

1999 Country Reports on Economic Policy and Trade Practices

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FRANCE

Key Economic Indicators 1/

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 (est)
<i>Income, Production and Employment:</i>			
Nominal GDP	1,409	1,449	1,449
Real GDP Growth	2.0	3.4	2.7
GDP by Sector (previous year prices): 2/	1,264	1,283	N/A
Agriculture	42	43	N/A
Manufacturing	271	277	N/A
Services	635	647	N/A
Government and Non-Profit Services	257	258	N/A
Per Capita GDP (US\$)	24,043	24,873	24,770
Labor Force (thousands)	25,642	25,915	25,995
Unemployment Rate (average)	12.5	11.8	11.2
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M3) 3/	1.7	1.2	5.8
Consumer Price Inflation (average)	1.2	0.7	0.6
Exchange Rate (FF/US\$ annual average)	5.8	5.9	6.1
<i>Balance of Payments and Trade:</i>			
Total Exports FOB 4/	290	304	293
Exports to U.S. 4/	19	22	21
Total Imports CIF 4/	271	288	282
Imports from U.S. 4/	23	25	24
Trade Balance CIF/FOB	19	16	11
Balance with U.S. 4/	-4	-3	-2
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	3.0	2.9	2.3
Current Account 5/	39	40	35
Current Account Surplus/GDP (pct)	2.8	2.8	2.4
Debt Service Payments (pct of GDP)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves 6/	57	69	71
Aid from U.S.	N/A	N/A	N/A

Aid from All Other Sources

N/A

N/A

N/A

N/A= non available/non applicable

1/ Embassy estimates based on published French government data unless otherwise indicated.

2/ GDP excludes value added tax and other taxes.

3/ 1999 figure reflects M3 as of August.

4/ 1999 estimate based on eight months.

5/ 1999 estimate based on eight months.

6/ 1999 figure reflects reserves as of October.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual gross domestic product about one-fifth that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the eighth largest trading partner of the United States and the third largest in Europe (after Germany and the United Kingdom). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 11.0 percent to \$17.7 billion in 1998, while merchandise imports from France grew 16.3 percent to \$24.0 billion, again according to Commerce Department data. This resulted in a U.S. merchandise trade deficit with France of about \$6 billion. French trade data shown in the table above account differently for re-exports and transshipments via neighboring European countries. They thus tell a different story: France believes that it had a trade deficit of about \$3 billion with the U.S. in 1998. Trade in services is expanding rapidly. In 1998, it added about \$2 billion more to the total volume of trade between the U.S. and France. The U.S. and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

The annual real GDP growth rate in 1999 should be about 2.7 percent, following 3.4 percent in 1998 and 2.0 percent in 1997. The main reason for a slowdown in late 1998 and early 1999 was the impact of the Asian and Russian financial crises. Resilient domestic consumption and investment have, however, limited this impact. Growth in the second half of 1999 is strengthening significantly. Most economists expect annual growth in 2000 to return to the 3.0 percent level. Growth has also permitted a reduction in the unemployment rate (from a high of 12.6 percent in June 1997 to 11.1 percent by September 1999) and a continued reduction in the general government budget deficit as a share of GDP to 2.3 percent in 1999.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued tax and government spending reduction, increasing the flexibility of labor markets, and further deregulation of goods and services sectors.

With exports and imports of goods and services each accounting for about 25 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors in France.

2. Exchange Rate Policies

France adopted the euro currency as of January 1, 1999. Responsibility for exchange rate policy is shared between national finance ministries and the European Central Bank.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. Yet the government remains deeply involved in the functioning of the economy through national and local budgets, remaining state holdings of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business -- particularly payroll and social security taxes -- state action does not discriminate against foreign firms or investments. There are very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. A member of the group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, European Union agreements and practices determine France's trade policies. These policies include preferential trade agreements with many countries.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., ostrich, emu and alligator); and live crawfish unless authorized by special

derogation. Current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

France established a new national policy toward Genetically Modified Organisms (GMOs) in 1998 that has restricted imports and production of certain types of GMO products.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. Continuation and growth of a strong French A/V sector is a government priority.

Government efforts to balance the national social security health care budget continue to target (via price/volume agreements, reduced reimbursement rates, taxes, and slow approvals) products brought to the market by research-based pharmaceutical firms and health equipment firms. The U.S. health equipment and research-based pharmaceutical industries continue to press the French Government for more transparency in government regulation.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. The French Government has increased its export promotion efforts, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. There are virtually no direct French government subsidies to agricultural production. France strongly supports continued EU export subsidies. The government offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In addition, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. The Right of Association: The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

b. The Right to Organize and Bargain Collectively: The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. Prohibition of Forced or Compulsory Labor: French law prohibits antiunion discrimination and forced or compulsory labor.

d. Minimum Age for Employment of Children: With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. Acceptable Conditions of Work: The current minimum wage is FF 40.72 per hour (about \$6.67). Legislation lowering the legal work week from 39 to 35 hours was passed in 1998. A second law on overtime and other details should be adopted by Parliament before the end of 1999. The reduced work week takes legal effect starting in 2000. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. Rights in Sectors with U.S. Investment: Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category	Amount
Petroleum	1,162
Total Manufacturing	18,974
Food & Kindred Products	3,615
Chemicals & Allied Products	4,227
Primary & Fabricated Metals	4,034
Industrial Machinery and Equipment	2,358
Electric & Electronic Equipment	974
Transportation Equipment	676
Other Manufacturing	3,089
Wholesale Trade	2,587
Banking	2,388
Finance/Insurance/Real Estate	7,778
Services	4,570
Other Industries	1,729
TOTAL ALL INDUSTRIES	39,188

Source: U.S. Department of Commerce, Bureau of Economic Analysis.