Cour des comptes

10 YEARS OF PUBLIC POLICIES IN FAVOUR OF INDUSTRY: RESULTS THAT ARE STILL FRAGILE

Communication to the finance committee of the national Assembly

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Executive Summary

According to INSEE, "industry includes economic activities that combine production factors (facilities, supplies, labour, knowledge) to produce material goods for the market". This traditional definition equates industry with the production of tangible goods. Industry, as defined by the French and European statistical nomenclatures, includes the manufacturing industry sectors, as well as mining and quarrying (gravel pits, sand pits, etc.), the production and distribution of electricity, gas, steam and air conditioning, and the production and distribution of water, sewage, waste management and pollution control.

Public policies in favour of industry are characterised by a wide variety of objectives, direct and indirect effects and levers for action. They traditionally group together so-called horizontal policies, which act on the framework conditions for business activity (taxation, production costs, research and development, innovation, skills), and so-called vertical policies, which focus on specific sectors or companies. The design and implementation of industrial strategies to coordinate these different public policies is a major economic policy challenge.

Against other comparable major European countries, France experienced a faster rate of de-industrialisation (measured by the decline in the share of industrial value added in GDP) between 2000 and 2010. Following the Gallois report of 2012[1] and the realisation that France had fallen further behind its neighbours, France gradually changed its strategy. Cross- functional actions with macro-economic objectives to improve cost competitiveness (labour costs, taxation) and non-cost competitiveness (training - skills, research and development and innovation) have been strengthened, and then combined with sectoral support. These initiatives, which have taken a variety of forms, are showing contrasting results in 2024.

It is against this backdrop that the national Assembly has asked the Court of Accounts to carry out a review of ten years of public policy in favour of industry, taking stock of the strengths and weaknesses of French industry, analysing the objectives and resources mobilised for cross-cutting policies and the results obtained over the period 2013- 2023. Sectoral policies (defence, health) and instruments such as public procurement and the regulation of market access and prices are not examined in this report.

Deindustrialisation: a more marked trend in France than in other European countries

Two major crises have had a lasting impact on the level of industrial production over the period: the 2008-2009 crisis, with France only returning to its 2007 level in 2013, and the health crisis, with value added in industry exceeding its 2019 level in value terms by 2022, without returning to it in volume terms. Against this backdrop, the share of industrial value added in GDP has stabilised in France between 2011 and 2019 at around 14 %[2]. This rose to 15 % in 2023 as a result of the rebound in the energy sector. The share of manufacturing industry remains stable at 11 % of the economy's total value added, well below that of Germany (21 %) and Italy (17.5 %). Finally, the downward trend in industrial employment was reversed over the period from the end of 2017. Apart from a one-off fall in 2020, salaried employment in industry continues to rise, and by the end of 2021 had exceeded the level reached before the health crisis. The share of industrial employment, which stabilised at around 10 % of total employment

[1] *Pact for the Competitiveness of French Industry*, Report to the Prime Minister, 5 November 2012.

[2] 11 % for the manufacturing industry.

in 2023, remains significantly lower than in neighbouring countries (17 % in Italy and 18 % in Germany).

There are relatively few industrial companies, numbering 274,200 in 2021, or 7 % of all mainly non-agricultural and non-financial market sectors[3], and 8 % of legal units[4], as in 2012. On the other hand, they account for a larger proportion of salaried employment, 23 %, or 3.2 million full-time equivalent (FTE) employees, although this is falling slightly (25 % in 2012). Finally, given their capital intensity, they account for 28 % of the value added of the mainly non-agricultural and non-financial market sectors, i.e. €325 billion, 28 % of investment and 62 % of export sales.

Industry, more than other economic sectors, is characterised by a concentration of activity in large and medium-sized companies, organised in the form of groups with highly diversified industrial, commercial or service subsidiaries, and strongly defined by their activity abroad. In 2021, multinational industrial firms, i.e. those with subsidiaries in France and abroad, accounted for 69 % of FTE employees in the industrial sector and generated 78 % of the added value produced in France.

The knock-on effects of industry on the economy have evolved in contrasting ways over the period. Productivity gains in industry, which have been slowing since the late 1990s, have fallen more than in other countries since 2019, with negative effects on productivity in the economy as a whole. This stall reflects the fact that employment has grown faster than activity and can be explained by several factors, both cyclical (retention of labour) and structural (lack of skills and qualifications). Although the knock-on effects on local activity and employment are difficult to measure precisely, it is a fact that 75 % of industrial jobs are located outside metropolitan areas, making industrial activity a major lever for social and territorial cohesion.

De-industrialisation, defined as the decline in the share of industrial value added in GDP, is affecting most advanced countries, but also emerging countries such as China. It is the result of the combined effect of productivity gains in industry (leading to a fall in the relative price of industrial products), the development of services, increased subcontracting (outsourcing) and the fragmentation of value chains. In France, industrial employment peaked in 1974 before declining at a more or less steady rate until the period preceding the health crisis.

Over the last decade, France's share of world trade has fallen, while countries such as Germany and Spain have managed to maintain theirs. This trend is mainly attributable to industry, which accounts for almost 70 % of French exports. The balance of trade in goods, which had turned positive in the 1990s, returned to deficit from the early 2000s and has steadily deteriorated since then.

With a 20 % growth in industrial value added between 2000 and 2019, France is the third largest industrial country in the EU, behind Germany (61 %) and Italy (28 %). The steady decline in French industry's market share of European exports and the deterioration in the trade balance with EU countries over the period 2012-2022 also attest to an industrial dynamic that lags behind that of other European countries, particularly in manufacturing.

The structure of the trade balance reflects changes in the productive specialisation of the French economy over the last 20 years. By 2023, France was one of the world's leading exporters in four key historical sectors: top exporter for beverages (15.2 % of export value) and perfumes and cosmetics (also 15.2 %), and second worldwide for leather and luggage (14 %) and aeronautics and space (13.6 %)[5]. Overall, industrial activity has specialised in high- and medium-technology sectors[6] (aeronautics, civil and military industries, chemicals and

[3] The scope used by Insee to compile statistics at company level is that of companies in the mainly non-agricultural and non-financial market sectors, which account for just over half of total value added.
[4] The legal unit, company or sole proprietorship, is the main unit registered in the National Register of Companies and Establishments (Sirene) managed by Insee and identified by its Siren number.
[5] *DG Trésor - Banque de France*- DGDDI, *2024 annual report on foreign trade*.
[6] The OECD classifies industrial sectors into high-, medium- and low-tech categories according to the level of their R&D expenditure in relation to their turnover.

pharmaceuticals) and in low-technology sectors (agri-food), the share of which is increasing. The steepest declines were in certain medium-technology sectors, such as automotive, electrical products and machinery and equipment.

Major efforts to boost business competitiveness, with little focus on industry apart from the reduction in production taxes

From 2014 onwards, as part of a drive to exempt low-wage earners from social security contributions that began in the 1990s, the Employment Competitiveness Tax Credit (CICE) and the reductions in social security contributions that supplemented and then replaced it have had the effect of bringing labour costs into line with productivity costs. Concentrated on low salaries, the measures to reduce charges mainly benefit service activities and certain industrial sectors where salaries are lower (agri-food). They can also benefit industry indirectly, through the cost of intermediate consumption. Although French industrial companies have benefited from a certain moderation in labour costs, hourly labour costs remain well above those in Italy, Spain and Eastern Europe. They are equivalent to those of Germany, whose industry can nevertheless rely on a structurally superior quality-price ratio and range positioning.

Starting in 2017, the public authorities have also taken measures to rebalance business taxation (corporation tax, production taxes) in order to reduce the gaps with the European average and comparable countries. Thus, while in 2019 France applied the highest average effective tax rate[7] for non-financial companies in the EU (35 %), this rate was 25 % in 2022, which is lower than in Germany and Spain and closer to Italy. However, the taxation of industrial companies remains sub-optimal due to the existence of production taxes whose calculation methods are unfavourable to production in France, and of which industry bears a significant share. By targeting companies irrespective of their profitability, the company value added tax (CVAE) and company social solidarity contribution tax (C3S) affect their profitability and ability to export. The review of their calculation methods could be pursued provided that it forms part of an overall change in company taxation that neutralises the effects on public finances.

Finally, while the cost of energy has been a strong comparative advantage for French industry, with electricity prices 40 % lower than the EU average and 92 % lower than prices in Germany between 2012 and 2020, the end of the regulated access mechanism for historical nuclear electricity (ARENH) on 1 January 2026 and the planned increase in energy prices represent a major risk to the competitiveness of French industry.

Impediments to non-cost competitiveness

The French economy also suffers from structural handicaps that undermine its off-cost competitiveness. The contraction of industry is limiting the ability to fund research, which is not translating sufficiently into industrial innovation. France's rise from 22nd to 11th place in the World Innovation Index drawn up by the World Intellectual Property Organisation is not reflected in the indicators relating to industrial innovation, where France lags behind Italy and Germany.

The industry's image also remains poor, which is detrimental to the attractiveness of industrial training and careers. For example, among apprentices who had completed a course in "metals and mechanics" and who were employed in January 2021 six months after finishing their studies, only 55 % were working in a job corresponding to their training (28 % for vocational high school students).

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[7] European indicator used to assess the impact of taxes on companies' investment decisions. It includes taxes on company profits, dividend income and capital gains.

Employers are therefore finding it increasingly difficult to recruit qualified staff: 52 % of companies in industry were experiencing recruitment difficulties in the 1st quarter of 2024, and 19 % said they were limited in their activity by a lack of staff. This proportion is higher than in Italy or Spain. Reducing recruitment pressures in industry means defining a sustainable system to support training for industry employees. On the other hand, policies on employment and inclusion, training and guidance, but also on territorial cohesion, housing, transport and early childhood, or economic development and ecological transition must fully integrate this concern, in conjunction with sectoral policies.

The improvement in France's attractiveness, as measured by the number of projects, remains fragile. Projects in France involve fewer site creations than in Germany and the UK. The business environment can still be simplified to make it easier for companies to grow. Despite the provisions adopted by Parliament to secure and accelerate industrial establishment projects in 2020, 2021 and 2023, a significant gap remains with other EU countries in terms of the time actually taken (an additional 4 to 8 months depending on the procedures), according to a report carried out at the request of the Government in 2022[8]

Public support not always targeted at industry, increasing since 2020 but of uneven effectiveness

The Court measured public support for industry from 2012 to 2022 on the basis of direct or indirect financial transfers to industrial companies[9] in the form of equity investments, subsidies, loans and repayable advances. They amount to €17bn per year from 2012 to 2019 and €26.8bn per year over the period 2020-2022[10], excluding equity interventions. Excluding tax expenditure and social niches, this amount is reduced to €5.8bn[11] over 2012-2019 and €9.6bn[12] over 2020-2022. Local and regional authorities account for a marginal share of these transfers, with companies benefiting above all from their cross-functional economic development initiatives in the areas of business support and land.

Equity investment in industrial companies will amount to €2.2 billion a year over the period 2012-2022, in the form of equity investments by the *Agence des participations de l'État* in strategic industrial sectors and for sovereignty purposes (defence), Bpifrance for the development of SMEs and ETIs, *Caisse des Dépôts* and *Ademe Investissement*. The overall monitoring of these investments needs to be improved in order to measure the relevance of the accumulation of interventions in certain companies or sectors and the associated risks. The policy of the *Agence des participations de l'État* needs to be clarified and coordinated with that of Bpifrance, *Caisse des Dépôts* and *Ademe Investissement*.

Policies in support of R&D, employment and training, energy, foreign trade and innovation account for 86 % of the total budget cost, all types of expenditure combined. Within these cross-functional policies, certain instruments are of particular benefit to industry: the research tax credit (€5.6bn per year, of which 61 % for industry), partial activity (€3.3bn per year, of which 47 % for industry, excluding the health crisis), taxation on energy-intensive companies (€1.1bn per year for industry over the recent period), and export insurance (at a limited budgetary cost). For companies and many observers, the research tax credit is an important factor in attracting and maintaining R&D activities in France. Without calling its principle into question, a number of evaluation and economic analysis studies nevertheless suggest that its basis should be adjusted to improve its effectiveness. Against this backdrop,

[8] Laurent Guillot, IGF, DITP, *Simplifying and accelerating economic activity creation in France*, 2022.
[9] Identified by the NAF code included in their *SIRET* or *SIRENE* identifier.
[10] Including the portion of the public energy service financing State aid to businesses under European regulations (€2.8bn over the period).
[11] Energy (€3.2bn/year), R&D (€1.1bn), Part-time work and apprenticeships (€0.8bn), Business financing (€0.4bn), Foreign trade (€0.1bn) and Local authorities (€0.31bn).
[12] Energy (€3.7bn), R&D (€1.8bn), Part-time work and apprenticeships (€1.9bn), Business financing (€1.9bn), Foreign trade (€0.1bn) and Local authorities (€0.31bn).

the Court recommends that the ministries of the economy, finance and industry and the ministry of higher education and research adjust the basis of expenditure eligible for the CIR in order to improve its effectiveness and assess a measure for capping the CIR claim at group level.

Budgetary expenditure is concentrated on innovation policy and industrial support plans, the amount of which increases towards the end of the period. However, the results of the successive plans to support the reindustrialisation or digitisation of industry between 2012 and 2022 are inconclusive. They are insufficiently targeted and the instruments chosen are not very effective, with the exception of certain sectors such as aeronautics and microelectronics, where the State has been able to demonstrate continuity.

The future investment programmes implemented between 2010 and 2019 have had a limited impact on industrialisation. Since 2020, the public authorities have supplemented horizontal policy instruments with a "vertical" support instrument, particularly in the form of subsidies, as part of France 2030. Initial evaluations show that the targeting of public investment should be tightened and that the intervention policy should give greater priority to the most effective instruments by limiting the use of subsidies.

An industrial strategy in need of further development

Industrial policy, the aim of which is to maintain or develop industry's share of national added value, cannot be reduced to aid to companies, which is often poorly targeted at industrial companies. Macro-economic and horizontal policies concerning the competitive environment of horizontal companies, which must be coordinated, have a decisive role to play.

The industrial strategy must assert its cross-cutting nature and become a permanent fixture at the heart of horizontal competitiveness policies and the actions of sectoral ministries. It must be an integral part of policy objectives in the fields of education, energy transition, environmental protection, health, innovation and research.

For France, the challenges of coordination lie at both the national and European level. Industrial policy is a shared responsibility between the EU and its Member States[13] within the limits of common policies on the internal market and competition. The Draghi report, submitted in September 2024, explicitly mentions the need to align trade policy, competition policy and industrial policy, going beyond the developments initiated since 2015 and the measures recently announced after the health crisis and in response to Russia's invasion of Ukraine. Their strategic objective is to reduce Europe's dependence in six sectors: critical raw materials, semi-conductors, health, digital, agri-food and energy. A number of sectoral development instruments have been put in place through European innovation programmes and the Important Projects of Common European Interest (IPCEI) mechanism, which calls on national public and private funding. They have recently been supplemented, in 2023 and 2024, by commercial policy instruments.

The national industrial strategy, and the choice of its instruments and projects, must fit firmly into this framework, prioritising projects supported on a European scale. The relaxation of State aid during the health and energy crises has increased the risks of fragmentation of the internal market and inefficiency of national aid. The IPCEI mechanism, which regulates the use of national subsidies to ensure that subsidised productive investments meet strategic needs at EU level, is designed to control this risk. The Draghi report calls for this European framework to be expanded, while stressing that improvements are needed to make it more responsive. Other forms of European cooperation can also be envisaged, within an intergovernmental framework (Airbus) or a Community framework (European Space Agency, European programmes).

[13] Article of the 1992 Maastricht Treaty, reproduced in Article 173 of the 2007 Treaty on the Functioning of the European Union (TFEU).

Progress has been made in organising public authorities to design and implement industrial policy at the national level. The reorganisation of the Directorate General for Enterprise (DGE), the National Industry Council and the strategic sector councils have helped to structure and strengthen dialogue with the sector on major issues. However, a more strategic dialogue on the industry needs to be developed between public players within the State and with local authorities, based in particular on regular forward-looking studies. In addition to the commonly used macro-economic indicators (value added, employment, foreign trade), greater attention must also be paid to territorial impacts and to the disparities between sectors and companies in the industrial sector, using appropriate indicators.

Recommendations

Measures to boost the competitiveness of industrial companies

1. Review the methods of calculating production taxes that are unfavourable to industry, provided that they are neutral for public finances *(ministry of the economy, finance and industry*).
2. By 2025, define a sustainable system to support skills development for employees in industry *(ministry of the economy, finance and industry, ministry of labour and employment).*

Measures relating to the effectiveness of public support

3. By 2025, define the methods for consolidating the State's direct and indirect holdings in the State's accounts by identifying industrial companies in order to monitor all associated risks *(ministry of the budget and public accounts).*
4. For the sake of consistency of public investment, clarify the State's investment policy in industrial sectors by 2025, linking it to the policies of the *Caisse des dépôts et consignations*, Bpifrance and *Ademe Investissement (ministry of the economy, finance and industry).*
5. Improve the efficiency of spending, adjust the base of expenses eligible for the research tax credit (CIR) and assess the methods for capping the CIR claim *(ministry of higher education and research, ministry of the economy, finance and industry).*
6. Undertake a review of the priorities of France 2030 and stop or redirect funding for certain projects from 2025 onwards, following the recommendations of the Monitoring Committee *(general secretariat for investment)*.
7. Give priority to financial instruments and repayable advances for public financial support to industrialisation projects and limit the use of subsidies *(ministry of the economy, finance and industry, general secretariat for investment*).

Measures relating to the design and implementation of industrial strategies

8. Prioritise projects supported at the European level in the industrial strategy *(ministry of the economy, finance and industry*).
9. Develop, by 2026, a set of macro- and micro-economic indicators to measure the impact of the industrial strategy, taking into account the disparity of the industry and the challenges of international comparison *(ministry of the economy, finance and industry, Insee*).