FRANCE

Business Conditions Snapshot

- While France went into the COVID-19 crisis with strong economic fundamentals, it has been heavily impacted. GDP is expected to contract by between 9 and 10 per cent in 2020. The government expects the French economy to return to pre-crisis levels by 2022.

- The government opted for a strict lockdown format during the first wave (March to April 2020), but has since opted to minimise economic disruption as much as possible, with the subsequent lockdown (November 2020) framed as ‘economy compatible’, allowing most work to continue.

- Generous economic support measures have had a shock absorber effect, particularly in the labour market.
  - Unemployment is expected to sit at 9.7 per cent at the end of the year (compared to 8.1 per cent at the end of 2019).

- In recent years the French government prosecuted a suite of domestic economic reforms, starting with improved labour market flexibility.

- The government is bringing down public spending, reducing the regulatory and fiscal burden on companies, and reducing the size of the state.

- It has rolled out a program to sell off shares in public holdings in French companies, with proceeds to be re-invested in energy and the environment, skills and training, innovation and the digital economy.

- Despite the COVID crisis, France remains committed to reducing company tax rates to 25 per cent by 2022 (companies currently pay between 28 and 31 per cent). A flagship reform of France’s pension system is on hold but expected to be reintroduced to Parliament early in 2021.

- While France is becoming more business friendly, it remains a complex regulatory environment.

Key facts and figures

- Population: 51.6 million (2018)
- GDP growth: 2 per cent (2019)
- GDP per capita: US$31,431
- Political system: Republic
- Two-way trade: A$41.4 billion (2018-19)
- Key goods exports to Korea: coal, iron ore, LNG and beef (2018-19)
- Key services exports: education and personal travel
- Key goods imports from ROK: refined petroleum, motor vehicles, electrical machinery, and electronic integrated circuits
- Key services imports: maintenance and repairs and transport
The government has launched major efforts to attract foreign investment and position France as a more attractive place to do business, especially in the wake of Brexit and the COVID-19 crisis.

International investment in France last year reached a record high thanks to an annual investment increase of 10 per cent and nearly 40,000 jobs being created or maintained.

France was the leading destination for international investment in Europe for 2019.

- Unlike most European countries, France runs a trade deficit. To remedy this the government is pursuing measures to encourage businesses to be more internationally competitive and export-driven, especially SMEs.

- France’s supply-side driven COVID-19 recovery plan earmarked 34.8 billion euros for ‘competitiveness’.
  - It is lowering company ‘production’ taxes at a cost of 10 billion euros a year.
  - Measures have been implemented to boost the equity of SMEs and very small businesses.
  - Approximately 400 million euros have been earmarked to accelerate digital transformation in SMEs and very small businesses.

- France has a high quality university and research system, and a dynamic start-up scene.
  - The government seeks to position France as a leader in innovation and recently launched a new national green hydrogen strategy.
  - An artificial intelligence strategy was launched in 2018.
  - France remains a challenging place for mining and resources operations, due to stringent environmental regulations and strong civil society opposition.

- France is a mature, highly competitive market. It has a number of large multinational companies that are among global leaders in their fields including Airbus, Veolia, Thales, Axa, LVMH and Total.
  - There are opportunities for Australian businesses in sectors such as agriculture, infrastructure, health, finance, renewable energy, hydrogen, critical minerals and digital technologies.

- France is a significant source of foreign investment in Australia, with most of the CAC40 (ASX200 equivalent) present. French companies are pursuing further investment opportunities around the Future Submarine Program, energy and resources, and advanced manufacturing.
Negotiations on an Australia–EU FTA began in June 2018 and are now more than halfway through. Both parties are seeking to conclude a timely and ambitious agreement.

− As a bloc, the EU is Australia's third largest trading partner, third largest services export market and third largest source of foreign investment.
− The Australia–EU FTA is expected to provide a range of opportunities for Australian and French businesses.
− Given we are negotiating an exclusive competence agreement with the EU, France’s national parliament will not get to vote on the agreement
− France will be influential, however, in the EU Council’s consideration of the FTA.

TRADE AND INVESTMENT OPPORTUNITIES

− Around 140 Australian companies are operating in France, employing 40,000 people. Their presence spans a range of services sectors, including banking and finance, health care, information and telecommunications, transport and logistics.
− France is an attractive destination for Australian start-ups, which have benefited from programs such as La French Tech and Paris & Co.
  − Collaboration with French companies on R&D remains strong and there are opportunities with blended learning in higher education.
  − Other opportunities lie in major French government investment programs, including in health, infrastructure, critical minerals, hydrogen, construction and urban development.
  − Australian companies have found France’s regulatory environment challenging, particularly the labour market, and banking and environmental regulations.
− France is a major source of foreign investment into Australia, with over 600 French companies operating in Australia and employing over 60,000 people.
  − France has a number of significant investment interests in Australia, particularly in the infrastructure, energy and resources, tourism and defence sectors.
− Australia’s Future Submarine Program has generated new opportunities to strengthen collaborations with the French defence industry.
  − The program is an important opportunity for Australian business to leverage a range of investments connected to the program's supply chain, including in the engineering and advanced manufacturing sectors.
− France is a hub for major business, culture, education and defence events in which the Australian Embassy and Austrade regularly participate, though currently scaled back due to COVID-19.
− These include Eurosatory and Euronaval industry events, Vivatechnology and the MEDEF summer school.

• The Embassy and Austrade organise regular business networking and facilitation events—such as the Austrade defence export strategy industry seminar—and supported the inaugural French–Australian defence industry symposium in 2018.

• Other events are held in conjunction with the Australian Business in Europe (ABIE) France association.

• In 2021 France will host Australia Now, a season of cultural events to promote Australian creative excellence.

• France will host the men’s Rugby World Cup in 2023 and the Olympic Games in 2024, for which preparations are well underway.

TRADE POLICY AND NEGOTIATIONS

• France is a member of the European Union (EU), EU Customs Union and EU Single Market. France is closely integrated with other European economies, but less so with other economies, particularly in Asia.

• While the French government supports trade agreements and stands against protectionism, there are significant forces in civil society that are less well-disposed to free trade and globalisation, which have intensified during the COVID-19 pandemic.

− France generally advocates for trade that has in-built sustainable development protections and safeguards, including in a range of international fora such as the G7, G20 and OECD.

• Key French interests in the Australia–EU FTA relate to agriculture; geographical indications; environmental, social and health standards; and treatment of its overseas territories.

• Under an FTA, France stands to benefit from improved access to the Australian market for key exports, such as cosmetics and pharmaceuticals.

− French companies could use Australia as a launch pad to fast-growing Asian markets.

− France also has interests in enhanced access to public procurement and protection of geographical indications.

• The FTA is also expected to boost our already significant FDI relationship and stimulate our services trade.

• Like Australia, France is a strong proponent of a robust multilateral system and rules-based order. It supports the WTO and wants to resolve the blockage in the WTO’s dispute resolution mechanism. France also supports further progress on
issues such as fisheries subsidies, agricultural support, services regulation and e-commerce.

- Having introduced a national digital services tax for large technological firms, France is a strong proponent of a global or EU agreement on digital taxation.
- France is following Brexit closely and has strongly advocated for a unified European approach to trade negotiations with the UK. The French government has set up a dedicated platform to attract businesses and individuals in anticipation of the UK’s departure from the EU.
- France protested strongly against the US application of tariffs on steel, aluminium and European wines, and is favourable to a common European response to the Airbus-Boeing trade dispute in the form of WTO-sanctioned taxes on certain US products.

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This Insight is current as at December 2020.