must give priority to the European regulatory level and avoid any over-regulation or over-transposition, as both result in lower competitiveness for local production, without any obvious benefit.

Some efforts have already been initiated, thanks to the National Industry Council (NIC) in November 2017. An inventory of over-transpositions of European directives has been presented to the Prime Minister. It lays a good foundation to build on for the NIC's thematic work on regulation and simplification. 7 measures (relating to products and substances, occupational health and safety, industrial installations and the environment) were then identified by the government as priorities, 4 of which were either tentatively agreed upon, implemented, or in the process of being implemented⁹. These measures will reduce the burden on multi-site companies on providing financial guarantees for environmental or accidental risks; simplify the regulation of industrial installations engaged in research and development; and simplify the regulation of intermediate substances used in industrial food-processing units. These simplification efforts must be continued, both for the implementation of these measures and for future regulations.

PROPOSALS

OBJECTIVES :

- Avoid over-transposition of European standards, and reduce industry's administrative burden, by simplifying the administrative and regulatory environment.

RECOMMENDATIONS FOR ACTION:

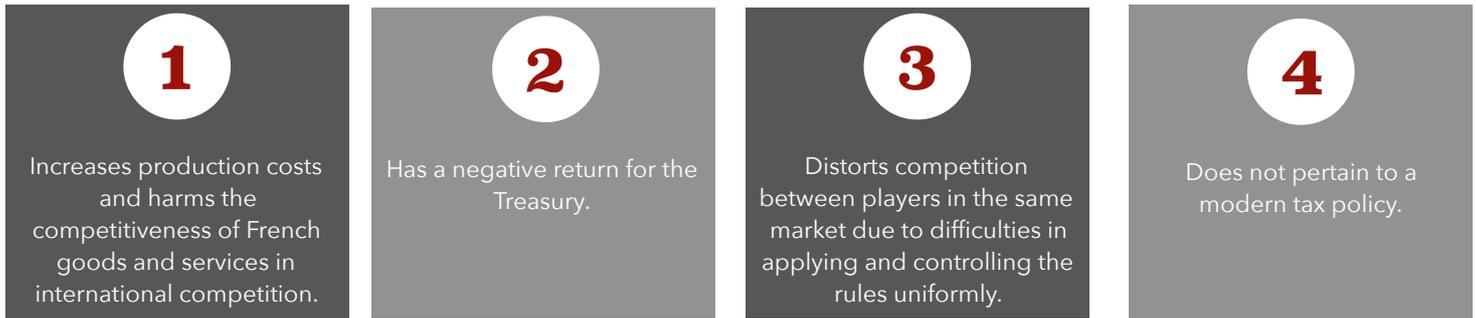
- Simplify the administrative and regulatory environment through a one in, two out approach - when one regulation is adopted, two others must be eliminated.
- Automatically recognize certification reports issued by an EU certifying body.



Make industry competitive

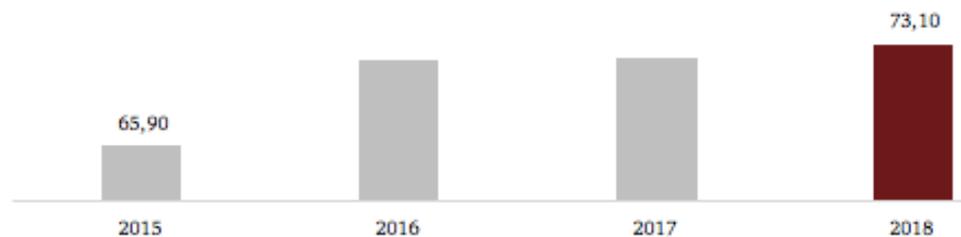
Work towards tax convergence with our European neighbours through a reduction of the tax burden

AmCham is aware of the difficulty of changing rules and regulations in this field, given the current political, economic and social context. We also know that the many vested interests in this field would require strong political arbitration, and that a tax-by-tax analysis would not allow for a consensus to be reached without investing a disproportionate amount of work and risking an uncertain outcome. It should be noted, however, that beyond the two components of the Economic Territorial Contribution (Contribution Économique Territoriale), the growing number of micro-tax categories¹⁰ in France is very specific to the country, if not unique in Europe, which has several negative effects:



France leads the European ranking in terms of production taxes, which represented 73.1 billion euros in 2018 (3.7% of French GDP, up from 3.20% of GDP in 2016). The level of production taxes is twice as high as the European average and represents almost 7.9% of companies' added value in 2019, compared to only 4% in Germany.¹¹

Total amount of production taxes (in billions of euros) in France



PROPOSALS

OBJECTIVES :

- Make France more competitive in terms of production taxes, especially when taxing industry that requires particular support.

RECOMMENDATIONS FOR ACTION:

- We recommend a quantitative and pragmatic approach aimed at a **25 billion euros** tax reduction for industries.
- To this end, we suggest reducing the level of production taxes by 33% and their number by 20%, over a three-year period with an annual objective monitored by Parliament.



Notes :

- ¹ <http://www.usinenouvelle.com/editorial/l-industrie-a-cree-beaucoup-plus-d-emplois-que-prevu-en-2018.N817320>
- ² Chiffres Banque Mondiale
- ³ Insee, Enquête Emploi, 2016.
- ⁴ <https://www.europe1.fr/emissions/Le-vrai-faux-de-l-info2/cherche-t-on-des-soudeurs-et-des-chaudronniers-depuis-des-annees-3444968>
- ⁵ <https://www.emploi-pro.fr/edito/article/l-industrie-recherche-des-chaudronniers-aea-7948>
- ⁶ <https://competitivite.gouv.fr/les-56-poles-255.html>
- ⁷ <https://www.businessfrance.fr/decouvrir-la-france-actualite-la-france-5e-du-top-10-des-pays-les-plus-attractifs>
- ⁸ http://www.la-fabrique.fr/app/webroot/uploads/tiny/Publis/A_quoi_servent_les_filieres.pdf
- ⁹ Réunion du ComEx du CNI, 28.05.2018 : <https://www.aimcc.org/wp-content/uploads/2018/05/COMEX-28.05.2018-DOSSIER-DE-PRESSE-CNI.pdf>
- ¹⁰ Baromètre EY de l'attractivité industrielle, novembre 2018
[https://www.ey.com/Publication/vwLUAssets/ey-barometre-de-l-attractivite-industrielle-de-la-france/\\$File/ey-barometre-de-l-attractivite-industrielle-de-la-france.pdf](https://www.ey.com/Publication/vwLUAssets/ey-barometre-de-l-attractivite-industrielle-de-la-france/$File/ey-barometre-de-l-attractivite-industrielle-de-la-france.pdf)
- ¹¹ <http://www.rexecode.fr/public/Analyses-et-previsions/Documents-de-travail/Poids-et-structure-des-prelevements-obligatoires-sur-les-entreprises-industrielles-en-France-et-en-Allemagne>
<https://www.latribune.fr/economie/france/fiscalite-de-production-le-gouvernement-revoit-ses-ambitions-a-la-baisse-779957.html>