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Chapter 2

Territorial Strategies and Competitiveness Policies

2.1. Introduction

The main object of French regional policy for many years was to promote the even distribution of production and employment across the country. Successive governments sought, in particular, to reduce the excessive predominance of the area around the capital and focused on enabling the regions that had been lagging behind, in western and central France, to catch up, as well as on the development gap between urban and rural areas. For the most part, this was a directive rather than an incentive-based regional planning policy that promoted spatial renewal, infrastructure and public investment in disadvantaged areas. This approach, prominent during the "thirty glorious years" after the Second World War, was also characterised by the concentration of decision-making at central level, while the regions implemented the policies in a passive manner. Regional development was at that time part of the National Plan, with national strategy being implemented by the DATAR. From this standpoint, governance was seen as a matter of hierarchy, with local authorities functioning to some degree as "agents" for central government, which alone could decide on policy.

For the past twenty years, in France as in other developed countries, there has been a shift in regional and land-use planning policy. Socio-economic conditions are very different now from those prevailing in the early 80s, which had produced new patterns of economic activity and housing. Several studies have in fact emphasized that factors of competitiveness are becoming more and more regional in nature, making it necessary to take action at that level to stimulate growth and employment. Regional development policy today consists in providing support for projects by the sub-national authorities, and in targeting economic development. While most countries continue to pursue policies based on the redistribution of wealth in order to maintain the supply of public services at local and regional level, regional policy now increasingly seeks to better exploit a region's potential, regardless of its features, and make it more competitive. The French strategy is in line with this pattern.

The development of European regional policy has also provided a new context for regional policies, as well as trans-national structures for the activities of regional and local authorities. The regions have become the building blocks of a competitive Europe, and are now seen as the appropriate level for building partnerships between local elected representatives, the State and the European authorities. Even if central government continues to play a

dominant role in the regions through the government *préfets* and deconcentrated services (in other words those situated in the regions and not in Paris) which handle the local implementation of ministerial policies, new relationships have grown up with the sub-national tiers of government. The latter are seeing the scope of their decision-making powers expand, while the mandate of central government is increasingly based on incentivising and coordination rather than on hierarchical management.

Traditional regional policy

Under the strategy reflected in the framework laws on regional planning, enacted in 1995 and 1999,[1] regional policy sought to address, as it still does today, themes suggested by the geography of the country (relatively low density, surface area, dispersal of the major centres of population), its position (as a trading hub, with extensive border regions and coastlines) and the challenges confronting its economic fabric and its regions (growing internationalisation, remote areas, the rural exodus, problem neighbourhoods, industrial restructuring). Furthermore, the diversity of the regions and their performance, and the government's determination to remedy spatial disparities, have also given rise to initiatives intended to promote equal opportunities for every region. Central government policy is primarily based on budget matching and infrastructure financing. The incentives it offers are based on two instruments: zoning, and the regional planning premium (*prime à l'aménagement du territoire*, or PAT). Reductions in social contributions, tax incentives and direct aid are features of the machinery in place, which are commensurate with the degree of economic and social disadvantage in the area concerned, for instance sensitive urban areas or rural priority areas. The PAT rewards the creation of employment in areas of low economic development with a premium for every job created. These instruments constitute the foundation for policies on disadvantaged areas. They are a means of tapping into significant funding (for example under the mechanisms for the reconversion of declining industrial sites).[2]

While there is little evidence to distinguish this regional development policy from the standard policies implemented by the other member States, France is singular in one respect: its significant use of contracts involving different tiers of government or different public actors in the same tier. This is because the decentralisation that occurred after 1982 gave new powers to sub-national bodies, with regional policy becoming a responsibility shared with central government. To ensure coherence between the public initiatives in this field, a framework for co-operation was drawn up. The most characteristic form of such contract is the State/Region Planning Contract (*contrat de plan État/région*, or CPER) that can also be signed with other authorities, for instance *agglomérations* or urban areas, regional parks, or designated areas). With the march of decentralisation, the regions have been given more weight in

decision-making, and the scope of these contracts has been extended to cover not only infrastructure and industrial modernisation, but also other areas of government policy.

Moreover, the CPERs are at the interface between national land-use planning policy and European policy on structural funding. European policy is based on subsidiarity, in the sense that it supplements national initiatives and cannot be a substitute for them. Commission funding is awarded on the basis of the plan and requests for assistance from the member States (DOCUP). In France it is DIACT that acts as an interface between the regional *préfets* and the Commission departments working in this area (see Box 2.1). As the CPERs have been put in place in line with the structural funds and, since they call for the same types of initiatives, full partnerships are possible, provided that regional requests meet EU requirements regarding diagnostic assessments, evaluations of strengths and weaknesses, and consistency with European goals.

In this respect it is only logical to consider the Commission as a supra-national level of decision-making, playing a role in steering French policy not only directly via the structural funds but in some cases too in shaping national policy on the various facets of regional policy. With regard to rural affairs, for instance, the perspective put forward by the Commission from the mid-1990s of promoting sustainable development as an alternative to "productivist" agriculture has served as a guiding principle for French rural policy. The implementation of interregional or cross-border programmes (INTERREG) has also prompted the central authorities to deliberate on these issues. Finally, the experience of Community programmes has helped to spread their style and methods, and has considerably improved the quality of national evaluation procedures.

In the long-term, and with the advent of enlargement, however, significant reductions can be expected in European funding in metropolitan France. Changes in the allocation of the European budget could also diminish its impact. These factors may possibly lead to an increase in regional spending on competitiveness, research and innovation (new Objective 2) and give added support to the Lisbon strategy (increase in funds allocated to the 6th Framework Programme, and a further increase for the 7th).[3]

The new territorial policy

Already present in embryonic form in the 1999 Act, and subsequently illustrated in some of the CIADT, particularly in 2002 (see Box 2.2), a new regional competitiveness policy has been added to the existing regional measures and policies. There are various reasons why this policy has appeared. First, competition in the industrialised countries is increasingly centred on the knowledge economy and the use of new technologies. It is now believed that almost 50% of industrial output derives from sectors whose activity is based on

Box 2.1. **The role of DIACT (former DATAR) in French regional policy**

At central level, the regional agency DATAR, now called DIACT[1] continues to shape French regional policy, as it has done since the 1960s. Given the reallocation of responsibilities between the central, regional and departmental tiers of government, it is increasingly being cast in the role of negotiator. The agency has lost some of local affiliates (the *Missions interministérielles spécifiques*, SDR), and also part of its financial leverage.[2] Less centralist and inverventionist than in the past, DIACT is once more focusing on its strategic functions.

The agency enjoys powers of influence as a result of its interministerial dimension. In this respect, it is a body with no equivalent outside France. Its role as co-ordinator in drawing up planning contracts and interfacing with the Commission also requires that it represent national and supra-national bodies. Furthermore, the host of entities at sub-national level, including groups of municipalities/communes in various forms, *pays*, departments, and regions, and of legal instruments places DIACT at the centre of a complex network of institutional interactions, and reinforces its position as the inevitable interlocutor on all issues requiring sound knowledge of the various areas. DIACT budget nonetheless represents only a very small part of the French budget for regional planning.[3] In practice, it is the main Ministries, for example of Infrastructure, of Agriculture and the Interior that shoulder the greatest share of financing.[4] Originally reporting to the Prime Minister, DIACT has since been placed under various ministerial umbrellas, the most recent being the Ministry of the Interior to which it was attached in 2005. These changes in supervisory bodies, reflecting the priorities of successive governments, have made its role a complex one.

1. In October 2005, DATAR was renamed DIACT (Délégation interministérielle à l'aménagement et la compétitivité des territoires).
2. See P. Mazet, Aménagement du territoire, Armand Colin, Paris 2000.
3. A small percentage of total public financing for territorial amenities. The budget for the *Fonds national d'aménagement et de développement du territoire* (FNADT) does not exceed € 50 million.
4. Respectively 35% and 21% of State funding for 2005 for the two leading ministries.

knowledge. The circulation of this knowledge and its incorporation into new products are often local and regional. The dynamism and competitiveness of the regions are not, however, based exclusively on R&D. It is crucial to combine initiatives to promote synergies in research, knowledge and industry in the more advanced regions, and also to be in a better position to mobilise the potential that exists in other regions if there is to be a better spread of innovation, and better support for employment and growth, particularly since numerous reports (*cf.* Fontagne/Lorenzi, Aghion/Cohen), the OST (*Office de la*

Box 2.2. **Subjects discussed at recent meetings of the Interministerial Comittees for Territorial Planning and Competitiveness (CIACT)***

2000 February:	Sustainable development in coastal areas and maritime safety.
May:	Plans for community services, Planning Contracts, Relocation of public employment, Specific regional measures.
2001 June:	Regional balance, industrial conversion areas, modernising public services, Information society, vulnerable areas.
2002 December:	New directions, Greater role for large cities, Poles of excellence, Equal opportunities for regions.
2003 May:	Site contracts and revitalisation of specific regions.
September:	Rural world (territorial engineering, access to public services, reducing the digital divide, airline routes, land management, peri-urban areas, zoning, new populations, upland areas).
December:	Reform of planning contracts, metropolitan strategies, transport infrastructure, Access to broadband Internet.
2004 September:	Poles of competitiveness, support for broadband, new coastal policy, regional measures.
2005 July:	Poles of competitiveness, territorial measures.
October:	Poles of competitiveness (designation of 55 poles), preparing for economic change, Public/Private Partnerships, transport Infrastructure, regional measures.
December:	Poles of competitiveness (designation of 9 poles).

* Formerly Interministerial Committee for Regional Planning and Development (CIADT).

science et de la technologie) indicators and the innovation scoreboards of the OECD and the EU confirm not only that the French economy does not have sufficient capacity for innovation, but also that it is losing ground in terms of its national and regional rankings in this field (see also Chapter 1).

In this context, the government has put a machinery in place to foster competitiveness in the regions. This chapter will confine itself to analysing the impact this has had, and the outlook for the future. Public policy focuses mainly on three areas:

a) regional and local clusters. Public initiatives are aimed at fostering projects that promote clustering and cooperation between enterprises in the

traditional sectors through local production systems, or SPLs (*systèmes productifs locaux*), and stronger ties with local public or private research and training systems in higher value-added, R&D-intensive fields. This policy of clusters, based on local synergies and the exchange of knowledge, underpins the poles of competitiveness programme launched in the autumn of 2004 (Section 2). This regional vision also gives local authorities a major role to play, not only in supplementing government funding but also in financing complementary initiatives. The programme recently designated 67 poles with sound innovation potential, 15 of which were recognised as being of international stature.

b) Urban and rural areas are now more heterogeneous categories, and their competitive potential is better assessed in terms of migration patterns, for instance. Urban policy, once confined to social problems and deprived neighbourhoods, appears to be evolving as it introduces *contrats d'agglomération* (development contracts between groups of urban municipalities and central government) and the future *contrats métropolitains* (a similar formula used for the larger cities, see Section 3 below). Central and local government authorities are also modernising the tools they use in rural areas, as well as in regions vulnerable to offshoring/ relocation and restructuring, for example by introducing *contrats de site* (contracts between central government and a particular area to promote its redevelopment). "Creative destruction" management is taking new forms in these areas. In particular, the drive to anticipate future change is starting to make its mark as a central feature of government policy (Section 3).

c) Digital infrastructure policies. Even though problems remain with regard to logistics hubs and in some cases accessibility and transversal links, in most areas of infrastructure it is thought that delays in supply have been made up[4] and a degree of balance has been achieved across the country. For some kinds of information technology, on the other hand, national coverage has not been fully achieved by a long way, and competitive conditions could be improved. This is particularly true of broadband, an aspect of connectivity that can affect how businesses operate and compete. It is addressed in Section 4.

2.2. Regional industrial competitiveness policy and the cluster policy

Enhancing the value of SMEs: local production systems (SPLs)

While France does not have such a varied palette of industrial districts as those found in Italy, nor their industrial clout (40% of Italy's manufacturing output and over 50% of its exports), it has devised forms of local governance for groups of firms that do bear some resemblance (local production systems). Many of these date back a very long way, having survived in spite of the lack of

intermediary institutions to strengthen their environment and of a lack of professionalism on the part of managers' associations, even the local Chambers of Commerce. Often focused on low-tech activities, these local production systems are located on the periphery of the central regions and in semi-rural areas (Savoie, Rhône-Alpes, Vendée, Southern Alsace, and Eastern Brittany).[5] Others have grown up around major companies that place orders with them. Studies by P. Veltz have shown how, under the influence of Europeanisation and globalisation in the major corporations, SME subcontractors undergo a process of adaptation and then seek to diversify their production and client base. They have furthermore often managed to regroup into forms that are closer to horizontal integration and networks than their previous vertical relationships.[6] In numerous regional cities and capitals (such as Rennes, Nantes, Toulouse and Strasbourg), the provision of public goods by central and local government, or even the private sector (associations, cooperative networks, supply of information, training programmes and infrastructure) has been a decisive factor in the consolidation of local production systems in the regions.

The advantages of SPLs are well known (higher productivity than individual firms, greater export capabilities, lower transaction costs).[7] Markets, however, often fail to generate local clusters where the potential exists, and it is left to governments to help latent SPLs into existence. A variety of approaches are used by the authorities, many of them deconcentrated. They seek to activate clusters, promote forms of governance (networks, discussion forums, facilitation structures) and encourage investment in local enterprise clusters.

The fact remains that the priority given to SMEs and small business clusters in French policy is a relatively recent phenomenon. This is because for many years government policy, and in particular industrial policy, was affected by the influence of big business.[8] It was thought that a business had to be sufficiently large to even aspire to be internationally competitive and break into the export markets. Thus, during the "thirty glorious years", the industrial strategy based on the idea of re-establishing a balance between the regions consisted above all of inducing the major corporations to relocate to less developed areas.

The policy became more favourable to SMEs during the period of crisis in the traditional industries, when the internationalisation of the major corporations, begun in the 1980s, intensified, but there was no increase in the visibility of SPLs. In the old industrial regions, the State began by engaging in policies to defend employment and transfer revenue which proved unsustainable in the long term, but gradually these gave way to attempts at diversification. While a certain amount of aid was channelled towards SMEs in different fields (training, consulting, management, access to technology,

design), its impact was diminished by the fact that they were widely dispersed, their technical centres were weak and the environment was not very conducive to entrepreneurship. These policies were not aimed at developing links between firms. While this concept of collaboration between firms was more prevalent in technopoles, they did not produce real clusters of firms with a strong potential for cooperation. Often set up by central and local government for reasons of image and with no detailed analysis of demand, technopoles have had only limited success. There has been very little impact on SMEs. The investments required are heavy and the take-off threshold is often far in the future.

During this period of economic redeployment and gradually opening borders, the role played by SMEs nonetheless increased substantially (small and medium enterprises accounted for 53% of jobs and 40% of investment by the end of the 1990s). Even though many of them are the subsidiaries of major businesses and have modernised under their wing, more than one third (of enterprises employing between 200 and 499 persons) are independent firms with in many cases both local and regional markets, occupying niche markets or acting as subcontractors for larger firms.[9]

Recent initiatives

The policy pursued by the government consisted in, on the one hand recognising the SPL phenomenon and, on the other, designating a certain number of local production systems and giving them limited assistance for joint activities. This was not a matter of setting up new local production systems but increasing the level of cooperation and optimising the running of existing SPLs. The specifications for the two tenders put out by the DATAR in 1998 and 1999 included clear selection criteria: the region concerned had to have not only a concentration of activities but also a dense network of inter-firm links, one or more facilitation structures and operators qualified to foster interaction between firms. Funding was targeted mainly at "light" cluster management costs: facilitation, audits, website creation, internal communications, studies and diagnostic assessments, and to a more limited extent, commercial initiatives or innovation.

The economic assistance provided seems to have had beneficial economic and regional effects according to the various evaluations carried out.[10] The cost to the State budget has been very modest: € 3.6 million (over 96 projects adopted), even if these were often supplemented by co-financing from structural funds and by public and private partners. In addition, the selection process resulted in good coverage over the country (though still relatively weighted towards Midi-Pyrénées, Rhône-Alpes, Franche-Comté and Auvergne, with Ile de France significantly underrepresented). It also confirmed how the SPL phenomenon is flourishing in the major regional

cities. Numerous production systems have however remained outside the sample that receives incentives. One identification study showed that there were around 680 pairings of employment areas/business sectors that could be considered as potential SPLs.[11] Lastly, analyses were carried out confirming that, in the clusters set up as SPLs, the figure for job creation from 1993 to 2001 was 9%, compared with 5.7% in the equivalent sectors. To conclude, the SPL policy launched at the end of the 1990s had only limited ambitions, but it does seem to have achieved what it set out to do. Amongst other things, it has encouraged networking and given decisive support to local efforts to mobilise businesses and local authorities. The latter have often worked to see these initiatives become an integral part of planning contracts and structural funds.

The question now is how to pursue and follow up these measures, particularly so as to capitalise on the momentum already achieved. DATAR policy has always been directed mainly at financing and promoting cooperation among local production systems. Even though the French SPLs are smaller and more geographically dispersed than their counterparts in Germany, the United Kingdom and Italy, their impact on regional economic performance could be enhanced. The support awarded by the National Regional Planning Fund (*Fonds national d'aménagement du territoire*, or FNADT) has contributed especially to the emergence of local leaders, to increased visibility for firms and the associations those firms have founded, and to improvements in regional governance. The authorities might wish to give fresh impetus to the SPL policy by focusing on the collective goods and services that are the main comparative advantage of these clusters. As experience in other countries has shown, these policies have a variety of tools at their disposal (including diagnostic assessments and bench-marking, setting up associations, organising service provision, and marketing the region). Initiatives targeted on specialised training, entrepreneurship or exports could be added in order to reinforce and lend greater stability to the ties already forged under the initial call for projects. Already at the CIADT meeting in September 2004, the government set aside a budget of € 4 million for new measures.

Reinforcing the links between enterprises and research: the emergence of poles of competitiveness

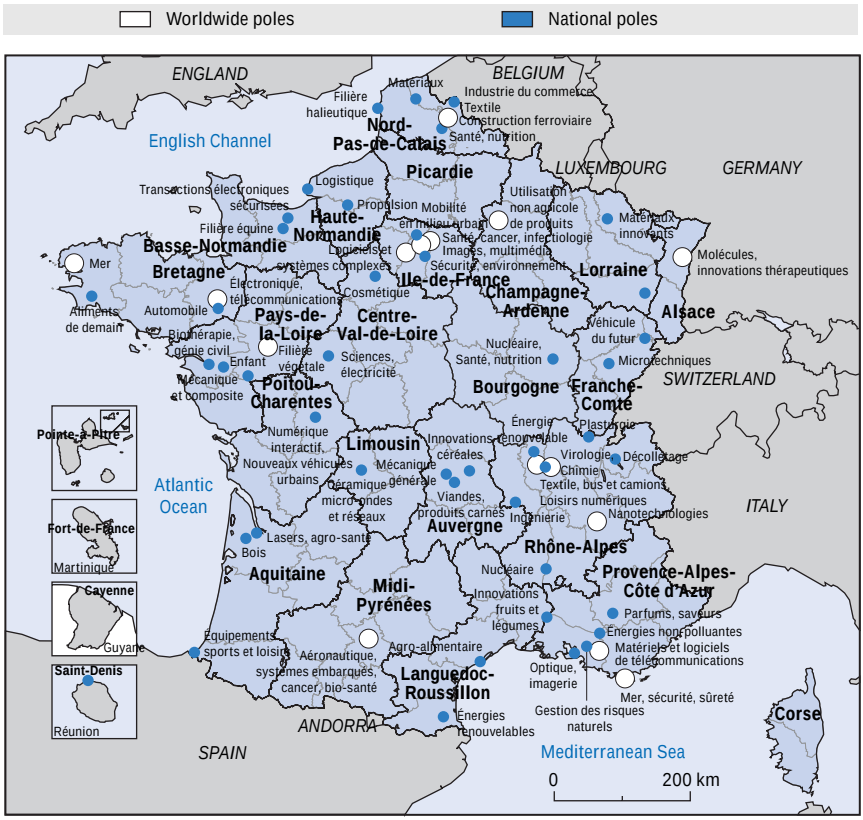
Although there is some continuity with the large SPLs (21 have put themselves forward as poles of competitiveness), the poles of competitiveness approach is more ambitious. It consists of supporting what are often poorly-organised clusters bringing together research centres, knowledge institutions and entities with industrial capability, synchronising economic development with that of research, and creating the necessary alliances with businesses in the regions (see Box 2.3).

Box 2.3. **The characteristics of poles of competitiveness**

Poles are made up of all the economic agents: businesses, research and testing centres, basic and further training organisations which, through their activities, help to ensure that there is a satisfactory range of products and services available on the market, and implement joint projects. The goal within a variable geographical area is to achieve a critical economic, scientific and technical mass, in order to maintain and enhance the dynamism and attraction of the areas in question. In order to identify these poles, a tender for projects was put out that closed in February 2005. 67 poles were designated in July 2005, 6 of which were worldwide poles, 9 poles with high international visibility, and 52 regional or national poles (see Map 2.1). For 2005-2007, the State is planning to earmark € 1.5 billion to be used in launching and supporting poles of competitiveness. Partners associated with designated poles will have the benefit of three types of non-exclusive incentive measures: public subsidies, tax exemptions and lower social contributions, financing schemes and specific guarantees. Businesses located within one of the pole's R&D zones, as recognised by the *Conseil d'État*, will benefit from exemptions from contributions and lower payroll taxes (50% for SMEs, 25% for others) when they take part in the pole's projects. Also available to complement the funds intended to co-finance projects in the poles will be loans for amenities, joint action and engineering initiatives (up to a total of € 36 million). The CIADT has also decided to support the expansion of broadband in the poles. It has allocated € 1 million for SMEs that take digital technology on board. The government will, in addition, be allocating € 2 million to the development of a business intelligence system for these poles of competitiveness.

In a sense, there are precedents for the poles of competitiveness strategy, and it complements other measures that are already up and running. While public research programmes have often been used as an equalising factor between the regions, since 1995 there had been a marked willingness to pool resources. One sign of this was the investment in the genetics poles (following the example of Évry) and the poles for cancer, and the resources focused on nanotechnologies in Grenoble (CNED).[12] Subsequently, however, a tendency has emerged to add on further mechanisms. Technological research teams (ERT) have been established to strengthen the role and improve the perception of university research groups working in partnership with the business sector (there are 95 of them now). Then there are the 80 technology hubs designed to improve SME access to technologies.[13] Since 2000, 20 national centres for technological research (CNRT) have been designated to promote collaboration between university laboratories and industrial research centres in fields of

Map 2.1. **The 67 poles of competitiveness**



Comment: The positions of the poles shown here are approximate. They are based on the address of the person who submitted the file, but do not show exactly what area each pole covers.

regional excellence, as in Toulouse. And finally there are the new networks of technological research and innovation (RRIT) which finance cooperative projects led by SMEs, large firms and public laboratories, which are nonetheless relatively narrow in their subject-areas. These networks have benefited from substantial funding (€ 300 million between 1998 and 2002).

A further challenge for the regions and their poles of competitiveness is to exploit to the full the innovation potential offered by the findings of public research, and to promote multidisciplinarity and a mix in R&D. In France this work is made more difficult by the compartmentalised nature of public research (with divisions between education and research, the major research institutions and the universities, the universities and the "*grandes écoles*" – see Box 2.4). At the present time, the capacity of the Public Research Institutions (OPR) and the universities to meet the demands of industry is

Box 2.4. **Special features and performance of the French research system (SFR)**

One primary feature of this system is the major role played by the public sector in the way research is organised and carried out. The public sector invests over 1% of GDP in R&D (ranking second in Europe). Another important aspect is its fragmentation. In practice, there are several distinct categories of public institution carrying out R&D:

- Public scientific and technical research establishments (EPST) such as the CNRS (Research in general), INRA (Agronomics) and INSERM (biology).
- Public institutions of an industrial and commercial nature (EPIC) such as ANVAR, CNES (Space), CEA (Atomic energy) and IFREMER (Marine sciences).
- Universities (which number 85 and fall under the Ministry for National Education).
- The prestigious g*randes écoles*: in the field of science and engineering such as ENS and the *École Polytechnique*, government , such as the *École Nationale d'Administration*, and business such as HEC or ESSEC.
- Non profit-making research institutions such as the *Institut Pasteur.*

This system draws a distinction, first, between teaching (universities) and research (public research establishments). This explains why academic research is often the poor relation where public R&D is concerned. This is confirmed by the existence of a second distinction between universities and the *grandes écoles*, with the latter creaming off the elite through a rigorous selection process. The third distinction is a reflection of more traditional divergences between the short or mid-term imperatives of industrial research and the longer-term ones of the public sector. Co-operation between academic research and businesses is especially underdeveloped (research under contract with enterprises in 2002 amounted to only 3.5% of R&D carried on by higher education institutions, this figure being a good deal lower than the corresponding one for the United Kingdom (10%) and the other main European countries).

In addition, the divide between *grandes écoles* and universities does not make it any easier for researchers to enter the private sector. The *grandes écoles* have a tradition of close relations with enterprise and the private sector and it is easy for their students to move into high-level posts there. Given their size, the volume of research is limited, but it is highly geared to the needs of industry. The reverse is true in the universities where PHDs have more difficulty finding openings in business, and the best of them often turn to the public sector.

Box 2.4. **Special features and performance of the French research system (SFR)** *(cont.)*

The SFR for most research structures dates back to the post-War years. (Some of the universities and *écoles* are much older still, however). It has seen a number of changes (especially that of the status of the researcher, with the 1982 Law) which have increased its existing rigidity and meant that the research community is ageing. In spite of these imbalances, France achieved an average performance within Europe (4th place) for DIRD: 2.23% of GDP in 2002, an increase over the previous year. Admittedly it is still a long way behind the Lisbon objectives and the performance of the United States, Korea or Japan. But its rankings are still broadly speaking above the European average, especially when it comes to employment in high-tech services, public spending on R&D (20% of which relates to defence), spending on information technology or the numbers of scientists and engineers (though the numbers of researchers is now increasing only very slowly). Even though its performance where patents are concerned is lower than the European average, it is worth pointing out that good results have been obtained in the biotechnology sector as well as in the information technology sector. Statistics in this area are, however, difficult to interpret.

limited by the fact that researchers have the status of civil servants, and also by the fact that, to a large extent, they control the committees responsible for drawing up research projects. Furthermore, many research teams are mixed (Universities/CNRS), which makes it more complicated to manage laboratories and relations with industry. University heads have very little autonomy, which also limits their ability to put strategies in place and commit to cooperative R&D projects with industry. Lastly, the rigidity of employment regulations is becoming more and more of an inhibition to contractual arrangements between partners in the public and private sectors. However, there are many institutions that work with non profit-making associations that can hire staff on standard private-sector contracts.

In this context, the poles of competitiveness open up new perspectives and contrast with the "vertical" and sector-based approaches used in the past. First and foremost, their approach is territorial and interministerial. It is also a bottom-up approach. The targets are projects defined by the players themselves. No single model is imposed *a priori* as to the form these projects should take. Some poles are focused on technological development (R&D), others have a more industrial dimension and put the accent on productivity and bringing to market, but all of them are partnerships acting in the interests of innovation. In this sense, they are different from science parks or

technopoles. That being so, it might be hoped that cross-fertilisation would result from the mere juxtaposition of innovating firms, research centres and higher education institutions. This has in fact happened in a good many cases, but relatively slowly.[14] It took almost two decades and heavy public investment before the best-known technolopole, Sophia Antipolis, became really successful. On the other hand, designated poles are for the most part operational, especially those that are worldwide poles or those with international visibility.[15] It is interesting to note, furthermore, that the chosen poles have maintained a strong regional dimension (see Map 2.1). Lastly, the funds deployed by the government are substantial: approximately € 400 million over three years, coming out of the general budget, with 800 million provided by agencies and 300 million representing exemption from social contributions and taxes. These funds can be supplemented, furthermore, by funding from local authorities and the European Union.

In the field of cluster policy, many member countries have built up a wealth of experience and perfected interesting *modus operandi* (see Box 2.5 for examples) (*Specialisation).* Even if the programmes share similar overall objectives to those of the poles of competitiveness and are based on the triple helix model: interaction between the firms, research and the different levels of government, they are often specialised (in SMEs in the case of the centres of expertise in Finland, academic R&D in Japan, science parks in the United Kingdom). The target number of clusters is in general more limited, even taking account of the effects of the size of the different countries. As an example, the Council of Competitiveness in the United States recommended that the federal government creates "innovation hot spots" in the next five years but suggested a rather low number (10), even though this was regarded as a minimum. (C*oordination*) Furthermore, the programmes place great emphasis not only on the way the clusters are controlled and guided, but also on cooperation between ministries where a number of them are involved. In the case of Japan, coordination between the two programmes is handled by national forums and by setting up councils for the promotion of regional clusters. 12 of these have been set up. (C*omplementary reform*) – It is also interesting to note that in Japan in 2004 there was a reform of the national public universities which resulted in their being separated from central government (their staff no longer having the status of civil servants) and that a number of measures were taken at the same time to promote their role in collaborative regional research and development. (*Selection*) – In Sweden and Finland efforts are being made to prepare the ground and to steer academic research towards the needs of industry and the clusters by imposing conditions for financing or for designation as centres of excellence. The potential centres are in competition and not all of them are selected. (*Continuity of initiatives*) – In a general sense, it is acknowledged in most

Box 2.5. **Examples of initiatives to promote clusters and co-operation between players**

National programmes

Japan has launched two major programmes. The first programme, managed by MEXT (Ministry of Education) targets the universities which are encouraged to work with local industries and financing bodies to bring new technologies to the market. The programme is aimed at reforming the R&D centres and improving the flow of knowledge by setting up networks and granting start-up subsidies for joint activities. For each knowledge cluster, activities are managed by a lead organisation (usually an R&D centre). A team of science and technology coordinators and experts runs the cluster, mainly by organising forums and seminars. They advise participants as to priorities, obtaining patents and marketing. MEXT will be investing 410 million dollars over 5 years spread over 18 designated clusters and 5 exploratory clusters.

The second, run by METI, is designed to capitalise on the existing endogenous capabilities of 19 major regions and in particular their R&D structures and their characteristic industrial features. Its object is to provide support: *a)* for exchanges and cooperation between the university, industry and the government; *b)* for the development of technologies for local application; c) for the setting up of structures to provide training to entrepreneurs. Civil servants from the regional offices of METI (about 500 people) cooperate with 5 800 SMEs and researchers from more than 220 universities under this programme. Local authorities and their staff are also involved, as well as local incubators. METI is devoting US$350 million to this over a period of 4 years.

In *Sweden*, the Centres of Competence programme is aimed at reinforcing interactions between universities and industry and structuring them around poles of excellence with a critical mass of resources enabling a better fit between the science technology infrastructures and the needs of industry. In order to ensure that the Centres of Competence provide an adequate response to industry needs, part of their financing must come out of the universities' own coffers, and the industries taking part in the programme must second members of their staff to the centres. One particular aspect of this programme is that firms receiving aid from the centres must collaborate with other firms operating in the same technology categories. VINNOVA has set up 28 Centres of Competence with approximately 160 firms participating.

In Germany, regional policy falls within the framework of an agreement between the Federal Government and the Länder known as the GA (*Gemeinschaftausgabe*) or joint programme for the improvement of regional economic structures. The object of this programme is to help with the financing of commercial and public investments intended for the municipalities. Since January 2005, the GA has also offered aid to cooperation networks and for the management of clusters. Support can be made available at regional and supra regional level for collaboration between businesses and associated institutions to promote their cooperation, develop information

Box 2.5. **Examples of initiatives to promote clusters and co-operation between players** *(cont.)*

networks, increase the transfer of technology, incorporate outside knowledge into their innovation processes, facilitate access to the know-how of other enterprises, and develop the competitiveness of SMEs. The Länder can cover part of the costs up to € 300 000 per project (up to 500 000 if there are more than 5 partners). Staff costs and the cost of fitting out the superstructure of the cluster are eligible, but running costs are not. Public financing may not exceed 70% of the eligible costs.

In *Korea,* a network of 37 regional university research centres has been set up to improve cooperation between universities and SMEs in the regions. They aim to improve the quality of research in the higher education sector and to make this research more accessible to SMEs. They also aim to offer services to SMEs in the form of technical advice, joint R&D projects and training seminars and give them access to scientific amenities.

Regional programmes

The Scottish Enterprise Agency (SE) was one of the very first to study the potential of clusters and to start up a support policy in the early 1990s. The Agency has worked with clusters that are often quite mature and determined to develop their internal links and cooperation with the public sector. SE has developed a range of initiatives with 15 clusters chosen for their significant impact on Scotland's competitiveness and their sensitivity, and because of the capacity of Scottish Enterprise to add value in that field. The sectors covered are not only those of high-tech and urban clusters but also include traditional activities with a strong rural dimension such as agribusiness, forestry or tourism. Through the Cluster Action Plan the agency has spent € 360 million under this programme in 6 years. The measures implemented are very varied, and include the setting up of forums, advice and innovation methods, and support for incubators, or aid to infrastructures essential for the cluster. This aid is provided via the 12 local offices of the SE.

In Catalonia, the regional government has the necessary competence to implement R&D policies. It acts through the regional Ministry for Education (DURSI), the Management Agency for Universities and Research, AGAUR, and via the Centre for Innovation and Development of Businesses (CIDEM). A number of initiatives have been taken with regard to clusters to facilitate market access, draw up approved designations and enhance the quality of products. In fields of production suffering severe competition from countries with low labour costs, niche research has been given priority. Under the innovation plan, a network of 70 centres supporting technological innovation (Xarxa IT network) has been set up in the different universities. For designated centres, the regional government finances the provision of lawyers for three years, and also gives support for research contracts entered into with businesses.*

* To obtain this approval, the centres have to be managed by a professor with an enterprise mentality. They must draw up and implement a commercial strategy based on professionalism and they must not be in competition with private enterprises.

countries that aid programmes for the clusters will need time before they have any effect. They extend over periods very often longer than 5 years in order to be effective. In the case of cooperation between firms and universities, the establishment of new, specialised centres makes it easier for firms to find their way to the right interlocutor. We should note that, according to some studies, the presence of at least one large firm in the cluster often enables relations with the universities to be placed on a more consistent footing.[16] (*Budget*) – Lastly, giving support to clusters requires staff (intermediaries, facilitators) and thus often substantial budgets. Cost-benefit analyses and market-based performance assessment are common practice, and necessary if these operations are to be properly conducted.

Articulating poles of competitiveness with research and innovation policies: an ongoing process

As the government has announced, it will be using the budgets of the Ministries (Industry, Research, Agriculture and Defence)[17] in order to finance the poles (to the tune of 400 million). These ministries will be allowed to redirect up to 30% of their budgets to fund the poles. A number of agencies will also be required to contribute in order to provide more than half of the support envisaged. In addition to the *Caisse des dépôts et consignations* (CDC) and Oseo (formed by the merger of ANVAR and the BDPME), there is the newly-established Industrial Innovation Agency (AII) and the National Research Agency (ANR) (see Box 2.6) that came into existence in February 2005. These agencies will provide funds in the form of subsidies that could be supplemented by private financing and repayable advances (as well as from their own funds and aid for amenities for the CDC).

New measures and institutional changes

The ongoing reform of public research, its orientation towards strategic sectors for the national economy and the correction of certain dysfunctions in the financing system should improve the environment of the poles of competitiveness and have a beneficial impact on their working. In this area, the Audit Office in its 2003 report noted the instability of subsidies for public R&D.[18] It also expressed concern about the growth in incentive financing, aimed specifically at directing laboratories towards the priority subjects defined by the Ministry, and thus tending to make these institutions reactive.[19] These criticisms, sustained by heated debate throughout 2004 with the research community about the research budget, the creation of posts and the role of basic research opened the way for a new law on the programming of research (LOPR). This legislation, currently still at the drafting stage, could result in support for the creation of poles of research and higher education (PRES) as well as tax exemptions, and make it easier for local authorities to

Box 2.6. **The creation of the National Research Agency (ANR) and of the Industrial Innovation Agency (AII)**

1. The ANR, a funded agency, became operational in February 2005 and is intended to rationalise the financing of R&D programmes (for example RRITs), allow more focus on national priorities and ensure support for the most creative research teams. Scientific committees made up of at least ⅓ of foreign researchers will be set up to select projects. The Agency will not finance institutions but projects using funds allocated in the form of a package (for operating, staff or investment costs). The Agency wants a lightweight structure without a laboratory, but one that is ready to innovate. An envelope of € 200 million will be available in order to stimulate the creativity of researchers and finance the most promising projects outside the traditional areas. It is envisaged that ANR might finance projects coming from the poles of competitiveness, as long as these fall within its usual procedures.
2. The AII. Set up in August 2005, the mission of the Industrial Innovation Agency (AII) is to foster and support programmes which will drive industrial innovation (PMIIs). This covers research and development projects of from 3 to 5 years, worth upwards of € 50 million, the purpose of which is to bring new products to the worldwide market within a 5 to 15 year timeframe. These major programmes are piloted by an industry leader or a consortium, and bring together businesses, major groups and SMEs, as well as public research bodies. The AII has been given € 2 billion for its first two years. It will be looking as a matter of course for partnerships with other European countries, in order to achieve critical mass at the global level.

become involved in the field of research. According to indications emerging from the ongoing debate, local authorities could be given scope to sign agreements with the PRES especially to fund facilities, endow the pole with regional research chairs and offer regional contracts to doctoral students writing their theses. A pole agreement signed with the authorities will set forth the objectives of this new structure, what resources it has at its disposal and how its performance will be assessed. An approved standard for research parks could eventually be put in place, and these would include incubators, business nurseries and private R&D laboratories. Preferably situated in the vicinity of the PRES, they could strengthen certain poles of competitiveness which are predominantly technological.

To date, the lack of any university reform and the financing difficulties encountered by higher education institutions, together with the brain drain,

have weakened the contribution made to co-operative research by centres of higher education and meant they have had a limited presence in the poles. There are some who advocate changes in the workings and supervision of the universities (*cf.* the Blanc report). For the moment, the universities have neither the size nor the visibility of the high-calibre foreign universities and they are not sufficiently tied in to the local institutional and industrial systems. Only the best among them (for example the 8 to 15 premier establishments in the mainly scientific or medical field) are beginning to introduce strategic management, notably under their four-year contracts with the State. The present degree of latitude for experimentation might, however, generate new opportunities (cooperation between universities, territorial or subject-based groupings, raising awareness among academics of the world of business). Certain technology universities are members of European consortia (for example the University of Compiègne) and have become specialised in spin-offs and the innovation culture, but they are very few in number. Following a call for projects organised by the Minister for Research, entrepreneurship centres (*maisons de l'entrepreneuriat*) have been set up, shared by several higher education facilities and providing information on businesses and support for enterprise creation. The successful projects have been initiated in the following regions: Auvergne, Limousin, Nord-Pas-de-Calais, Pays-de-la-Loire, Poitou-Charente and Provence-Alpes-Côte d'Azur. The 1999 law (Loi Allègre) further strengthened this machinery by encouraging the setting up of Industrial and Commercial Departments (SAIC) in public research centres and universities. The introduction of intermediation structures could certainly facilitate access to the research departments of the higher education institutions or public R&D bodies. As experience abroad has shown, these structures are capable of overcoming the reservations of the world of industry, often ill-informed about academic research, and help it to define its own requirements as to R&D services. In order to move forward in this area, however, far-reaching policies are required that can provide both incentives and the appropriate framework.

The enterprise low level of demand for research also betrays an insufficient level of commitment on the part of the private sector to spending on R&D. According to the Beffa Report, French industry is too specialised in the low-tech sectors, which are themselves facing stiff competition on the international market. The report considers that tax credits are no longer sufficient and may be too thinly spread, and suggests that a number of major programmes should be launched, managed by a new industrial innovation agency taking a top-down approach. The conclusions of the report have been endorsed by the government and the agency has been set up (see Box 2.6), but its organisation has not yet been completely finalised. This demand-led approach would give a major role to large enterprises. Many of the subjects to be addressed by the agency coincide with those of the poles (biotechnology,

nanotechnology, energy). The extent to which it will allocate funds to some of the poles and how its programme will complement those of the poles, has not yet been defined.

Poles of competitiveness: the regional dimension

Although the aim of the government is to encourage the dynamics that can be generated around the regional poles, at the same time it sees the need to concentrate sufficient funds on a few major regional innovation systems that appear to be engines of competitiveness.[20] In France there are only a small number of regions with an economic base and a specialisation based on the knowledge sectors sufficient to allow them to develop efficient and diversified regional innovation systems: Ile-de-France, Midi-Pyrénées, Aquitaine, Rhône-Alpes and Provence-Alpes-Côte d'Azur (see Box 2.7). The six French worldwide poles are also to be found in these regions, which account for almost 54% of French GDP.

In the framework of these regional innovation systems, local authorities have a useful role to play in coordinating and supporting the poles in particular to favour the merging of technologies. The involvement of local and regional authorities is greater in the leading regional systems (where the research section in the planning contracts exceeds 15%), and innovation agencies are beginning to appear (*e.g.* in Aquitaine and Midi-Pyrénées). The role of the local authorities could be equally important for the national and regional poles, because the ability of the regions to match funding will be decisive, given the number of poles and the priorities granted to the 15 poles with international visibility. Up to the present time, the regions have performed unevenly in terms of fostering and promoting innovation and they have not invested much in R&D (only 1.4% of public research and development investment). In some of them, the development agencies have handled particularly complex applications for the status of pole. In others, some local authorities have shown particular commitment, especially the *départements*. Some of these regions intend to put innovation schemes in place (*e.g.* Rhône-Alpes). Decentralised services have also devised strategies for research and education under the PASER programme.

Now that the poles have been selected, the local authorities can become involved in their management and provide services for the enterprises located there. Given the mobility of these enterprises, closer ties within the pole will depend partly on the capacity of the urban areas and regions to provide or maintain the facilities and amenities that may be useful to firms, including training centres and services geared to their needs, business parks, enterprise zones, and forums for dialogue between the members of the pole. Good local policy will be a competitive asset for the pole, as will the agreement between central government and the various local authorities as to how to proceed.

Box 2.7. **Three examples of major regional innovation systems in France**

The *Ile-de-France system* based on multi- specialisation is practically dominant across all sectors but sometimes in decline, especially with regard to patents. Almost 62 000 researchers are working in the Ile-de-France, accounting among other things for 42.5% of those employed in private research. Even if public sector staffing levels have reduced in relative terms, the higher education and research section in the planning contracts represents nearly 25% of general work done in this field and is one of the largest items in the CPER (20.3% of all contract-based funding awarded by central government to this region). This marked specialisation in R&D goes hand in hand with a heavy concentration of industrial SMEs, especially in the high-tech sector. These businesses wish to take advantage of the proximity of public research centres and major enterprises especially in electronics, telecommunications and computers. These sectors have greatly benefited from the central government policy of major high-tech programmes. The region is often considered as France's innovation centre.

The lead activities in the capital region include the car manufacturing sector, communications equipment, pharmacy, precision instruments and computer services. While many of these innovative sectors are dominated by big business, there are a number of clusters of small or very small enterprises that are especially competitive, in particular the clothing industry district (Le Sentier) which combines *haute couture* and ready-to-wear, and the video games sector which has furthermore been designated as a pole of competitiveness in the region.

The region is undergoing some particularly interesting developments. A huge restructuring process is going on, and as recent works have shown,* productivity is increasing strongly and the Ile-de-France share of French GDP is stable. Industrial production is flowing back into the region especially in the traditional sectors. At the same time, policies for relocating researchers and research centres have favoured the emergence of competing poles. But they have also weakened the region, especially considering that it is for the most part the younger teams who have left for the provinces. The Regional Council has greatly increased its spending on research, concentrating on amenities and structuring projects. While the restructuring of the military-industrial complex, which is extensive in the the Île-de-France region, has led to reorganisation, there is an impressive concentration of SMEs, large firms and research centres , notably in the "Science City" of Ile-de-France Sud. To date, this has not translated into better performance in the field of patents and scientific production (*cf.* Chapter 1).

* Davezies, 1998; Beckouche, 1999.

Box 2.7. **Three examples of major regional innovation systems in France** *(cont.)*

The *Grenoble system* is more concentrated and maybe more efficient, based as it is on good relations between major bodies and industry and also universities and industry, supported by regional aid. This system had its origins in the presence not only of national research centres (CNRS, CEA/LETI) but also of private R&D laboratories such as those of Pechiney, France Telecom, Bull and Air Liquide. Grenoble has also attracted a large number of foreign companies which have installed research capabilities there, like ST Microelectronics (now allied with Philips and Motorola), Sun Microsystems, Arjo Wiggins and Xerox. This situation, combined with the large number of foreign students working in the universities and schools of Grenoble, has given the regional innovation system a strong international dimension. This is further reinforced by the presence of a number of international research organisations which have large facilities there (one example is the Institut Laue/Langevin). More than any other region in France, Grenoble is characterised by an excellent research environment, an economic and technical vision shared by the various partners and a high level of social capital very favourable to cooperation between individuals. Systemic coordination is strong, made easier by the presence of numerous business associations, forums and industry clubs. This model has all the characteristics of a number of innovative European regions like Stuttgart, Cambridge or Eindhoven/Leuwen.

The *Toulouse system* is more narrowly based, carried mainly by the aerospace industry and the ICTs. One could include in this category Marseille and Nice Sophia-Antipolis in the field of microelectronics and software. These are regions where the scientific potential has, in a way, developed faster than the industrial activity. Decentralised as a result of a relocation policy dating back to the 1960s, the Toulouse aerospace pole developed over a period of 20 years. The arrival of two major aeronautical firms helped to concentrate a number of subcontractors in the region. The CNES and Aérospatial organised their relations with their subcontractors and encouraged local engineers to create firms and finance research at the University. The development of a local cluster in Toulouse coincided with the growth of the city, which gained 120 000 inhabitants between 1990 and 1999. A series of local and regional collaborative organisations were set up specifically in order to put together new projects and bolster ties with those involved, particularly between the university, the engineering schools, and industry. The Midi-Pyrénées region, thanks to the Toulouse pole, invests heavily in R&D, in a proportion similar to that of the Ile-de-France (3.7%). The region is the second French region for aeronautics. The innovation capability is highly concentrated in the urban area which accounts for almost half of the region's GDP. The regional authorities promote enterprise creation, particularly as a means of closing the territorial gap between the urban area and the rest of the region, which has been affected by restructuring in the traditional industries and by demographic stagnation.

In summary

Poles of competitiveness offer numerous advantages: regional initiatives, industrial "piggy-backing", interaction with research and education, significant size. By their very nature they can set favourable dynamics in motion. They also constitute a real-life market study, which can provide firms with extremely useful information as to the capacity available in terms of research, networks and the potential for innovation. Over time, new participants might join the ranks of the "founders" and maintain the virtuous circle of growth in place.

Poles seem to be able to bring down certain barriers and spread a new spirit of cooperation. The inclusion of SMEs, and in particular innovative SMEs, in a designated pole can facilitate their access to risk-capital markets. What is more, in many poles the major enterprises are often positioned as integrators at the end of the chain, and thus as consumers of the intermediary goods produced by the start-ups; this can have a stabilising effect on the very innovative SMEs and reinforce the impact of government incentives.

Collaboration with the higher education institutions seems more difficult as long as there is no real innovation culture within these institutions and changes have not been made to grant them more autonomy. The poles of competitiveness are experimental. It is to be hoped that the success of the regions with substantial social capital will operate as a factor for change in the others.

The role of catalyst played by State agencies such as OSEO/ANVAR and the local authorities remains crucial, even if it is industry that constitutes the driving force for the poles, particularly in terms of supporting start-ups and SMEs. As the experience of the cluster management boards has shown, small firms often have difficulty in making their voice heard at cluster management level.

The external relations of the pole could be every bit as important as the internal ties. Firms and groups in particular often maintain R&D partnerships with enterprises outside the region or even the country, as was shown in a recent study of 1 600 companies (Ministry for National Education). In order to optimise innovations, accelerate their introduction to the market and the frequency with which they occur, poles will be all the more effective if they can also capitalise on their external ties.

2.3. Policies for urban and rural areas and for regions undergoing restructuring

Urban competitiveness policies

Changes in France's policy on towns and cities can be viewed as the urban version of the regional policy shift described above. Until the 1970s, France's urban policy goals were essentially quantitative. They sought to promote the construction of as much housing as possible. This approach led, to some extent, to problems of spatial segregation which had to be addressed in

the 1980s with targeted initiatives. In some areas these took the form of new infrastructure and social and environmental measures (rehabilitation of large estates, neighbourhood social development).[21]

The rationale behind urban policy today is to progress beyond merely renovating problem neighbourhoods and, using comprehensive development plans, foster genuine social and urban development in these "disadvantaged" areas that are home to 5 million people.[22] This policy led to the creation of urban "free zones" in 1996, as well as the recent emphasis on economic development. At a broader level, it is French urban policy as a whole that has been shifting, since the end of the 1990s, towards an approach based more on the competitiveness of urban areas, partly due to their increasing economic weight.

Increasing use is also being made of spatial planning tools to improve competitiveness. For the past 2-3 years, France has seen an unprecedented revival in planning. The SRU law of 13 December 2000 provided newer planning tools for use in urban and rural development projects. Examples include territorial coherence scheme (*Schéma de cohérence territoriale*, or SCOT), which replace the former *Schémas directeurs* and cover entire catchment areas (see Annex 2.A1 to this chapter).

Central government also sets out its priorities in its Territorial Planning Directives (DTA). Five of these concern metropolitan areas, and seek to provide better support for urban and economic development (northern Alps, the Lyon conurbation, the Marseille conurbation, Alpes-Maritimes, and the mining area in Lorraine). Planning policy is another policy tool. Central government supports, in partnership with the local authorities, a whole series of instruments (in particular the *établissements publics fonciers*, or land corporations, and the *établissements publics d'aménagement*, or public planning entities, which have a mandate to strengthen specific areas of European importance or allow the redevelopment of regions that have undergone rapid economic change (Lorraine, Nord-Pas-de-Calais).

This new emphasis on competitive urban areas is even clearer in the new procedures such as agglomeration contracts and metropolitan projects. Contracts between central government and cities, urban areas and agglomerations provide more scope for multi-annual agreements, and goals can be more clearly defined. They are the very foundation of urban policy governance in France. However, their interaction and the regular addition of new strata go to make this policy difficult to grasp, as well as diluting responsibility. The approach based on support for economic competitiveness is still too compartmentalised and piecemeal, especially because the contracts do not yet really cover the functional economic area as a whole and this limits their impact. The forthcoming introduction of metropolitan contracts (as from 2007) will, however, be a major step towards recognising functional economic areas.

City contracts

City contracts (which reflect a commitment on the part of one or more local and central authorities to jointly implement a multi-annual programme, designed to deal with the most disadvantaged neighbourhoods areas at urban area or municipal level) were introduced under the 1993 Urban Revival Plan. They aim at promoting a comprehensive strategy rather than the previous sector-specific policy. City contracts are first and foremost viewed as contributing to urban social development. More than 1 300 neighbourhoods and six million inhabitants are now benefiting from the initiatives introduced under the 247 city contracts.

Their economic dimension is relatively insignificant, but it has grown as encouragement has been given for city contracts to extend to inter-communal areas. It was with these city contracts that the need gradually came to be acknowledged for special efforts to be concentrated on urban living, and for far-reaching and sustainable change in the living conditions of city-dwellers. Hence the first of the great urban projects (GPUs) in 1990 followed by others, 14 in all by the end of 1999. Faced with the limits of the GPUs – too often implemented, according to the Interministerial Delegation on Cities (DIV), as major urban-planning exercises, masking the social and economic issues involved – the decision was taken to replace them, starting in 2000, with 110 major city projects and urban renewal schemes, more numerous, more ambitious and an integral part of the city contracts. These seek, among other things, to promote social revitalisation and upgrading, in order to restore the economic value of such areas. They include schemes to introduce public and community services, make certain districts less isolated and incorporate them into the urban area (improving transport, improving the distribution of urban functions across the area) and breathing new life into the economy (reinforcing the existing fabric, assisting local people creating business).

The urban "free zones" (ZFUs)

The 1996 Urban Revival Pact (1996-1998), introduced as part of a programme of affirmative action on behalf of specific urban areas in difficulty, was a more significant effort to tackle their disadvantages from an economic perspective. In particular, it set up the mechanism of the urban "free zones" (ZFUs). The 44 ZFUs (0.8 million inhabitants in 1999) were designated by decree by the *Conseil d'État*, "taking account of the factors that will attract enterprises or foster the development of economic activity". The principle of the ZFUs is to offer reductions in taxes and social contributions to businesses that set up in these zones and recruit at least 20% of their personnel from those living in the ZFU (or in other sensitive urban zones (ZUS)[23] in the same urban area).

Several reports, including the report to Parliament by the Minister for Cities in July 2001, the urban policy report by the Audit Office in 2002 and the information report by the Senate Commission for Economic Affairs and Planning in July 2002, give a favourable assessment of this policy, in terms of enterprise and job creation and of investment achievement. They also emphasise the technical problems involved in precisely gauging the specific impact or cost-effectiveness of the attendant tax and social exemption measures.

In its report the Senate noted the following results:

- In 2002, the number of enterprises set up or relocated exceeded 12 000 in the ZFUs (against 2000 in 1996). The number of new jobs compared with 1996 exceeded 46 000, two-thirds of which were newly created, whereas the goal had been to create 10 000. The number of assisted jobs in the ZFUs for enterprises with fewer than 50 salaried employees ranged from 60 000 to 65 000. And nine- tenths of all such jobs were based on open-ended contracts.
- The clause on recruitment from the ZFUs (set at a minimum of 20% of jobs from the recruitment of the third assisted employee) was being complied with, because the employment rate for locals ranged from 25 to 30%.
- The estimated total amount of public and private investment in the ZFUs, which had a multiplier effect on local economic activity, exceeded FF 22 billion in five years.

According to experts from the DIV, the ZFU effect is very clear in that the number of businesses in the ZFUs grew by almost 40% from 1999 to 2002, *i.e.* six times the figure for urban areas with a sensitive urban zone. The very strong growth in establishments providing business services (in particular in consulting and assistance, which doubled in number between 1999 and 2002, from 1 800 to over 3 700) is the most striking feature of the ZFUs. Businesses in the field of building, wholesale trade and real estate also rose in number (DIV, 2004 report). The number of salaried staff employed by establishments in ZFUs, according to ACOSS, had reached 81 300 by 31 December 2003, an increase of 4% on the end of 2001.

However, it should be noted that the latest enterprises to set up in the ZFUs are most often concentrated on the edges of the ZFUs, because of the lack of sites available in the more central districts. It is therefore on the periphery of these areas that economic development is the most marked, and the impact of the ZFUs on the more central areas is limited.

The generally favourable assessment of the first generation of ZFUs prompted the government in 2003 to give the current list of 44 free zones a five-year extension and broaden the scheme further. As from 1 January 2004, a regime of tax and social exemptions for the 41 new free zones was created under the framework law of 1 August 2003 on urban renewal. It grants 5-year tax exemptions to small enterprises with fewer than 50 employees that set up

business in ZUS districts, provided that one-third of the jobs created go to people living in problem neighbourhoods in the larger urban area.[24]

Given the results obtained, the Senate considers the cost of this policy to be reasonable, when the amount of exemptions is compared with the transformation they have achieved in these areas.[25] However, this view is not unanimously shared, and the cost of ZFU-related measures is regularly criticised. According to one study by Ernst and Young, carried out in June 2000 on the basis of information supplied by the steering and monitoring committees for the Association of urban "free zones", the average cost of tax and social exemptions for one job in a ZFU (whether created, transferred or already existing) ranges from FF 33 753 (€ 5 158) to FF 44 832 (€ 6 838). However, the ability of ZFUs to create jobs in the long term is often questioned.

To date, urban policy has not markedly closed gap in development and inequality between the ZUS areas and the rest of the country. Between the two national population censuses (1994 and 1999), the rate of unemployment in the ZUS rose from 18.9% to 25.4% (as against the national averages of 12.8% and 10.8%). 43.6% of job-seekers from these areas were unskilled.

Experts from the *Délégation* (DIV) recommend that the focus should now be on the image of problem neighbourhoods and their relationship with the rest of the city. They advocate collaboration with the private sector in this field. They also take the view that maintaining local public services is crucial to life in these neighbourhoods and to making them attractive. There is evidence, however, that semi-urban zones in the Ile-de-France and more generally on the edges of other major urban "agglomeration" are relatively deprived compared with the rest of France. They have fewer than half the number of public services centres (*maisons de services publics*).

Urban policy, economic development and "agglomeration" contracts

With the "agglomeration" communities, a more integrated and all-inclusive vision of the cities now prevails.[26] These communities were created to ensure a better match between urban economic development areas and France's administrative boundaries. Set up in the wake of the 1999 Law on inter-municipal cooperation and the LOADDT, they can be the subject of "agglomeration" agreements between central government and the local authorities, thereby coming under the "territorial component" of the State-region planning contracts, the sub-regional component of CPERs in the project areas. Out of 169 urban "agglomerations" ("agglomerations" and urban communities) eligible for these contracts, 94 had signed such contracts by 1 January 2005.

The *projet d'agglomération*, a project drawn up for the area by the local authorities, is the foundation for such contracts. It provides not only for closer ties of interdependence between the various parts of the city, tighter control

over urban sprawl and improvements to quality of life in the city, but also for the implementation of a strategy based on development priorities.

In this field, the larger urban areas have a more generalist approach: while they offer numerous skilled jobs, they are also characterised by a variety of economic sectors. Diversifying the economic base of towns and cities is the best insurance against the kind of sudden restructuring that hits some sectors of the economy from time to time (Jacquier, 2001). Specialisation is largely found in the smaller urban areas. Most urban "agglomerations" seek to position themselves in the forefront of one or more sectors of activity by setting up or developing poles of excellence, in other words a concentration of businesses in one area that work in the same industry, offer the same skills or make the same product, and have links with higher institutions in the field of education, research and innovation. One form of specialisation is reflected in the profiles of the technopoles in Montpellier, Rennes and Grenoble where some of the higher-skilled urban employment is provided by public/private research partnerships within the information technology and telecoms industries. The predominance of heavy industry is to be found in the medium-sized urban areas in the North and the East (DATAR, 2004). Table 2.1 indicates the poles of excellence identified in some French cities.

Table 2.1. **Poles of excellence and industries identified in "agglomeration" projects**

"Agglomeration"	Poles of excellence and industries identified in "agglomeration" projects
Arras	• Transport – logistics and NTIC pole, creation of an agribusiness pole • Tourism, culture and leisure industry
Belfort	• Pole of excellence in transport and energy
Bordeaux	• Electric vehicles pole • Vineyards and wine pole
Brest	• Maritime and oceanography pole • ICT and electronics industry, IAA
Dijon	• Pole for contemporary art • Logistics and tourism industries
Dunkerque	• Industrial environment and energy pole
Le Havre	• Logistics and port facilities pole
Lille	• NICT and digital pole • Textiles, agribusiness, tourism industries
Lyon	• Environment and sustainable development pole • Cancer treatment pole • Fashion and design industry • Video games cluster
Rennes	• Pole of excellence in sport
Nancy	• Information technology and telecommunications, eco-industries, medical instruments and biomaterials
Tarbes	• Electronics and high-powered electronics, aeronautics

Source: ETD, *L'approche économique des projets de territoire*, December 2003.

Questions of employment and integration are dealt with relatively infrequently in "agglomeration" contracts. This no doubt has something to do with the host of players and the boundaries in which they can operate, or the legitimacy of the urban area's role in this field.

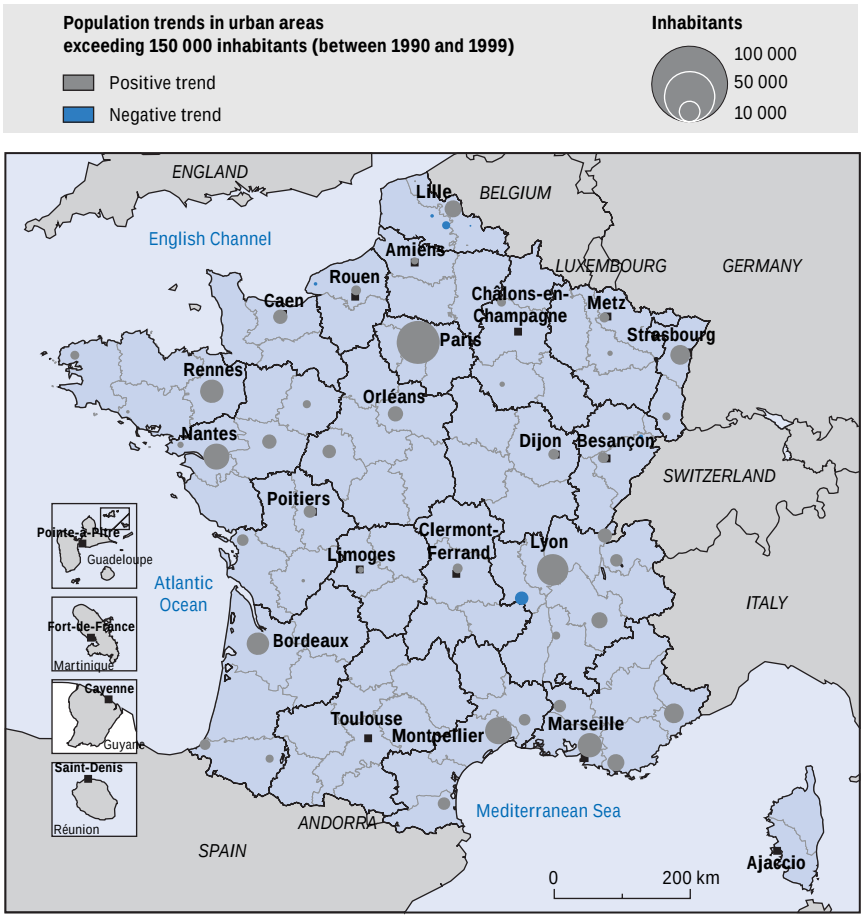
Few "agglomeration" contracts include a full and detailed diagnosis of the economic situation. The survey carried out by ETD in 2003 levelled criticism at the poor quality and numbers of indicators used, the use of short-term statistics, the failure to make comparisons, and the limited number of analyses concerning the existing structure of the local economy (industries, savoir-faire and potential for development). These aspects are often obscured by a focus on hastily-compiled lists of benefits conducive to exogenous development (*a priori* appeal, infrastructure, business parks, broadband access). Only in a few cases was there a full diagnosis annexed to the plan, or any real summary, including an overview of the main economic factors that would throw light on the strategic options chosen. Too often, then, "agglomeration" contract goals are vague and imprecise, and this could compromise the careful tracking of the funds invested and the *ex post* evaluation of contract performance.

Support for competitive metropolitan areas

The "agglomeration" contracts formula has its limits, to the extent that the municipalities in the functional region are not always all part of the inter-municipal structures of these urban areas. The French government, acting through DIACT, thus decided to undertake as from 2003[27] a policy of active support for the "grandes métropoles" or major urban "agglomerations",[28] which match more closely the boundaries of functional economic areas than the area covered by "agglomeration" contracts. These metropolitan areas are defined by DIACT as areas with a minimum of 500 000 inhabitants, which include at least one urban area with a population greater than around 200 000 and also a number of average sized cities (see Map 2.2 and table). The key idea is to back cooperation between urban areas in a single metropolis in order to support the more dynamic parts of the area, strengthen their "leadership role in the regional economies" and help to raise them to a level at which they can compete with other world cities.

In 1999, the fifteen major urban areas with the highest levels of skilled metropolitan employment were the same as in 1990 and the first six were in the same order: Paris, Grenoble, Toulouse, Montpellier, Lyon, Strasbourg, Rennes, Nantes, Bordeaux, Marseille, Aix-en-Provence, Nice, Annecy, Lille, Orleans and Nancy. Today they account for 38% of the population, 42% of jobs and, above all, as in 1990, 68% of skilled metropolitan employment in mainland France. Leaving aside the very special case of Paris, their growth in demographic and employment terms, averaged over nine years, is stronger than that of the other urban areas in absolute as well as relative terms.

Map 2.2. **Trends in the numbers of inhabitants in urban areas**



Number of inhabitants in the 20 most populated urban areas in 1999

Paris	11 174 743	Douai-Lens	552 682
Lyon	1 648 216	Rennes	521 188
Marseille-Aix-en-Provence	1 516 340	Rouen	518 316
Lille	1 143 125	Grenoble	514 559
Toulouse	964 797	Montpellier	459 916
Nice	933 080	Metz	429 588
Bordeaux	925 253	Nancy	410 508
Nantes	711 120	Clermont-Ferrand	409 558
Strasbourg	612 104	Valenciennes	399 677
Toulon	564 823		

Source: INSEE-RGP.

The policy adopted in December 2003 targets the factors that accelerate the outreach of metropolitan areas, in particular:

- Economic outreach: new business districts, freeing up State-owned land, business development abroad, logistic platforms of European interest;
- Location of public service employment: provisional multi-year programmes for the location of each Ministry, relocation announcements;
- Accessibility: better overland accessibility to airports, support for air links within and beyond Europe.

The size of the budgets to be assigned to these "metropolitan contracts" expected in 2006 have not been disclosed. These contracts appear to be wide-ranging: appeal, public employment, accessibility, urban engineering, education, research and culture, and there is a risk that funds will be diluted. Since metropolitan areas do not usually reach the required size (apart from Paris), one first step is to encourage them to group together. Two tenders put out for metropolitan co-operation have already selected fifteen groups of cities, but the funds available are modest. The poles of competitiveness located for the most part in metropolitan areas will probably give some impetus, but the success of this policy could depend above all on local leaders and the funds they are able to invest in the contracts.

Yet the principle of supporting the leading urban areas is widely accepted, for they are considered to be real "dynamos" at the heart of the national economic system, as the British government has also recently noted with regard to its own country (DATAR, 2005). As well as the United Kingdom, a number of OECD countries such as Finland, the Netherlands and Switzerland share this viewpoint (see Box 2.8) and are trying to change their angle of approach by thinking in terms of functional economic areas. Initiatives include assistance for business parks, public investment in transport and incentives for metropolitan co-operation. The latter can take many different forms, depending on how ambitious the goals are and whether the desire for integration is weak or strong. Flexible and progressive approaches are often favoured, so as not to upset current practice or the political balance.

By contrast, some countries focus their urban policy around balanced regional development and practise policies of redistribution starting from the metropolitan areas. In Sweden, the central government is reluctant to create around Stockholm a metropolitan region which would account for one third of the Swedish population and 40% of GDP. Sweden's urban policy (entitled "Metropolitan initiative") in fact deals only with areas of social deprivation and covers 24 such areas in the framework of "contracts" (local development agreements). The focus is on action at neighbourhood level and on social issues. It is thus very different from a metropolitan policy, which would seek to

Box 2.8. **Two examples of urban competitiveness policy**

***a)* the *Northern Way Strategy* in the United Kingdom**

The United Kingdom wants to reduce the competitiveness gap between the South of England and the regions in the North by leveraging the strategic role of the cities (Manchester, Leeds, Merseyside, Central Lancashire, Sheffield, Hull, the Humber, Tyne & Wear and the Tees Valley). £100 million have been set aside for the Northern Way Strategy programme in order to give support to the cities' economic competitiveness cooperation. This involves, among other things, strengthening the connections between these cities so as to create an "urban region", a real engine for the region as a whole.

The Northern Way is a growth strategy to increase the prosperity of the North and reduce the productivity gap of £29 billion with the rest of the country. It acknowledges the key role played by big cities in regional competitiveness especially because of the urban dimension of the knowledge economy and the importance of its contribution to national growth. The report also emphasises the importance of public investments and of effective multi-governance in order to achieve satisfactory levels of interregional development and get good leverage by using private funds.

The report insists on three points. First, a conceptual leap is necessary in order to better understand the links between the growth of cities and that of the surrounding region. Then, it is important to improve the consistency between territorial planning and competitiveness policies in the northern region. Lastly, new steps are necessary to put in place balanced governance of the different parts of the North of England region.

***b)* Finland**

In January 2005 the Finnish government began to draw up a series of policies in favour of the principal urban areas, which relates to nine cities in Finland (Helsinki, Tampere, Turku, Oulu, Jyväskylä, Kuopio, Lahti, Lappeenranta Imatra and Vaasa). The main objectives of this policy are to support the visibility and competitiveness of these cities, by increasing their individual specialisation to bring about a better division of labour in the country. The idea is that development of urban zones can be of benefit to the region as a whole. These policies also aim to ensure better coordination of existing programmes, by integrating all facets of urban development (infrastructure, housing, social policy, innovation, economic policies). These measures are ambitious, but they require proper coordination at the central government level.

Source: ODPM 2004 and *Territorial Review of Finland*, 2005.

promote international appeal and economic vitality, with the aim of a project at the functional level of the metropolitan area. In Korea, as in Sweden, central government favours a policy of balanced regional development. A number of initiatives have been taken to limit the expansion of Seoul. A law passed in 1982 restricts, for example, the construction of new factories and new offices, as well as the establishment of new universities in the capital region (Capital Region Readjustment Planning Act, 1982). The policy aimed at limiting the extension of Seoul is viewed as one component in the policy for regional competitiveness, in that it contributes to long-term improvement in the quality of life, a vital pre-requisite for the region's appeal, and can thus allow for more targeted and selective types of economic development.

Revitalisation of rural areas

More aggressive and differentiated policies

The trends described in Chapter 1 (demographic upswing, accentuation of peri-urbanisation) have modified the approach of rural policy. In a general sense, the positive signals coming from a number of rural areas encourage a less "defensive" stance, concentrating on curbing decline, and a focus on the new perspectives which are appearing. They also encourage the adjustment of policies to fit the type of rural area concerned, its problems and its potential, rather than assuming that most, if not all, rural areas are in a state of decline.

Whereas in the past rural areas were expected above all to supply the needs of the population for food, they now have new functions which can benefit the population as a whole. There has been spectacular growth in the residential function, the development of which has mainly been based on peri-urbanisation and urban sprawl. The productive function has held its own and is diversifying, first in agriculture which, despite its decline, has kept its hold on the land and, second, in non-farm activities, which are expanding as businesses set up mainly in the peri-urban areas, following industrial decentralisation. Alongside the productive function, consumer-related functions are developing (residential and recreational), as well as functions drawing on the natural environment. Rural areas are becoming multifunctional and different in type. The DATAR report "*Quelle France rurale pour 2020*?" draws distinctions between "urban countryside" where natural and agricultural spaces should be preserved in the face of urban sprawl, "very fragile countryside areas", which are in demographic decline and require backing, and the "new countryside areas" where the dynamics that are emerging require support.

The DATAR report places particular emphasis on the need to renew and strengthen the various "affirmative action" programmes for the benefit of the more backward regions. More than 7.6 million French people live in

population catchment areas ("*bassins de vie*" as categorised by INSEE in 2003) that are in decline. Given that the funds available for disadvantaged regions have little chance of increasing in the future, the accent should be put on making better use of the great variety of instruments already in place. Many of the most disadvantaged regions are situated in three or four overlapping zones (*e.g.* ZRRs, Objective 1 and 5b zones, deprived agricultural zones, Territorial planning premium (PAT) zones). They are also priority areas in the State/region planning contracts (CPERs). In the past, these instruments were highly compartmentalised.

For those regions where there is clear potential for growth, the DATAR report maintains that the accent should be on attracting new populations, and making sure newcomers put down roots in the locality. Newcomers represent significant potential because, among the 1.8 million new residents who left an urban area for the countryside between 1990 and 1999, over 800 000 accounted for 14% of the labour force in the rural environment but also 21% of the intermediate professions and 30% of managerial staff. These newcomers create demand for new and improved services, and those services then attract more newcomers. They contribute to local development and can foster entrepreneurship. In the United Kingdom where similar demographic trends have been noted in rural areas, studies have shown how they attract people setting up businesses.

This strategy is also part of a broader vision, that of a new form of spatial occupancy that is driven by residential rather than industrial dynamics. In this case, the choice of residence is made regardless of workplace location, or at least much more so than in the past. According to a report on the location of economic activities (Plan 2005), if the choice of residence can be at least partially freed from the constraints of access to the workplace, this could give rise to a concomitant increase in service sector jobs in the short term, and, in the medium term, attract enterprises in certain fields of activity. This assumes, above all, that growth will be faster in areas where the quality of life is better (*e.g.* mild climate, quality environment, small urban areas, peaceful rural setting). This trend towards the development of a residential economy has already been invoked to explain the good performance in terms of incomes in parts of southern and western France. The fact remains that, important though these residential dynamics are, they still clearly depend on income transfer mechanisms and on mobility.

The issue is therefore to identify and above all anticipate the needs of rural populations. In reality, needs vary according to the type of region. Improved access to transport infrastructures is still a major problem for a good many rural territories, where the enclave phenomenon is still a well-known and difficult issue, even if a certain number of motorways are being extended. Accessibility issues are even more resonant in territories where mobility is low because of age or low incomes. As a correlation, people are leaving settlements in the more

remote areas and settling in built-up centres where they can find at least the basic services. This is often accompanied by a very low rate of housing occupancy. ICT coverage too is still very uneven, for reasons dealt with elsewhere in this report. Finally, the quality of the environment and questions of land use can be particularly important in areas with a strong tourist industry. The diversity of issues specific to the regions suggests a more flexible approach when drawing up policies: these should concentrate on providing the local authorities with tools allowing them to provide the specific services and amenities that the newcomers are looking for.

The palette of rural policies is a particularly varied one in France. For decades, the State put in place a large number of tools to foster rural development. According to one Plan report (Commissariat du Plan, 2003), there are no fewer than 59 operational mechanisms directly concerned with rural development, with an average annual expenditure estimated at € 2.3 billion (or € 177 per inhabitant). In a general sense these tools have "mainly benefited old, extensive forms of rural agriculture and semi-rural areas, but has done far less for peri-urban areas and industrial rural areas".

At the European level, rural development has, with Agenda 2000, become the second pillar of the CAP. The Rural Development Regulation (EC No. 1257/99) has been transposed by France into a National Plan for Rural Development (PDRN). Its goal is clearly directed towards sustainable rural development. Apart from traditional measures, such as compensatory indemnities for deprived areas, or support for the installation of young farmers, the PDRN contains three major innovations: the integration of forestry measures, the importance given to the agro-environment, and the setting up of the Territorial Exploitation Contract (CTE)[29] with the intention of encouraging agriculture to become multifunctional.

As with all national policies, the French rural development policy forms part of the national strategy for sustainable development (SNDD). It shares the same goals: reconciling economic development, social justice and the protection of health and the environment through solidarity between generations and between the various parts of the country. Its preferred form of action is participation, the key to sustainable development since it ensures that it will be accepted and continue to be of lasting effect.

The new rural law

In this perspective, the CIADT of 3 September 2003 defines the main themes of rural policy, in line with the basic thrust set by DATAR:

- to expand the development of rented accommodation, by promoting the implementation of the OPAH housing improvement programme (*opération programmée d'amélioration de l'habitat*) in the more disadvantaged rural areas,

and support the private rental market, government-funded or otherwise, by using different tax measures (tax exemptions, income tax rebates);

- to promote the development of services, by creating an environment that will foster the provision of "one-stop shops" for public services (development of public service centres and public-private partnerships);
- to support the development of telecommunications infrastructures (broadband, mobile telephony).

Several measures have been adopted following that CIADT, under a broader rural package made up of provisions from the various instruments, in particular the Economic Initiative Law and the draft framework law on local finances.

The CIADT also led to the adoption of a new law on rural revitalisation, promulgated by the President of the Republic on 23 February 2005. This law acknowledges a new situation: the rural world is no longer regarded as being synonymous with the world of agriculture, even though the latter plays a central role in the countryside. The law was also presented as a "toolkit" for rural players, and for the different types of countryside. The principal aim was to consolidate the existing systems by strengthening certain incentive measures (for the construction and renovation of housing, the creation of businesses, attracting the liberal professions, above all doctors and veterinary surgeons) and to improve the institutional framework so as to better coordinate existing mechanisms.[30]

The final wording, adopted after a process lasting over a year (3 700 amendments were discussed) was the outcome of extremely heated parliamentary debate.[31] It has 240 articles, compared with only 76 in the original bill. At the outset, the measures were based on the guidelines laid down by the CIADT. They dealt with the strengthening of incentives in the fields of building, housing and enterprise creation. As the debate went on, numerous other subjects, such as hunting, wine advertising and the price of fruit and vegetables were added. The fleshing-out of the text throughout the discussions is evidence of the vital importance of the subject matter covered by this law, as well as the diverse nature of rural issues. It shows the privileged place that rural policy continues to occupy in the French landscape.

In order to adapt the measures and promote co-ordination, the law provides for a review of rural revitalisation zones (ZRRs), which were set up more than ten years ago.[32] The new ZRR zoning plan seeks to take account of developments in rural areas in recent years, and in particular:

- co-operation between municipalities and communes. When ZRRs were rolled out, there was little such co-operation. The government now takes the view that the EPCIs (Public establishment for inter-municipal cooperation, see Chapter 3) are the appropriate level for putting in place local development

measures, and the municipalities/communes have to take part in order to benefit from the advantages offered by the status of ZRR;

- integration of small town development. Management of the measures linked by the EPCIs to ZRR zoning allow for better integration of small urban centres in the apparatus of rural development. According to DATAR and CGP reports, these small towns play the role of hubs within the economies of the rural zones, but up to now they have not really been targeted by rural development policy. In some cases, the designation of ZRRs in the non-urban zones close to these small towns has given rise to "migration" in order to benefit from the tax advantages. With the integration of urban areas into ZRR zoning plans, these towns could gradually become sites that will concentrate economic activity and public services.

The renewal of ZRRs is also intended to improve the co-ordination of measures specific to rural development with other programmes coming under other institutional frameworks, in particular of an inter-municipal and contract-based nature (above all the "Pays"). For example, the emphasis is on aid to rural towns of small or medium size (between 4 000 and 35 000 inhabitants) via specific programmes financing projects coordinated by the CDC and DIACT (call for proposals in early 2005) and the extension of incentive measures seeking to promote rural enterprises in the ZRRs. The small cities must also seek to integrate small centres into the broader development strategies, such as those drawn up under the "Pays" schemes.[33]

Government policy on public services in rural areas

Again, the issue for rural areas is no longer confined to just maintaining the populations in place but is increasingly broadening to encompass the need for action to keep the territory attractive and competitive. Thus, some local authorities affirm that there is serious territorial competition in attracting new residents. This competition is based mainly on the availability of specific public services (or services considered as such): the quality of infrastructure and transport facilities (a certain number of concessions to urban life are acceptable, if these amenities make the chosen area less remote); the availability of homes to rent or buy becomes critical even in some peripheral areas (see Box 2.9 on the trends in the rural property market); the existence of accessible medical structures (on this subject, territorial competition between local authorities means attracting health professionals by offering appealing working conditions. It is inconceivable to attract highly-skilled, high-income residents, even less so businesses and their employees, without guaranteeing they will have adequate, quality access to a range of "basic" services (including health, education, security and culture), to which they then proceed to contribute, moreover, by paying their local taxes.

Box 2.9. **Trends in the rural land market**

The very great increase in non-agricultural demand for this land calls for responses in terms of housing policy. Rural areas suffer from a large deficit in rented accommodation, coupled with a very great increase in land value, especially in areas considered now to be far from the centres (data from the national federation for land improvement companies -*Fédération nationale des sociétés d'aménagement foncier et d'établissement rural)*. For instance, the average price of rural transactions has increased by 95% in 7 years, but by much more in some regions (such as North-East France, some Alpine regions, the Causses and the Cévennes in the Gard region, and wooded areas in Anjou and central Brittany). In Provence-Alpes-Côte d'Azur, this increase may exceed 150%. In fact three major zones are affected: Brittany and Normandy, then Poitou Charente, Aquitaine, Limousin and the Midi-Pyrénées, and finally south-eastern France. The average age of buyers is around 44, and 86% of them are French (the majority of purchases take place within the *départements* (which in this case means for the most part the choice of a principal place of residence further away from one's place of work) as against 99% in 1999. The vast majority of foreign buyers are Europeans, in particular British and Irish. Some regions have also seen highly concentrated "group" demand (as in the Morvan region which attracts large numbers of Dutch). The very rural zones are more affected today than in the past, showing that buyers are making new trade-offs, between property prices and travelling distances. The authorities are accordingly offering incentives to rent out existing housing , which may favour local economic development.

The State's responses to these questions are based on the following elements which go to make up a new rural policy for 1 January 2006, in response to the "indispensable modernisation of the government's territorial networks and those of enterprises with public service networks".[34]

a) A policy of experimentation: following the signing of a national agreement between central government, French mayors as represented by the AMF (*Association des maires de France*) and the operators of 15 major public services (with the exception of education which has its own system), the decision was taken to carry out experiments with a view to studying new ways of organising public services in the framework of local co-operation. The *préfet* was given a great deal of latitude in carrying out these experiments, which had very flexible mechanisms and were to begin at once. The "specifications" for the experiments consisted in targeting public services that were vulnerable and under threat, which meant especially those in rural territories; ensuring that the financial structure of the project was sufficient

to make it viable; making users the focus of the exercise, notably by spending a lot of time on co-operation and training; improving service provision through the use of new technologies, and finally giving preference to local partnerships (between decentralised services and local authorities, and between the various bodies with a public service mandate) (see Box 2.10).

b) The national conference of public services in rural areas (*Conférence nationale des services publics en milieu rural*) was set up by the Prime Minister in February 2005. It is made up for the most part of elected representatives, chaired by a mayor, and includes representatives from the socio-professional world, the major public services enterprises and also the Ministries most directly concerned. This conference must put forward innovative solutions to the Government, so that an adequate and efficient service can be maintained without impeding the necessary modernisation efforts. It must submit its proposals for implementation early 2006. It is organised into four working groups convened by the DIACT.[35] One major pitfall is that of financing these operations, thus of negotiating with the main operators on how they will be compensated for responding to the public service imperatives. The possibility of making a fund available so that national solidarity can be expressed in the form of equalisation grants has been raised by some elected representatives.

c) The law of 2005 on the development of rural territories contains an important article, Article 106, which sets up new machinery to guarantee "equal access to public services".[36] The objectives relative to the level of service to be expected by users will be laid down by the Government and local dialogue (with the elected representatives and their associations) about these objectives will be set up by the *préfet*. As a result of local dialogue, the departmental public service committees "*commissions départementales des services publics*" (known as departmental committees for the organisation and modernisation of the public services) will be reintroduced under the aegis of the *préfets*, who will be given a central role as organisers and arbiters. The *préfets* will be given the option of suspending implementation of any reorganisation project they consider contrary to locally recognised objectives, until the matter can be decided by the relevant Minister.

d) During this period of study and negotiation a moratorium was declared in response to discontent on the part of rural elected representatives. Thus, during the period, no reorganisation involving the cancellation or significant reduction in public services in rural areas may go ahead, except where the elected representatives concerned have given their express agreement. This applies to plans to close primary and lower secondary schools.

Box 2.10. **Examples of experiments and results: public services centres (one stop shops), mobile services and e-government**

In Charente, four one-stop shop reception points were set up on a partnership basis. These structures provide permanent services in isolated rural areas. The partnership brings together decentralised State services, local authorities and public service operators. Some organisms pool their staff who are trained to provide information on the services provided by all of the operators taking part (*e.g.* family allowances, health insurance and social security). Also in Charente, the reorganisation of emergency medical services, in close partnership with health professionals, is proving its worth. In Savoie, where it is difficult to travel around the mountainous areas, a system of *à la carte* public transport services has been brought in, and the joint office (*syndicat mixte*) running the regional nature park is also to introduce broadband access with an on-line services portal in a reception centre, involving the intermunicipal authority, the departmental council (*conseil général)* and the decentralised State employment services. Where results are concerned, these experiments have led to a list of proposals that have been taken up in the bill on the development of rural areas: organising local co-operation, multi-tasking by staff in the public services centres, and increased scope for holding a public as well as a private job concurrently in the small rural municipalities, as well as ways in which local authorities can attract and retain health professionals. Apparently when there are too many partners, the public service centres find it hard to break even. On the other hand, the more flexible structures of reception points, often located in town halls, seem to be satisfactory. Although these experiments were mostly conducted by the *départements* it is at the level of residential catchment areas or labour-market areas that they seem to work best, and would therefore benefit from being run at inter-municipal level. Because of its success the experiment was extended to new *départements* at the end of 2004.

Developments in some public services in rural areas

1. *The postal service (La Poste).* This has undergone major changes. Postal services are being reviewed in the light of their opening up to European competition which will be completed in 2009.[37] Locally, *La Poste* is both a public enterprise for mail delivery and a bank with a growing number of services. As the leading local public service, it has committed to reorganising its network into what are now 17 000 points of contact. If they are not profitable, more than one third of the 14 000 post offices could be transferred to town halls[38] or to private enterprise.[39] Today 62% of the points of contact in the network are located in municipalities with fewer

than 2 000 inhabitants who represent less than 26% of the population, while 40% of French people live in urban zones with only 13% of all post offices. While the presence of postal services throughout the country is a central issue there is a strong will in this public enterprise to rationalise its management. The rules set forth in the Law mean that not more than 10% of the population of a *département* may be at a distance of more than 5 km from the closest access to the network (meaning, in principle, a 20-minute car journey at most). As well as this accessibility rule, there is the setting up of a national territorial equalisation fund (supplemented by the professional tax allowance from which *La Poste* benefits, € 150 million intended to facilitate its role in territorial improvement) and also the setting up of a legal body, the departmental committee on the presence of postal services (*Commission départementale de présence postale*) made up of elected representatives and State representatives (which is to work together with the departmental public service committees mentioned above). One of the strategies envisaged by *La Poste* involves signing agreements with other enterprises entrusted with a public service mission in order to reduce the costs of its presence in rural areas (for example by selling SNCF rail tickets in those communes where there is no station).

2. *Rail transport services.* The closure of some secondary or interregional railway lines is the subject of recurring debate in France. Confronted by a structural deficit, the operator (the SNCF) wants to abandon some transversal lines (the *Corail* trains) considered as highly loss-making if the public authorities do not shoulder those costs not covered by demand. In the aftermath of the decentralisation process, the management of the regional express trains (TER) was handed over to the regions after a pilot experiment in six regions. While to some extent this transfer of power has been a success, marked by significant growth in demand in numerous regions especially in Alsace and the Pays-de-la-Loire, the fact remains that the regions have invested heavily in modernising and managing the services. The central government considers that the problem of the secondary lines is part of the debate with the local authorities. Some raise the issue of that citizens should have equal rights to public services. The operator is facing ever-keener competition with other means of transport and the opening up of its own network to competition is on the agenda.

3. *Primary schools*. The "schools map" and the allocation of primary teachers in particular in rural areas is another field that raises questions of equity and co-operation. This map is drawn up at the beginning of each school year by a working group using educational demographic criteria, as well as social and territorial criteria. At each level (national, academic authority and departmental), a joint body evaluates the strategic implications of the map. The allocation of teachers is done in a similar way, but also uses indicators of overall teacher-to-pupil ratios and of problems relating to school

structures. This is a cumbersome system and it does not have universal support. The government is looking at more flexible systems which would involve the elected representatives much more, and take into account the diversity of the *départements* and the regions.

Government initiatives in the regions undergoing restructuring

Introduction

During the past 25 years, the share of industry in the national economy has been maintained, and the substantial losses of jobs in industry have been more than compensated for by the creation of jobs in services. The DATAR report "*la France: puissance industrielle (2003)*" ("France: an industrial power") nonetheless emphasises that the geographical concentration of the productive base of the national economy has become more pronounced. This polarisation process has had very major consequences for a large number of French regions, especially rural areas, in terms of economic restructuring. Today, the government considers that trends in national and world economies mean that these regional changes are becoming a permanent process. In the past, industrial restructuring concerned one sector in particular decline, like shipbuilding or iron and steel. The ultimate objective of the current policy is to "support" territories faced with ongoing economic change, and predict where the next problems might arise and what their economic impact might be. The term "support", while somewhat vague, thus includes measures to promote this (social and economic) adjustment. This section presents the development of the policy to support restructuring in industrial areas.

The more this policy of support moves away from the model of large-scale regional restructuring prevalent from the 1960s to the 1980s towards more localised interventions, the clearer it becomes that it is difficult to separate industrial restructurings from other initiatives designed to improve the economic performance and social functioning of the regions, especially as to rural policy and some aspects of urban policy.[40] The importance of support for the territories is also visible in relation to competitiveness policy. The government is essentially faced with the dilemma of trying not to create a divide between the "competitive" regions, some of which have poles of competitiveness, and the others. The poles of competitiveness policy is explicitly presented by the authorities as a strategy that includes support for local areas as a complementary feature.

Support policies

One of the clearest messages of the report "*La France: puissance industrielle*" lies in its emphasis on "industrial change" rather than de-industrialisation. Previously, restructuring problems were largely linked to upheavals in heavy

industry, especially steel, shipbuilding and mining, as well as highly labour-intensive sectors such as textiles. In Lorraine alone, more than 160 000 jobs were lost in these fields of activity over the last thirty years. These massive job cuts were symptomatic of radical change, driven at the same time by technological advances and keener competition from producers in low-wage countries, but they affected only a relatively limited number of sectors. The policy adopted in the face of this situation is known as the "poles of conversion" policy. It placed great importance on large-scale government intervention, involving for instance the purchase and rehabilitation of industrial sites and the setting up of new business areas in the region, along with incentives for new investors and new business start-ups, pre-retirement aid and programmes for vocational retraining. In numerous cases, the enterprises concerned were wholly or partly State-owned, which made it easier to implement integrated programmes such as the "poles of conversion".

The fact that a certain number of affected regions have found a new lease of life attests that these conversion projects have often had favourable effects. The "re-industrialisation" of Lorraine was mentioned recently in a Senate report: a skilled labour market, available land, a good geographical situation and sound infrastructures have meant that, in spite of the job losses in heavy industry, the region has not experienced de-industrialisation but has become specialised in new fields (equipment, cars). While the rate of employment in industry is 4% less than before the restructuring of heavy industry, it is still 4% higher than the national average, and the unemployment rate is close to the national average. Aside from a more diversified economy, new employment structures have also appeared, such as cross-border employment with Luxembourg. The fact that the region has attracted new enterprises to sites associated with large-scale restructurings (Allied Signals at Longwy, Clarion at Pompey, Thyssen-Krupp in the factory abandoned by Daewoo at Fameck for example) also shows that the "poles of conversion" policy has to some degree succeeded in restoring credibility to these regions as industrial sites.

The "heavy industry, public enterprise" phase of the transformation of manufacturing industry is now over. The Senate report emphasises that the new industrial context is substantially different and, in many respects, less open to being influenced by public policies. Observers such as the European Restructuring Monitor[41] still list substantial cases of restructuring in France, which in this regard ranked second behind the United Kingdom in 2004 (see Table 2.2). But these restructuring operations are however markedly different in nature from those taking place ten or fifteen years ago. They involve more numerous but smaller-scale production sites and they affect a very wide range of economic sectors. Often, they are internal restructurings rather than closures or business relocations in the strict sense of the term with different impacts on employment (see Table 2.3). Perhaps the most

Table 2.2. **Restructurings in EU countries (jobs lost and jobs created) 2004**

	Number of restructurings	% of restructurings	Number of jobs expected to be lost	As a % of jobs lost in the EU	Number of jobs expected to be created	As a % of jobs created in the EU
United Kingdom	180	21.15	115 431	23.97	25 758	31.69
France	143	16.8	83 695	17.38	22 177	27.28
Germany	93	10.93	75 299	15.63	2 850	3.51
Poland	80	9.4	65 141	13.52	15 303	18.83
Netherlands	62	7.29	19 394	4.03	110	0.14
Slovak Republic	44	5.17	4 697	0.98	9 916	12.2
Belgium	43	5.05	59 023	12.25	150	0.18
Sweden	41	4.82	8 699	1.81	400	0.49
Spain	37	4.35	15 483	3.21	2 000	2.46
Ireland	24	2.82	4 912	1.02	1 430	1.76
Portugal	24	2.82	7 086	1.47	0	0
Italy	23	2.7	10 725	2.23	0	0
Finland	20	2.35	4 411	0.92	0	0
Austria	19	2.23	3 287	0.68	1 190	1.46
Denmark	16	1.88	3 124	0.65	0	0
Luxembourg	1	0.12	1 000	0.21	0	0
Czech Republic	1	0.12	250	0.05	0	0

Source: European Restructuring Monitor. The numbers concern cases where jobs lost or created exceed 100 or represent more than 10% of the workforce in enterprises of more than 250 employees.

Table 2.3. **Effects of different forms of restructuring on employment**

Type of restructuring	As % of job losses envisaged
Internal restructuring	81.3
Bankruptcy/closure	9.4
Expansion of operations	0
Relocation	3.7
Merger-acquisition	4.1
Outsourcing	1.6
Other	0.1

Source: European Restructuring Monitor.

important factor is that they apply less to enterprises with a direct link to the State and more to private enterprises, often under foreign control. This being so, there is far less scope for the government to exert any influence and give any assistance, owing to the rules on accountability and on State aid.

The geographical spread of restructurings has also extended. As a general rule, the areas most affected are those with the highest concentrations of jobs

in the specific sectors. More isolated enterprises or groups of enterprises in the sectors undermined by strong competitive pressures are the ones that appear very vulnerable. A report by the DATAR classified the various labour-market areas in France as a function of eleven indicators used to assess their current situation (4 indicators), their vulnerability/threat (3 indicators), and their potential (3 indicators). It emerges from that evaluation that 206 areas out of 348 are satisfactory, 73 require some follow-up, with problems threatening to arise in the medium term, and 69 are faced with immediate problems of restructuring. Among the last two categories, four main categories of labour-market area were identified, each of which presents its own special problems:

- narrow labour-market areas that are geographically isolated;
- mid-sized areas, where industrial employment plays an important role;
- areas in average-sized cities;
- areas in large conurbations.

The debate on how government should react to industrial change has also been heavily influenced by two related problems. The first is the public debate about the problem of offshoring and relocation; the second is the problem of how the overall legal framework applies to restructuring, an issue brought into the limelight by relocation and other forms of restructuring.

Management of offshoring/relocation and business restructuring

Problems in obtaining reliable data have prevented any really clear discussion of this issue. Statistics are difficult to gather, because there are usually two aspects to the issue of moving production facilities: conquering new markets (which can be assimilated to FDI), and serving existing markets (which comes much closer to the definition of relocation).[42] According to one recent estimate, some 10% of investments of French origin abroad can be classed as relocation (about € 300 million between 1998 and 2002). As for job losses, a number of studies come up with low estimates, even of less than 1% of total jobs in industry.[43] What is more, it clearly appears that the relocation of some segments in the chain of production of an enterprise can have a very positive impact on its results in general, and therefore on the stability of the jobs preserved, in its country of origin and elsewhere.[44] For example, according to the Foreign Economic Relations Office (*Direction des relations économiques extérieures*, or DREE), the ten industrial sectors that invested most abroad between 1997 and 2000 (relocation and direct investment taken together) have created more than 100 000 new jobs during the same period.

Be that as it may, even if the real economic fallout from business relocation is limited, if not negligible, at national level, it can in many cases have a considerable impact on the region concerned. The government is

therefore under great pressure to take measures to prevent such moves and curb the negative impact they have on the regional economies.

The obligation on the employer to help with the redeployment of the workers laid off and with the revitalisation of the territory impacted by the restructuring clearly marks France out from the other countries in the European Union. It shows that there is a process of shared responsibility, in which the business initiating the restructuring and the public sector actors faced with its effects work together. As for the internal consultation and co-operation procedures provided for by law and in collective labour agreements, they allow the parties concerned to discuss the most favourable terms for the operation in hand, but also to lay down the groundwork for or strengthen the anticipatory management of economic change and the necessary adaptability on the part of the workforce. The cooperation and negotiation process has been strengthened recently by including scope to reach agreements on methods (Law of 18 January 2005).

The other particular feature of the French system is the relatively low priority it gives to compensation payments. In most other EU countries, the amounts of money paid out are usually higher. In France, the level of compensation payable to employees made redundant for economic reasons is fixed by the applicable law and collective labour agreements. The redeployment process is long and only partly effective. A report by INSEE (1992) suggests an overall success rate of 50% over 12 months, with 15% of the persons concerned finding a stable job in the year following their redundancy. Apart from the general difficulties that can arise in a regional job market, (low level of economic diversity, high rate of unemployment) other aggravating factors can be expected for those newly made redundant for economic reasons. These include the number of people concerned, the lack of hiring capacity on the part of the subcontractor companies who are themselves impacted by the restructuring, worker skills and competences made "obsolete" by the lack of adequate upgrading and training during their working lives, and inadequate procedures for recognising experience acquired on the job.

A government mission that recently looked into the issue of economic changes found that the steps taken to manage industrial restructurings are ineffective despite the considerable sums spent on them (as much on handling industrial restructuring as on attracting new industries). The mission concluded that an effective mechanism for following up economic restructurings must include three main elements (the emphasis being clearly on the first):

- an anticipatory mechanism at the level of individual labour-market areas and/or individual sectors;
- management of individual restructuring operation;
- revitalisation of the labour-market areas involved.

The Interministerial Committees for Regional Planning and Development of December 2002 and May 2003 emphasised that anticipation and prevention must be the cornerstones of any policy destined to manage economic change. These functions were conferred on the Interministerial Mission on Economic Change (*Mission interministérielle sur les mutations économiques*, or MIME) set up in 2003. Its role consists firstly of analysing economic changes and forecasting the ways in which these will affect the different sectors and regions. At central level, the Ministries of Employment and Industry have been asked to provide it with information about developments in the sectors and industries undergoing radical restructuring. At the regional level, the creation of a number of regional "observatories" or monitoring units is provided for – the first of them was set up in the Pays-de-la-Loire in 2003. The second major function of MIME consists of facilitating the coordination between the different Ministries and the regional and local authorities in cases where intervention is necessary, especially in those where the restructuring of an industry or the closure of a large enterprise is likely to have profound and major repercussions at regional or local level. In general, such situations authorise the central government to invoke its "mission for national solidarity" which allows different Ministries to offer their assistance. The role of MIME is to coordinate proposals from central government with the steps being taken at regional or local level.

In order to implement its support policy, the government has put action plans into effect in the labour-market areas strongly hit by economic changes. These plans are the subject of contracts (known as territorial contracts) with the local authorities concerned for the labour-market areas particularly affected by restructuring and generally associated with one particular enterprise. They are handled at national level by the DIACT and, for sites involving GIAT-Industries (defence), in association with the Interministerial Delegation for Defence Restructuring (DIRD). It is interesting to note that the name of the programme makes no reference to an ultimate objective (retraining or restructuring for example). Nine contracts of this type were put in place after the CIADT of May 2003, with the express goal of creating 7 000 to 8 000 new jobs. They were linked to the closure of certain large enterprises, especially Metaleurop (Pas-de-Calais), Daewoo (Longwy, Meurthe-et-Moselle), ACT Manufacturing (Maine-et-Loire), Matra Automobile (Loir-et-Cher) and GIAT Industries (five sites). Two other contracts were also drawn up to benefit the *départements* of Vosges and Aube as victims of the more general decline in the textile industry. Since then, a number of similar contracts, agreements and plans of action have been signed for other vulnerable regions, either in connection with the restructuring of a given enterprise, as with Péchiney in the Pays de Foix (Haute-Ariège), or in the framework of a more general restructuring (employment catchment areas of Roubaix-Tourcoing-Vallée de Lys, Sud-Ardèche, Sud-Tarn, as examples).

The amount of support available under these contracts and action plans varies with the scale of the operation – from € 17 million at Longwy, site of the Daewoo production factory, up to € 70 million for the overall restructuring plan for the Vosges. The cost per job is estimated at around € 40 000 – 50 000. In all cases, the financing of these contracts is partnership-based: one component, generally around 25%, comprises new funds from central government, with a similar portion being financed by the EU; the remainder comes from the planning contracts, the local authorities and other partners (such as CCI). In this way, a substantial part of the financing is not new money, but comes from redirecting funds within the region.

In order to improve the cohesion between the work on anticipating economic change coordinated by the MIME and the re-vitalisation plans handled by the DIACT, it was decided in 2005 to regroup all these functions under the DIACT, while at the same time strengthening the role of the Minister for the Economy, Finance and Industry in monitoring and anticipating problems in each industry.

2.4. Policies on broadband[45]

Territorial planning was for a long time viewed as providing the area with amenities, the principal if not the only object of which was the supply of essential services: water, energy, and transport. This was carried out by the State or the local authorities in the territory (*départements* and municipalities/communes) within the public service framework, whose rules and economy were set down in the case-law of the *Conseil d'État* which put citizen's access to public services before short-term profitability. The latest operations in terms of water supply and rural electrification were completed towards the mid 1970s, along with a major telecommunications modernisation programme. After that, the motorways programme was the priority for the public authorities which were anxious to make up the ground lost by France in this area.

Starting in the 1990s – the crisis in public finances led successive governments to share the burden of providing and running public amenities with the local authorities and the private sector; this produced a wave of denationalisations of public enterprises and the accelerated transfer of responsibility and competences to the regions, which were by then in a better position to raise taxes independently.

Against this background, the arrival of new communication technologies led the French authorities to opt for free competition starting in 1996 (albeit under pressure from the Commission). This policy, which concerns in particular national policy on mobile phones and broadband Internet access, requires a dual function: one, that of regulation, to ensure that there is a satisfactory level of competition, is carried out by an independent body, the

Regulatory Authority for Electronic Communications and the Postal Service (ARCEP, previously *Autorité de régulation des télécommunications*, or ART). The other function is territorial, aimed at closing the "digital divide" between those areas where coverage is profitable and the rest of the country, and it is performed by the sub-national authorities with the support of DIACT, under the Law of September 2004 (Article L 1425-1 of the Local Authorities Code, which authorises them to become telecommunications operators).

Broadband is a crucial factor for the various regions and their different user segments: enterprises (multinationals, SMEs and very small businesses), the local public institutions (hospitals, colleges, administrative departments) and the general public. Broadband technologies must thus be viewed as "local development tools" (Ullman, 2005) creating new economic and social dynamics. The conviction today seems to be gaining ground among subnational authorities that information technologies and broadband in particular have a role to play in the attractiveness and competitiveness of their areas. Lack of access to these technologies would be a clear handicap for poles of competitiveness, given the rapid growth in exchange of data and information on the networks by customers, subcontractors and research centres in the knowledge-based sectors of the economy, trade and finance.

As the *Caisse des dépôts et consignations* pointed out in June 2004[46] "seven years after being opened up to competition, sub-national authorities say that their territory is still not in a position to choose when faced with the services on offer, or that it does not have broadband services to offer at competitive prices". The telecommunications operators are looking at areas as customer catchment areas and are not necessarily going to take the steps to upgrade them. The economic conditions under which they operate lead them to concentrate on the areas that are profitable.

According to the views of a growing number of subnational authorities, true competition can only happen with the rollout of neutral, open and "reciprocal" infrastructures. A similar observation has been made by other OECD member countries (*e.g.* the United States, Canada, Italy and Sweden). In France the regions along with other local authorities are increasingly demanding genuine "competitive equity" throughout the country, in other words basic digital conditions (quality, price and variety) enabling broadband to perform its role in fostering development throughout the country (Association des Régions de France, 2005).

The state of play

The initial impression is that France has largely made up for its delay in the provision of broadband throughout the country with 7.9 million subscribers (June 2005) and a level of penetration of 16% of households (*cf.* Chapter 1). Even

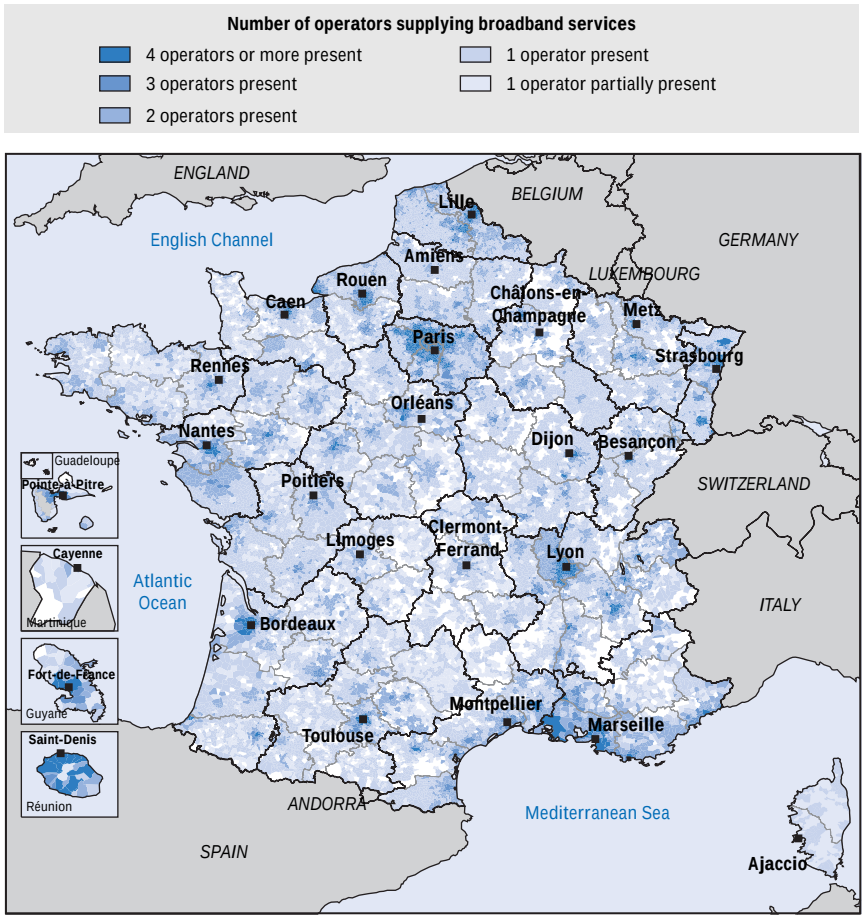
where price is concerned, where competition in terms of charges is particularly fierce, France is in second place in Europe for the average price of a 512 Kbits/second connection (€ 28), behind Estonia, which makes it far less expensive than Germany (€ 42) or the United Kingdom (€ 40). It is interesting to note that these market conditions both in terms of price and speed often seem to surpass those available to the American consumer.[47] It is in triple play provision (Internet access, IP telephony and television) that France stands out, with the lowest charges of any of the major industrialised countries (see also Chapter 1). This pricing context is one of the reasons for the rapid growth of broadband.

The success of unbundling (*dégroupage*) is one of the main spurs to the development of broadband (see Annex 2.A2). With an increase of 28% during the first quarter of 2005, unbundling is continuing to grow steadily, though this continues to be led to some extent by partial rather than total unbundling. The development of total unbundling is still modest, with 13% of new lines supplied during this period, or just below 20 000 new lines per month.[48] Thanks to unbundling, competition is present in the densely populated urban zones but has not yet taken hold in the rural areas.[49] As at mid-2004, 19 300 municipalities had, potentially, total or partial access to permanent Internet connections for a total of 83% of the population. However, there are still large areas with low population density that do not as yet have broadband, particularly rural communes and districts that are a long way from the switching centres (see Map 2.3).

These results stem to a very large extent from the opening up of the telecommunications sector to competition and voluntary regulation. The appearance of new entrants has produced threefold competition in products, services and prices, forcing the historically dominant operator (France Télécom) to offer new products and lower its prices. The Competition Council has itself made a decisive contribution, by issuing decision in disputes between the new entrants and the incumbent operator, especially as to the implementation of unbundling. These results can also be ascribed to a novel public policy which will be discussed below.

Today, broadband could amount to a service of general economic interest, from the European Union standpoint. However, access to and use of broadband are not evenly spread, and the term digital divide is used to describe: "the gap between individuals, households, businesses, and geographic areas at different socio-economic levels both with regard to their opportunities to access information and communication technologies (ICTs) and to their use of the Internet for a wide variety of activities. The digital divide reflects various differences among and within countries" (OECD, 2001, p. 5). Today in France, disparities between different parts of the country are not confined to broadband access. They essentially reflect a digital divide in competition.

Map 2.3. **Broadband deployment**



National policies for promoting broadband

These policies first emerged in the late 1990s: they are not the product of a pre-determined strategic initiative with one central objective so much as of a progressive and incremental process. The CIADT of 14 September 2004 mentions an ambitious policy aiming to connect all municipalities to broadband networks by 2007 and to reach 10 million subscribers, as well as offering very fast broadband (> 100 Mb/s) in business parks and some large urban areas (by giving DIACT a mandate for some of the work involved in achieving that goal here). This policy originated as the State withdrew from the telecommunications infrastructures under 1996 Law, which opened the French market up to competition, in line with similar developments in many countries at the time.

While digital coverage aims to provide every area with access to broadband, digital upgrade aims to provide each operator with equal access throughout the country. Focusing on local competitiveness, this strategy goes beyond digital coverage by introducing the element of competition. This is because an area's competitiveness depends on the diversity of service provision and prices available. Thanks to competition, SMEs can obtain the best prices for their broadband needs. As for private individuals, they can have access to a full range of services combining telephony, television and broadband Internet. Policies tend to mirror this, by inciting operators to invest in areas where there is no access, and seeking to strengthen competition where an operator is already present.

The Law of 21 June 2004 on Trust in the Digital Economy (LCEN) expressly recognises the competence of the subnational authorities in the field of telecommunications: it now authorises their involvement[50] provided that it is to develop infrastructure that will encourage competition.

In this context the government resolved to encourage the process of creating new infrastructures, by urging the local authorities to set up open infrastructures with the methodological and financial help of the CDC (the *Caisse des dépôts et consignations*, a financial public agency that supports investment projects by sub-national authorities) and by mobilising a support fund, endowed with European funding, for the deployment of broadband. As for methodology, the CDC has recommended a formal contractual framework, that of the Public Services Delegation (*Délégation de services publics*, or DSP).[51] Under this system, a consortium is selected, after a tender process, to construct and operate (concession form) or simply operate (leasing form) an infrastructure network in the territory. The concession form is the one most frequently used in projects supported by the CDC. The public and private sectors share the investment (typically 50/50) and the consortium is given a mandate for a period that can be as long as 15 or 20 years. These mechanisms are criticised for being somewhat cumbersome, both in their implementation and in their functioning in a sector characterised by its great dynamism and capacity to react to changing market conditions. However, they are the engines of the process of upgrading the territorial infrastructural amenities: today the *départements* are the most likely to implement DSP-type initiatives, mainly because they are the primary interlocutors for the municipalities/communes. At the regional level, regional authorities with only a few *départements* (Alsace, Limousin) have emerged as the most active and efficient in developing coherent projects covering the whole of their territory.

The backbone networks seem to display all the problems that affect the networks where broadband has no competition. In practice, while access by competing operators to the local loop can be made possible by unbundling (which is progressively spreading over the territory) and while the competing

operators have often rolled out long distance carrier networks (where the market is highly competitive), the incumbent operator remains dominant in the intervening sector of backbone networks. The *Caisse des dépôts (*CDC), like the *Autorité de régulation des communications électroniques et des postes (*ARCEP), thus support the local authorities in their business of offering this type of backbone network to competing operators. DIACT also undertakes initiatives as part of its support for experimentation, especially via calls for tenders for the installation of alternatives broadband technologies (WiFi + satellite + CPL).[52]

As well as these national bodies there is a supra-national level, because the European Union, especially since the Lisbon summit, has made the information society one of the priority themes for the Regional Policy DG. On two occasions, the European Commission has reviewed the machinery in place in France (in the Hautes-Pyrenées and the Limousin) and confirmed the possibility of support from the ERDF structural fund. Since the CIADT meeting on 14 September 2004, the State has mobilised € 100 million in European funds for backbone infrastructure of this type. Moreover, the issue of "digital technologies" might also be one part of the Leader +, Urban II or Interreg agreements, or the Ten Telcom, e-content and Safer programmes. Furthermore, it is precisely the subject of the Regional Programmes of Innovative Actions (*Programme régional actions innovatrices)* aimed at helping the least developed regions to upgrade their technology, but also at promoting regional cohesion and competitiveness via an integrated approach to economic, environmental, cultural and social issues.

Local authority strategies

Sustained by the DIACT and the CDC with support from ARCEP, digital upgrading around the country depends, to a large extent, on the involvement of the local territorial authorities. At the outset, most of them did not wish to become involved in telecommunications: they were expecting the incumbent operator (with whom they had over time developed a close relationship) to make the necessary investments. Gradually, a number of local authorities began to invest increasingly in this new regional-development goal to upgrade their areas and support local economic and social development by creating the missing link between the local loop and regional trunk lines, so as to be able to offer the operators a large market that is currently non-existent or does not have a suitable basis. In a more general sense, a variety of strategies have been adopted by local governments:

- the signature of service contracts based on group orders to meet the needs of local government and the public sector (for example in Brittany);
- the deployment of broadband backbone infrastructures (for example in Limousin, Pyrenées-Atlantiques);

- the signature of agreements (*e.g. "département innovant")* with the operators to increase use, leaving it to the operators to develop access;
- the development of access networks, especially based on alternative technologies tested with support from the DIACT, or as a complement to operator networks (for example in Seine-et-Marne, Alpes-Maritimes);
- the development of broadband-based services for local individuals and firms.

The situation is still evolving, with frequency allocations ongoing that are designed to cover the territory with WIMAX technology, which may for the first time be allocated to local authorities, or with the study being conducted by the Ministry of Industry on national coverage regarding very high speed connections, for example using fibre optic connections to buildings.

For operators in competition with the incumbent operator, the existence of public infrastructure represents a major saving in investment, bearing in mind that the cost of the physical networks is by far the biggest item in the budget (civil engineering, laying cables). It can thus turn out to be a positive sum game because, for the local authorities across the country, there are various arguments in favour of their involvement (Ullman, 2005):

- broadband is a comparative advantage (or an essential precondition) capable of attracting and retaining businesses, training and educating individuals, or even maximising the efficiency of the public services;
- the development cost of broadband is relatively low compared with the costs involved in building a roundabout, a stretch of road, or renovating a school, and it thus becomes a question of choosing local policy priorities ;
- finally, broadband is not confined to a single sector but affects all areas of public service, including education, training, health, the economy, social aspects, employment and government.

It is tempting for local authorities to place bulk public-sector orders in order to obtain the leverage they need to induce one or more operators to invest in their area. This type of approach is, however, still difficult to implement effectively. In practice they are faced with a situation, in the public service procurement context, in which such a contract is likely to be awarded to the incumbent operator. That operator is better placed than any of the others, because, for example, it can interconnect all the public sites. Not only does it win this type of contract but it also finds, in public resources, the means of reinforcing its infrastructure and its competitive position (see Box 2.11 on Brittany). On the other hand, investment in infrastructure does carry various risks, including the cost of the investment and the difficulty in marketing in sparsely populated areas, which inevitably accompany any involvement in a rapidly changing industry.

Box 2.11. **The case of Brittany**

Brittany was the first French region to take an interest in the development of broadband networks at this territorial level. The research sector, where telecommunications play a major role, was decisive in the analysis. The chosen scheme consisted in putting in place a model that combined demand by the public services and the research community in order to prompt an operator to invest in broadband coverage for the Region.

A European tender process was launched and the incumbent operator, which itself had major research centres in the Region (in Rennes and Lannion) won the contract (€ 48 million, of which just over € 30 million were to come from the Region over 6 years). An association, Mégalis, was set up covering the local Breton sub-national authorities (the region, the four *départements* and 25 towns) and the association of Breton hospitals.

Mégalis took on a dual role, in that it acted as: 1) contract arranger for the local authorities and the operator France Télécom, 2) an enabler addressing public needs and uses, taking significant initiatives in the healthcare sector. In consideration for the contract with Mégalis, France Télécom undertook to develop optical infrastructures in the Region. The scheme assumed that the rollout of broadband infrastructures and services would indirectly benefit businesses simply by its availability.

Research centres, universities, public services all connected up to the Mégalis network, which was not just a network in the service sense but was also viewed as a genuine asset for the Region, as a physical network would be. In consideration for their joining the association and participating in the financing package, partners were given preferential rates which, at the time, were around half the market price.

This network was vital for research centres, which accounted for some 4% of all French research, a significant figure given that the Île de France region accounts for 40%. Participation by Breton research structures in international projects has increased over the past years. Staffing levels at the principal research centre in the new technologies sector have grown by 30% over the past 4 years. This growth is obviously not due to the broadband networks alone but, had they not been available, it would have been significantly curbed and the research teams would have gone elsewhere.

While the Region's strategy via Mégalis has lived up to the expectations of the public sector and the research community, it has not yet really taken off on the business side. The indirect benefits from the promotion of broadband have not really become apparent. As the operator of the Mégalis network, France Télécom could not be asked to initiate the development of supply-side competition. Today, as the contract between Mégalis and the incumbent operator is coming to an end, the situation appears to be improving. New players have installed their own infrastructure – although this is limited to major trunk lines – and France Télécom is proving very willing to provide towns with ADSL coverage.

Is this sufficient, or will the Region or the other local authorities have to embark on an aggressive new policy? That is the issue at hand, which the Region intends to address in the near future.

A complex decision

The local authorities are caught between caution and their determination to act. They feel they are on legitimate ground but not entirely and they wish to promote coverage of the territory and diversity of the offering without venturing on to unfamiliar terrain. To do this they must find ways of attracting operators who, whatever happens, will be the ones to develop the services. The question is how to persuade these operators to invest when the market conditions appear less than ideal. The principal operators seem to favour what are thought to be the most profitable investments on unbundled lines (see the case of the operator Free using totally unbundled lines). But, this will not be enough for those areas that are still not unbundled. In order to roll out unbundled ADSL products, an operator therefore needs an infrastructure that allows it to implement an economically viable model.

Attracting competing operators therefore requires a guarantee that infrastructures will be made available to them. On the one hand, the local authorities want to see infrastructure and services deployed, and are increasingly ready to invest while at the same time weighing up the risks. On the other, private players want to market their services by looking for the profitability they need if they are to expand. Public-private partnerships (PPPs) would seem to offer the solution best suited to this dual dilemma: shared investments, shared risks, increased coverage, and growth in local services. While the benefits seem clear, the operating methods of these partnerships appear still to be the subject of debate. Faced with these choices, there is today a clear policy preference, one that emerges from the documents produced by the ARCEP or the CDC, for supporting investments by local authorities in backbone networks. This choice by the local authorities has moreover provoked a response on the part of the incumbent operator, which in late 2004 committed to an ambitious deployment plan. This response may have convinced some local authorities to give up their own plans for new publicly-developed infrastructures, or their choice of alternative technologies (see, in the case of WiFi, Fautero, Fernandez and Puel, 2005).

In November 2004, the European Commission approved the public financing of broadband projects in the Pyrénées-Atlantiques *département*, Scotland and the Midlands. In the case of the Pyrénées-Atlantiques project (see Box 2.12) the Commission decided that, in some circumstances, the public co-financing of an open broadband infrastructure was the fulfilment of an economic service of general interest obligation, and not aid. In the case of the two United Kingdom projects, the Commission stated that the two sets of aid concerning the supply of broadband services were compatible, considering that the subsidies were necessary for the deployment of these services in rural and isolated areas which did not have access. This appears to validate the dual notion that broadband is an

Box 2.12. **The case of the Pyrénées-Atlantique**

The *Conseil général* of the Pyrénées-Atlantique *département* has undertaken a huge project to provide the area with the infrastructure for broadband coverage. This is one of the more marked examples of local authority commitment to promoting infrastructure.

The *Communauté d'agglomération* in charge of the urban area of Pau led the way as early as 2001, when a plan was drawn up with the ambitious objective of providing the inhabitants with 100 Mbps connections for around € 30. A tender was put out and a broadband network rolled out as part of a public-private partnership. The Pau initiative attracted a good deal of interest and set off reactions among different tiers of local authorities in France.

One was the *Conseil général* for *Pyrénées-Atlantique* which is based in Pau. Since the principal city had its own infrastructure, the aim of the *départemen*t was to see the whole of the area benefit from broadband services. The département is noted for its vast rural and mountainous areas. It was soon realised that the operators alone could not roll out the new services throughout the *départemen*t, apart from the major metropolitan and coastal areas.

Studies showed that it was in their interest to put an open infrastructure in place that could be used by all the operators in the market as well as local users, on financial terms that were favourable to the development of services. A group was chosen in the framework of a "*Délégation de service public (*DSP)" in accordance with the new provisions of French law that allow a degree of intervention by the local territorial authorities in the telecommunications sector. The set-up provides for investment of € 62 million between 2004 and 2006, 68% of which will come from public players (the *Département*, the Region, and Europe).

The *département* sought to establish close ties with the European Commission in putting forward its dossier. It therefore integrated the guidelines laid down by the European Commission into its analysis, and had a number of meetings with the various Directorates-General in the Commission: Regional Policy, Competition, Markets and INFSO. In so doing, the *département* complied with the basic criteria, which are: 1) A regional strategic framework, 2) A geographic target, 3) Technological neutrality, 4) Open access, 5) Public ownership.

Thus the Pyrénées-Atlantique project obtained the approval of the European Commission. It is cited as an example and its image has given it greater legitimacy among all players, both public and private. This seal of approval is an indication of the public-private partnership approach that the Commission wants to promote with regard to Economic Services of General Interest, to which it expressly refers.

essential local service, and that public interventionism in the field, particularly by local and regional authorities, is legitimate. However, it leaves room for a wide variety of institutional options for the implementation and use of such a service.

The role of the Regions

The Regions were until recently mainly interested in the question of developing research networks using broadband. The Regions all have at least one metropolitan and/or regional backbone hub linked in to RENATER[53] that interconnects educational and research establishments, and even other local public institutions (including town halls and hospitals).[54] As early as 2003, the government began stressing the need to coordinate initiatives and to involve the Regions. This is what the regional authorities are currently engaged upon. Some of them are involved in the services markets and, where necessary, giving financial support to the projects undertaken by local authorities (Bretagne, Franche-Comté, Ile-de-France, Pays-de-la-Loire, Picardie, Provence-Alpes-Cote d'Azur, Rhône-Alpes). Some wish to remain active in research networks (Basse et Haute-Normandie, Champagne-Ardenne, Centre). Others are committing to infrastructure projects based on DSP-type partnerships (Alsace, Corse, Limousin, Poitou-Charentes). Finally, there are those whose are mainly targeting the primary goal of regional consistency (Aquitaine, Auvergne, Bourgogne, Midi-Pyrénées, Nord-Pas-de-Calais). The Regions thus have an important role to play but it may vary with the profile of their area. Some are playing a leadership role in their areas (as in Alsace, see Box 2.13, or Limousin), while others have a strategy of supporting local projects (as in Picardie) or act as "observer-coordinator" (as in Midi-Pyrénées). These strategies must also be capable of inclusion in planning documentation (the State-Region Planning Contracts and also DOCUP for European funding).

However, this outline is not set in stone. Following the regional elections in 2004, some Regions have decided to redefine their strategies. Broadband is now their number one priority in the new technology sector.[55] For the Association of French Regions, "broadband should become a raw material made available to their inhabitants, businesses and public services on an affordable and lasting basis"[56] (ARF, 2005).

The Regions which, via their association (the ARF), subscribe to the idea that competition alone can bring about effective conditions of access to broadband in their areas, want to see policy develop in (at least) two main directions:

- on the one hand they are asking for an increase in the support fund for broadband deployment, set up by the CIADT in December 2003, but which does not appear to have been given any financing since that time.

- on the other, they are seeking recognition for their mandate to ensure consistency between the various networks and broadband development projects being set up in their areas.

Box 2.13. **The Alsace Region**

Priorities for Alsace are geared to the world of economics: broadband is clearly viewed as a driver for local development (and of support for regional identity). The three dimensions to this strategy involve: *a)* deploying infrastructure and seeking consistency of access across the region, *b)* training economic players (enterprises) and seeking synergy between the enterprises/research community with the help of broadband, and *c)* creating a dynamic and innovative identity based on a programme (the images pole) that will bring together all of the activities and players involved in the new technologies and the audiovisual field, with a view to developing a pole of competences, providers and users, on this theme.

As to infrastructure, in 2003 the Regional Council of Alsace adopted an infrastructure plan linking thirty towns and cities in the region (large, medium and small) seeking to make optimal use of the existing networks, especially cable. The two *départements* (Haut-Rhin and Bas-Rhin) within the Alsace region have become closely associated with this initiative. Rather than seeking to establish equal access throughout the area, the Regional Council opted, at least in the early stages, to promote economic competitiveness. It is worth noting that Alsace is the third most urbanised region in France with the best coverage in terms of new technology after the Ile-de-France and Nord-Pas-de-Calais. The Bas-Rhin is the *département* with the second largest cable network. The rural areas have a dense network of attractive small towns which are dynamic in demographic terms. The "classic" digital divide between urban and rural areas is less pronounced here than elsewhere.

Source: Based on Ullman, 2004.

Notes

1. The 1999 Framework Law on Regional Planning and Sustainable Development (*Loi d'orientation pour l'aménagement et le développement durable du territoire*, or LOADDT) incorporates the provisions of the 1995 law and introduces some changes. In particular, the law enshrines a long term vision in that it sets out a long term outline for public services in 8 fields (higher education and research, culture, health, information and communications, passenger and goods transport, energy and natural and rural spaces. The accent is on the following objectives: mobilising territories for development, compensating for the disadvantages of rural and urban areas, bringing together rural territories and urban areas across the *pays*

(a new territorial structure), developing metropolitan areas of international significance, increasing cooperation between players at national level and taking greater account of the European dimension.

2. The CIADT meetings in 2002 and 2003 allocated € 280 and € 120 million, respectively, to support economic change in labour-market areas hit by severe restructuring or affected by structural weakness.

3. Community Programme for Research and Development (PCRD): 6th PCRD = 2002-2006, 7th PCRD = 2007-2011.

4. In numerous areas, including road network density, motorways, telephony and railway networks, France now ranks above the European average or compares favourably with other countries. Investment is still required for the creation of corridors and also for sustainable development through a change of mode from road to rail and inland waterways and to improve access to areas without transport links.

5. For example shoes at Cholet, spectacles at Oyonnax, specialised machine tools "décolletage" in the Arve valley or cutlery in Thiers.

6. See Veltz 2000.

7. In this way it can improve its capacity management by redistributing orders sent to firms whose order books are full. These systems are able to capture the agglomeration economies analysed by A. Marshall and his followers, mobilise their local and regional dimension and adopt a joint approach, for example in winning markets. As shown in a study by the *Banco d'Italia* and analyses by METI and the Japanese SME Agency, districts generate additional wealth for the local and regional economies to which they belong.

8. This policy was facilitated by the close relations in France between the major public and private enterprises and the central administration, and by the fact that their managers come from the same schools. At that time it was easy for the senior civil servants in charge of regional policy to influence investment decisions on expanding and locating large businesses. This process resulted in significant investment, particularly in the medium to high tech areas (automobiles, electronics, telecommunications, aeronautics, defence) for example in Brittany, Midi-Pyrénées, Centre, Nord-Pas-de-Calais, Provence and Alpes-Côte d'Azur. Because of the privatisation process, and increased competition between the regions for investments within the European framework and beyond and because of the limits set on government aid in international negotiations, regional policies can no longer decisively influence the strategies of major firms to locate their operations in regions that are less dynamic or in difficulty.

9. See Aniello and le Gales 2001.

10. See especially the Reverdy study.

11. The identification of clusters of specialised firms was based on 4 criteria: their number – at least 5 in the same branch; employees – at least 100 in the same activity; enterprise density per km^2 – at least twice the national average; and specialisation – higher than the French average. See P. Pommier, *La politique française des systèmes productifs locaux*. Copenhagen June 2003.

12. The genetics pole model (*i.e.* setting up poles of competitiveness in the biotechnology field) has proved difficult to transfer.

13. Other institutions helping firms to collaborate with universities include the Centres for Innovation and Technology Transfers (CRITT) (there are more than 200 of them all over the country) and Technological Development Networks (RDT).

14. There are some 50 technopoles poles in France. About half are thought to be performing well.

15. In that context, results could be obtained in a relatively short period of time. Many poles of competitiveness of world standard were already operating before the DATAR programme was launched. For example Minalogic in Grenoble was established 20 years ago, around the Engineering Schools and the J. Fourier University. As a result of synergies between these education institutions and private corporations, many firms were created in a relatively small area. This has become attractive and numerous foreign firms (including Philips and Motorola) have located their business activities there.

16. According to one study by two American economists, Agrawal and Cockburn, out of 268 metropolitan areas in the United States, the presence of one large enterprise (the principal tenant) has a positive effect on the quality of relations between universities and industrial R&D.

17. The Defence Ministry participates in the policy on poles of competitiveness, which are the favoured environment for dual research programmes supported by this Ministry. Among the projects adopted, 7 concern defence-related activities, especially in the context of industrial, research and technology policy: the fields involved are space-aeronautics, energy, images and networks, complex systems, composite materials, microtechnologies and biotechnologies.

18. While the Audit office emphasised the progress made towards contract-based arrangements between the Ministry and the EPST, it noted *inter alia* that while there had been a great increase in joint initiatives (from € 35 million in 1995 to 400 million in 2003), the funds financing these initiatives, the Technical Research Fund (FRT) and the National Science Fund (FNS) had pursued changing goals. Although it had shifted in 1999 towards financing innovative enterprises, the FRT for example continued to appear as a major source of university laboratory budgets and of EPST and their recurrent financing rather than just one element in a mixed R&D environment. The report noted furthermore, that these incentive initiatives were the subject of *ad hoc* evaluation by the Ministry of Research. However, given the lack of any framework for these evaluations, they were of limited use, and it was not possible to have any kind of overview of these programmes.

19. These appropriations differ from the recurring credits that finance “fixed costs”. They are allocated under the process of calls for proposals to put in place research teams, promote interdisciplinary work, and support young researchers.

20. The concept of regional innovation systems (RIS) describes a concentration of interdependent firms within the same or adjacent industrial sectors in a small geographic area. A RIS can stretch across several sectors and clusters as long as their constituent firms interact. At the same time clusters can develop close links with knowledge organisation outside the RIS (Asheim, 2004).

21. Within the framework of the State Region Planning Contracts (1984-1988), 150 cities cooperate with the central government to combat physical, economic and social deterioration within 148 urban districts through District Social Development (DSQ) conventions.

22. Source: *www.ville.gouv.fr/infos/ville/index.html*.

23. Sensitive urban areas (*Zones urbaines sensibles* or ZUS) are characterised by the presence of large areas or districts where housing has deteriorated, and by a marked imbalance between housing and jobs.

24. By contrast with what was seen in 1997 with the former urban "free zones", for the present there seem to be few transfers of businesses or of jobs to the 41 new urban free zones. The estimated figures, mostly net job creations, for the first six months ranged from 800 to 1 200 jobs approximately (DIV, 2004 report). However, it should be noted that for the ZFUs created in 1997, the fastest rates of net job creation were often reached three years after the urban free zones were opened (DIV, 2004).

25. Exemptions from social contributions came to more than 221 million euros (1 450 million francs) for the first ten months of 2001, as against 242 million euros (1588 million francs) in 2000. Tax exemption stood at around 141.78 million euros (930 million francs) for 2002.

26. A number of communes with a combined population of over 50 000 forming a single urban area but not an enclave around a number of core communities of more than 15 000 inhabitants can constitute an "agglomeration". The border must in any event be validated by the *préfet*.

27. CIADT 18 December 2003.

28. According to Marcel Roncayolo, a metropolis is "a very large city, both in terms of the size of its population and that of the urban region it feeds, in terms of its economic, political, social and cultural weight as well as its power to attract and spread outwards" (Marcel Roncayolo, in DATAR, 2004).

29. CTE: a contract-based system for individual farms, which includes both an environmental and a social/economic component.

30. Under the new legislation, places with tourism and local crafts can now be treated like industrial areas (eligibility for reductions in tax on construction costs, tax exemptions for a period of up to five years and, with the agreement of the local authorities, exemption from local tax). There are a number of mainly tax-related instruments to promote the renovation of property (OPAH), priority being given to the construction or renovation of buildings for the rental market (the Robien Law) which is thought to be underused in rural area and consequently curbing economic activity.

31. Within the framework of an all-party commission.

32. A number of special types of aid for rural regions have been put in place since 1995, based on the rural priority development territories (TRDP) and the rural revitalisation zones (ZRR). These special areas, covering almost one third of the national territory and 4.5 million inhabitants, were created in the light of funding programmes under Objective 5b of the European Structural Fund for the period 1994-1999.

33. The complexity regarding these institutions and programmes is clear from the calls for proposals process, which emphasises that the projects put forward must target a zone covered by the ZRR, which must also be a priority pole under the CPER, clearly integrated into the machinery for the Pays, etc.

34. Prime Minister's circular – letter to the *préfets* of 3 March 2005.

35. Group 1: local cooperation, Group 2: definition of needs and service provision, Group 3: Awareness and diffusion of innovative actions, Group 4: Financing and grouping of services.

36. Law n° 2005 – 157 of 23 February 2005.

37. Law n° 2005 – 516 of 20 May 2005 on the regulation of postal activity.

38. Postal agencies in the communes are negotiated with the AMF. New agencies will provide 95% of the services of a post office in terms of mail, parcels and financial services. Under the new conventions, the commune receives compensation for undertaking to open the agency for 60 h per month. This is increased if the agency is in an area classed as sensitive, or is housed on premises belonging to the group of municipalities.

39. However, at the beginning of June 2005, *La Poste* signed a protocol of agreement with tradesmen and artisans (newsagents and also grocery stores, drapers, restaurants, bakeries, etc.) whose "indirect" network of postal services (the *relais poste*) consists of 574 traders, in exchange for monthly payments (loaded according to the zones and also including a commission on some sales). As a result, opening hours are much longer because they generally coincide with the opening hours of the trader.

40. For example, rural areas show high levels of employment in industry (more than twice the levels recorded jointly in agriculture and the agro-industry, reaching 40% in some regions). Rural France also has a substantial number of small labour-market areas which are mostly industrial in nature.

41. The European Restructuring Monitor (ERM) is the information service of the European Foundation for the Improvement of Living and Working Conditions. Their analyses use a network of national correspondents in European countries. These compile information on restructuring gleaned from the specialist press.

42. The definition of offshoring/relocation generally emphasises the transfer abroad of the activity of an enterprise, whose production is thereafter imported. As such, this procedure is essentially a way of reducing costs by choosing a production site where costs are lower than those at the previous production site. When an operation is set up in another country in order to exploit new markets, the term FDI (Foreign Direct Investment) is more appropriate. The most vulnerable sectors are highly developed industries that are labour-intensive (textiles, leather, mass produced electronics, etc.) and the beneficiary countries are essentially those of North Africa, Central and Eastern Europe, India and China. Other examples include the offshoring/relocation of services, for instance French-speaking call centres in the Maghreb.

43. These numbers are dependant on the timeframe considered and the method chosen. Some studies by the *Direction des relations économiques extérieures* or the Senate give slightly higher estimates but not more than a few percentage points.

44. The Senate report emphasises this point.

45. The notion of "broadband" refers to an area of technological innovation that is growing (at the pace of innovations in the sector as to speed and quality) and which allows fast and permanent Internet connection.

46. In the interim report produced by the Department for digital provision in the territories.

47. Competition between cable and phone companies in the US has so far been slow in improving offerings for DSL (Digital Subscription Line) services. See "High speed? Not in the US. Jesse Drucker. The *Wall Street Journal* Europe. November 2005".

48. By 1 April 2005, France Télécom had delivered 904 switching centres to the operators involved in the unbundling, 890 of them in mainland France and 14 in the DOM, to enable them to install their own unbundling equipment.

49. For an overview of the implications of Internet in rural areas see OECD, 2001 *Information and Communication Technologies and Rural Development.*

50. Effective nonetheless – generally via third party structures run by local public players – in almost all European, North American or Asian countries.

51. The DSP regime provides a clear framework that allows local authorities to hand over to private enterprise a service under their responsibility: water, refuse collection, public transport. In the absence of any structure such as "Utilities", this regime provides a clear framework for the management of structuring services to be transferred to the private sector.

52. Carrier currents, where power lines are used to transmit communications.

53. RENATER = National Telecommunications Network for Technology, Education and Research.

54. The financing of university networks linked to RENATER is a recurring theme in the planning contracts for the different regions. Other broadband projects come under different programmes: "massif" for the Pyrénées region, European "innovative actions" programme for Alsace, etc.

55. Benchmarking carried out by ITEMS International for the Pays-de-la-Loire region.

56. General Assembly of the ARF on 9 March 2005.

ANNEX 2.A1

Territorial coherence schemes (SCOT)

Table 2.A1.1. **Trends in the number of schemes from 2003 to 2005**

Number of schemes	2003	2004	2005
SCOT being drawn up	108	161	177
Scheme being revised	37	39	42
Scheme approved	121	114	112

Table 2.A1.2. **Trends in the number of *communes* in a scheme from 2003 to 2005**

Number of communes	2003	2004	2005
SCOT being drawn up	4 113	6 911	7 628
SCOT being revised	1 740	2 006	2 231
Scheme approved	3 919	3 870	3 692

Table 2.A1.3. **Trends in the population covered by a scheme from 2003 to 2005**

Population	2003	2004	2005
SCOT being drawn up	9 385 582	16 154 643	17 815 176
Scheme being revised	5 947 885	6 272 616	6 733 683
Scheme approved	12 870 016	12 346 709	12 052 466

Table 2.A1.4. **Trends in the area covered by a scheme from 2003 to 2005**

Area covered in km^2	2003	2004	2005
SCOT being drawn up	67 555	107 404	116 523
Scheme being revised	23 258	26 418	28 860
Scheme approved	46 739	45 728	44 764

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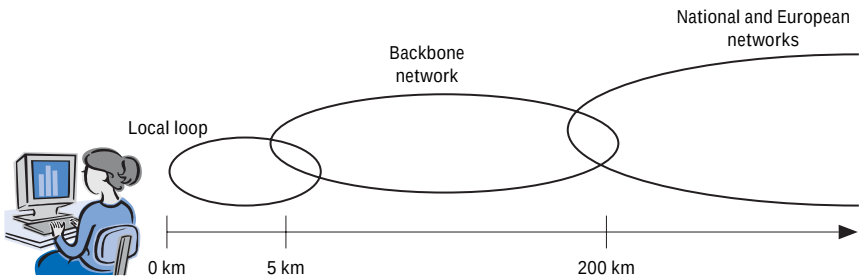
ANNEX 2.A2

Unbundling local loops and connecting grids

The local loop is the name given to the segment of the telecom network that lies between the local telephone exchange and the subscriber. In general, the local loop is composed of a pair of copper cables. Local networks in France are owned by France Télécom and it is economically impossible for a competitor to fully replicate the FT network. However, it is strategically important for a new operator to have direct access to the local network as it enables the operator to manage the network connection to its clients from one end to the other, and to offer differentiated services. It has, therefore, been affirmed at European level that the historical operator should provide its competitors with direct access to local loops. This unbundling of the local loop can be considered in two ways:

- Total unbundling means that full access to the local loop, in which case all frequencies are opened to other operators, and the end user is no longer connected to FT but to the network of the new operator.
- Partial unbundling means that only the high frequency part of the band is given to the new operator, so it can establish an ADSL service, for instance.



Source: ARCEP (ex-ART) and ARF.

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Liste of acronyms

ADSL	Asymmetric Digital Subscriber Line
AII	Agence pour l'Innovation Industrielle (Agency for Industrial Innovation)
AMF	Association des Maires de France (Association of French Mayors)
ANR	Agence Nationale de la Recherche (National Agency for Research)
ANVAR	Agence Nationale de Valorisation de la Recherche (French Innovation Agency)
ARCEP	Autorité de Régulation des Communications Électroniques et des Postes (Regulatory Body for Electronic Communications and Post Office Matters)
ARF	Association des Régions de France (Association of French Regions)
CAR	Comité d'Administration Régional (Regional Management Committee)
CDC	Caisse des Dépôts et Consignations (A State owned financial institutions performing public interest missions)
CDCI	Comité Interdépartemental de Coopération Intercommunale (Departmental Commission for intercommunal cooperation)
CEA	Commissariat à l'Énergie Atomique (Atomic Energy Authority)
CESR	Conseil Économique et Social Régional (Regional Economic and Social Council)
CGCT	Code Général des Collectivités Territoriales (Regulatory framework for local authorities)
CGP	Commissariat Général du Plan (National Plan Commission)
CIACT	Comité Interministériel à l'Aménagement et à la Compétitivité des Territoires (Interministerial Committee for Territorial Competitiveness and Planning)
CNES	Centre National d'Études Spatiales (National Space Research Institute)
CNFPT	Centre National de la Fonction Publique (Public Sector National Center

CNRS	Centre National de la Recherche Scientifique (National Center for Scientific Research)
CNRT	Centre National de Recherche Technologique (National Centre for Technological Research)
CPER	Contrat de Plan État-Région (State/Region Planning Contract)
CRITT	Centre Régional pour l'Innovation et le Transfert de Technologies (Regional Centre for Innovation and Technology Transfer)
CTE	Contrat Territorial d'Exploitation (Territorial Contract in rural areas)
DGCL	Direction Générale des Collectivités Locales (Directorate General for Local Affairs from the Ministry of Interior)
DGF	Dotation Globale de Fonctionnement (Global Operating Grant)
DIACT	Délégation Interministérielle à l'Aménagement et à la Compétitivité des Territoires (French Regional Agency)
DIV	Délégation Interministérielle à la Ville (Interministerial Commission for City Policy)
DNP	Dotation Nationale de Péréquation (National Equalisation Grant)
DOCUP	Document Unique de Programmation (EU Regional Programming Document)
DREE	Direction des Relations Économiques Extérieures (Foreign Economic Relations Office)
DSP	Délégation de Service Public (Public Services Delegation)
DSR	Dotation de Solidarité Rurale (Rural Solidarity Grant)
DSU	Dotation de Solidarité Urbaine (Urban Solidarity Grant)
DTA	Directive Territoriale d'Aménagement (Territorial Planning Directive)
ENA	Ecole Nationale d'Administration
ENS	Ecole Normale Supérieure
EPCI	Etablissement Public de Coopération Intercommunale (Public Establishment for Intermunicipal Cooperation)
EPIC	Etablissement Public à Caractère Industriel et Commercial (Public Institution of an Industrial and Commercial Nature)
EPST	Etablissement Public Scientifique et Technique (Public Scientific and Technical Research Establishment)
ERT	Equipe de Recherche Technologique (Technological Research Team)
ERM	European Restructuring Monitor
FNADT	Fonds National d'Aménagement et de Développement des Territoires (National Fund for Territorial Planning and Development)
GPU	Grand Programme Urbain (Large Urban Projects)

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IFREMER	Institut Français de Recherche pour l'Exploitation de la Mer (French National Maritime Research Institute)
INRA	Institut National de la Recherche Agronomique (National Institute for Agronomy Research)
INSEE	Institut National de la Statistique et des Études Économiques (National Institut for Statistics and Economic Studies)
INSERM	Institut National de la Santé et de la Recherche Médicale (National Institut for Health and Medical Research)
LETI	Laboratoire d'Électronique de Technologies de l'Information (Laboratory for Électronic and Information Technologies)
LOADDT	Loi d'Orientation, d'Aménagement et de Développement Durable des Territoires (Law on Planning and Sustainable Territorial Development)
LOLF	Loi Organique Relative aux Lois de Finance (New Budget Law)
LOPR	Loi d'Orientation et de Programmation de la Recherche (Law on Research)
NTIC	Nouvelles Technologies de l'Information et des Communications (New Information and Communication Technologies)
OPAH	Opération Programmée d'Amélioration de l'Habitat (Housing Improvement Programme)
OPR	Organisme Public de Recherche (Public Research Organisation)
OST	Observatoire de la Science et de la Technologie (Science and Technology Observatory)
PASED	Projet d'Action Stratégique de l'État dans les Départements (Proposed State Strategy for "Département")
PASER	Projet d'Action Stratégique de l'État en Régions (Proposed State regional Strategy)
PAT	Prime à l'Aménagement du Territoire (Regional Planning Premium)
PCRD	Programme Communautaire de Recherche et Développement (EU R&D Programme)
PNDR	Plan National de Développement Rural (Rural National Development Plan)
PNR	Parc Naturel Régional (Regional Nature Park)
PRAI	Programme Régional d'Actions Innovatrices (Innovative Action Regional Programme)
PRES	Pôle de Recherche et d'Enseignement Supérieur (Pole of Research and Higher Education)
RDT	Réseau de Développement Technologique (Technological Development Network)

RENATER	Réseau National de Télécommunications pour la Technologie, l'Enseignement et la Recherche (National Telecommunication Network for Technology, Training and Research)
RRIT	Réseau de Recherche et d'Innovation Technologique (Technological Innovation and Research Network)
SAIC	Service d'Activités Industrielles et Commerciales (Industrial and Commercial Department within Universities)
SCOT	Schéma de Cohérence Territoriale (Territorial Consistency Scheme)
SIVOM	Syndicat Intercommunal à Vocation Multiple (Multi Purpose Intercommunal Association)
SIVU	Syndicat Intercommunal à Vocation Unique (Single Purpose Intercommunal Association)
SRADT	Schéma Régional d'Aménagement et de Développement du Territoire (Regional Territorial Planning Master Plan)
SRDE	Schéma Régional de Développement Économique (Regional Economic Development Master Plan)
SRU (Loi)	Loi Solidarité et Renouveau Urbain (Solidarity and Urban Renewal Act)
SPL	Système Productif Local (Local Production System)
TER	Train Express Régional (Regional Train)
TGV	Train à Grande Vitesse (High Speed Train)
TIPP	Taxe Intérieure sur les Produits Pétroliers (Domestic Tax on Oil Products)
TRDP	Territoires Ruraux de Développement Prioritaire (Priority Rural Areas)
TPU	Taxe Professionnelle Unique (Single Business Tax)
ZFU	Zone Franche Urbaine (Urban Free Zone)
ZRR	Zone de Revitalisation Rurale (Rural Revitalisation Zone)
ZUS	Zone Urbaine Sensible (Distressed urban Zone)

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