Business Locations in FRANCE

FINANCIAL TIMES **SPECIAL REPORT** | Friday December 3 2010

Inside
Lyon, a city with excellent transport links, is proving to be a big draw
Page 3

www.ft.com/france-2010 | twitter.com/ftreports

Alluring market, attractive resource

Ross Tieman suggests investors should not take too much notice of the occasional outbreak of strikes

After an autumn of headlines about protests in France, it would be easy to guffaw at the idea of building a business there. Yet a striker strikes for a few days, while working and consuming for a lifetime.

For any company with ambitions of a global presence, 62.8m prosperous, skilled and evidently energetic people are both an alluring market and an attractive resource. They will remain so because, while populations in many European countries are expected to decline, immigration and an upsurge in the birth rate are expected to bless France with perhaps 10m more citizens by 2040.

David Appia, chairman and chief executive of the government agency Invest in France, says corporate investment decisions are based on a detailed assessment of long-term prospects. Most such decisions follow at least 18 months of study and evaluation of alternatives.

Locating a business in France is not about making a fast buck, but about earning euros for decades.

For more than two years now, uncertainty has clouded outlooks and perceptions. Corporate cash shortages and recession caused both foreign and French companies to rein back investment in continental Europe's second-largest economy. Talk of emerging Asia, European deficits and ageing European populations continues to blind many both to the enduring stability and prosperity of France and the pace and scale of incremental improvements in French competitiveness.

Anyone who changes planes at Lyon's Saint-Exupéry Airport on a midweek evening, takes a weekend break in Lille, or rummages through the hangers at Uniqlo's Paris store will appreciate that the French economy is very far from terminal decline.

Business leaders, whose investments are driving these changes, are helping reshape an economy in which liberalisation driven from Brussels, and more recently the president's Elysée palace, has opened the doors to real improvements in competitiveness.

High street banks, fined a total of €385m in September for fixing the price of cheque handling, can attest to that.

Clearly, much remains to be done. But far from writing off France as a business location, many companies now seem to be giving it more serious consideration. Denis Terson, chief executive of the agency charged with bringing inward investments to Paris and the Ile de France, says: "We will have a good year despite the economic crisis."

Jacques de Chilly, head of the corresponding agency for Lyon, reports solid interest, for the first time in years, from foreign investors minded to locate substantial projects in the Rhône Valley. "Manufacturing in eastern Europe for customers in Germany and France is not a given," says Mr de Chilly.

'Manufacturing in eastern Europe for customers in Germany and France is not a given'

Germany's resurgent manufacturers have reminded bosses that being close to customers, and suppliers and subcontractors – the clustering effect – can deliver real benefits. "I think if France returns to economic growth of 2 per cent, we will start to see renewed investment in manufacturing capacity here," Mr de Chilly says.

Blessed now with strong liquidity, many companies are applying fresh thinking to their location decisions. Luc Doublet, the boss of a family event services company who chairs the Agence pour la Promotion Internationale de Lille Metropole (APIM), recounts that: "One executive told me his company had identified Lille as its preferred location because it offered the lowest carbon footprint in Europe."

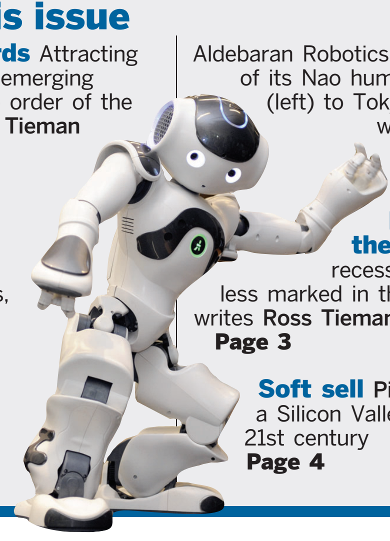
Marc Lhermitte, chief of Ernst & Young's International Location Advisory Services, says some European companies that had previously considered Asian locations now see near-shoring an hour's flight from head office as a more interesting option.

Many businesses across Europe in both services and manufacturing are engaging in a deep review of ways to optimise their locations and operations, says Mr Lhermitte. In financial services, IT and consultancy, many have scattered back office operations, often in national centres, and see opportunities to enhance efficiency and reduce costs by consolidating and perhaps outsourcing some of these operations.

There seems little reason to believe that a drift of some footloose western European jobs eastward is about to halt. Yet recent reforms are being successful in drawing investments

Continued on Page 2

Inside this issue



In the bag: shoppers in Uniqlo's flagship store near the Garnier opera house in Paris

Getty Images

Mixed message blurs country's image overseas

Inward investment

Attracting companies from emerging economies such as China and India is where priorities lie, writes **Ross Tieman**

"We haven't forgotten North American investors," insists the head of France's inward investment agency as he rattles off the list of emerging economies he visited this autumn.

But David Appia's most immediate mission is to overcome the tendency of companies from Brazil, Russia and above all China and India to choose Britain or Germany for their European home.

This matters, because in 2009 China emerged as Europe's third-largest source of inward investment job creation, accounting for 7 per cent of the 124,923 jobs created or safeguarded on the continent by foreign direct investment (FDI).

India, though in eighth place with a 3 per cent job creation share, now matches Japan as a source of inward investment into Europe, according to Ernst & Young's 2010 European Attractiveness survey.

The study shows that the US, traditionally Europe's largest foreign investor, still provided 19 per cent of FDI in Europe, followed by Germany, with 17 per cent. But as Bric companies build a global presence, the pan-European contest for their investment yuan and rupees has become intense.

France, which has long ranked as Europe's second most successful inward investment destination after the UK, scored some successes with globalising emerging market companies.

Chinese telecoms group ZTE Corporation chose Paris for its European headquarters, while Huawei, which counts France Telecom as a big customer, is developing a substantial research and development centre. Indian consulting and information technology companies Infosys and Wipro are also building a presence.

But in a world where the battle for FDI investment is becoming ever more intense, Mr Appia, and his rivals, are also prospecting energetically in Turkey and the Arabian Gulf.

In 2009, France achieved the remarkable feat of attracting 529 inward investment projects, marginally up on 2008, even as numbers were falling elsewhere. Overall, jobs created by FDI in France rose 2 per cent, to 13,298, according to E&Y data.

"France has remained attractive for structural reasons," says Mr Appia. "We have the market and the location, we have an excellent infrastructure and we have a highly-qualified workforce that investors rate."

In terms of brand image, he has little doubt about France's strengths. "We asked Bric investors to talk about their decision to locate in France, and two-thirds talked about innovation and research, and about education and qualifications," he says.

But E&Y data, used by Mr Appia and his team, shows that while FDI in industry, logistics and research and development (R&D) held up well, service sector investment declined. It also showed that while the number of FDI projects into France has stagnated since 2005, projects established in Germany have more than doubled, to reach 418 in 2009.

Marc Lhermitte, the chief of E&Y's International Location Advisory Services, says: "Germany is doing everything right to capture the nice investments from China, but the French 'message' is often clouded and doesn't get through." Germany has a clear image as an engineering, technology and export champion. But is France a lifestyle, cultural, luxury, aerospace, science or education leader? A mixed economy makes for a blurred image.

'We have the market, the location . . . an excellent infrastructure and we have a highly qualified workforce that investors rate'

David Appia

That problem may have been compounded by headlines worldwide this autumn about strikes and protests as the government pushed through a phased increase in the minimum retirement age from 60 to 62, and raised the age of qualification for full retirement benefits from 65 to 67.

Yet, conversely, investors may see the determination of the government to maintain the pace of reform, emphasised in this autumn's cabinet reshuffle, as a positive. Mr Lhermitte says both France and Germany are dogged by historic investor perceptions, including that their labour laws are complex, and that it is difficult to close operations if they do not thrive.

But the reality, he says, is that the French private sector has one of the lowest rates of time lost to strikes in the world.

And like Mr Appia, he argues that the energetic economic reform programme carried through since 2007 by the government of Nicolas Sarkozy has done a lot to improve France's attractions for companies.

One of the biggest pulls, now widely recognised by inward investors, is France's 50 per cent tax credit for R&D. In this respect, "opinions and perceptions of deciders are that France is in the top three in Europe and is seriously attractive", says Mr Lhermitte. The simplicity of the French R&D tax credit, which costs the Treasury €4bn a year, and benefits 11,000 companies, is a strong pull.

Good infrastructure and location has made it a logistics leader, while reform of the Taxe Professionelle, a local business tax, has reduced fiscal burdens on manufacturing. But one of the strongest trends, says Mr Lhermitte, is a move by international companies to overhaul and centralise back office operations, often in shared service centres. No matter how skilled and productive French office staff, France will be hard pressed to beat countries in central and eastern Europe to attract jobs such as these.

Alluring market, attractive resource

Continued from Page 1

in research and development centres to France.

State-sponsored competitiveness clusters, and tax credits for research and development, are among measures helping to make France a hotspot for research and innovation. Microsoft and Google have chosen to set up in Paris.

There is, after all, strong infrastructure to underpin companies that make Paris the centre of their European operations. Thanks in part to the successful globalisation of former national champions, the French capital hosts the headquarters of more Fortune 500 companies than any city except Tokyo, leaving London and New York on the sidelines.

The emergence of Chinese and Indian companies with global ambitions has created vigorous competition from French development agencies to persuade them to choose France for their European headquarters.

They are helped by the fact that France emerged from the economic crisis with an enhanced reputation for sound economic management and financial regulation. In the depths of the crisis, the government of president Nicolas Sarkozy moved fast to stimulate the economy and lend extra cash to banks. The banks quickly repaid the money, and none failed.

But stimulus pushed up state debt: this year's deficit is expected to approach 8 per cent of gross domestic product. Christine Lagarde, economy minister, aims to reduce that to 6 per cent in 2011, and get back within EU guidelines of 3 per cent in 2013.

A slow squeeze on government spending is preferred to shock treatment. This autumn's strikes over legislation that raised the state retirement age from 60 to 62, and the age for drawing a full state pension from 65 to 67, were a forward-looking move to pare a slow-burn problem common to most European countries, not an emergency measure.

Its recession was shallower than its neighbours', and Mrs Lagarde expects GDP growth of at least 1.5 per cent this year, and 2 per cent next, rising to 2.5 per cent in 2012.

Habitual savers, French households have none of the debt overhang of their British peers. Consumer spending held up well through the recession, and is showing signs of growth. Tourist spending adds to retail demand. Paris is the world's most-visited destination, and outstanding transport infrastructure, bolstered by the emergence of British low-cost carrier EasyJet as France's second airline, has made visiting the country and travelling around it, more affordable.

Chris Igwe, head of retail at CB Richard Ellis France, property agents, says he has never seen such strong interest from international retailers in setting up in France. Globally, he says "there is a flight to safety".

Barriers to acquiring French retail sites have been reduced, as landlords have become more flexible, and made financial concessions. In the regions, too, mayors are making city centre locations more attractive, introducing cycle lanes and investing in tramways.

No one would claim France has become an investment nirvana. Change creates uncertainty. Some reforms legislated in the past three years are still being implemented. Others are yet to come, including a review of tax, promised for 2011. And there are sure to be more controversial suggestions about cutting government debt and overhauling public administration from a policy review committee chaired by Jacques Attali, the provocative economist.

So, would-be investors would do well to keep two things in mind. The fundamental attraction of investing in France is strengthening, but the process of reform will continue to create bumps in the years ahead.

Japanese store begins to make its mark in the City of Light

Uniqlo

The fashion retailer plans to open five to 10 more stores in the capital, writes **Pierre Tran**

For Nobuo Domae, chairman and chief executive of Uniqlo France, the fashion retailer, being in Paris was a must. The only questions were where, and how much it would cost.

Fast Retailing, the Japanese company that owns the sought-after Uniqlo brand, had set its corporate sights on international growth to meet its target of quadrupling annual sales to Y5,000bn (€44bn, $59bn) by 2020.

As Uniqlo already had stores in London and New York, it was both natural and necessary to open in Paris. "It was very important to have a presence in the centre of fashion," Mr Domae says.

The brief was to find a nice location, not far from the centre and not too expensive. The rent was a critical factor, as it would weigh heavily on the sales needed to make the business viable.

The property search roamed equally over the Left and Right Banks, including the Champs Elysées, Rue de Rivoli, Rue de Rennes and other streets with a strong retailing concentration.

The outcome was a flagship store in a commercial property on Rue Scribe, near the Place de l'Opéra, one of the smartest addresses in the capital.

'It was very important to have a presence in the centre of fashion'

Nobuo Domae

Proximity to Boulevard Haussmann, home of the flagship department stores Printemps and Galerie Lafayette, and an eye-catching site help attract shoppers.

Young Parisians, eager to be among the first in this clothes-conscious capital to browse the hangers, queued on the pavements on the opening day a year ago.

For the first two weeks, managers had to limit numbers entering the store for safety reasons, says Mr Domae.

The French investment has been a great success for the Japanese retailer.

Sales at the store beat expectations and Uniqlo is now looking to open five to 10 more shops in Paris, as soon as possible, exciting property market professionals. The search for premises includes space in shopping centres.

Mr Domae says that the rent at the Opéra store is "expensive", but declines to provide details. Rents in good locations in London, Paris and New York remain expensive, even after the financial crisis, he says.

But Lizzy Rimington, a marketing consultant, says Uniqlo pays €3m a year in rent for the three floors in the building. The gross area of the Uniqlo store is 2,700 square metres but the actual shop floor area is about 1,500 sq m. "They really did get a good deal."

Prime shop space is typically €3,500-€5,000 a square metre in the Opéra area. The location is a good one, with arrivals such as Apple, Nespresso and Uniqlo making the area attractive for investors, Ms Rimington says.

In the fashion sector, Ralph Lauren recently opened a store on the boulevard St Germain, while H&M took a shop on the Champs Elysées.

The H&M transaction took about three years to sign, reflecting the long bureaucratic delays in agreeing property deals in the capital.

The Champs Elysées has seen its star status decline, with the avenue falling to sixth place after holding the top position as the world's most expensive shopping district.

Rents on the Champs are about €8,000-€9,000 a square metre, followed by the Faubourg St Honoré at €6,000-€7,500 and avenue Montaigne at €6,000-€7,000, Ms Rimington says.

Opening a new store in a foreign city takes about two years, and Paris was no exception, says Mr Domae, who also helped Uniqlo open in Manhattan four years ago.

"People in France are very keen on product quality and price," says Mr Domae. "That is good for us, because we focus on quality and very low price."

Most business comes from French shoppers rather than Japanese tourists, he says.

The Uniqlo label is often positioned alongside Gap as a young, affordable look. Its Japanese designers study the season's trends but focus heavily on quality too, rather than simply copying trends, he says.

And its marketing can be original.

During Paris fashion week in October, Uniqlo staged a contemporary dance show instead of the more conventional cake-walk display of angular models. The dance numbers were intended to show the clothes "supporting the characters of the dancers," Mr Domae says.

As part of that effort to be different, Uniqlo wants to be seen as a local company, rather than as a Japanese brand in France.

When managers interview job applicants for the Opéra store, they are looking for the next generation of store managers in Europe, Mr Domae says. That drive to be local is in line with the need to be global if growth targets are to be met.

Today, sales outside Japan are 10-20 per cent of total revenues and domestic business 80 per cent, he says. The aim is to reverse that ratio by 2020.

Of projected global sales, half are expected to come from China and Asia, a quarter from the US and a quarter from Europe. In Europe, stores are scheduled to open in cities including Barcelona, Madrid, Berlin, Hamburg, Düsseldorf, Rome and Milan.

For Uniqlo, success in London and Paris is a stepping stone to other European capitals.

Open spaces: about 3.6m sq m of offices were available in Ile de France at the end of the first half this year Dreamstime

Relocation trend lifts the spirits in buoyant sector

Property market

Businesses looking to reduce their costs by moving headquarters have plenty of choice, says **Ross Tieman**

After two years of recession, office and distribution property markets in France are showing signs of recovery – driven by a renewed search for cost-savings among occupiers.

With improved liquidity available, big companies are investing in long-term cost-reduction projects, increasing the volume of outsourcing to distribution specialists, or relocating staff to fewer, but more efficient offices.

The uptick is especially noticeable in logistics, where volumes and rents had declined markedly in Paris. "After two very difficult years, 2010 looks likely to be a good vintage for the Paris distribution market," says Didier Malherbe, deputy managing director of CB Richard Ellis France.

"Big logistics companies are seeking economies of scale on state-of-the art multi-client parks, and are able to achieve lower rents by doing so."

A subdued recovery in office lettings is also under way in the Ile de France region, including Paris. Analysis of trends over the past 24 years by Jones Lang LaSalle identifies three clear cycles in Ile de France office space lettings, each lasting seven to nine years.

According to the company's October review, demand for office space peaked at almost 3m square metres in 2006, fell back to a trough of less than 2m sq m in 2008, and should now be beginning a cyclical upswing.

But because of the depth of the recent downturn, and the fact that many tenants have renegotiated leases signed at the top of the cycle, the recovery could drag slowly as far out as 2013-2014, the JLL cautions.

There seems to be plenty of supply. JLL estimates that 3.6m sq m of offices were available in Ile de France at the end of the first half this year. But many of them are pretty old. The stock of quality modern space available is still shrinking. CB Richard Ellis sees a similar uptick in lettings. The firm calculates that 1.04m sq m of offices were let in the Paris region in the first half of this year, a 16 per cent increase on the same months of 2009.

One notable driving force, it says, is consolidation of activities by companies in fewer, better-equipped buildings. Faced with rock-bottom interest rates, investor interest in buying property has also quickened. CBRE noted investments of €2.1bn in Ile de France commercial property during the second quarter, up from €1.5bn in the first quarter, making a 34 per cent rise over the first half of 2009.

Nationwide, offices took 62 per cent of investment, largely in the Paris region, but retail achieved a 31 per cent share, its highest level ever.

Because many consumers shied away from borrowing during the past decade, maintaining their traditional savings habits, retail sales merely stagnated during the recession, rather than falling.

But intensified competition for the euros of cautious spenders, including from online retailers, has encouraged chain stores to sharpen their search for the best sites. Scattered across the country are 702 retail parks totalling 14.5m sq m.

'Faced with rock-bottom interest rates, investor interest in buying property has also quickened'

Yet their volume per 1,000 inhabitants is only 260 sq m, ahead of Germany, but far behind European leaders such as Sweden, Ireland, the Netherlands and the UK.

Many experts argue that France remains a relatively attractive retail market.

Demand for logistics space, which also grew rapidly in the boom years, is driven by a related, but different trend. As competition between stores intensifies, many retailers have been restructuring their supply chains in search of efficiency gains that can alleviate pressure on retail margins.

Traditionally, Ile de France, with its 10m consumers, accounts for more than 40 per cent of the market. During 2008 and 2009, its share halved, as activity stagnated and the deals moved to the provinces.

Not only has the focus now shifted back to the Paris region, says Mr Malherbe, but take-up this year is likely to gently exceed the 650,000 sq m recorded in 2009.

Some of the activity this year has been focused in the Rhône valley around Lyon. Amazon.fr signed 36,000 sq m at Montélimar in one of the biggest new lettings and a handful of deals were achieved in Lille.

Headline logistics rentals in Ile de France during July were in the range €46-€52 sq m, CBRE reckons. That compares with €43-€45 in the Rhône corridor, and €39.50-€45 in the greater north.

With national output still below its 2007 peak and consumers cautious, there is ample office, retail and logistics space available. But, as businesses consolidate in the most modern premises, the quality available to latecomers is tending to decline.

Contributors

Ross Tieman
Pierre Tran
FT Contributors

Martin Brice
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

Capital forges a bond with new horizons

Global investing

Pierre Tran on moves to boost the image of Paris as a post-crisis finance centre of excellence

Paris Europlace, the financial services association, has sent proposals to Islamic scholars setting out plans for issuance of Islamic bonds, as part of efforts to enhance the attractiveness of Paris as an investment centre.

The proposals, a senior financial executive says, follow recommendations made in 2008 by the regulator, Autorité des Marchés Financiers (AMF), on the listing of Islamic bonds under a *sukuk* structure and in conformity with French law, as part of plans to offer instruments compliant with sharia law.

"The adaptation of our regulation for *sukuk* issuance has been finalised and we are in the process of providing the market with a readily available French *sukuk* structure," says Arnaud de Bresson, chief executive of Paris Europlace.

"We think it will be ready before the end of the year," he says.

The members of Paris Europlace include banks, brokers, corporate issuers, insurers, pension funds and asset managers.

Two years of careful preparation have gone into bringing the product proposals to this stage of scrutiny by Islamic scholars.

If approved and adopted, the new bonds will join the Islamic mutual funds that have already been cleared by the AMF for distribution.

These investment vehicles are part of efforts by members of Europlace to bring new financial instruments to the market and enhance its attractiveness as a world financial centre in the post-crisis era.

To surf the wave in sustainable development and help raise money for "green" business, the Europlace community is setting up funds for socially responsible investment, microcredit and environmental finance.

Paris-based Bluenext is already a leading carbon trading platform.

"These are new promising developments," Mr de Bresson says. In response to what he calls the diversification of market appetite, work has gone into building up the corporate bond market.

One of the effects of the financial crisis has been for greater management of risk, which has led to more market diversification.

This has prompted a pick-up of interest in corporate bond issues, which have offset the "slight decrease in financing through bank loans", Mr de Bresson says.

Paris holds a 35 per cent share of the European corporate bond primary market, helped by a strong development of corporate issues since the beginning of the crisis.

The regulator has simplified the listing requirements, helping speed up the process for companies issuing bonds.

A market users' committee, called Cassiopée, has suggested a new business model for the secondary market, which calls for greater transparency and

> 'Project finance is another area in which Paris has brought its resources to bear'

efficiency among brokers, issuers and investors, Mr de Bresson says.

"New trading platforms will be implemented before the end of March 2011," he says.

As a result, 40 per cent of the corporate bond issuance has returned to Paris, he reckons. Project finance is another area in which the Paris community has brought its resources to bear.

The financial crisis inevitably led to a decline in bank lending, forcing companies to find new sources of funding to compete in export markets.

Under public-private partnerships (PPPs), industrial companies are forming consortia with government, international agencies and banks to allow them to bid for large infrastructure contracts on a self-financed basis.

Thus French groups are drawing on PPP instruments to compete for big transport projects in the Gulf, railway construction in China, and roads, energy and water projects in emerging economies.

These initiatives stem from a package of recommendations drafted by 12 high-level working groups formed in the wake of the turmoil that affected global markets in 2008.

The recommendations aimed to restore market liquidity, improve financing for small and medium-sized companies, design derivative instruments that draw on the lessons of the crisis, and boost bond markets and project finance.

For Europlace, Paris is obviously bolstered by the presence of large international banks, but also fund managers such as Invesco, Robeco and State Street, as well as sovereign wealth funds from Qatar and Abu Dhabi, whose offices here are seen as signs of investment interest.

Paris has, however, suffered recent hits.

In September, the competition authorities, applying European law, fined 11 high street banks an unprecedented €385m in total for fixing fees charged for handling cheques for retail customers among themselves.

French finance clearly faces rigorous competition in the post-crisis era. But having avoided the worst excesses seen in the US, UK and Germany, its enhanced reputation is a good basis for the years ahead.

Growth picks up but trails Germany's

Economy

All is not gloom, as reforms show signs of working, writes **Ross Tieman**

The contrast between export-led Germany and laggard France has rarely seemed starker.

During the second quarter of this year, Germany's economy expanded by 2.3 per cent, its best performance in two decades, an annualised 8 per cent.

French second quarter growth, at 0.7 per cent, picked up too, but continued to trail its neighbour. The cause of Parisian cheers appeared to be not export growth, but a recovery in investment after two years of declines, and a bigger-than-expected rise in household consumption.

The pace slackened on both sides of the Rhine during the second half, with third-quarter growth of 0.7 per cent in Germany and 0.4 per cent in France.

But the relative underperformance of France reflects a trend, not a one-off. Throughout the first three quarters of 2010 German GDP growth was more than double that of France.

While Germany now expects GDP growth of 3.7 per cent this year, Christine Lagarde, France's much-admired economy minister, has maintained official predictions of 1.5 per cent GDP growth for France for 2010. She expects 2 per cent growth next year, rising to 2.5 per cent in 2012.

If she is right, the French economy will return to its historic growth track, yet fail to achieve the kind of surge needed to mop up many jobless youngsters at a time when German bosses are talking about the need for more immigration to counter labour shortages.

Many would argue that is because France has an over-centralised, government-dominated economy in which private business takes second place. That thesis is simplistic.

In truth, the French economy is notable for its diversity. Its strength is in industries ranging from aerospace and engineering to automotive, food products, and luxury goods.

But what France lacks is Germany's *Mittelstand* of midsized companies tightly drawn into a local supply chain with global markets.

Historically, some French companies grew big by being state-owned and/or monopolistic, or by buying each other.

Alternatively, many stayed small to avoid complexity introduced by employment regulations that suddenly became much more demanding when they hired more than 49 people.

The creation of the European single market, though incomplete, has increased competitive pressures within the French economy.

As elsewhere, many one-time national champions have been sold, part-privatised, or lost their monopolies.

Even quasi-bureaucracies such as the Banque Postale and France Telecom, which still employ many staff on public-sector contracts, display increasing commercial acumen, though they struggle with customer relationships.

Yet, according to Doing Business 2010, an annual assessment of 183 economies compiled by the World Bank and the International Finance Corporation, operating a company in France can still be pretty challenging.

Overall, France remained in 31st place in the ranking, which identified Singapore as the most competitive business location, with the US in fourth place and the UK in fifth.

Doing Business says France now outperforms its overall ranking in starting a business, dealing with construction permits, trading across borders, and particularly enforcing contracts, where it ranks sixth worldwide. But for employing workers it gets a ranking of 155 and for registering property it ranks 159th. Does this matter?

The Doing Business assessment measures difficulty of hiring, rigidity of hours, difficulty of redundancy and redundancy costs. Essentially, it shows that French workers on open-ended contracts are well-protected and expensive or complicated to shed.

But the same study ranks Germany at 158th place. In reality, employers in both countries use short-term contracts to achieve workforce flexibility.

Though legislation

> 'Employers in [France and Germany] both use short-term contracts to achieve flexibility'

remains complex, the teeth of the 35-hour week were largely drawn in 2008, with a law that freed companies and employees to negotiate broadly on contractual terms. Reforms introduced during the past three years have centred on enhancing economic competitiveness and scaling back the role of a state that still spends 53 per cent of GDP.

In sum, the Doing Business report suggests reform in France has matched the pace elsewhere, but failed to exceed it. That judgment may be premature, however. The country's innovation clusters are only now getting into their stride. Educational institutions are still merging, still collecting the cheques won in competitive bids for funding new buildings.

Companies freed to compete more energetically have been battling two years of economic headwinds. But the downturn has been markedly less severe in France than elsewhere. Collectively, French consumers carry a lot of spare cash, not debt.

Germany's economic recovery may depend heavily on emerging-market customers. The proof of whether French reform has enhanced economic competitiveness will be seen in the pace of recovery once fearful consumers regain the confidence to spend.

Technology gives Paris an appetite for renewal

Business development

The arrival of Google and Microsoft has set a tone of optimism, writes **Pierre Tran**

As 2010 draws toward its close, the trend in inward investment suggests something of a recovery for Paris and the neighbouring area, says the head of the regional development agency.

"We will have a good year despite the economic crisis," says Denis Terson, chief executive of the Agence Regional de Developpement (ARD) for Paris and the Ile de France.

The lure of Paris will probably get a lift from the government's plan to develop the region around the capital under the Grand Paris programme.

New transport infrastructure is one of the main elements in the €20bn-€30bn project.

There is also a €5bn-€6bn plan to bring universities and research centres closer together, either moving them to the same site or hooking up the campuses with a high-speed computer network.

The note of quiet optimism is reinforced by moves from Google and Microsoft to set up research centres in Paris.

Apart from these titans of the IT world, companies from China, India, Japan and the US are also quietly registering plans to open offices or expand facilities in the Paris region. Indeed, about half the projects for inward investment booked with the ARD in the past couple of years have come from companies from faraway countries, Mr Terson says.

Last year saw a slight retreat, with 191 inward investment projects, compared with 208 in the previous year. Jobs created, however, remained stable, with 8,290 positions in 2009, compared with 8,300 in 2008.

The dip in 2009 reflected the ripple effects of the financial crisis as they spread to the global economy, muting enthusiasm among businesses for making foreign direct investments.

But in the high-technology domain, Paris is enjoying something of a winning streak.

Mr Terson points to a "renewal" in the sector, including innovative design, imagery and special effects. The Systematic and Cap Digital clusters, the former specialising in information and communications technology, the latter in digital content, have helped stir interest abroad.

Mr Terson says that during a visit to Tokyo in September he found Japanese company executives "very interested" in the high-tech business clusters, where French engineers have carved out a name for themselves for visual imagination and technical skills.

Indeed, as a Gallic equivalent of sending coals to Newcastle, Aldebaran Robotics, a French company, has sold 30 of its Nao humanoid robots to Tokyo University.

The highlights for this year surely lie with the announcements by Microsoft and Google of new facilities in Paris.

In October, Steve Ballmer, chief executive of Microsoft, said that Paris, alongside London and Munich, will be one of three centres of excellence in the company's European Search Technology Centre.

Eric Schmidt, Google chief executive, said in September that his company would open a French research and development centre, employing up to 50 engineers. Mr Schmidt also announced plans to set up a European cultural institute in the capital, with an investment estimated at "millions of dollars".

Such inflows, allied to a recovery in investment by French companies, support indications that property deals and pricing are firming up in the Paris region.

In the third quarter of the year,

> 'French engineers have carved out a name for themselves for visual imagination and technical skills'

1.64 sq m of business space was rented out, a 37 per cent increase over 1.21m sq m in the year earlier period, says Ludovic Delaisse, partner and head of office agency and development at Cushman & Wakefield, Paris.

The average rent paid in the third quarter was €760 sq m, up 10 per cent over the €700 a year earlier. An increase in big transactions has helped pump up the property market. So far this year, 70 large deals of more than 4,000 sq m have completed, compared with 46 in 2009.

Developers, meanwhile, are offering incentives to attract tenants. For example, a property company might offer an annual 1.5 months rent free in the lease. So the discount between the headline rent and the net effective rent is about 15 per cent.

But banks are still wary of lending to developers. Given the two to three years needed to construct buildings, there will be a dearth of prime new office space for the next couple of years, Mr Delaisse says.

Developers are also testing the willingness of Parisians to carry on spending. Two large shopping centres are coming to the market, says Lizzy Rimington, a marketing consultant.

Developers Icade and Ségécé are opening in a joint venture the 56,000 sq m Le Millénaire centre in April 2011, just north of Paris. Altarea-Cogedim, a property company, is working on an 86,000 sq m development due to open in 2013 at Villeneuve la Garonne, north-west Paris.

The two projects will attract close attention among retailers and property professionals keen to see both the willingness of consumers to spend, and whether the developers have pitched the commercial terms at appropriate levels. Rent on the two projects will be about €1,000 sq m compared to the average €2,000 sq m at the Parly 2 shopping centre, west of Paris.

The financial crisis and recession that followed have clearly left their mark on the French capital. But the recession in Paris was less marked than in many other European cities, and the signs suggest a gradual and broad recovery in activity is being sustained.

Stepping forward: Alderbaran Robotics has sold 30 of its Nao humanoid robots to Tokyo University Getty Images

MORE ON FT.COM

Ross Tieman explains why peace, and a penchant for culture, are delivering dividends for Lille
www.ft.com/france-2010

Thriving business region that is answer to Rhineland

Lyon

Good transport and skills are a draw, says **Ross Tieman**

In the early-evening rush-hour Lyon's newly expanded Saint-Exupéry airport buzzes with tension.

Mid-market business travellers are racing between gates, as they switch from one domestic or European flight to another.

Thanks partly to British low-cost carrier EasyJet, which has built a network of 28 destinations from its Saint-Exupéry operational hub established two years ago, Lyon is at last realising its potential as a short-haul aviation staging-post.

It is an inward investment whose benefits are also transforming France's second city at the weekend.

"Since EasyJet arrived, Lyon has really taken off as a city-break destination," says Jacques de Chilly, chief executive of Aderly inward investment agency. "Our hotels used to be full midweek, but empty at the weekends. Now they're almost full all the time."

A great location in the Rhône valley, where it acts as a gateway between France and central and southern Europe, has underpinned Lyon's prosperity ever since the Romans marched in 2,000 years ago.

But in recent centuries, technology took over the relay, with hydroelectric power contributing to a regional heritage of chemicals, pharmaceuticals and manufacturing.

The city preserved its charms, however. Now classified as a Unesco world heritage site, it sustains a vibrant culture that extends from a renowned opera company to contemporary music and the kitchen of chef Paul Bocuse.

Lyon's high-speed train connections to Paris and Marseille, and location on France's main north-south motorway make it an attractive location for both business and pleasure-seekers.

Back-office operations for financial services and logistics are important contributors to France's second-largest regional economy.

Yet to think of Lyon as a city is to miss the point. With a population of 1.7m it is the heart of a business region that is France's answer to the Rhineland, and which, with 10,000 researchers, spends as much on innovation as Finland or Denmark.

So, some of the most interesting economic developments today are taking place around the confluence of the city's long-standing industries, its educational institutions and their 150,000 students, and its medical and clean-technology sectors.

In recent years Lyon's economic development planners have focused on attracting inward investors to reinforce the sectors where it has world-class clusters: in life sciences and clean technology.

Those efforts are beginning to yield interesting results.

In 2008, when uncertainty undermined investor confidence worldwide, Lyon attracted 69 foreign direct investment projects, averaging 24 jobs each.

'Lyon has taken off as a destination'

Jacques de Chilly

Last year, as investors remained wary, the city drew 56 projects although the number of jobs per project halved to an average of 12.

Nonetheless, 10 of the incoming companies were in the life-sciences sector, drawn not just by generous national tax credits for research and development, but by the opportunity to join innovation networks build around the city's university hospitals and companies such as Sanofi-Pasteur, Genzyme and Johnson & Johnson.

CTI-Lyon, a stem-cell research activity relocated from the UK, was one incomer; Prediction Science, a Canadian investment, was another.

But another 17 of the inward investments were in the environmental and clean-tech sectors. These included a French headquarters for Yingli Solar, China's second-largest solar energy company, and a research operation for Phoenix Solar of Germany.

Mr de Chilly of the inward investment agency says further projects are under way in these sectors in 2010.

Lyon, already home to many companies focused on green construction, such as Lafarge, a building materials company, and Photowatt, a photovoltaic specialist Technologies, is aiming to burnish its green credentials – and market – by making the city's 150ha Confluence redevelopment project a showcase for low-energy construction technologies.

Equally exciting for Mr de Chilly is recognition among some manufacturing companies that offshoring to central and eastern Europe, where wages have often risen rapidly, is not necessarily the panacea it seemed a few years ago.

In modern automated factories, he notes, labour costs may be only a tiny proportion of operating costs, and environmentally aware managers are becoming keener to reduce CO_2 emissions – and transport costs – by locating plants closer to customers in western Europe.

So since March this year he has seen a resurgence of FDI proposals from manufacturers keen to profit from Lyon's pool of skilled industrial workers and associated industrial infrastructure.

"We are currently talking to prospective investors about four or five such projects involving up to 150 employees each," he says. "We haven't had this kind of interest for at least five years."

Sinequa paves way for new Silicon Valley

Digital future

Pierre Tran charts the growth of a software company at the heart of a high-technology upturn

For Sinequa, a high-growth software company specialising in business search engines, a location in Paris gives access to the vigour of the business and science clusters that are growing up in and around the city of engineers.

Belonging to those "ecosystems" strengthens Sinequa not just in its business, but also in the credibility of its brand, says Jean Ferré, chief executive. "It's important to be recognised," says Mr Ferré. "It's like a red wine. If you say you are in the Médoc region, that gives you recognition."

So in digital technology circles. France's state-backed Systematic business cluster, centred on Saclay, is gaining international recognition for its strength in software and telecommunications.

The French government, regional authorities and economic development agencies support Systematic, which provides a collaborative network of small- and medium-sized companies, large corporates, research establishments and higher education institutes.

Another Paris technology/competitiveness cluster, Cap Digital, provides an innovation network for digital content and services across the Ile de France region.

Launched in 2004, France's Pôles de Competitivité form the backbone of a new kind of industrial policy, in which the state seeks to facilitate innovative collaboration in key sectors from aerospace to biotech, but leaves the market to pick the winners.

A recognition that such clusters are producing successful companies such as Sinequa has prompted the government to start preparing the ground for a "French Silicon Valley" in the Paris suburbs.

President Nicolas Sarkozy in September threw his political weight behind a science park to be created at Saclay in the south-western outskirts as part of the Grand Paris project to create a 21st-century eco-city.

Mr Sarkozy stressed the need for vital transport lines to link the greenfield campus to the capital 25km away.

Grand design: a computer-generated image of a science park to be created in Saclay, part of a project to create a 21st-century eco-city in Paris AFP

Being part of a cluster also gives access not only to potential partners, says Mr Ferré, but to a pool of talent and training. Yes, France prides itself on a centralised national education system that includes the grandes écoles, the elite universities, which turn out brilliant engineers among their highly qualified graduates.

But many of those proudly clutching engineering degrees used to head straight to the financial sector, often via Eurostar to London. French banks also recruit the mathematical talent needed to devise complex derivative products and work out trading strategies.

But, post-2008, financial institutions have shed some of their recruitment lustre and engineers are looking for other career openings.

Meanwhile, executives of all stripes are faced with the apparent paradox of an overload of information and yet simultaneously need access to accurate, relevant details that can help them plan and decide, prepare commercial offers and get a sharper picture of the business environment.

> 'Things are going very well. The next step for the company will be to reach $100m in revenues'
>
> **Jean Ferré, Chief executive of Sinequa**

This has given rise to demand for business search engines, powerful software tools designed to reach into the bowels of internal databases and external sources to find the precious information needed for that informed decision or proposal.

It is in this highly competitive field populated by heavyweights such as Oracle and SAP that Sinequa has carved itself a niche. The algorithms embedded in Sinequa's software use linguistic and semantic techniques to take into account the context of the text and data files buried in a company's IT system.

Sinequa has its roots in a research and development business named Cora. Renamed Sinequa in 2000 it had to rebuild itself in 2002, after the high-tech bubble burst. Mr Ferré joined the company to lead a management buy-out in 2005, paying €1.5m for the business, a sum then equal to its annual sales.

A third of the funding came from bank debt provided by HSBC. Sinequa repaid the bank debt and two years after the buy-out raised €4m in private equity to develop the business. La Poste and X Ange provided two-thirds, with Aurinvest the remaining third. Sales doubled in the second year and the company is now heading for annual sales of €10m, with underlying earnings growth of between 15-20 per cent.

"Things are going very well," Mr Ferré says. "The next step for the company will be to reach $100m in revenues". To do so, Sinequa will have to hire lots more of those engineers. Mr Ferré says its Paris staff has reached 35 this year, up from 15 in 2005, and he expects 25 per cent growth in staff next year and in each of the following two years.

This is the phase when building a business can become a different kind of challenge. Sinequa sells its software under licence and includes among its customers blue chips such as Crédit Agricole, EADS, Siemens, Saint-Gobain and the French Ministry of Defence.

And, like its clients, its market is international. Sinequa has an office in London and representatives in Germany, Italy and Spain. In the US, it uses both a marketing agency, Full Circle, in Philadelphia and reselling or partnership agreements with Adobe, EMC, IBM, Logica and Atos Origin.

French bosses still eye longingly the relative ease of obtaining development capital in the US. In France, Mr Ferré says, there are sources of funding to grow a company say from €5m to €10m of annual sales, but it is harder to obtain the capital needed to drive sales to €100m.

However, France's industrial competitiveness policy delivers. Generous tax credits for research are a valuable aid and incentive, Mr Ferré says.