# FDI: FRANCE'S ATTRACTIVENESS IS GROWING AGAIN

How France is enhancing its reputation with international strategic investors and financial sponsors, by boosting competitiveness, creativity, innovation and sector-specific expertise.

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According to the EY 2014 Barometer for French attractiveness, France stands at the 3rd step of the European podium behind United Kingdom and Germany, as regard to foreign direct investments. In the past few months, it recorded a significant progression with 43 additional foreign direct investments and a 34% growth in employment creation with 14 122 new jobs instead of 10 542 in 2012.

Over a third of M&A deals targeting French companies come from abroad. European and American investors are the main partners of France with respectively 57% and 25% of the projects coming from these areas[1].

A good part of our clients comes from these regions of the world, we recently advised several US headquartered life sciences corporations on their investments in French innovating and promising companies as well as a UK leader in the business services industry, on its acquisition of a French group underperforming business unit.

France is managing to restore confidence in its market with privileged partners whereas eastern European countries' development is slowing down after a high growth period.

The country is emerging from recession and its FDI performances reflect its ambition to stand again as one of the most attractive places in the world for foreign investors. Several measures were implemented in order to meet international investors' major expectations to reduce the burden of taxation and to lower the labor costs.

## STRIVING FOR COMPETITIVENESS

Even though French regulations on foreign direct investments are slightly less open since the former Minister of Economic Affairs published a decree expanding the government's powers to block takeover deals in strategic sectors, they are still less restrictive than average among the main industrialized nations, according to rankings by the OECD[2].

The new business-oriented approach portrayed by the recently appointed Economy Minister and former Rothschild banker, Emmanuel Macron, should stand the test of time and attract an increasing number of foreign investors.

France has secured and reinforced its number one ranking in Europe as a destination for manufacturing plants[3]. Incidentally, foreign investors consider utilities, energy and transports as the most attractive sectors in France. French groups such as Alcatel-Lucent, Safran, Thales, Saint-Gobain and Valeo are indeed listed among the 2013 Thompson Reuters Top 100 Global Innovators.

The recent acquisition by GE of the energy branch of Alstom for 12.5 Billion Euros shows that France holds very attractive assets that American groups are willing to operate hand-in-hand with French entities. The two leader companies will team up in three joint ventures that will make turbines for politically sensitive projects like nuclear power plants as well as provide service for electrical grids in France and beyond.

American firms are not only seeking to acquire performing companies with technological assets and talented workforce, but they are also attracted by certain tax schemes implemented by former governments reforms, such as the exemption of the most part of capital gains realized by companies subject to corporate income tax in France.

## GOVERNMENTAL INCENTIVES

Additionally, our clients often underline that one of the reasons why France remains attractive is its predominance in the technology area. This preponderance is fostered by encouraging governmental policies for innovation such as the R&D tax credit that allows companies to save up to 30% of the corporate income tax related to R&D expenses up to € 100 Million per year.

The French government strives to develop R&D on our territory and to promote the skills of our qualified researchers such that we are now the most attractive European country as to corporate taxation related to R&D (taking into account the tax base, depreciation rules, exonerations and tax credits). The result of such efforts is that France ranked number six in the world in terms of costs of a researcher after tax incentives in 2013, better than in the United States, Japan and Germany[4].

France holds major intellectual property assets such as patents that are efficient and sought-after vectors of development. According to the French governmental organization "Invest in France", 18 % of the jobs in France are in high-growth innovative companies and our capacity to innovate is a differentiating factor that is directly related to the highly skilled and productive workforce. For instance, Altana advised this year BioAlliance Pharma, a French biotechnological company specialized in oncology products, listed on Euronext on its merger with a Danish competitor listed on the NASDAQ in Copenhagen; this deal illustrates the appetite of investors for biotechnological and pharmaceuticals sectors, which are thriving in France.

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The National Pact for Growth, Competitiveness and Employment introduced at the end of 2012 is another governmental initiative that was launched in order to boost French competitiveness and to revert the delocalization trend of the late 1990's and 2000's. It entails a 42 Billion Euros investment program aimed at enhancing innovation through innovation clusters, specific equity lines and credit facilities offered by the French sovereign fund headed by the National Bank for Investments (BPI).

One of its key measures is the tax credit for competitiveness and employment. This incentive to hire employees allows companies to benefit from a 6% tax credit on lower wages. The tax credit had a very positive impact in the past two years on the stabilization of labor costs and France is consequently on its way to reach the same hourly rate of employment cost as Germany, according to Eurostat.

## ADAPTING TO GLOBAL BUSINESS

One of the reasons for France's attractiveness also relates to the fact that it harbors major brands, notably in the fashion and cosmetics industries, such as Louis Vuitton, Chanel and L'Oréal. French companies in such areas are attractive for FDI because of their high-end reputation all over the world as well as for the diversity and comprehensiveness of the skills of their labor forces.

Our American clients noticed the possibility to develop synergies and they are again active on the French market. Whereas our image was deteriorating in the past decade, France nowadays stands at the tenth step worldwide in the FDI Confidence Index 2014 realized by A.T. Kearney[5]. 54% of investors anticipate that Europe's attractiveness will improve in the next three years and 85% of them revealed that they did not plan to relocate their operations from Europe to another region in 2014 against 74% in 2007.

The leisure and entertainment industry is another example of France's ability to attract. The show of our client, the Moulin Rouge is sold out every day! And the recent take-over offer for the holiday group Club Med led by the Chinese conglomerate Fosun International that valued the French group at 1.08 Billion USD demonstrates that France is diversifying both on the geographical origin of inwards investments and on the sectors it is promoting.

With a growing number of projects from companies based in the BRICS (Brazil, Russia, India, China, and South Africa), we consider such investments as major opportunities to grow and are expecting to soon to have actors of these countries as key players of our economy. We, at Altana, are also currently working with South African and Chinese clients on acquisitions of French assets. As a full service firm, we are able to accompany clients from emerging countries in their strategies to adapt to a new market and a different culture.

The General Manager of the French branch of Bank of China declared: "France is a key market for companies that are seeking to develop in Europe. Moreover, France is a preferred destination for investments thanks to the greater openness of its financial markets as well as the quality of infrastructures and education.[6]"

## ABOUT

Jean-Nicolas Soret, a partner at Altana, a full-service law firm based in Paris, France, specializes in mergers and acquisitions with a particular focus on cross-border transactions, joint venture, group reorganizations and carve outs.

Altana covers public and private M&A, private equity, restructuring, employment, antitrust, real estate, environment, litigation and arbitration. Altana represents clients from all over the globe, including from the United States, Canada, Japan, Korea, China, South Africa and of course Europe.

Altana is a member of the American Chamber of Commerce in France and of Invest in France.

1 2014 EY Barometer for Attractiveness of France

2 2013 FDI regulatory restrictiveness index by country, OECD Data

3 2014 EY Barometer for Attractiveness of France

4 www.investinfrance.org

5 Invest in France – Livre blanc de l'attractivité de la France, 2014

6 "They chose France" on www.investinfrance.org