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FRANCE – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE  
CORRECTION OF MACROECONOMIC IMBALANCES

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## France – Second Monitoring of Policy Progress under the MIP - Executive Summary

**This report is the second one for France under the Macroeconomic Imbalances Procedure (MIP) for countries experiencing macroeconomic imbalances which require specific monitoring and decisive policy action.** It reviews the latest economic and policy developments between end of October 2014 and end of January 2015, complementing the first monitoring report<sup>1</sup> and reviewing in particular progress to correct the imbalances identified in the March 2014 In-Depth Review (weak external competitiveness and high public indebtedness)<sup>2</sup>. The forthcoming country report will provide a full assessment of the progress made on the Country Specific Recommendations (CSRs), an in-depth-review of progress to correct the imbalances as well as the identification of other economic challenges France faces.

**After three years of subdued activity a timid recovery is expected in 2015 which will gain strength in 2016.** The modest rebound in GDP growth in the third quarter of 2014, driven by inventories and public spending, is expected to bring France's growth rate for the whole year to a still disappointing 0.4 % in 2014. Over the forecast period, falling energy prices should improve the financial position of households and businesses, hence stimulating activity. According to the Commission's 2015 winter forecast, GDP growth is thus expected to progressively gain traction and reach 1.0 % in 2015 and 1.8 % in 2016, under the usual no policy change assumption. Meanwhile, inflation is projected to be further reduced to zero in 2015, before rebounding again moderately and reach 1.0% in 2016.

**Imbalances have not abated yet.** Based on the Commission 2015 winter forecast, France's export market shares, which have declined with -13.0% over 2008-2013 and are expected to have fallen further in 2014. The depreciation of the euro, together with the tax credit on competitiveness and employment (CICE) and the Responsibility and Solidarity Pact (RSP), is expected to reduce the pace of losses in export market shares in the medium term, without reversing them, however. Based on the winter forecast, the increase in the headline deficit and low nominal GDP growth are expected to lead to a continuous increase in the government debt ratio, to 98.2% of GDP in 2016.

**The main reform initiative taken by the government since the beginning of November is the draft Law on Economic Activity.** The draft law contains a wide range of measures and includes in particular reforms in the areas of regulated professions, retail trade and Sunday work, transportation and the dispute settlement of individual dismissal procedures.

- **The draft law proposes a reform of legal professions.** The proposed reform is a step in the right direction, although it is relatively limited in terms of content and scope. The main proposals in the draft law include the introduction of a new governance framework for setting tariffs and the introduction of the principle of the freedom of

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<sup>1</sup> European Commission (2014) France – Monitoring of policy progress under the macroeconomic imbalances procedure; European Commission.

<sup>2</sup> European Commission (2014), Macro-Economic Imbalances France, European Economy, European Commission.

establishment in certain zones for certain legal professions. However, it does not limit the monopoly of legal professions significantly. Also in terms of scope, the reform is relatively limited as it mainly covers 6 legal professions whereas competition concerns have been identified for at least 37 regulated professions.

- **The draft law proposes to reduce entry barriers in the retail sector further.** The draft law proposes that the Competition Authority can provide advice on planning documents to ensure they are not unduly limiting the entry of new operators. Moreover, the draft law proposes to empower the Competition Authority with the right, if certain conditions are fulfilled, to ask commercial operators having a market share higher than 50% to take action or ultimately run the risk of having to divest. This could add to the progress already achieved with the '*Loi relative à l'artisanat, au commerce et aux très petites entreprises*' (ACTPE) which aimed at simplifying the procedure for the establishment of retail outlets. The reform of Sunday work is a step in the right direction, although the reform is relatively modest in reducing the regulations surrounding Sunday work.
- **The draft law proposes to open the sector of coach transport.** The proposed opening of the sector of coach transport is welcome, although the development of coach transport could be hindered by the relatively low number of well-equipped coach stations.
- **The draft law proposes to reform the *Conseil des Prud'hommes*.** The proposed reform of the *Conseils des Prud'hommes* is a good initiative to reduce uncertainty related to disputes on individual dismissals. But it will not resolve all uncertainty stemming from these disputes as part of the uncertainty is due to the inherent complexity of the labour code and the way it is interpreted by the judiciary as a whole.

**The economic impact of the draft law on Economic Activity will depend on the final design and implementation of the reforms.** There is a risk that the reforms get altered during the adoption and implementation process making the eventual benefits to be reaped by the reforms uncertain. For example, for the legal professions it remains unclear by how much the regulated tariffs for certain legal professions will be decreased in the first implementing decree and also the parameters of new establishment procedures have not been set yet, making it difficult to assess whether the reform could achieve a more effective competition between legal professionals.

**The impact of the reform of local administration will only become significant in the medium term.** The reform could significantly improve the efficiency of local administration by reducing the number of territorial subdivisions and clarifying the roles of the various layers of local government. However, an assessment of the effectiveness of the reform will only be possible once all its components have been implemented. At this stage, large sections of the reform remain to be adopted. This is notably the case for the NOTRe draft law which reviews the repartition of responsibilities. While part of the reform has been adopted, implementation is often planned to start with some delay (e.g. the merger of regions will become effective in

2016). Regarding the metropolises which have actually been created in January 2015, it is also much too early to assess to what extent they have contributed to improve the effectiveness of public intervention at the local level.

**Progress made in implementing the CSRs during the period under review does not affect significantly the overall assessment of the first monitoring report.** Apart from the adoption of the draft Law on Economic Activity, the budget for 2015 was adopted, the implementation of reforms continued and the government published a reform agenda providing an overview of all planned reforms between the end of 2014 and the beginning of 2017. An analysis of all the adopted, announced and implemented reforms broadly confirms the assessment made in the first MIP monitoring report. The implementation of measures to reduce labour costs and the simplification agenda are proceeding as scheduled, but further steps will need to be taken between now and 2017. In particular, more could be done to reduce the cost of labour at the lower end of the wage scale. Moreover, there is a risk that the beneficial impact of CICE will at least partly be compensated by dynamic wage developments. This points to the need for complementary labour market reforms to reduce wage rigidities. On a number of reforms, notably the reform of local administration and the draft Law on Economic Activity, it is too early to make a final assessment as they are in the early stages of implementation, still pending in Parliament or the government has not adopted a proposal yet (size-related thresholds). Finally, the first MIP monitoring report identified some areas where reforms need to be stepped up, notably to reduce the rigidity of the labour market, to simplify and make more efficient the taxation system, to reinforce the impact of the expenditure review and to improve the long-term sustainability of public finances. However, except for the proposal on the *Conseil des Prud'hommes*, which can contribute to reducing the uncertainty related to individual dismissal procedures, no further progress has been made to address these reform gaps.

## 1. Introduction

On 13 November 2013, the European Commission presented, as part of the Macroeconomic Imbalances Procedure (MIP), its third Alert Mechanism Report to underpin the identification of Member States requiring an in-depth investigation into whether macroeconomic imbalances exist. The subsequent third In-Depth Review for France – published on 5 March 2014<sup>3</sup> – examined the nature, origin and severity of macroeconomic imbalances and risks in France. The Commission concluded that France is experiencing macroeconomic imbalances which require specific monitoring and decisive policy action. In particular, the Commission emphasized risks related to the deterioration in the trade balance and in competitiveness as well as the implications of the high level of public sector indebtedness.

In April 2014, France submitted its Stability Programme and National Reform Programme (NRP), respectively outlining updated fiscal targets and planned policy measures to restore economic growth and help unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of seven country-specific recommendations (CSRs) on 2 June 2014, which were subsequently adopted by the Council on 8 July 2014<sup>4</sup>. Six of these CSRs were relevant to reduce risks from imbalances, notably in the policy domains of: public finances; reducing the cost of labour; the business environment, simplification and promoting innovation; competition in services; taxation and the labour market.

As the first CSR addressed to euro-area Member States<sup>5</sup> called to assess and stimulate progress in reform implementation by euro-area Member States with imbalances requiring decisive action, the Commission put in motion a specific monitoring of these 6 CSRs that could contribute to the unwinding of imbalances.

This report by the Commission services presents the results of such specific monitoring by reviewing the main measures taken by France since the previous specific monitoring published on the 11 December 2014<sup>6</sup>. In order to underpin the analysis a monitoring mission took place on 12 January 2015 and the report takes into account the winter forecast, the letter of the French authorities addressed to the European Commission at the end of November 2014, the *agenda des réformes* published by the government in December 2014 and the written replies of the French authorities following that mission of 12 January.

The present report includes information up until 5 February.

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<sup>3</sup> European Commission (2014), Macro-Economic Imbalances France, European Economy, European Commission.

<sup>4</sup> Council (2014) Council Recommendation of 8 July 2014 on the National Reform Programme 2014 of France and delivering a Council opinion on the Stability Programme of France.

<sup>5</sup> Council (2014), Council Recommendation of 8 July 2014 on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro.

<sup>6</sup> European Commission (2014) France – Monitoring of policy progress under the macroeconomic imbalances procedure; European Commission.

## 2. Recent macroeconomic developments

**France's economic activity has been subdued for the last three years**, with a quarterly GDP growth of 0.1% on average between mid-2011 and mid-2014. The subdued economic growth has translated into a rapid increase in the unemployment rate, which amounted to 10.3% in the third quarter of 2014 against 9.1% in mid-2011. Consolidated private indebtedness, driven in particular by the weak financial situation of non-financial corporations, stabilised at 138% of GDP in 2013. The large general government deficit has translated into a further increase in public debt to above 92% of GDP in 2013 from 89.2% one year earlier.

**According to the Commission's 2015 winter forecast , France's economic growth is projected to gain momentum in 2015 and reaching 1.0% and 1.8% respectively, primarily driven by household consumption on the back of falling energy prices.** The modest rebound in GDP growth in the third quarter of 2014 was driven by inventories and public spending and is only expected to bring France's growth rate for 2014 to 0.4%. However, the sharp fall in oil prices since mid-2014 should improve the financial position of households and businesses, hence stimulating activity in 2015 and 2016. The gradual economic recovery will mainly be driven by private consumption, as low inflation and dynamic wages should support consumer spending. As regards the labour market, the measures to reduce labour costs, namely the EUR 20 billion 'Tax Credit for Competitiveness and Employment' (CICE) and the EUR 10 billion additional cuts in employers' social security contributions planned under the 'Responsibility and Solidarity Pact' (RSP) are likely to have only a limited positive impact on employment in the short term, and unemployment is therefore expected to remain high, as the labour force remains dynamic. The slight acceleration in investment expected from 2015 will mainly be supported by the gradual recovery of aggregate demand, against a background of favourable credit conditions, reinforced by the ECB's recently announced measures.

**The pace of losses in export market shares will be reduced in the medium term.** Although France has avoided a prolonged recession, growth will remain fragile as limited impetus for growth exists. Notwithstanding the temporary positive contribution of net exports to growth in 2012 and 2013, export market shares have declined with -13.0% over 2008-2013 and are expected to have fallen further in 2014. The expected rebound in world demand is projected to give some impulse to exports from 2015, while the depreciation of the euro, together with the CICE and the RSP, is expected to reduce the pace of losses in export market shares in the medium term, albeit without reversing them. As a result, net exports will continue to weigh on GDP growth over the forecast horizon, as the rise in domestic demand leads to more imports. Nevertheless, the external deficits are expected to improve in 2014 and 2015 on the back of favourable terms of trade, mostly reflecting the fall in energy prices, before deteriorating again in 2016.

**France's recent price developments reflect external factors but also weak aggregate demand.** HICP inflation has gradually fallen since the last quarter of 2012 to 0.1% in

December 2014, driven by lower domestic demand and energy prices, while core inflation did not fall and remained above 0.6%. Inflation is thus projected to be reduced to zero in 2015, before rebounding moderately and to reach 1.0% in 2016, as the output gap starts to narrow down and inflationary pressures generated by the euro depreciation and the ECB's accommodative monetary policy are felt. These price developments in France are not likely to represent an immediate deflationary risk, against the background of rather dynamic wages and the recent euro depreciation.

**The general government deficit is expected to decrease to 4.1 % of GDP in 2015 from 4.3 % in 2014.** Based on the Commission 2015 winter forecast the general government deficit, which stood at 4.1% of GDP in 2013, is expected to increase to 4.3% of GDP in 2014 as inflation developments have weighed on current revenues while the increasing cost of the CICE has partly offset the efforts made to curb the growth in public expenditures. The government balance is expected to improve in 2015 to 4.1% of GDP due notably to the important expenditure cuts, estimated at EUR 21 billion by the government, planned for that year. Under a no-policy-change assumption, the deficit in 2016 would remain stable at 4.1% of GDP, as discretionary measures for that year remain mostly unspecified. Based on the Commission 2015 winter forecast, the increase in the headline deficit and low nominal GDP growth are expected to lead to a continuous increase in the government debt ratio, to 98.2% of GDP in 2016.



### 3. State of play with MIP-relevant reforms

**This section looks at progress in implementing the MIP-relevant CSRs since the first report that took into account information up until 31 October.** It includes in the analysis the written replies of the French authorities following the monitoring mission of 12 January and the letter of the French authorities addressed to the European Commission at the end of November 2014. The analysis in this section is based on three main documents: the budget 2015 which was adopted by the Parliament on 29 December<sup>7</sup>, the draft Law on Economic Activity which was adopted by the French Council of Ministers on 11 December<sup>8</sup> and the *agenda des réformes* published by the government in December 2014, which provides an overview of all major announcements on reforms to be taken between the end of 2014 and the beginning of 2017<sup>9</sup>.

In what follows, progress since the first MIP monitoring report per CSR is briefly discussed. The subsequent sections provide an in-depth assessment of the draft Law on Economic Activity and of the reform of local administrations. Finally, the table in Annex presents the progress made by France per MIP-relevant CSR since the previous European Semester Staff Working Document (SWD). The full assessment of progress in implementing all CSRs will be provided in the forthcoming 2015 Country Report.

#### 3.1. Brief assessment per CSR

##### *CSR 1: Sustainability of Public Finances*

**Since the last report on MIP monitoring was issued, the budget for 2015 has been adopted.** The budget for 2015, the law on financing social security, a supplementary budget for 2014 and the programming law for public finances were all adopted by Parliament in December 2014. In its draft budgetary plan, the government expects expenditures, excluding the cost of tax credits, to increase by only 0.2 % in volume terms compared to 0.9 % in 2014. This sharp slowdown is consistent, according to the government, with savings of EUR 21 bn. In particular, a number of measures are taken to reduce healthcare expenditures, which are expected to yield savings of EUR 3.2 bn in 2015. In particular, the law on financing social security includes measures to reinforce the control over the price of selected high-cost pharmaceuticals through a managed entry agreement. The government also expects that savings on social benefits, including pensions, which result partly from measures which have already been implemented, will amount to above EUR 10 bn over 2015-17.

**The reform plan of the authorities also includes a number of reforms, on public health and local administration, most of which are still in the process of adoption.** A draft law

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<sup>7</sup> LOI n° 2014-1654 du 29 décembre 2014 de finances pour 2015

<sup>8</sup> French Government (2014) *Projet de Loi pour la croissance et l'activité.*, N° 2447, Assemblée Nationale, 11 December 2014.

<sup>9</sup> French Government (2014) *Agenda des Réformes*, Prime Minister's Office, 12 December 2014.

on public health, which was presented in October 2014, is currently under discussion in Parliament. It foresees notably a development of the "care pathway" logic and a shift of balance of the system from hospital to ambulatory care with a view to increasing efficiency, while orientations to reinforce prevention could also bring cost-effectiveness gains in a longer term. As part of the reform of local administration, two bills have already been adopted while another two are still under discussion (see section 3.3).

### ***CSR 2: Cost of labour***

**The implementation of the measures to reduce the cost of labour is proceeding as planned.** As discussed in the first MIP monitoring report, the measures related to the CICE and the RSP effective in 2015 were already adopted in July and the implementation of the measures is proceeding as planned. There remains a risk that the beneficial impact of the CICE and the RSP will partly be offset by dynamic wage developments, which points to the need to complement these labour cost reduction measures with labour market reforms to reduce wage rigidities. The reform agenda announces the further roll-out of the CICE and the RSP in 2016 and 2017 as planned.

**The reform agenda announces the creation in early 2016 of a "prime d'activité", replacing two existing wage support schemes for low-wage earners, namely the "prime pour l'emploi" and the "revenu de solidarité active activité".** Based on the available information, the merger will not have an effect on the cost of labour for low-wage earners nor the budget but it could improve incentives to take up employment and is targeted to low-wage earners, in particular young people. However, the reform agenda does not foresee a further reduction in the labour cost at the lower end of the wage scale, although this was recommended by the Council.

### ***CSR 3: Improving the business environment***

**Further progress has been made on the simplification agenda.** A simplification law was adopted by Parliament in December<sup>10</sup>. Moreover, the draft Law on Economic Activity adopted by the Council of Ministers contains some proposals to simplify the regulations related to housing and construction (see section 3.2.6). In terms of implementation, a third of the measures announced since mid-2013 are now implemented. Moreover, based on the impact assessments of all the measures proposed between September 2013 and September 2014, the ex-ante gross impact for companies, local authorities and consumers could amount to EUR 2.4 billion. Moreover, the reform agenda announces that further simplification initiatives will be taken between now and 2017.

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<sup>10</sup> Loi n° 2014-1545 du 20 décembre 2014 relative à la simplification de la vie des entreprises et portant diverses dispositions de simplification et de clarification du droit et des procédures administratives

**Table 1: Estimated costs and benefits of the simplification measures adopted so far**

EUR mio	Costs	Gross Benefits	Net benefits
Companies	834	1452	618
Local authorities	15	487	472
Consumers	23	500	477
Total	872	2439	1567

Source: Information provided by the French authorities during the MIP monitoring mission.

**No progress has been made in addressing specific size thresholds in regulations that may hamper the growth of French firms, but the government has announced that it will adopt a draft law in this area in the 2<sup>nd</sup> quarter of 2015.** As analysed in last year's In-Depth Review (IDR), several regulations are associated with specific size thresholds and play a role in the difficulties of SMEs to reach the size that would allow them to export, as well as to innovate. This issue has been discussed over the past months between social partners in the context of the negotiations on improving the social dialogue, but negotiations ended without an agreement. Nonetheless, the government has announced the adoption of a draft law on labour in the 2<sup>nd</sup> quarter of 2015 which would include provisions on improving the social dialogue.

**Some further initiatives have been taken to improve the business environment but no reform of R&D or innovation policy is foreseen.** The reform agenda announces a number of other initiatives that can improve the business environment, for example, initiatives on the digital agenda or the reform of the courts of commerce. However, until 2017, no major new initiatives to improve the efficiency of the R&D or innovation policies are foreseen.

#### *CSR 4: Competition in services*

**The draft Law on Economic Activity aims at reducing barriers in regulated professions, but its scope is limited (see section 3.2.1).** The draft Law on Economic Activity, adopted by the Council of Ministers, proposes a reform of legal professions. Legal professions represent only 3.5% of the total turnover of regulated professions where there might be regulatory barriers that hold back competition. Therefore, the scope of the reform is relatively limited. The reform of legal professions mainly revolves around introducing a new governance framework for setting tariffs and a partial introduction of the principle of the freedom of establishment. However, the reform does not limit the monopoly of legal professions significantly nor abolish tariffs where they are no longer justified. Moreover, on the two most important aspects of the reform, the reduction in tariffs and the freedom of establishment, the ultimate level of ambition will only be determined in the implementing decrees.

**The draft Law on Economic Activity proposes to further reduce entry barriers in the retail sector (see section 3.2.2) and to relax rules on Sunday work (see section 3.2.3).** The draft Law on Economic Activity entitles the Competition Authority to provide advice on planning documents to ensure they are not unduly limiting the entry of new operators. Moreover, the draft law foresees to empower the Competition Authority with the right, if certain conditions are fulfilled, to ask commercial operators having a market share higher than

50% to take action or ultimately run the risk of having to divest certain branches. This adds to the progress already achieved with the '*Loi relative à l'artisanat, au commerce et aux très petites entreprises*' (ACTPE) which aimed at simplifying the procedure for the establishment of retail outlets. However, particular attention remains needed for the effective implementation of the new rules for the establishment of retail outlets. Finally, the reform of Sunday work is a step in the right direction, although the reform is relatively modest in reducing the regulations surrounding Sunday work (see section 3.2.3).

**Implementing decrees on the railway reform could clarify certain aspects of the reform.**

As already discussed in the first MIP monitoring report, a railway reform has been adopted. The law creates a new public group, which will be constituted by a public firm (the new SNCF) and two controlled enterprises: one exploiting the rail network ('*SNCF Mobilité*') and one managing the rail infrastructure ('*SNCF Réseau*'). The implementing decrees of the railway reform, which are under preparation, should address the concern that this new structure may jeopardise the independence and impartiality of the infrastructure manager, thus hampering network access for alternative operators but also guarantee an accounting separation to avoid the lack of transparency between the three entities and then potential cross-subsidisation<sup>11</sup>.

**The proposed opening of the sector of coach transport in the draft Law on Economic Activity is welcome.** But the development of coach transport could be hindered by the relatively low number of well-equipped coach stations and there is a risk that entry barriers for the development of coach lines within the same region remain high (see section 3.2.4).

**On interconnection capacity, a joint strategy is under development between Spain, France and Portugal.** On 6 January 2015 the Transmission System Operators of Spain, France and Portugal signed in Brussels a common strategy paper for the development of interconnection of the Iberian Peninsula with the internal electricity market. The common strategy paper lists common goals and indicates which options for projects can increase the current interconnection capacity. This strategy can be instrumental in reaching the minimum interconnection level of 10% agreed by the European Council last October.

**There are no further reforms announced to improve competition in services in the coming years.** Beyond the initiatives mentioned above, that are all planned to be implemented in the first half of 2015, the reform agenda does not announce further reforms to increase competition in services although there remain significant entry barriers in a number of sectors and professions.

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<sup>11</sup> Both the transport regulator (ARAF) and the Competition Authority have issued critical opinions on the implementing decrees. See Avis n° 2014-025 du 27 novembre 2014 sur le projet de décret relatif aux missions et aux statuts de SNCF Mobilités and Avis n° 15-A-01 du 6 janvier 2015 relatif à des projets de décrets pris pour l'application de la loi portant réforme ferroviaire.

### ***CSR 5: Simplifying taxation***

**The 2015 budget contains some welcome measures for households and companies in line with the draft budgetary plan assessed in the first monitoring report.** For households, the first bracket of the personal income tax (5.5%) has been removed by the budget 2015. This has the effect of increasing the tax-exempt minimum to EUR 9,690 net earnings for a single person. For companies, the C3S, a tax on turnover above 760 000 EUR, has been abolished for SMEs as part of the 2015 budget at a cost of EUR 1 bn. Moreover, the 2015 budget adopted an increase in excise duties (EUR 2c./l of diesel) which is a first step in phasing out environmentally harmful subsidies (EHS), and some progress is planned on the carbon tax.

**New tax expenditures in the budget 2015 further erode the tax base.** In 2014, the *Inspection générale des finances* identified more than one hundred inefficient taxes which have no or only a low yield. The 2015 draft budgetary plan, assessed in the first MIP monitoring report, envisaged deleting a limited number of them (7 for EUR 29 mn). However, the adopted budget law for 2015 only deleted the "*Grenelle II*" taxes, which in practice have never been implemented, and the tax on fruits and vegetables, which will be replaced by a compulsory contribution. A new tax on parking areas and an additional property tax in Ile-de-France has also been created. The commitment in the public finance programming bills to regularly assess tax expenditures has had limited effects. New exemptions or the broadening of existing ones have recently been adopted in the housing renovation and construction sector or for the cinema industry. These represent a EUR 2 bn (0.1% of GDP) erosion in the tax base, with tax expenditures, excluding the CICE, reaching EUR 72 bn.

**The reform agenda does not announce measures that go beyond the Responsibility and Solidarity Pact in the area of taxation.** The reform agenda announces the further reduction of the C3S and the reduction of corporate taxes which are planned in the Responsibility and Solidarity Pact and will be voted in the budgets of the coming years. However, no further measures are foreseen in the reform agenda to remove inefficient personal income tax expenditures, to reduce the debt bias in corporate taxation, or to shift taxes away from labour by broadening the tax base on consumption or by phasing out environmentally harmful subsidies.

### ***CSR 6: Reducing the rigidity of the labour market***

**The proposed reform of the *Conseils des Prud'hommes* is a step in the right direction to reduce the uncertainty related to disputes around individual dismissals.** However, the current uncertainty surrounding individual dismissal disputes stems not only from the functioning of the *Conseil des Prud'hommes* but also from the inherent complexity of the labour code and the way it is interpreted by the judiciary as a whole. (see section 3.2.5). As discussed in the first MIP monitoring report, as part of the budget, additional funding is foreseen for subsidised employment and activation schemes for older and younger workers have been adopted. A first evaluation on the *loi sur la sécurisation de l'emploi* is announced for the beginning of 2015. As highlighted in the 2014 SWD and in the first MIP monitoring

report, not all aspects of that law have been successful, notably the new scheme of *accords de maintien de l'emploi* was virtually never used by companies.

**Overall, progress in the areas identified in the Country-Specific Recommendation to reduce the rigidity in the labour market remains limited.** The reform agenda announces the intention to progressively reduce the number of professional branches from 700 to 100 over a 10 year horizon. In this context, a commission has been set up with social partners and up to 150 branches that are no longer active will be abolished in the coming months. Finally, the reform agenda announces negotiations between social partners on a new framework agreement on unemployment for the first half of 2016 but does not provide further detail. So it is unclear, whether measures will be taken to reform the unemployment benefit system in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Moreover, there are no initiatives foreseen to combat labour market rigidity despite the evidence of segmentation of the labour market. Finally, no re-assessment of the relevant specific unemployment benefit arrangements for older workers is currently envisaged.

### 3.2. Draft Law on Economic Activity

**The draft Law on Economic Activity is currently being discussed in Parliament.** The draft Law on Economic Activity was adopted by the Council of Ministers on 10 December 2014. It was submitted to the National Assembly on 11 December and is dealt with in an accelerated procedure. The draft law is now discussed in first reading in the National Assembly with a vote foreseen on 17 February<sup>12</sup>. Then, it will be discussed in the Senate. Once adopted, most implementing decrees, which will further specify the reforms, will be published within a 10 month period. The impact of the reforms crucially hinges on their final design and implementation. In this regard, there is a risk that the reforms get altered during the adoption and implementation process, making the eventual benefits to be reaped uncertain.

The first MIP Monitoring Report contained already a preliminary assessment of the proposed reforms based on the government's presentation of the first elements of the Draft Law on Economic Activity. This section presents a more comprehensive assessment of the Draft Law on Economic Activity, focusing in particular on the proposed reforms in the areas of regulated professions, the *Conseil des Prud'hommes*, retail, Sunday work and transport. The section concludes with a succinct overview of the other reforms proposed in the draft law.

#### 3.2.1 Regulated professions

**A report from the *Inspection Générale des Finances* provides a comprehensive assessment of regulated professions in France.** As discussed already in the first MIP monitoring report, a report from the *Inspection Générale des Finances* (IGF) on regulated professions investigated 37 regulated professions with a total annual turnover of about EUR 235 billion representing 6.4% of GDP in 2010<sup>13</sup>. These professions were selected because they had a profitability that was 7.5 pp above the average profitability of all sectors in France and were at least covered by two regulations. On average, the net profit before tax for the 37 professions was 19.2% of their turnover, which is 2.4 times higher than for the French economy as a whole, with the net profit being positively correlated with the number of regulations covering the sector. Moreover, a detailed analysis of the regulations for these professions revealed that a number of regulations and tariffs were no longer justified. To end these excessive rents, the report proposed regulatory changes for all the 37 professions which, if adopted, could increase GDP by 0.5 pp and create more than 120 000 jobs over 5 years according to simulations done with the MESANGE model by the French Treasury (<sup>14</sup>).

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<sup>12</sup> Footnotes 27, 35, 40, 48 and 58 provide some information on parliamentary amendments that alter the draft law as discussed in the text itself.

<sup>13</sup> Inspection Générale de Finance (2013) Les professions réglementées, Rapport N ° 2012 M 057 03, Mars 2013. Henceforth, IGF (2013)

<sup>14</sup> IGF (2013)

In what follows, we briefly present the reforms of regulated professions that have been adopted in the course of 2014 before analysing in some detail the reforms of the legal professions that are proposed in the draft law.

#### Reforms of regulated professions adopted in the course of 2014

**In the course of 2014 the regulations for lawyers, pharmacies, opticians and accountants were reformed.** In February, a decree was adopted that allowed notaries to have two salaried associates and that allowed lawyers at the “*Conseil d’Etat*” and the “*Cour de Cassation*” to engage salaried workers.<sup>15</sup> In March, the Consumption Law was adopted, abolishing the monopoly of pharmacies to sell certain products, e.g. pregnancy tests, and allowing the sale of glasses and lenses on the internet.<sup>16</sup> The same law also introduced more horizontal measures to improve competition such as the class action procedures. In May, the provision that the capital and voting rights needed to be owned for at least 50% by accountants registered in France was replaced by a provision that European accountants need to detain at least two-thirds of the voting rights.<sup>17</sup> These reforms are going in the right direction and could generate non-negligible benefits, in particular the reform of the market for glasses and lenses<sup>18</sup>. However, for most of these professions the reforms are only partial compared to the recommendations of the IGF (2013) and do not change significantly the existing barriers in these professions.

**The monopoly of taxis has been further enlarged.** In France taxi drivers need to pass a professional examination and obtain a licence. Licences can be obtained free from local authorities but the waiting list is up to 20 years in Paris. It is possible to buy a licence but at an average cost of more than EUR 200,000 in Paris, generating a supply shortage. In return for the licence, taxis have a monopoly to pick up passengers without prior reservation. For passengers that reserve prior to their journey, taxis are in competition with tourist vehicles. Based on the IGF report, the profitability, measured as net accounting profit over turnover, of the taxi sector is around 25% in 2010, although the net monthly revenue of a taxi driver is only about EUR 1000 a month. While the number of taxis in Paris is roughly the same as in New-York or London, the combined number of tourist vehicles and taxis is between 3 or 4 times higher in these cities than in Paris<sup>19</sup>. Based on all the elements, the IGF (2013) suggested allowing the sector of tourist vehicles to grow further without modifying the regulations in place for taxis. Given the shortage of taxis and enabled by the development of new booking methods based on geolocation via the internet, the number of tourist vehicles

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<sup>15</sup> Ordonnance n° 2014-239 du 27 février 2014 relative à l'exercice des professions d'avocat au Conseil d'Etat et à la Cour de cassation et de notaire en qualité de salarié

<sup>16</sup> LOI n° 2014-344 du 17 mars 2014 relative à la consommation

<sup>17</sup> Ordonnance n° 2014-443 du 30 avril 2014 modifiant l'ordonnance n° 45-2138 du 19 septembre 1945 portant institution de l'ordre des experts comptables et réglementant le titre et la profession d'expert-comptable

<sup>18</sup>The National Reform Programme France 2014 quantifies the economic benefits from cheaper glasses and lenses, assuming a 25% price decline, at EUR 1.3 billion extra disposable income for consumers increasing GDP by 0.05% (around EUR 1 billion) over 10 years and create 11000 extra jobs. While no detailed assessment of the reform is made, this estimate seems high given that an increase of 0.5% in GDP (around EUR 10 billion) for all the reforms proposed by the IGF report was estimated by the Trésor based on the Mésange model. (see IGF 2013)

<sup>19</sup> IGF (2013)



has grown significantly since 2010<sup>20</sup>. Against the background of complaints of taxi drivers about unfair competition from tourist vehicles, a new regulatory framework was adopted in October 2014<sup>21</sup>. This law restricts the possibility to use mobile electronic booking based on geolocation to taxis and prohibits tourist vehicles to wait at train stations and airports after a ride obliging them to return to their depot. The same law also prohibits the re-sale of taxi licences that will be granted in the future, which all else equal will increase the price of existing licences further. Overall, this regulatory framework expands the monopoly of taxis.

### Legal professions

**France is one of the Member States with a high level of regulation on legal professions<sup>22</sup>.** The IGF (2013) indicates that the level of profitability of the legal service providers was on average 30% in 2010. Moreover, some of the professionals have the highest net earnings of all regulated professions investigated, suggesting very high rents due to regulatory barriers that limit competition (see table below). These professions represent a total turnover of EUR 8 billion, most of which is realised by notaries. The report identified problems related to the definition of the monopoly, tariffs that were not in relation with costs and unjustified restrictions on establishment and access to capital.

<b>Profession</b>	<b>Median net income per month in 2010 in EUR (“titulaire”)</b>	<b>Rank (out of 37 professions)</b>
<i>Greffiers de tribunaux de commerce</i>	29177	1
<i>Mandataire judiciaire</i>	25723	2
<i>Administrateur judiciaire</i>	25719	3
<i>Notaire</i>	13284	4
<i>Huissier de justice</i>	6272	9
<i>Commissaire priseur</i>	3561	13
<i>Lawyer</i>	3271	17

Source: IGF (2013)

**Economic benefits of reforming professional services can potentially be significant.** Relaxing regulations and intensifying competition in professional services can increase activity and total factor productivity in downstream industries. Barone and Cingano (2011) demonstrate that allowing comparative publicity and abolishing regulated tariffs for all professional services can generate 0.5 pp additional activity in those downstream industries that depend the most on professional services as an intermediate input<sup>23</sup>. Bourlès et al (2013) demonstrate that insufficient competition in upstream industries limits TFP growth in countries close to the technology frontier as it affects the incentives to innovate and increase productivity in downstream industries and also erects barriers to entry. The authors suggest

<sup>20</sup> Autorité de la Concurrence : Avis du 16 décembre 2013 concernant un projet de décret relatif à la réservation préalable des voitures de tourisme avec chauffeur.

<sup>21</sup> LOI n° 2014-1104 du 1er octobre 2014 relative aux taxis et aux voitures de transport avec chauffeur

<sup>22</sup> Paterson I, Fink M., Ogus A. (2013) Economic impact of regulation in the field of liberal professions in different Member States, Institute for Advanced Studies, Vienna

<sup>23</sup> Barone, C. and Cingano, F. (2011) Service regulation and growth, evidence from OECD countries. Economic Journal, September 2011.

that if France would have reformed its professional services in 2000 to align the regulation with the least restrictive regulatory framework in place in the OECD, the TFP level in 2007 would have been 2 pp higher<sup>24</sup>. However, based on a review of the literature of empirical studies on recent reforms of legal professions in Europe, the Study Commission for the Law on Economic Activity concluded that the effect of introducing the freedom of establishment and deregulating tariffs on prices and the quality of services offered is dependent on the way these principles are introduced. For example, following the introduction of the principle of freedom of establishment in the Netherlands, new notaries chose to associate with already existing offices rather than to establish new offices which diminished the effects on competition. It is therefore very important to address all entry barriers and regulatory obstacles to achieve the envisaged economic impact.<sup>25</sup>

**The draft law on Economic Activity proposes further measures to reform the legal professions.** The draft law proposes to modernise some aspects of the rules for legal professions. The main proposals revolve around the modernisation of the tariff framework and a reform of the rules of establishment.

**The monopolies of the legal professions remain largely intact and regulated tariffs have that cover activities outside the scope of the monopoly have not been abolished.** The monopolies of some of the legal professions with a relative small overall turnover become somewhat less wide but the proposals of the IGF to abolish the monopoly on the redaction of the property acts, “*actes de publicité foncière*”, has not been followed. Also, regulated tariffs for real estate negotiations of notaries have not been abolished although these activities fall outside the monopoly of notaries.<sup>26</sup>

**For 6 legal professions the draft law proposes to review the mechanism to adjust tariffs to align them with real costs.** For the legal professions (« *administrateurs judiciaires* », « *greffiers de tribunaux de commerce* », « *notaires* », « *huissiers de justice* », « *commissaires-priseurs judiciaires* » and « *mandataires judiciaires* ») the draft law proposes the introduction of a minimum and a maximum tariff, a so called tariff corridor.<sup>27</sup> These tariffs would be regularly revised by the government upon the advice of the Competition Authority. In a recent opinion, the Competition Authority has further developed the methodology it would use to set these tariffs<sup>28</sup>. In terms of assessment, it is difficult to assess by how much the tariffs will be decreased in the first implementing decree. The reform could signal to consumers that negotiating prices is possible. However, these price negotiations can only work if there is

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<sup>24</sup> Bourlès, R., Cette, G., Mairesse, J., and Nicoletti, G. (2013) Do product market regulations in upstream sectors curb productivity growth ? Panel data evidence from OECD countries, The review of economic and statistics, 2013.

<sup>25</sup> *Commission d'étude des effets de la loi pour la croissance et l'activité, professions réglementées du droit, France Stratégie, Janvier 2015,*

<sup>26</sup> The law proposes to tighten somewhat the definition of the monopoly of the “*greffier de tribunal de commerce*”, notably for the data management of information registers for companies. The draft law also foresees the merger of the three execution professions « *Huissiers de justice, commissaires-priseurs judiciaires et mandataires judiciaires* » into one profession of “*commissaire de justice*”. Finally, the draft law proposes to simplify the complex regulations for the forced sale of furniture on which different legal professionals have specific monopolies.

<sup>27</sup> An amendment has been introduced in the National Assembly that proposes to change the tariff corridor for one tariff with certain possibilities to deviate from that tariff.

<sup>28</sup> See Avis N° 15-A-02 du 9 janvier 2015 relatif aux questions de concurrence concernant certaines professions juridiques réglementées.

sufficient competition between legal professionals. In this context, the question is whether the proposed changes to the establishment procedures are ambitious enough to organise a more effective competition between legal professionals.

**For 4 legal professions the principle of the freedom of establishment is proposed within certain zones.** For the professions concerned (“*notaires, huissiers de justice, commissaires-priseurs judiciaires et mandataires judiciaires*») the draft law proposes to abolish the restriction on the number of candidates that can work per office, making the pool of candidates that can be nominated bigger. Moreover, the draft law proposes to introduce the principle of freedom of establishment subject to certain conditions. The Minister of Justice, upon advice of the Competition Authority, would establish zones where new offices can be established freely because they would not jeopardise the viability or the quality of the existing offices. Nonetheless, existing offices in such zones could ask in court to be compensated for the loss in the value of their office due to the entry of a new professional. In the rest of France, the Minister of Justice can refuse, after advice of the Competition Authority, to nominate the candidate because entry would jeopardise the viability or the quality of the existing offices. Over time, the intention is to expand the zones where freedom of establishment is guaranteed. In terms of assessment, the reform is less ambitious than the proposal of the IGF to have the freedom of establishment as a default rule and only restrict establishment when justified on a case-by-case basis. Moreover, there is no visibility yet on the zones in which establishment will be free although this is an important element to determine the ambition of this part of the reform. Finally, the fact that incumbents will need to be compensated by new entrants might undo part of the benefits of the reform, as the entry cost will need to be imputed in prices, and might deter entry.<sup>29</sup>

**A number of other reforms on legal professions have also been proposed.** The draft law proposes to open the capital of the *legal professionals* to all other legal professionals, and also to *accountants*, however for the latter only up to 33% of the voting rights. As there are already deontological rules for these professionals, there is no need to limit the opening up of the capital that much. Finally, the draft law proposes to create the profession of “company lawyer”, abolishes the rule that lawyers can only take procedural steps in the jurisdiction of the appeal court to which they are associated, creates more transparency for lawyers’ fees and makes it easier for lawyers to open a second office.

**These reforms could be an important first step to lower the rents of the legal professions, but they do not go far enough in a number of aspects and their effectiveness also depends on the implementing decrees.** The recommendations of the IGF (2013) on revising the governance of the tariffs have not been followed up. On the freedom of establishment and on access to capital by non-professionals the government’s proposal goes only partially in the direction of what has been recommended. Only minor progress is made to tighten or abolish

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<sup>29</sup> Commission d’Etude des effets de la loi pour la croissance et l’activité (2015), Réformes des professions réglementées du droit, Janvier 2015, France Stratégie.

the monopoly where it is no longer justified or to abolish certain tariffs where these professions enter into competition with other service providers<sup>30</sup>. However, all in all, the proposed reforms in these 6 professions could improve the functioning of the sector. Adjusting the tariffs to bring them in line with their real costs could reduce the prices for consumers and businesses. Moreover, the freedom of establishment can increase the competition between professionals. These benefits are, however, dependent on the decisions on tariffs, the definition of zones in the implementing decrees and the development of the jurisprudence on individual compensation.

**As the draft law only covers legal professions, regulatory concerns related to most other professional services have not been addressed yet.** The legal professions covered by the law have an annual turnover of EUR 8 billion, whereas the IGF report covered professions with a total annual turnover of EUR 235 billion<sup>31</sup>. As the draft law addresses those regulated professions where rents are highest, the law can garner support with the broader public for further reforms in the years to come.

### *3.2.2. Reforms of the retail sector*

**Entry barriers in the retail sector are limiting competition, which can result in higher prices for consumers.** Requirements imposed on retailers for the establishment of retail outlets have been creating barriers to enter the market, affecting the structure of the market and therefore competition in the sector to the detriment of consumers. Nonetheless, entry in retail is important with Turner (2013) showing that in the retail sector nearly half of the productivity gains stem from new companies that replace existing less productive firms<sup>(32)</sup>. According to a forthcoming study of the European Commission, the price-cost margin or mark-ups in the retail trade sector have decreased significantly in France between 1996 and 2013 but remain relatively high in a EU perspective<sup>33</sup>.

**As already discussed in the first Monitoring Report, progress has been made to remove regulatory barriers to entry.** The *'loi relative à l'artisanat, au commerce et aux très petites entreprises'* (ACTPE), adopted on 18 June 2014, aims at simplifying the procedure for the establishment of retail outlets. It foresees a streamlining of the procedures and also a more efficient appeal process. However, particular attention is needed for the effective implementation of the new rules for the establishment of retail outlets. Some provisions in the law remain general with a broad margin of interpretation. Therefore, it is important that the new rules are implemented in an effective way to ensure that regulatory barriers do not hamper market entry.

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<sup>30</sup> Also the Competition Authority made some proposals along these lines. See Avis N° 15-A-02 du 9 janvier 2015 relatif aux questions de concurrence concernant certaines professions juridiques réglementées.

<sup>31</sup> In the draft health law, which is currently being discussed in Parliament, some alterations to the regulations covering some healthcare professions are proposed.

<sup>(32)</sup> Turner L. (2013), « La productivité dans le commerce : l'impact du renouvellement, de l'innovation et de l'appartenance à un réseau », in Bacheré H. (coord.), *Les entreprises en France - Insee Références – Édition 2013*, octobre.

<sup>33</sup> Thum-Thysen A. and Canton E. (2014) *Estimation of service sector mark-ups determined by structural reform indicators*, European Commission, forthcoming.

**Further progress would be made with the adoption of the draft law.** The draft law on Economic Activity proposes that the Competition Authority can provide advice on planning documents to ensure they are not unduly limiting entry. Moreover, the draft law foresees to empower the Competition Authority with the right, if certain conditions are fulfilled, to ask commercial operators having a market share higher than 50% to take action or ultimately run the risk of having to divest. In this way, the Competition Authority would have a powerful tool to address concentrations on local markets by, as an ultima ratio, forcing a commercial operation to divest certain of its branches in that market. Finally, the draft law foresees some relaxation of the rules on Sunday work in the retail sector (see below). The new measures, if adopted, would improve the functioning of the retail sector. In particular, the possibility for the Competition authority to advise on local planning documents would contribute to reducing barriers to retail outlets' establishment originating from planning rules.

**Certain barriers to competition in the retail sector remain in place.** There are a number of regulations that could limit competition. For example, the ban on sales below costs still remains in place and the periods during which clearance sales can take place are heavily regulated. Also there are some anti-competitive practices which are not addressed appropriately yet. In this context, the Competition Authority has signalled that the length and rigidity of contracts binding independent shops to a store-brand network can be a serious obstacle to competition.<sup>34,35</sup>

### ***3.2.3. Reform of Sunday work***

**Currently Sunday work is already allowed in specific cases in France but the rules are complex and do not necessarily treat similar situations equally.** In 2011, 6.5 million employees, 29% of total workers, had worked on Sunday and 3 million employees worked on Sunday on a recurrent basis<sup>36</sup>. A number of activities such as flower shops, foodstuff retailers, cafés and restaurants, in industries that operate 24 hours (such as the chemical process industry or the energy sector) are already allowed to open each Sunday. For the retail sector, the default rule is that Prefects or Mayors can allow retailers to open up to 5 Sundays per year (“*dimanches du maire*”) with workers getting a double salary and full recuperation for hours worked on Sunday. Moreover, in 640 touristic zones, airports and 31 exceptional consumption zones, Sunday and evening work are possible throughout the year. However, touristic zones are sometimes rather narrowly defined by the Prefect or Mayor. For example only a few streets in Paris are currently in a touristic zone. In exceptional consumption zones, social partners need to agree to Sunday work and workers need to be compensated, in the absence of an agreement the level is fixed at a double salary and full recuperation of hours

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<sup>34</sup> Avis n° 10-A-26 du 7 décembre 2010 relatif aux contrats d'affiliation de magasins indépendants et les modalités d'acquisition de foncier commercial dans le secteur de la distribution alimentaire.

<sup>35</sup> Parliamentary amendments to the Draft Law on Economic Activity have been approved that aim to solve problems related to the long duration of such contracts and their tacit renewal.

<sup>36</sup> Dares (2012) « En 2011, 29% des salariés ont travaillé le dimanche de manière habituelle ou occasionnelle » Dares Analyses, Octobre 2012.

workers on Sunday, which is not the case for workers in touristic zones. It is therefore possible that similar shops in similar circumstances do not have the same possibilities to open on Sunday and that also the rules on compensation differ from one shop to another for similar situations.

**From an economic perspective Sunday work is positive for employment and economic activity.** In 2013, 18 countries in the OECD (out of 33) did not have any rules on Sunday work. A study of all changes in Sunday work regulations over the period 1998-2013 in OECD countries shows that a liberalisation of Sunday work creates significant employment effects but also a positive impact on turnover and on the number of firms.<sup>37</sup> Other studies find an overall employment effect for the retail sector of 3.2% of abolishing Sunday work rules in Canada.<sup>38</sup> Nonetheless, a certain level of restrictions on Sunday work can be justified for social or other reasons.<sup>39</sup>

**The draft law allows for more Sunday openings conditional upon agreement between the social partners and upon compensation.** The draft law proposes to introduce a new “*dimanches du maire*” rule that allows all retailers in France to open 5 Sundays in any case leaving the possibility to the Mayor to allow retailers to open up to 12 Sundays<sup>40</sup>. Moreover, International Touristic Zones will be created, on the proposal of the government, in which Sunday work and evening work are possible throughout the year. Also Sunday and evening work will be made possible in train stations. However, henceforth, Sunday and evening work will be compensated for all workers and will only be possible on a voluntary basis conditional upon an agreement between social partners at branch, territorial or enterprise level. Retailers that already opened on Sundays and that did not yet conclude an agreement on compensation and other conditions of Sunday work with employees, get a three year transition period to conclude such agreements.

**Although the reform of Sunday work is a step in the right direction, its impact will be fairly limited.** The impact of the reform is difficult to assess at this juncture as the details of the measure are not yet fully clear, notably as regards the scope of the definition of International Touristic Zones. The relaxation of the “*dimanches du maire*” rule is a positive evolution. The reform also simplifies and streamlines the labour rules that apply for the different zones and the “*dimanches du maire*”. However, the system of the Sunday work remains complex and the proposed reform is relatively limited in ambition. All in all, given

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<sup>37</sup> Genakos, C., Danchev S. (2014) « Evaluating the impact of Sunday trading deregulation », OECD, DAF working paper.

<sup>38</sup> Skuterud M. (2005) « The impact of Sunday shopping on employment and hours of work in the retail industry. Evidence from Canada », European Economic Review, 2005.

<sup>39</sup> For a more comprehensive literature on the economic benefits of Sunday work and the justifications for a certain restriction to Sunday work. See Commission d'étude des effets de la loi pour la croissance et de l'activité (2015) Réforme du travail dominicale, France Stratégie, Janvier 2015.

<sup>40</sup> Parliamentary amendments to the Draft Law on Economic Activity have been approved that would give local authorities the possibility to allow retail shops to open between 0 and 12 Sundays a year.

the relatively limited nature of the reform, one should not expect a large impact in terms of employment or economic activity.<sup>41</sup>

### ***3.2.4. Reforms related to the transportation sector***

**The market for domestic transport is traditionally subject to very strict authorisation procedures in France.** Typically, authorisations for operating a regular coach connection are refused where they could potentially compete with train services run under public service obligations. Only a few lines are operated on the French territory, and the share of coaches in inter-regional transport of passengers is negligible.

**Opening up coach transport for competition can lead to additional economic activity, allows for cheaper journeys and is complementary to train transport.**<sup>42</sup> Recent liberalisations of coach transport in Germany and the UK have led to a rapid expansion of coach transport. In Germany, there was a doubling of coach transport in the first year, whereas in the UK, the number of passengers transported increased by 50% in the initial phase of the market opening. In the UK, prices for coach transport were between 30% and 60% cheaper than train tickets for the same route. In Germany, the average price for a coach route of 100 km is EUR 15 whereas the average price of a train route of 100 km is EUR 30. Finally, opening up competition has not led to important substitution effects from train transport to coach transport with the main substitution being with individual passenger cars.<sup>43</sup>

**The draft law on Economic Activity proposes to liberalise the coach transport market.** The proposal is to deregulate the coach travel business completely with authorities only being able to prohibit the creation of a new route or to impose a limit in terms of time schedule or capacity that takes place within a region upon advice of a newly created railway and roadway transport regulator (ARAFER). These measures can only be taken in case of competition with a publicly organised line for infra-regional transport, be it by train or by coach, in order to maintain the economic equilibrium of the public service provider.

**The announced liberalisation is a step in the right direction.** Coach transport has the potential in France to transport many more people than today and can contribute to a more sustainable transport of people on medium and long distances. For example, currently, there is no direct connection by public transport between Lyon and Bordeaux. A stopover in Paris is needed which makes it a journey of 1050 km, whereas the direct distance Lyon Bordeaux is 485 km. With the liberalisation of coach transport a direct connection could emerge. Moreover, journeys by coach are generally cheaper than journeys by TGV and could therefore offer a complementary service for more price sensitive groups such as students.<sup>44</sup> Based on

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<sup>41</sup> Commission d'étude des effets de la loi pour la croissance et de l'activité (2015) Réforme du travail dominical, France Stratégie, Janvier 2015.

<sup>42</sup> See Commission d'étude des effets de la loi pour la croissance de l'activité (2015) Ouverture de l'offre de transport par autocar, France Stratégie, Janvier 2015.

<sup>43</sup> The Competition Authority suggests that also in France, the main substitution effect would be on passenger cars. Avis du 27 février 2014 relatif au fonctionnement concurrentiel du marché du transport interrégional régulier par autocar

<sup>44</sup> Etude d'impact, projet de loi pour la croissance et l'activité, Tome 1, 10 décembre 2014

the experience from Germany and Sweden coach transport could reach a market share of 5%. Taking into account substitution effects this could generate an increase in net disposable income of around EUR 800 million (0.04% of GDP) and have an overall impact on economic activity of between 0.06% and 0.09% of GDP over 5 years according to the government's impact assessment.

**The development of coach transport might be slower than anticipated.** The development of coach services can be slowed down by the low number of coach stations as only 50% of French prefectures have a coach station.<sup>45</sup> Moreover, the fact that infra-regional routes can be forbidden could limit the impact of the reform. The Competition authority had proposed a possibility to prohibit routes shorter than 50 km,<sup>46</sup> based on the German regulations, while now in some regions routes of longer than 400 km could be prohibited.<sup>47,48</sup> However, the involvement of the ARAFER in the prohibition of routes should avoid that routes are unnecessarily forbidden.

**The powers of the transport regulator have been extended to motorway concessionaries.** Motorway concessionaries have been privatised in 2006. According to an opinion of the Competition Authority, tariff increases since 2006 have not been justified by costs suggesting a problem of regulatory oversight.<sup>49</sup> To remedy this situation the draft law proposes to extend the competences of the transport regulator (ARAFER) to motorway concessionaries, in particular to supervise the setting of tariffs.

### 3.2.5 Reform of Justice Prud'homale

**The French system of dispute resolution for individual dismissals increases the cost of dismissals.** In France the dispute resolution for individual dismissals is organised by the Conseil des Prud'hommes, a system of lay judges. The system starts with a mandatory conciliation stage in front of two lay judges, representing the social partners. If no amicable agreement can be reached the case is brought for a Conseil des Prud'hommes consisting of four lay judges. If there is no majority in the bureau, the case is brought before a professional judge (*procédure de départage*) to take a decision. The efficiency of the process of dispute resolution is a key determinant of the costs and effectiveness of employment protection. This element is, however, not covered in the OECD indicator.<sup>50</sup> Yazidi and Darmaillaq (2014)<sup>51</sup> suggest that the French system of dispute resolution of individual contracts, the *Conseils des Prud'hommes*, shows weaknesses that increase the cost of dismissing an individual

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<sup>45</sup> OECD (2015), 2015 Economic Review – France, OECD publishing, forthcoming.

<sup>46</sup> Avis du 27 février 2014 relatif au fonctionnement concurrentiel du marché du transport interrégional régulier par autocar

<sup>47</sup> Etude d'impact, projet de loi pour la croissance et l'activité, Tome 1, 10 décembre 2014

<sup>48</sup> Parliamentary amendments to the Draft Law on Economic Activity have been approved that foresee that all routes shorter than 100 km should be notified and prohibited in certain circumstances (instead of the possibility ex-post to prohibit infra-regional routes).

<sup>49</sup> Avis n° 14-A-13 du 17 septembre 2014 sur le secteur des autoroutes après la privatisation des sociétés concessionnaires

<sup>50</sup> OECD (2013) OECD employment Outlook, July 2013, OECD publishing.

<sup>51</sup> Yazidi K. and Darmaillaq C. (2014), « Le traitement des litiges en droit du travail : constats et perspectives économiques », Trésor-Eco N 137, October 2014.



employee.<sup>52</sup> The malfunctions of the *Conseil des Prud'hommes* are described in the Lacabarats report<sup>53</sup> and include a low success rate in conciliation between the parties (5.5%), long delays before the case can be treated in first instance (average 15.2 months) and in case of appeal (average 39 months) but with numerous cases where the delays increased up to 5 years, a high number of appeals (62%) and a high number of reversals on appeal (71%).

**Too strict employment protection of employees with a permanent contract weighs on Total Factor Productivity growth and can create segmentation.** Bassanini et al. (2009) demonstrate that too strict employment protection of employees with a permanent contract has a significantly negative impact on total factor productivity.<sup>54</sup> Too strict employment protection slows down the flow of human resources from low to high productive firms, hurting aggregate productivity growth but can also indirectly lead to lower TFP growth as it weighs on the willingness of firms to take risks and as it makes it more difficult to adjust in case of changing economic circumstances. Moreover, high employment protection reduces labour market flows with less firing and hiring and globally has a negative effect on employment<sup>55</sup>. Analysis suggests that job flows are far less important in France than in the USA<sup>56</sup>. In France, the different protection of permanent and temporary workers has also led to a very low transition rate for temporary workers into a permanent job (see figure 2). Cahuc et al (2012) calibrate a labour market model that can reproduce the main properties of entries into employment observed in France and Spain. They demonstrate that the protection of permanent jobs as observed in continental European countries, versus the USA, has very small negative effects on aggregate employment but results in a high share of temporary jobs in new hires, a very short average spell of temporary jobs and that the main part of the fluctuations in employment is due to flows into temporary jobs. This large reallocation of jobs is also negative for aggregate production, because the production (net of labour turnover costs) of temporary jobs is much smaller than that of permanent jobs.<sup>57</sup>

**The draft Law on Economic Activity proposes to improve the functioning of the *Conseil des Prud'hommes*.** The draft Law on Economic Activity has three objectives. First, it aims at professionalising the *Prud'hommes*. To that end, the draft law proposes to reinforce the deontological code and the disciplinary framework. It proposes to improve the initial and continued formation of the *Prud'hommes*. And it proposes to create trade union defenders who assist the workers that appear before the *Conseil des Prud'hommes*. Second, the draft law aims at making the conciliation phase more successful. Henceforth, it will be possible to engage in alternative dispute settlement procedures, such as mediation, during the Conciliation phase, the results of which will be recognised by the *Conseil des Prud'hommes*.

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<sup>52</sup> On the other hand, the OECD indicator might overestimate the employment protection of workers on temporary contracts in France according to some experts.

<sup>53</sup> Lacabarats (2014) L'avenir des juridictions du travail : Vers un tribunal prud'homal du XXI<sup>ème</sup> siècle

<sup>54</sup> Bassanini A., Nunziata L. and Venn D. (2009), "Job protection legislation and productivity growth in OECD countries", Economic Policy, 2009.

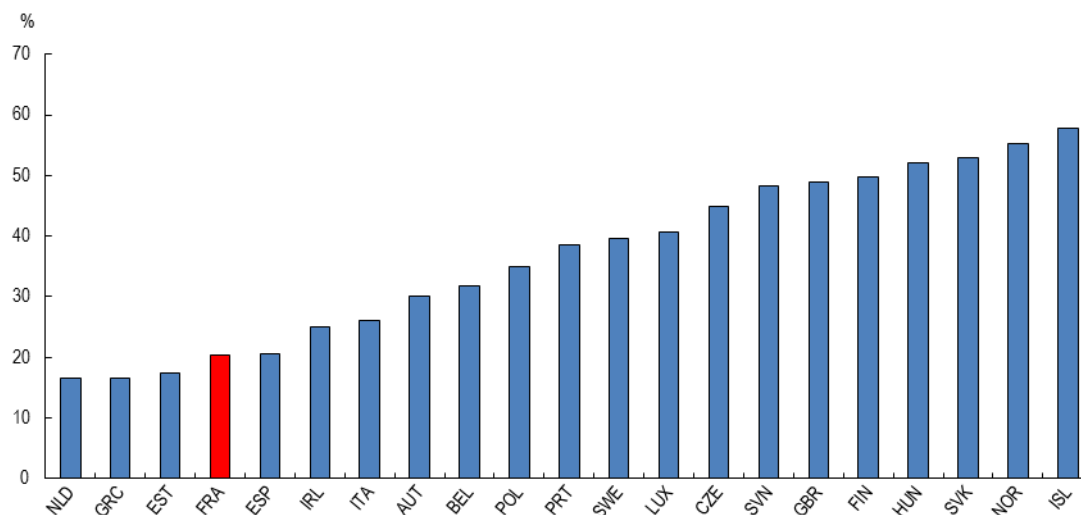
<sup>55</sup> A summary of empirical studies is presented in Cahuc, P., Carcillo, S. and Zylberberg, A. (2014) Labor Economics, MIT Press.

<sup>56</sup> Picart J. (2008) Flux d'emploi et de main-d'œuvre en France : un réexamen, Économie et statistique N° 412, 2008, INSEE.

<sup>57</sup> Cahuc P., Charlot, O. and Malherbet F., (2012) Explaining the Spread of Temporary Jobs and its Impact on Labor Turnover, International Economic Review, forthcoming.

Thirdly, the draft law aims at shortening the delays. To that end, it proposes to change the procedures, for example by allowing that complex cases are directly sent to a panel chaired by a professional judge after the conciliation procedure.<sup>58</sup>

**Figure 1 Transition rate from fixed term contract to permanent contract**



Source: OECD

**The proposed reform of the *Conseil des Prud'hommes* is timely and welcome but will not reduce the uncertainty related to the complexity of the jurisprudence on individual dismissals.** The reforms proposed in the draft law go in the right direction and can contribute to reducing uncertainty and the overall cost of dismissal. However, France is one of the few OECD countries where professional judges are not involved from the start of the legal proceedings in individual labour disputes. The fact that the procedure would foresee that complex cases could be adjudicated by a professional judge preserves the character of the *Conseil des Prud'hommes* while contributing to a reinforcement of the legal basis for the decisions and to improve the correct interpretation of the law. Finally, the uncertainty surrounding individual dismissals stems not only from the functioning of the *Conseil des Prud'hommes* but also from the inherent complexity of the law and the way it is interpreted by the judiciary as a whole. This makes the outcome of legal cases difficult to predict.<sup>59</sup>

### 3.2.6 Other measures in the Draft Law on Economic Activity

**The draft Law on Economic Activity contains a range of other measures that are almost all positive for the business environment** and that can be subdivided into measures that further open up competition, promote investment and reform the labour market.

<sup>58</sup> Parliamentary amendments to the Draft Law on Economic Activity have been approved that change somewhat the procedures proposed by the government while maintaining the objective of shortening the delays.

<sup>59</sup> See Commission d'étude des effets de la loi pour la croissance et l'activité (2015), Réforme de la justice Prud'homale, Janvier 2015, France Stratégie but also « Le Contrepoint de Barthélémy J. and Cette G. » in Yazidi and Darmaillaq (2014) and Barthélémy J. and Cette G. » (2013) "Refonder le droit social: mieux concilier protection du travailleur et efficacité économique", La Documentation Française, seconde édition.

### Opening-up competition

**The draft law proposes to introduce improvements to the system of obtaining driver licences to shorten delays and reduce the costs.** Until now, the State was the only one organising driver licence exams and some driving schools charged heavy fees to participate to the exam. The draft law allows the private sector to organise certain driving licence exams and regulates the fees driving schools can charge to participate to the exam.

**The draft law proposes to reform the bankruptcy laws,** creating specialised courts for large companies in difficulties and allowing judges, in ultima ratio, to transfer ownership from shareholders to investors with a credible rescue plan. The intention is to reduce the loss of firm specific value added and save jobs in bankruptcy proceedings. In the same context of making legal proceedings more efficient, the draft law organises a greater specialisation of commercial courts.

**The draft Law on Economic Activity contains proposals that can have the effect of restricting competition for building and public works.**<sup>60</sup> The draft Law creates a professional identification card issued by a national body and requested from each employee performing building works or public works. This card would include details relating to the employee, the employer, the enterprise as well as the national organization. These provisions can have the effect of limiting competition, in particular from service providers from other Member States.

### Supporting investment

**The draft law proposes to facilitate construction projects.** It creates a single authorisation for environmental procedures for big construction projects with the objective to have a construction permit allowed in 5 months. For the moment, the single authorisation already existed as an experiment in two regions. In the same context, the experiment of the project certificate will be extended to the Region Ile-de-France.<sup>61</sup> Finally, a number of other measures are taken, e.g. provisions limiting the risk that a project needs to be demolished because of procedural reasons or simplifying the authorisation procedures to install fiber-optic cables in the communal parts of buildings.

**The draft law proposes some improvements to the “logement intermédiaire”,** a system of rental subsidies and incentives for middle-income earners. For example, “communes” can allow up to 30% higher construction densities deviating from the existing zoning prescriptions for “logement intermédiaire”. In this context, a simplification of the Duflot law is also foreseen notably by clarifying the rules for “congés pour vendre”<sup>62</sup>, “colocation”, simplifying the regulation of the “état de lieux”, aligning the rental contracts for fully equipped and empty apartments and clarifying that the maximum rental price for Paris will not be applicable to existing contracts.

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<sup>60</sup> Projet de loi pour la croissance et l'activité. N° 2447, Assemblée Nationale, 11 décembre 2014.

<sup>61</sup> The project certificate is a guarantee given by the “*préfet*”, within a delay of 2 months, that provides administrative certainty on the procedures to follow for big construction projects also giving more visibility on timing and likely approval of the construction permit.

<sup>62</sup> “*congés pour vendre*” is a scheme giving priority to the renter to buy the property he rents if it is put for sale.

**The draft law proposes to simplify the schemes for employee shareholdings and employee savings.** Employee-saving schemes are extended to SMEs and the funds are focused to increase the financing of the real economy. Moreover, the taxation of employee shareholdings is reviewed with a view to associating employees to their firm, a measure which is particularly targeted at innovative companies and start-ups.

**The draft law proposes to make the management of the State's participations more efficient,** to make it easier to divest in certain industries to finance priority investment elsewhere. Resources will be made available by (further) opening up the capital of certain state-owned companies. The intention would be to reduce public debt by EUR 4 billion. Finally, the framework law on State participation in companies will be adjusted to broaden the possibility for employee shareholding and to introduce more graduation in the current "golden share" regulation.

#### Reforming the labour market

**It is proposed to replace the possibility of being imprisoned with a system of financial sanctions for infringements against the employees' right of representation** ("délit d'entrave"). This clarification will improve the investment climate in France although some observers fear that there is a risk of weakening of the social dialogue.

### **3.3. Reform of local administration**

**The local government in France is organised along four administrative layers.** Before the reform, these included 22 regions, 101 departments, 2600 inter-communalities and 36700 communes. In order to streamline the territorial organisation and to allow mergers between some of these structures, the government has initiated a wide reform of local administration which is composed of four building blocks:

- The law on the territorial organisation and on "metropoles" (MAPTAM), which was adopted on 27 January 2014.
- The law reducing the number of regions and reforming the agenda of local elections, which was adopted on 16 January 2015.
- The draft law on a new territorial organisation (NOTRe), which was presented in the Council of Ministers in June 2014. The first reading of the draft law in the Senate ended on 25 January 2015. The first reading in the National Assembly started on 28 January.
- A proposal for a law to facilitate mergers between communes, which is being discussed in Parliament.

### *Creation of the metropolises*

The concept of "*metropole*" was introduced in France by a law on territorial organisation adopted in December 2010.<sup>63</sup> This law already considered that new structures should be created to ensure a consistent approach throughout metropolitan areas. However, the success of the law was limited with only one metropole being created in Nice. Accordingly, the MAPTAM law reinforces the prerogatives of metropolises and ensures a differentiated approach for the large metropolises to better take into account territorial disparities.

**The MAPTAM law creates the possibility for inter-communalities grouping more than 400 00 inhabitants within an urban area of more than 650 000 inhabitants<sup>64</sup> to transform it into a metropole.** The creation of a metropole is done through a government decree on a voluntary basis. Once created, a metropole absorbs the various inter-communalities which formerly existed on its territory. It is notably responsible for economic development, urban development and planning, local housing policy, utilities and environment. These broad domains of competence can be extended based on an agreement with the State, regions or departments or of the composing communes. Besides the general case, which includes 11 metropolises created on 1 January 2015, three metropolises with a specific status are created in Paris, Lyon and Marseille. The metropole of Lyon, which was also created on 1 January 2015, represents a particularly integrated model. Indeed, the Lyon metropole has not only taken over the competences of inter-communalities but also that of the department on the territory it administers. On the other hand, the metropole of Marseille, which will be created on 1 January 2016, will have a less concentrated approach. A territorial council will be created within the metropole which will be responsible for the competences of the metropole, except those considered as strategic, on smaller territories.

**The government has not quantified the economic impact linked to the creation of the metropolises.** In the long term, these structures are expected to increase the consistency of the urban areas around large cities, enhancing the gains which are derived from agglomeration. In that respect, the case of Marseille, where a "territorial council" layer has been added to the metropolitan scale, may result in lower gains. In the short term, however, the creation of new structures is likely to result in additional costs. First, the transfer of public employees from one structure to the other will be done on favourable terms for the employees. As transfers are likely to be mainly within the territorial public service, these costs will, however, be more limited than for past decentralisation episodes which saw important transfers of employment from Central government to local government.<sup>65</sup> In addition, the mergers of various inter-communalities within one single entity will incur costs for the State as the single grant received by the metropole is expected to be larger than the sum of the grants received by its composing inter-communalities. The impact assessment on the draft law by the government expects that this latter cost will nevertheless remain limited.

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<sup>63</sup> Loi n° 2010-1563 of 16 December 2010 on reforming territorial administration.

<sup>64</sup> Urban areas around regional capitals also have the possibility to become metropolises.

<sup>65</sup> Discrepancies between the employment conditions for employees in the territorial public service are significantly more favourable than for employees of the Central State. Discrepancies between various local government entities are more limited.

### ***Mergers of local administration***

Beyond the creation of metropolitan areas, the territorial reform includes measures to merge or elicit mergers among entities of the same nature so as to achieve economies of scale and improve consistencies. Specific measures are notably considered for regions, inter-communalities and communes. So far only the measures related to the mergers has been adopted while the other measures are still under discussion in the Parliament.

**The new map of regions adopted in January 2015 reduces the number of regions from 22 to 13.** This decision will be effective on 1 January 2016 and seeks to strengthen the regions, in line with the increasing role foreseen by the MAPTAM and NOTRe laws (see below). The financial impact of the reform on the regions, which represented 12% of total expenditures at the local level in 2013, is not quantified by the impact assessment conducted by the government. Based on the initial budgets for 2014, it could be estimated that efficiency gains could yield close to EUR 1 billion.<sup>66</sup> Assuming that the impact on regions of the EUR 11 billion reduction by 2017 in the grant provided by the State is based on their financial weight, the related cuts will be of the same magnitude as the long-term gains of the reform estimated above. In addition, as the mergers of regions also take place at the same time as a significant reshuffling of their role, uncertainties remain on the developments in the budget for the various regions in the next few years.

**Measures have been taken to elicit mergers and pooling of responsibilities between communes in the same geographical area.** France has the highest number of communes in the EU, of which 90% have less than 2000 inhabitants. Despite reforms in 2010, the use of the existing schemes to merge communes has remained modest. Based on the conclusion of a report commissioned by President Hollande on developments in local government administration released in April 2014,<sup>67</sup> a proposal for a law supporting the creation of "*communes nouvelles*" to merge existing communes has been submitted to Parliament. In particular, financial incentives are foreseen, in the form of temporary exemptions from the reduction in the grant provided by the State. In the same vein, in order to reduce the number of inter-communalities and ensure that they have the critical size to effectively yield efficiency gains, the NOTRe draft law foresees a strong increase in the minimum number of inhabitants served by an inter-communal structure (from 5 000 to 20 000). For example, as of 1 January 2014, the most widespread form of inter-communalities, the "*communautés de commune*", counted on average only 14 000 inhabitants. This reform will therefore entail a sharp reduction in the number of inter-communalities, to the point that, in some rural areas, the ability of inter-communal structures to effectively serve large territories may be raised.

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<sup>66</sup> A negative relation can be observed between the number of inhabitants per regions and the total expenditures per inhabitants. The total expenditures of the 6 new regions that are formed can be estimated to be lower than the sum of the expenditures of the 13 formerly existing regions that merged.

<sup>67</sup> Malvy M. and A. Lambert (2014), "Pour un redressement des finances publiques fondé sur la confiance mutuelle et l'engagement de chacun".

### *Clarification of competences*

**Beyond the reduction in the number of local government entities, the government has initiated an overhaul in the repartition of responsibilities between the various types of local government which is mainly enacted in the draft law NOTRe which is currently discussed in Parliament.** The reform primarily seeks to clarify responsibilities and will notably result in a strengthened role of regions and inter-communalities. To do so, the law notably foresees that the general competence clause, which was extended to regions and department by the law on metropolises, will be limited to the municipal level as foreseen by the 2010 reform on local administration. The regions and the departments will therefore only be responsible for the domain explicitly mentioned by law while communes retain the possibility to act in any domain deemed relevant based on local interest.

**The role of regions is considerably reinforced by the draft law NOTRe.** Regions will be granted a leading role regarding support to economic development. Since January 2014, they have already become the managing authorities for European Structural funds. Based on the NOTRe draft law, they will also be in charge of transportation, notably regional railway transportation. Finally, the responsibility of local roads, which had been transferred from the State to department, will be allocated to regions. Regions will therefore takeover a number of roles formerly assumed by department.

**The NOTRe draft law also foresees the transfer of a limited number of responsibilities from the communal to the inter-communal level.** Inter-communalities are given additional responsibilities for tourism and for the management of facilities for travellers. In many cases, inter-communal structures have already taken over these responsibilities. Therefore, although the law mentions that inter-communalities are expected to play an increasing role, limited instruments are provided to that avail. The change is therefore expected to arise from the individual decisions of local authorities rather than from the reform, which is notably constrained by the free administration clause of local government. To support these transfers, the draft law notably increases the number of competences needed for an inter-communality to benefit from an extra-grant from the State. The effectiveness of the various reforms in yielding efficiency gains at the local level will depend on the willingness of municipalities to streamline expenditures on items which are mutualised. In that respect, while financial constraints on the municipal level have increased with the reduction in the State grant, the increasing role of inter-communal structures over the last few years does not seem to have resulted in measurable financial gains so far.<sup>68</sup>

**The role of the department, which will mostly be limited to social affairs, may be taken over by other structures in the long term.** The strengthened role of the regions and inter-communalities, and in particular the metropolises, translate into a significantly lower role of departments. They will focus on social development, on young children care and on support for dependent adults. While the disappearance of departmental councils was considered, the

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<sup>68</sup> Cour des comptes (2014), "Les finances publiques locales – Rapport public thématique", Paris

current reform foresees that, on a case by case basis, they could be taken over by inter-communal structures. In particular, in the case of the Lyon metropole, the department is fully integrated within the metropole. It is not clear at this stage whether such a process will eventually be adopted for the other metropole. There is therefore a risk that different organisations eventually prevail depending on the territory (metropole, urban area, rural area) to conduct responsibilities formally attached to departments. While this could provide efficiency by customising the provision of services to the local situation, it would also create complexity and reduce the readability and the consistency of the *réforme territoriale* and go against one of its objective to simplify and streamline responsibilities between local authorities.

**The impact of the reform of local administration, which is composed of four different texts, will only become significant in the medium term.** The reform could significantly improve the efficiency of local administration by reducing the number of territorial subdivisions and clarifying the roles of the various layers of local government. However, an assessment of the effectiveness of the reform will only be possible once all its components have been implemented. At this stage, large sections of the reform remain to be adopted. This is notably the case for the NOTRe draft law which reviews the repartition of responsibilities. While part of the reform has been adopted, implementation is often planned to start with some delay (e.g. the merger of regions will become effective in 2016). Regarding the metropolises which have actually been created in January 2015, it is also much too early to assess to what extent they have contributed to improve the effectiveness of public intervention at the local level.



## Annex I – State of play of MIP relevant Council Recommendations

	2014 CSRs	Action taken		
		Announced measures	Adopted measures	Implemented measures
1	<p><i>Reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. In particular, take steps to reduce significantly the increase in social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances. Set a clear timetable for the ongoing decentralisation process and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Reinforce incentives to streamline local government expenditure, by capping the annual increase in local government tax revenue while reducing grants from the central government as planned. Beyond the need for short-term savings, take</i></p>	<p>The inter-ministerial committee for the 'Modernisation de l'Action Publique' was last convened in December 2013. In 2015, EUR 2.1 bn of savings are foreseen on the operational expenditure of the government.</p> <p>A draft law on public health "projet de loi relatif à la santé" was presented in the Council of Ministers on 15 October 2014. It foresees notably a development of the "care pathway" logic, a shift of the system from hospital to ambulatory care and reinforcement of prevention in a prospect to increase cost-effectiveness.</p> <p>A bill is being discussed in Parliament on the organisation of competencies between the various layers of local administration with the adoption foreseen by the end of June 2015.</p>	<p>The budgetary plan for 2015 and the programming law for public finances postpone the correction of the excessive deficit to 2017 and the achievement of the medium-term objective is now foreseen by 2019. Savings of EUR 21 bn are planned in 2015, of which EUR 9.6 bn on social security expenditures.</p> <p>In addition, the programming law for public finances introduces an annual spending review as part of the budgetary cycle. Moreover, the programming law for public finances notably introduces an indicative national norm on local government expenditures.</p> <p>The law on financing social security includes measures to reinforce control over the price budget on pharmaceuticals (notably on treatment against Hepatitis C) through a managed entry agreement (payback scheme).</p> <p>Two bills on the reform of local administration were adopted in 2014, respectively in January and December. The first bill foresees</p>	

	<p><i>steps to tackle the increase in public expenditure on health projected over the medium and long term, including in the area of pharmaceutical spending, and take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes.</i></p>		<p>the creation of metropolitan areas around 14 major French cities (which have been created as of 1/01/2015 for 12 of them) The second bill redefines the regional organisation in France by merging several regions (from 22 to 13).</p>	
		<p>No action was taken to change the pension system and notably existing special schemes and complementary schemes.</p>		
2	<p><i>Ensure that the labour cost reduction resulting from the 'crédit d'impôt compétitivité emploi' is sustained. Take action to further lower employer social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary. Further reduce the cost of labour in a budget neutral way, namely at the lower end of the wage scale in particular through targeted reductions in employer social security contributions taking into account the various wage support schemes.</i></p>	<p>As of 2016 a second part of the Responsibility and Solidarity Pact, aimed at wages over 1.6 and up to 3.5 minimum wages will be introduced.</p> <p>The Government announced the merger of the two wage support schemes for low wage earners, namely the "Prime Pour l'Emploi - PPE" et le "Revenu de Solidarité Active - RSA activité" into a single "Prime d'Activité" expected to be operational as of 1st January 2016. The new single scheme is expected to be easier to use for the beneficiaries, providing a single monthly support, and a coverage also for workers aged less than 25. It should concern workers earning up to 1.2 minimum wages. The budgetary cost of the merger is announced as constant, i.e. EUR 4bn a year.</p>	<p>In line with the Responsibility and Solidarity Pact, the first supplementary budget for 2014 amplifies the decrease in labour costs from 2015 on with: the full relief of the contributions paid by employers to URSSAF for salaries up to 1.6 times the minimum wage and a reduction in family contributions up to EUR 1 bn for self-employed.</p>	<p>The "crédit d'impôt compétitivité emploi" became operational. A second report on the "crédit d'impôt compétitivité emploi" was issued in September 2014.</p>

3	<p><i>Simplify companies' administrative, fiscal and accounting rules and take concrete measures to implement the Government's ongoing 'simplification plan' by December 2014. Eliminate regulatory impediments to companies' growth, in particular by reviewing size-related criteria in regulations to avoid thresholds effects. Take steps to simplify and improve the efficiency of innovation policy, in particular through evaluations taking into account latest reforms and if necessary an adaptation of the 'crédit d'impôt recherche'. Ensure that resources are focused on the most effective competitiveness poles and further promote the economic impact of innovation developed in the poles.</i></p>	<p>A new National Commission for the Evaluation of Innovation Policies has been set up under the auspices of France Stratégie. The Commission is expected to produce a first report by summer 2015; both a monitoring report on the implementation of the CIR in 2012 and a report on the evolution and the impact of the CIR in the 1983-2011 period have recently been published. However, the cost/benefit of the instrument since the reform in 2008 has not been assessed in isolation. First steps are being taken to concentrate funding on the most successful Pôles de Compétitivité. With the launch of the third phase of the Pôles de Compétitivité, the emphasis has shifted to transforming them into factories of new products and services, i.e. a stronger focus on generating impact. Negotiations among social partners on modifying size related criteria in regulations concluded without an agreement. The creation of a new independent authority for simplification in charge of monitoring the flux of new regulation and performing impact assessment on new policy proposals was foreseen at the beginning of January but has not been implemented yet. The quality of impact assessment and in particular the systematic inclusion of an SME</p>	<p>Two packages of 50 simplification measures were adopted by the Simplification Council and taken over by the Government. A law on administrative simplification, taking up a number of measures proposed by the Council, was adopted on December 20<sup>th</sup>. Other measures of this simplification package have been introduced in the draft law on Economic Activity which was presented in December to the Council of Ministers. The SGMAP has developed a platform to centralise a number of documents concerning enterprises. It is a first step towards the implementation of the "tell us only once" principle.</p>	<p>The implementation of the two packages of simplification measures is ongoing. 1/4<sup>th</sup> of the first 50 measures proposed have already been implemented. The "tacit consent" principle was implemented in November for 1200 procedures. A statutory instrument to simplify accounting for micro and small enterprises was published.</p>
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		<p>test in the impact assessments is still an issue. A project aiming at the complete dematerialisation of communications between enterprises and public administrations has been launched.</p>		
		<p>No action was taken to adapt the 'crédit d'impôt recherche'. Also a drastic reduction of the number of Pôles is currently not envisaged, although there are indications that a limited number could be suppressed in the near future.</p>		
4	<p><i>Remove unjustified restrictions on the access to and exercise of regulated professions and reduce entry costs and promote competition in services. Take further action to reduce the regulatory burden affecting the functioning of the retail sector, in particular by simplifying authorisations for the opening of trade outlets and removing the ban on sales at a loss. While maintaining affordable conditions for vulnerable groups, ensure that regulated gas and electricity tariffs for household customers are set at an appropriate level which does not represent an obstacle to competition. Strengthen electricity and gas interconnection capacity with Spain; in particular, increase the gas interconnections capacity to fully integrate the Iberian gas market with the European market. In the railway sector, ensure the independence of the new unified infrastructure manager from the incumbent operator and take steps to open domestic passenger transport to competition in line with the provisions of, and the calendar that will be decided by, the forthcoming directives.</i></p>	<p>FR has started to assess the existing restrictions in professional services in a more systematic way. A draft law has been presented to the Council of Ministers proposing some progress in certain law professions (administrateurs judiciaires, commissaires-priseurs judiciaires, greffiers de tribunaux du commerce, huissiers de justice, mandataires judiciaires, avocats et notaires). It has also been announced that a law will be proposed on the liberalisation of some health professions but precise information has not been provided yet. The draft law also contains provisions on the retail sector giving more competences to the Competition Authority. Finally, the draft law proposes a reform of Sunday opening hours for retail shops and a liberalisation of coach</p>	<p>The recently adopted ACTPE Act (June 2014) aims at simplifying the procedure for the establishment of retail outlets. The new rules need to be implemented in an effective way, in order to ensure that the objectives pursued are effectively attained in practice. The Law adopted on 4 August 2014 on the reform of the railway system, reorganized it with the aim to improve industrial efficiency by implementing a unified infrastructure manager. The implementation decrees have not been adopted so far.</p>	<p>In February, a decree was adopted that allowed notaries to have two salaried associates and that allowed lawyers at the "Conseil d'Etat" and the "Cour de Cassation" to engage salaried workers. In March, the Consumption Law was adopted, abolishing the monopoly of pharmacies to sell certain products, e.g. pregnancy tests, and allowing the sale of glasses and lenses on the internet. In May, the provision that the capital and voting rights needed to be owned at least for 50% by accountants registered in France was replaced by a provision that European accountants need to detain at least two-thirds of the voting rights.</p>

		<p>transport The Transmission System Operators of Spain, France and Portugal signed on 6 January 2015 in Brussels a common strategy paper for the development of interconnection of the Iberian Peninsula with the internal electricity market. The common strategy paper lists common goals and indicates which options for projects can increase the current interconnection capacity.</p>		
No action was taken to remove the ban on sales below costs.				
5	<p><i>Reduce the tax burden on labour and step up efforts to simplify and increase the efficiency of the tax system. To this end, starting in the 2015 budget, take measures to: remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the 'Assises de la fiscalité' initiative while reducing the statutory rates; take additional measures to remove the debt bias in corporate taxation; broaden the tax base, in particular on consumption; phase out environmentally-harmful subsidies.</i></p>	<p>The other measures on C3S and corporate income tax are announced to be adopted in future finance bills.</p>		<p>The budget increases the excise duties on diesel by EUR 0.02 to reduce the difference in taxation between fuel types (i.e. this differential passes from 17.59 c €/L to 15.59 c €/L). The eco-bonus/malus system on car purchases is focused now on the lowest emission vehicles (decree of 31 Dec. 2014).</p> <p>The first bracket of the income tax (5.5%) has been deleted. The C3S is gradually phased out. To simplify the tax code by abolishing charges whose effect is zero or whose performance is low with high management costs, the</p>

			budget also cancelled a couple of taxes with low-yields.  New tax expenditure are introduced notably in the field of construction sector, housing renovation and for the cinema industry.
	No action was taken to further reduce the debt bias in corporate taxation.		
6) <i>Take further action to combat labour-market rigidity, in particular take measures to reform the conditions of the 'accords de maintien de l'emploi' to increase their take up by companies facing difficulties. Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.</i>	The draft law on "growth and activity" proposes a reform of work contract joint jurisdictions ( <i>prud'hommes</i> ) to reduce length of processes and improve quality of decisions to reduce uncertainties. A new convention unemployment insurance will be subject to negotiations among the social partners before the end of 2016. One of the objectives of this renegotiation will be to improve the financial stability of the system.	The Government has announced a "Plan senior" to address senior unemployment. As a translation the "Contrats de génération" financial incentive were doubled from EUR 4000 to EUR 8000 in case of hiring of an unemployed senior over 55. The Budget Law for 2015 also targets the 80 000 subsidised job integration contracts in the private sector to senior and long-term unemployed. 80 000 additional public employment services counselling actions will be also targeted to senior and long-term unemployed.  The convention defining the priorities of the public employment services for 2015-2018 has been signed in December 2014. It should increase the number of dedicated supports by Pôle Emploi counsellor to job seekers the furthest away from the labour market.	The new unemployment insurance Convention entered into force on the 1st of July 2014, implementing new measures with activation purposes such as the "refillable rights" to unemployment benefit. Measures to support sustainability of the scheme are expected to reduce the yearly deficit of EUR 0.3bn in 2014 and EUR 0.8bn in 2015, while the cumulated debt would still increase from EUR 21.4bn in 2014 to EUR 24.9bn in 2015.
	No action was taken to revise the specific unemployment arrangements for older unemployed over 50.		