

GUIDE TO DOING BUSINESS IN FRANCE

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I. THE COUNTRY AT A GLANCE

Known as the cultural capital of the world, France is one of the largest and most diverse countries in Europe. The country's workforce is among the world's leaders in technology research and industry. With over 60 million residents, France is one of the most modern countries in the world and is a leader among European nations.

Since 1958, it has constructed a republican form of democracy resistant to the instabilities experienced during previous regimes. In recent years, its reconciliation and cooperation with Germany have been central to the economic integration of Europe, including the advent of the Euro in January 1999. France has been able to outline its political and economic future as a member of the European Union and seeks to exploit the momentum of monetary union to advance the creation of a more unified and capable European defense and security apparatus.

Bordered by Spain, Italy, Switzerland, Germany, Luxembourg and Belgium, France has always been a center for international trade and commerce. France is Europe's biggest agricultural center and the world's second-largest agricultural producer, after the United States. But France is also a leader in services and high technology, with a long tradition of innovation. Its cutting edge technology allied with a strong industrial structure makes France the fourth-largest Western industrialized economy with a GDP of \$1.654 trillion.

France is a highly centralized country in which Paris plays a leading role in government and business. However, there are several large cities, including Lyon, Marseille, Bordeaux and Lille. The SNCF (*Société Nationale des Chemins de Fer Français*) operates an extensive national railway system throughout France and into neighboring countries. Hence, using its modern railroads, its High Speed Trains (*TGV-Trains à Grande Vitesse*) and a highly organized road network, France has been able to connect even its smallest cities. Indeed, a number of roads (*routes*) and highways (*autoroutes*) cross France. French highways provide very good access to the largest towns and cities.

Dunkerque, Le Havre, Brest, Saint-Nazaire, Bordeaux and Marseille are the most important French harbors. Brest and Toulon are the two naval bases of significant importance. Currently, there are over 140 airports operating in France, including a number of international and regional airports. Paris has some of Europe's most important international airports (Roissy-Charles de Gaulle, Orly and Chateau-Roux) and five large train stations (Gare Montparnasse, Gare de Lyon, Gare d'Austerlitz, Gare de l'Est, Gare du Nord). The other major international airports are Lyon Saint-Exupery, Marseille Provence, Nice Côte d'Azur and Strasbourg.

A dynamic services sector accounts for an increasingly large share of economic activity and is responsible for nearly all job creation in recent years. GDP growth averaged 2% between 1994 and 1998, 3% in 2000 and 2.5% in 2004.

Unfortunately, France is plagued with a high level of unemployment despite the fact that the economy has grown steadily for the past decade. Creating jobs and reducing the high employment rate has been a top priority for the French government and is the rationale for the 35 hours legal workweek.

Despite significant reform and privatization over the past 15 years, the government continues to control a large share of economic activity. As a matter of fact, the government continues to own shares in corporations in a wide range of sectors including banking, energy production and distribution, automobiles, transportation and telecommunications.

Yet, although gas and electricity are almost entirely controlled by the government, a European directive has been transposed into the French internal system which puts an end to the monopoly of the national electricity provider, Electricité de France (EDF), at least for industrial clients. A similar evolution has taken place with Gaz de France (GDF), the national gas provider. However, the European Union pressures France to privatize both companies and liberalize its market for average customers. A similar movement is pushing the French government towards less involvement in the economy.

France, along with 10 other countries from the European Union adopted the Euro as its new currency on January 1999. Henceforth, monetary policy will be set by the European Central Bank in Frankfurt. The introduction of the new coins and bills in January 2002 occurred quite smoothly and the Euro has generally been a success, though it is still sometimes difficult for older people to adapt to the new currency. For the first quarter of 2005, the average exchange rate was €0.76 for \$1 and 1.31\$ for €1.

French is the only official language. Some older generations also speak dialects that are specific to their region. Those languages are Breton, Alsatian, Basque, Catalan, Flemish, Provençal and Corsican. Although France is deeply rooted in its regional culture and traditions, there are no religious or cultural influences or prohibitions on the way business is conducted. Yet, France's political history makes it certainly more aware of the social aspect of doing business.

II. GENERAL CONSIDERATIONS

A. Diplomatic Relations

A founding member of the United Nations, France holds one of the permanent seats in the Security Council and is a member of most of its specialized and related agencies.

France has established diplomatic relations and conducts business with nearly every country in the world. France has the widest consulate network abroad in the world.

Most major cities in France have consulates from the world's leading nations. Almost every country is represented in Paris by an embassy or a consulate. Please refer to our appendix for addresses and telephone numbers of embassies or consulates in France.

There are no travel restrictions to or within the country except on a case by case basis where visas may be required depending on your country of origin. Since October 26th 2004, French citizens who wish to travel to the U.S. must have a machine-readable passport, also known as the "Delphine Passport", or if not, they are required to obtain a visa from the American Embassy in France. There are currently no visa requirements for US citizens visiting France.

B. Government

The Constitution of the Fifth Republic was approved by referendum and became applicable on October 4, 1958. It greatly strengthened the authority of the executive in relation to Parliament. The government is led by an executive branch and a bi-cameral legislative branch.

France is governed by a two-head executive. The President assures regular functioning of the Administration and the continuity of the State. The President names the Prime minister, presides over the cabinet, commands the armed forces and concludes treaties. He may also submit questions to a national referendum and can dissolve the National Assembly. In case of an emergency situation (civil war, occupation of a part of the French Territory by foreign armed forces), the President may assume full powers (*pleins pouvoirs*). Since the reform of the constitution in 2000, the President is elected every five years, the same year as the parliament but in a different election.

The Prime minister is the head of the cabinet, and the nominal head of the government. The cabinet is composed of a varying number of ministers, delegate-ministers and secretary of State. Even though the Prime minister is named by the President, he must come from the ruling party at the National Assembly, i.e. the party with the majority of seats. Usually, when the President and the Prime minister are of the same political party, or the same political ideology, the President is all-powerful. Yet, when the President and the Prime Minister are of opposing parties, the political process is more complicated with a certain division of powers. This situation which makes the Prime Minister more relevant than the President in terms of legislation making powers is called the "*cohabitation*".

The legislative branch is composed of the National Assembly (*Assemblée Nationale*), the lower chamber, and the Senate (*Le Senat*). The National Assembly is the principal legislative body, its 577 members have the final word on all legislative issues. The members of this Assembly are elected for five year terms (renewable) and all seats are voted on in each election. The newly created (2002) UMP (*Union pour un Mouvement Populaire*) currently holds a majority in the National Assembly.

The Senate is made of 321 members elected by indirect suffrage for nine-year terms (renewable) and is renewed third by third every three years. The Senate legislative power is more limited

since the National Assembly has the final word in the event of a disagreement between the two houses. Traditionally, the Right has a majority in the Senate.

The government has a strong influence on the Parliament, since it chooses the agenda and is at the origin of almost all-legislative text. The government can also link its life to any legislative text, and unless a motion of censure is introduced and voted, the text is considered adopted without a vote.

The current President is Jacques Chirac who was elected on April 28th, 2002. His term ends in 2007. The Prime Minister is Jean-Pierre Raffarin. He is the leader of the UMP (the Right's movement), which won the general election in June 2002.

No major national elections are scheduled before 2007.

C. The French judicial system

The French judicial system is equally applicable to the whole territory. It is comprised of two sets of parallel but independent court systems: an administrative system and a judicial one, plus the Constitutional Council. The administrative system has three levels of jurisdiction: first instance tribunals, appellate courts and the *Conseil d'Etat*. The judicial system has two levels of jurisdiction: first instance tribunals and appellate courts, which decisions are controlled by the *Cour de Cassation*.

The Constitutional Council examines legislation and decides whether it is conformity with the Constitution. Unlike the US Supreme Court, it considers only legislation that is referred to it by 60 members of the National Assembly, 60 members of the Senate, the President of the National Assembly, the President of the Senate, the Prime Minister or the President. Moreover, it considers legislation before it is promulgated.

The administrative judiciary (*Ordre Administratif*) has jurisdiction over matters concerning administrative law and cases in which the Administration is involved. The judicial system (*Ordre Judiciaire*) handles criminal, civil and commercial matters for dispute arising between private parties. The *Ordre Judiciaire* is composed of a variety of courts: civil, commercial and criminal courts, each with different levels of jurisdiction depending on the merits of the case.

The average duration of a trial is between 9 months and 2 years. An appeal can add up to 2 years to the litigation process. The French judicial system is such that French decision can generally be enforced outside the country. Reciprocally, foreign decisions can also be enforced in France. France is a party to several international conventions which organize recognition and enforcement of foreign decision, such as:

- the Brussels Convention on Recognition and Enforcement of Judgements in Civil and Commercial Matters of September 27, 1968, which is now the European Regulation

#44/2001 of December 22, 2000, concerning the judicial competence, the recognition and enforcement of judgements in civil and commercial matters.

- the New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards of June 10, 1958.

When purchasing goods located on the French territory, a foreign investor must consider that he may not be able to dismiss the jurisdiction of the French Courts with regard to those goods (Articles 14 & 15 of the French Civil Code).

Mediation and arbitration are also methods of resolving disputes.

D. Environmental Considerations

The public is increasingly sensitive to environmental protection undertakings and regulations. This attitude translates into greater awareness and activism, which is enhanced by liberal provisions granting environmental associations quasi-automatic standing in court actions involving environmental issues. From a government standpoint, enforcement actions tend to be more stringent due to the combined pressure of public opinion and EU regulations.

France has had laws and regulations governing environmentally hazardous activities for over 150 years. Today's framework combines administrative police prerogatives (issuance of comprehensive operating permits), transparency provisions (administration of public inquiries), and pollution prevention (constitution of financial warranties by industrial operators). The overall system is essentially administered by the *Préfet*, a high ranked civil servant representing the State in the various departments.

France has ratified the Kyoto Treaty concerning Carbon Dioxide Emissions. The recent shipwrecks and the following oil pollution has made France a leader in Europe to reform the present regulations concerning oil shipping in the European Union.

E. Intellectual Property

The laws for the protection of intellectual property are contained in the Intellectual Property Code which came into force in 1992. The fundamental laws it entails are:

- the law of March 11, 1957 and law of July 3, 1985 for copyright protection (Droits d'auteur et Droits voisins);
- the law of January 2, 1968 amended for patents;
- the law of January 4, 1991 for trademarks.

Know-how is also protected under French law.

Over the years, the IP code has been amended numerous times in order to reflect changes in this field. In 2004, certain modifications were brought to the French IP Code on issues such as the protection of biotechnological inventions and bioethics.

Moreover, all European Union legislation with respect to intellectual and industrial property are fully applicable in France. France is also a party to a number of international treaties including the following:

Concerning Copyrights:

- the Bern Convention of September 9, 1886
- the Geneva Convention of September 6, 1952

Patents:

- the Washington Treaty of June 19, 1970
- the Strasbourg Arrangement of March 27, 1971
- the Munich Convention of October 5, 1973
- the Budapest Treaty of April 28, 1977

Trademarks:

- the Madrid Arrangement of April 14, 1891
- the Nice Arrangement of June 15, 1957

Any right under intellectual and industrial property must be filed with the French industrial property office (INPI). This office handles any agreements on industrial rights and know-how, as well as the corresponding royalties, which have been consented by a person or a corporation domiciled in France for the benefit of foreign corporations or persons.

Notarization is not required with respect to industrial/intellectual property, except in real estate matters. Nevertheless, Patent, trademark and design licenses, as well as assignments, must be filed with the INPI in order to be valid. However, Decree n°2004-199 has clarified and simplified filing procedures with the INPI.

In France, there are regulatory guidelines for licenses. There is much more freedom for parties who wish to draft industrial property license agreements (trademarks, patents and/or know-how). However, any license agreement for a patent which has not been put into writing will be deemed void.

As far as copyright is concerned, there are many stringent legal requirements with respect to the licensing of rights to third parties, in order to protect the artist or author (e.g. obligation of a written agreement which specifies the exact scope of the rights transferred).

Local anti-trust and competition laws do apply to licenses.

III. INVESTMENT INCENTIVES

A. Export incentives or guarantees

Investment in France is free. However, investments in certain economic sectors require specific authorizations from the Ministry of Economy (i.e. activities relating to public authority, public health and safety, and the production and sale of weaponry). The French Agency for International Investment (Agence Française pour les Investissements Internationaux – AFII) integrates all offices responsible for promoting investment in France. The agency combines the overseas offices of the Invest in France Agencies (IFA), with the Invest in France Network (IFN) association.

Foreign, as well as French investors, may benefit from incentive programs, the purpose of which is to encourage investment which are beneficial to the French economy by creating new jobs, increasing the sale of French goods and promoting ailing regions. The program will be determined by the characteristics of the project at stake (productive investment, new position openings, innovation, training, etc.), its location (priority development areas, etc.), and the type of Company that runs it (large corporation, small or medium-size Company).

Incentive programs are organized both on the European level and by the State and the different local authorities. Subsidies granted by the State or local authorities must comply with European regulations in terms of maximum intensity, eligible expenditures, etc. Most of the time, an investor must file an application with the competent authority, giving various information relating to himself, the contemplated investment, the modalities of implementation and financing of the project and, if needed, the beneficiary of the investment. The application process may require several months.

Usually, incentives take the form of either:

- subsidies, such as cash grants for regional development (*primes d'aménagement du territoire*), regional employment subsidies (*primes régionales à l'emploi*) and regional subsidies for the creation of businesses (*primes régionales à la création d'entreprises*);

- loans and financing guarantees, such as subsidized long term loans granted by lending institutions supplementing the action of the Treasury (such as the *Crédit d'Équipement des Petites et Moyennes Entreprises*), equipment credit for small and medium-size enterprises, or other banks which offer stabilized rate loans thanks to the Natexis Banque;
- special tax treatment

As a rule, any kind of incentive is negotiated on a case by case basis with the different governmental authorities.

B. Grants, subsidies or funds offered to foreign investors

Information relating to available incentive programs can be obtained from the department for Territory/Regional planning (*Délégation à l'Aménagement du Territoire et à l'Action Régionale –DATAR*). Created in 1946, the DATAR is a governmental agency, which plays a role in the coordination of such programs.

In accordance with European law, investment and job creation aids to large corporations are legal as long as they promote the settling and development of Companies in priority development areas, where more assistance schemes are offered and allowable assistance rates are more attractive.

Aside from hiring subsidies, which are automatically allocated to Companies and employee training aids, subsidies for productive investment and job creation are limited according to the geographic location of the project and the size of the beneficiary Company:

In priority development areas, they represent 11.5% to 23% of the amount invested (land, buildings, productive equipment) for large corporations and 21.5% to 33% for small and medium size Companies.

In the rest of the country, only small and medium size Companies can benefit from investment and job creation subsidies. The maximum amount allowed is 7.5% of the investment for medium size companies (50 to 249 employees) and 15% for small Companies (less than 50 employees).

The major aids available are:

The *Prime d'aménagement du territoire* (PAT), a development grant for which the DATAR is responsible throughout France;

Subsidies for business premises granted by local authorities and designed to reduce leasing installments;

The European Regional Development Fund (FEDER);

Temporary exemptions (see below);

The small and medium size industry development fund.

Besides, Companies may benefit from direct subsidies or exemptions from social security charges to hire certain categories of staff, including unemployed youth or long-term job seekers.

C. Tax incentives offered to foreign investors

Temporary business tax (*taxe professionnelle*) exemptions: in certain areas, the local communities (municipalities, departments, regions, and groupings of local communities that have their own tax system) are allowed to grant temporary total or partial business tax exemptions to Companies that settle, expand, or take over ailing Companies. Under no circumstances may the exemption exceed 5 years.

A plan to reform the business tax is currently under consideration. The reform should be included in the draft of the 2006 Finance law.

Temporary corporate tax exemption: Newly created Companies settled in certain parts of the country may, under certain conditions, benefit from a temporary and digressive corporate tax exemption. The exemption amounts to 100% during the first 24 months. Profits are then subject to taxation for either one quarter, one half or three quarters of their amount depending on whether they have been achieved during the first, second or third 12-months period following the exemption. The exempted profit is limited to €225,000 per 36 month period and the exemption is limited to Companies where other Companies hold no more than 50% of capital stock.

Besides, Companies that benefit from the corporate tax exemption can also benefit from a 2-year exemption for business and property tax from local communities.

Companies taking over ailing industrial organizations may, under certain conditions, benefit from a 24-month corporate tax exemption: the buyers must not have held, either directly or indirectly, more than half of the troubled Company's capital stock during the year preceding the takeover. If business and jobs are not maintained for at least 3 years, all tax benefits are cancelled.

Business tax and property tax exemptions may also be granted after deliberation by the local communities.

The 2005 Finance Act and the amended 2004 Finance Act introduced a number of significant changes affecting companies. These changes include the gradual repeal of the corporation tax surcharge; extension of the participation exemption to capital gains on shares; new controlled foreign company rules and a new definition of tax haven.

IV. FINANCIAL FACILITIES

The Banking law of January 24, 1984 organized a unique legal regime for all lending entities in France. This law distinguishes between two categories of lending entities:

- Banks, which conduct banking transactions as part of their usual business;
- Financial institutions, which do not conduct banking transactions except where they are specifically authorized to do so (for certain occasional transactions).

Therefore, banks are solely authorized to receive money from the public. In consequence, the big difference between banks and financial institutions is defined by the mode of supplying the financing which they offer. Banks can not finance lending on the basis of the deposits which they hold, while financial institutions must refinance themselves on the financial market.

Banking

An investor must know that there are two categories of banks in France:

- Traditional banks (i.e. BNP-Paribas, Société Générale, Crédit Lyonnais) which can effect all banking transactions. They are incorporated stock holding corporations, and since the privatization of the Crédit Lyonnais, are all privately owned.
- The mutualist or cooperative banks (i.e. Crédit Mutuel, Crédit Agricole) and savings associations (Caisses d'Épargne) and the municipal credit bank (Caisses de crédit municipales) which are organized under a particular regime by the cooperative law (*loi coopérative*) of 1947 which allocates control within these institutions pursuant to the rule "one man/one vote". Therefore, it is impossible for another legal entity to take control.

Banking regulation is enacted by the Bank Regulation Committee (*Comité de la Réglementation Bancaire et Financière – CRBF*), and its application is ensured by the Bank Committee (*Commission Bancaire*), which has control and sanction powers. The *Comité des Etablissements de Crédit et des Entreprises d'Investissement* (CECEI) grants licenses and authorizations which are necessary for the exercise of banking activities.

A foreign investor must maintain a bank account in France, since payments between residents and non-residents must be made in scriptural form (Decree of December 29, 1989 on financial relations with foreign countries) and all scriptural fund transfers between France and foreign countries must be made via credit establishments as defined by Banking Law of January 24, 1984.

A non-resident is free to open a bank account in France. There are no restrictions on the account. The banker must only check the non-resident's identity (passport) and capacity according to his/her national law. If the account is opened for a commercial activity, the bank must also check the regularity of this activity. It must insist upon verifying that the investor holds a trader's card (*carte de commerçant étranger*). If the foreign investor wasn't granted a card by the immigration services, the contract opening a bank account will be deemed null and void.

Foreign investors may also receive bank loans, if needed. There is no legal objection to an investor receiving bank loans, which are freely negotiated between bank and investor. Banks will generally require the investor to post guarantees.

Financial institutions:

In France, financial institutions are lending entities which are not entitled to conduct banking transactions. In particular, they cannot receive funds from the public (see above: banking system). In addition to granting loans or guarantees, the activities of financial institutions consist in: intervening in the refinancing of loans granted by banks, taking out stakes in the capital of other credit institutions or effecting other transactions generally associated to the granting of loans (exchange, asset management counseling, financial management, issuing of financial instrument).

The French banking law also refers to two types of lending institutions which are not banks (since they cannot grant loans) but financial institutions: the so-called finance companies (*sociétés financières*), and the specialized financial institutions (*institutions financières spécialisées*). The government entrusted a permanent mission of public interest to the latter such as Natexis Banque or the Crédit de France, which is in charge of the grant of low interest loans (*prêts bonifiés*) in order to permit low-income families to purchase real property.

Some banking and financial institutions have a particular status, and are not regulated by the Banking laws, but are worth mentioning:

- The *Banque de France* (Central Bank of France) used to issue national currency. Its basic task now is to implement the single monetary policy within the Framework of the European System of Central Banks and ensures the refinancing of bank loans. The *Banque de France* is currently trying to redefine its mission since it lost most of its importance with the introduction of the Euro coins and bills in January 2002.
- The *Caisse des Dépôts et Consignations* (CDC) is halfway between the State and a banking institution. The CDC is entrusted with a certain number of banking activities and in particular the management of funds deposited on “*Livrets A*” savings account, acts as an escrow account for notaries, bankruptcy trustees, social security institutions.
- The *Trésor* (the Treasury Department) is in charge of obtaining or enforcing the payment of debts to the State; issuing Government borrowing notes, processing statements filed pursuant to the regulations on foreign direct investments (see below).

Stock Exchange:

Exchange markets appeared in the middle ages and were first subject to regulation in the 16th century. The first modern stock exchange was created in Lyon, France, during the 18th century. Paris later became the main center of securities transactions. At the end of the 1980s, the stock

exchange was radically changed by technical and legal revolutions (end of the monopoly of stock exchange agents) in addition to the internationalization of markets.

The 1993 European Stock Market Law is the new base for investment services in France, since the law was integrated into French legislation on July 2, 1996.

Organization of the French stock exchange :

The statute of January 24, 1991 united the old stock exchanges of Paris and those of the major cities (Lyon, Bordeaux, Lille, Marseille, Nancy and Nantes). Now, the French stock exchange contains both regulated and non-regulated markets. Regulated markets have been established for securities and certain derivatives. They are:

- the first market (*premier marché*) is made up of the cash settlements markets (*marché à règlement au comptant*) and the monthly settlement market (*marché à règlement mensuel*);
- the second market (*second marché*) is intended for medium-sized companies;
- the new market (*nouveau marché*) is intended for new or innovating companies, equivalent of the US Nasdaq
- the free market (*marché libre*), also called “*marché OTC*”, was created to give all companies access to the stock exchange. As such, it is subject to a less stringent regulatory regime than those which regulate the other markets. It replaced the so-called “*marché hors-côte*”.

Other markets exist in the French Stock Market, notably the markets which concern the trading of options or futures:

- the MONEP, Paris option market;
- the MATIF, international French futures market.

The Paris Stock market is a member of EURONEXT, the first fully integrated, cross-border, European market for equities, bonds, derivatives and commodities. EURONEXT was created in September 2002 by the merger of the exchanges in Amsterdam, Brussels and Paris in response to growing demand from the market, a political environment favorable to further consolidation in the European capital market, and a desire to capitalize on greater liquidity and lower costs resulting from the introduction of the Euro.

EURONEXT's listed Companies have, in aggregate, the second largest market capitalization in Europe and the largest European exchange in terms of total cash value of all transactions executed through EURONEXT's order books.

The French government decided to reorganised its financial regulatory authorities in 2003. A single entity, the “*Autorité des marchés financiers*” (AMF), was set up to handle all the tasks

involved in supervising corporate finance, financial information, investment service providers, collective investment schemes, financial markets and post-trade activities. It is more transparent and effective than its predecessor organisations, and it has greater powers and resources, including a legally secure disciplinary procedure.

The AMF was inaugurated on 24 November 2003, pursuant to the Financial Security Act of 1 August 2003. The Act streamlined and unified the regulatory mechanisms of France's financial markets, bringing together the powers exercised by the "Conseil des Marchés Financiers" (CMF) since 1996, the "Commission des Opérations de Bourse" (COB) since 1967, and the Conseil de Discipline de la Gestion Financière (CDGF) since 1989.

The Société des Bourses Françaises (SBF) belongs to the Euronext group (Euronext Paris). It is responsible for organizing the French stock exchange first and second markets..

Furthermore, different private companies are also responsible for the organization of different markets (i.e. MONEP SA, MATIF SA).

V. EXCHANGE CONTROLS

Since 1990, exchange controls have been almost completely abandoned. Foreign exchange are not registered and convertibility is not restricted. In addition, there are no capitalization requirements before a dividend can be paid, and there are no limitations on the purchase of foreign exchange except within the European Union where they are exempted from withholding tax. In general, dividends to foreign shareholder are submitted to a withholding tax of 25%. However, this is often different when an international tax convention is applicable. As a rule, such conventions foresee a normal rate of taxation of about 15% and a reduced rate of 5% when the shareholding exceeds 25%.

Furthermore, incomes repatriated by branches located in France are taxed in France and taxed abroad. Such double taxation can be avoided when tax conventions have been adopted, which foresee either exemption of tax in the foreign country or grant a tax credit for the Mother Company. When operations are wound down or dissolved, there is no special limitation on capital remittances but cessation of business implies taxation at several levels so the sums available for remittance are reduced.

VI. IMPORT/EXPORT REGULATIONS

1. Customs Regulations

France was a founding member of the General Agreement on Tariffs and Trade (GATT) and is a founding member of the World Trade Organization.

France is also a founding member of the European Community, now European Union. As such France is subject to all European Union Free Trade Arrangements.

Indeed, most regulations regarding customs were constituted by the European Union. For example, goods are valued with regard to the declared purchase value by application of the European Customs Code implemented by a European regulation on October 12, 1992. Furthermore, articles 40 to 47 of the European Customs Code regulate the way goods are cleared through customs, either directly by the person who imports them or indirectly by a custom commissioner.

In addition, the regulation set up regarding import tariffs has been organized on the European level, and all EU member states apply the same common tariffs to all goods imported from non-EU countries. These tariffs are listed by the European Commission. Custom duties are paid back by the French customs to the European Commission which considers the duties one of its most important income sources.

Except for certain agricultural products, customs duties have been abolished between European Union member states. However, member states preserve their sovereignty with regard to excises levied on certain products (alcohol, tobacco). The French excise taxes called *Contributions Indirectes* are collected by customs. The harmonization of rates has been in progress since 1992.

Free trade zones/warehouse:

European Union laws and regulations provide that member states may designate parts of the customs territory of the Community as free trade zones and free warehouses. Information on free trade zones and free warehouses is contained in Title IV, Chapter Three, of Council Regulation (EEC) No. 2913/92 of October 12, 1992, establishing the Community Customs Code, titled, "Free Zones and Free Warehouses" (Articles 166 through 182).

Article 166 states that free zones and free warehouses are part of the customs territory of the Community or premises situated in that territory and separated from the rest of it in which:

- Community goods are considered, for the purposes of import duties and commercial policy import measures, as not being on Community customs territory, provided they are not released for free circulation or placed under another customs procedure or used or consumed under conditions other than those provided for in customs regulations;
- Community goods for which such provision is made under Community legislation governing specific fields qualify, by virtue of being placed in a free zone or free warehouse, for measures normally attaching to the export of goods.

Articles 167-182 details the customs control procedures, how goods are placed in or removed from free zones and free warehouses and their operation.

The use of free trade zones varies from Member State to Member State. In France, the process of applying for the status of a free trade zone or free warehouse is administered by the Ministry of Economy/Budget.

2. Exports:

Unless an international embargo has been established, there are no restrictions on exports. However, exporters could face some regulations or restrictions when exporting drugs or pharmaceutical products, war materials, dual-use technologies, antiques or national treasures. Before exporting these latter items, special licenses must be obtained from customs officials to insure that the objects being exported are not a part of the national heritage of France.

3. Foreign Trade Regulations:

There are some foreign trade regulations set at the European level on the import and export of certain goods. “Anti-dumping” at a European level seeks to restrict imports at artificially low prices. EU rules also set forth quotas on certain imports. Some quotas apply on certain imports depending on the country of origin.

4. Imports:

The Member States of the European Union have established a Community Integrated Tariff system under which custom duties are applied to imports from non-EU countries. However, in general, duties levied on imports from non-EU countries are moderate. Most agricultural product imports are covered by the Common Agricultural Policy (CAP), under which many items are subject to variable levies designed to equalize the prices of imported commodities with those produced in the EU.

France and other EU member states have a highly developed network of preferential trade agreements, free trade agreements, special trade agreements and customs union agreements with many countries.

Besides the import taxes, there are in general no applicable import barriers, except possibility for political or sanitary reasons. Products such as hormone-fed beef, poultry meat, enriched flour, genetically engineered foods and crops, “exotic meats” such as alligator and buffalo, crayfish, and certain fruits and vegetables which are subject to seasonal price restrictions. Other fruits such as pineapples and bananas are subject to import certificates. Fresh vegetables such as

artichokes, cucumbers, eggplants, tomatoes, lettuce and squash are also subject to seasonal price restrictions.

An example of a political import barrier is the prohibition on the international trade of endangered species, wild fauna and flora.

Some import quotas have been established for products shipped from certain countries. Imports from those countries need to be licensed.

All countries within the European Union apply the tariffs listed by the European Commission, therefore the ongoing harmonization of EU import regulations may result in the future revocation of several French regulations concerning the importation of food products.

5. Manufacturing Requirements

There is no manufacturing requirements for the product to contain ingredients or components, which are found or produced only in France. However, if the product contains certain prohibited ingredients or components, its import may be forbidden.

Exporters should note that all goods entering France should conform to French and European Union standards. This is mandatory for all products fulfilling publicly funded contracts, as well as for machinery, tools, household appliances, sporting requirement, toys, etc.

CE Marking:

The E.U. Commission regulates certain product categories for health and safety by harmonizing the levels of protection in the E.U. Member States. When a product meets the essential health and safety requirements as outlined in European Directives, the manufacturer must affix the CE mark that guarantees “European Conformity”. If the CE mark is not affixed, the product will not be authorized for import and sale in the E.U.

6. Product Labeling

Although there are no strict manufacturing regulations, there are some products labeling requirements. According to the Toubon Law dated August 4, 1994, all packaging and notices attached to goods must be in French. Any foreign words or abbreviations must have been authorized by French law. The writing must be clear and non-promotional.

The other basic labeling requirements are: designation (state what the product is); brand names/trademarks (any names, symbols and marks relating to the product must be found on the exterior of the packaging, the product label, and the bottle-top or lid, as the case applies. Registered brand names and trademarks can only be used by the manufacturer); composition (all ingredients or material constituting the product is to be listed); usage instruction (explain how the product is to be used); required dates (these include when the product was made, the *date de*

fabrication, the consumption limit for perishable items, and recommended “use by” date – *à consommer de préférence avant le* – for pre-packaged and frozen food products); qualifiers (i.e. “made by hand” – *fait à la main*); name/address of the manufacturer or the vendor; specifications (must inform the consumer of any particular product limitations or sales conditions); price (the price, including all taxes, must be market on all pre-packaged goods, unless they are sold by mail order); quality and ecological labels (not mandatory); quality labels (i.e. the NF mark, meaning that the product complies with all applicable French standards); and Bar Code Price Labeling.

Regulations concerning pre-packed food products (art. R 112-9 and R 112-9-1 of the *Code la consommation*): for these products, the manufacturer has to mention on the package the sales name, the ingredients list, the quantity of the ingredients used, the net quantity, use-by date, the pre-packer identity, the product geographical origin, the instructions for use, the degree proof of alcohol, and the manufacturing pack.

Most of these rules have been harmonized at the European level.

VII. STRUCTURES FOR DOING BUSINESS

1. Governmental Participation

France has a tradition of highly centralized oversight of its essentially market-based economy. The government maintains a presence in industries such as aeronautics, defense, automobiles, and telecommunications, and can still exert control over privatized firms through the “golden share”.

The “golden share” allows the French government to retain some control of the fate of privatized companies even in the case when it holds less than 50% of the stock. However, the European Court of Justice may declare illegal some “golden share”.

Former employees of the companies remain civil servants after their privatization. Considering the major differences between the status of civil servant and that of other workers, this may lead to some difficulties in the management of the labor force.

2. Joint Ventures

A contractual joint venture is often only a first step and a vehicle for future expansion. In France, co-operation within the framework of a joint venture can be organized in three different ways.

A joint venture can either be a simple contractual relationship that does not give rise to a common entity or it can be a common entity having either the form of a partnership (*société de personnes*) or a stock corporation (*société de capitaux*).

The choice in this regard depends on several factors, among which are the length of the contemplated operation as well as the extent to which parties require the independence and autonomy of the common entity.

3. Limited Liability Companies

Limited liability companies are permitted in France and are incorporated under the form of either a *société anonyme* (SA), a *société par actions simplifiée* (SAS) or a *société à responsabilité limitée* (SARL). These different types of corporations are governed by the law on commercial companies of July 24, 1966, codified in the Commercial Code.

Under this law, the SA and the SAS are stock companies whose shares are freely transferable and negotiable unless the by-laws contain contrary dispositions. Unlike the rules applicable to the SA, the rules governing the SARL are aimed at preserving personal bonds between shareholders as the shares of a SARL are not freely negotiable, and any new shareholder must be approved by a vote of the other shareholders. Since the Order of March 25th 2004, which modified several provisions of the French Code of commerce, a SARL may issue bonds pursuant to the conditions set out by the French Code of commerce.

To act as a president, general director, president of the directorate or managing director of a SA, SAS or SARL, a resident who is not a national of a EU country must obtain a trader's card (*carte de commerçant*) from the *Préfecture* of the department where the company is registered.

The *Société Anonyme* (SA) or stock corporation:

The SA is the French equivalent of the American Corporation or the British limited company. It is the most common form of business enterprise in France. Incorporation as well as management of such corporations are under strict guidelines.

Incorporation:

A minimum of seven shareholders, either individuals or legal entities, are needed to form an SA, and this minimum must continue to exist during the life of the corporation. The minimum legal share capital of a SA is €37,000. If the corporation wishes to offer shares to the public, the minimum capital is increased to €225,000. Only one half of the share capital must be paid upon subscription of the shares, provided that the balance is paid within 5 years.

A SA is formed from the date of signature of its by-laws. However, a SA does not become a legal entity until it has complied with all procedural requirements of law and has been duly recorded at the Trade Registry (*Registre du Commerce et des Sociétés*).

Management:

For a SA, two alternative systems of management are possible. The SA can have a board of directors, the structure most currently used in France, headed by a chairman of the board and general manager. The Chairman has for all practical purposes the duties of both the chairman of the board and the chief executive officer of a US corporation. He may request the board's appointment of at least one general manager to assist him. The law of May 15, 2001, provides that it is now also possible to differentiate the duties of Chairman of the board of directors and the managing director.

Another management alternative is creating a directorate (*directoire*), which is an executive committee overseen by a supervisory council (*conseil de surveillance*).

Shareholders' meetings:

Shareholders exercise their control over the corporation through two types of meetings:

- Ordinary meetings: held at least once a year to approve the financial statements, decide upon the allocation of profits, appoint statutory auditors or authorize agreements between the company and its directors or corporate executives when said agreements do not concern those normally entered into by the company.
- Extraordinary meetings which are held to amend the by-laws, increase or reduce the share capital, decide major corporate reorganization.

French law also provides for compulsory quorum and majority conditions.

The Simplified Joint Stock Company or *Société par actions simplifiée* (SAS):

The SAS is a form of corporation created pursuant to the law of January 3, 1994, which was amended in 1999. Designed to meet the needs of large corporations with a special form of joint venture vehicle, the SAS can be governed by tailor-made provisions of the by-laws as far as management and shareholders meetings are concerned. The sole obligation is to provide for a president who is the only person entitled to represent the SAS vis-à-vis third parties. As for the rest, the SAS is governed by the same rules as those applicable to a SA.

There is no minimum share capital required upon the incorporation of the SAS, and the SAS cannot make public offerings.

According to the recent amendments, there is no minimum number of shareholders. An SAS held by only one shareholder is called *société par actions simplifiée unipersonnelle* (SASU). Furthermore, there is no obligation for the shareholders to be legal entities and the capital can also be held by individuals. When shareholders are legal entities, there are no more restrictions relating to their share capital.

Limited Liability Company or *Société à Responsabilité Limitée* (SARL):

A SARL is commonly used by small-to-medium size companies because it offers limited liability for shareholders while also allowing for a rather simple governance structure.

There is no minimum but a maximum number of 99 shareholders in a SARL. A SARL which only has one shareholder is called an *Entreprise Unipersonnelle à Responsabilité Limitée* (EURL). Shareholders can be individuals as well as legal entities. The minimum registered capital of a SARL is €7,500 which must be fully subscribed and paid upon subscription.

The incorporation of a SARL is similar in process and timing to that of a SA. In addition, a SARL does not become a legal entity until it has been duly inscribed upon the Trade Registry.

The SARL is managed by one or more managing directors (*gérant*), who must be individuals but need not be shareholders. The managing director has full authority to bind the SARL in its dealings with third parties, whatever may be the limitations provided in the by-laws. As in the SA, decisions made by the shareholder meetings are submitted to legal quorum and majority conditions.

As in a SA, agreements between a SARL and one of its members or managing directors must be authorized or approved by the company's shareholders.

4. Unlimited Liability Companies

Below is a list of the primary types of companies with unlimited liability.

General Partnership or *Société en nom collectif* (SNC)

This unlimited liability company is an entity in which all the partners are jointly and severally liable for all the debts of the company. The entity's profits are taxed at the partner's level, except if the company opts to be subject to corporate income tax. Each partner is deemed to be a trader, so foreign partners must apply for a business card (*carte de commerçant*).

No minimum is required for the capital. The SNC is operated by one or more managing directors who bind the company, when dealing with third parties irrespective of the scope of their powers according to the by-laws.

Limited Partnership: *Sociétés en Commandite par action* (SCA) or *Sociétés en Commandite Simple* (SCS)

The *Société en commandite* is a hybrid form of a commercial partnership where capital and power are separated between:

- the general partners who have joint, several and unlimited liability and almost complete control over management. These partners also have trader status and therefore must have a *carte de commerçant*.

- the limited partners who receive shares for their contributions and whose liability is limited to said contributions.

The limited partners of a SCA are comparable to the shareholders in a SA. As in a SA, the minimum legal share capital is €7,000 or €25,000 if the SCA wishes to offer shares to the public. The SCA is managed by one or several managers who operate under the control of a supervisory board (*Conseil de Surveillance*) composed of not less than three limited partners. The SCA must appoint at least one statutory auditor.

The limited partners of an SCS are comparable to the shareholders of a SARL.

Civil Partnership or *Société Civile* (SC)

A SC may not engage in commercial activities. As such, it is generally chosen as the vehicle for a joint venture in real estate activities.

Partners may be individuals as well as legal entities. Their liability is prorated to each partner's shareholding in the capital of the SC. Furthermore, no minimum capital is required.

Decisions that exceed the powers granted to the manager(s) must be made by the partners, who decide unanimously unless otherwise provided in the by-laws.

Undisclosed partnerships, or *Société en Participation* (SEP)

The SEP is a typical structure for joint ventures and is the simplest form of partnership in France. It is the appropriate vehicle when the partners wish to cooperate in limited sectors and share profits and losses resulting from their cooperation with the intent that this cooperation remains confidential except when dealing with the tax authorities. The SEP is essentially a company which does not require a registration, therefore it is not a legal entity per se.

The by-laws must be sent to the tax authorities and specify the amount contributed by each partner, the method adopted for sharing profits/losses and the duration of the partnership. Each partner contracts in its own name and is personally liable to third parties. The partners are jointly and severally liable for the SEP's debts, unless the SEP is disclosed to third parties.

Economic Interest Grouping or *Groupement d'intérêt économique* (GIE)

The French GIE is a type of joint venture partnership permitting two or more individuals or legal entities to pool their efforts in order to facilitate or develop their respective activities or to improve the result thereof. While the purpose of a GIE is not to seek profit for its own account, if profits are realized, they are taxed in the hands of the GIE's members.

A GIE must register with the Trade Registry. It is not required to have a capital and must not be for commercial purpose. The members of a GIE are each jointly and severally liable for its debts.

To be a partner in a commercial company where liability is unlimited (general partnership, limited partnership) foreign investors who are not European Union nationals must have *a carte de commerçant*.

5. Partnerships, General or Limited

In France, the term *société* or company includes all profit-making entities, i.e. partnership-type companies (*société de personnes*) and corporations (*sociétés de capitaux*).

Except for the SEP (undisclosed partnership), partnerships in France are legal entities, like all French companies and like GIE's.

Partnership-type companies in France are the SNC, SCS, SCA, SEP and the GIE. As opposed to the French corporations, French partnerships are characterized by the joint and unlimited liability of the partners.

The liability is even joint and several in an SNC and a GIE. All partners have joint, unlimited and in some cases, several liability for the partnership's debts, except in the SEP if it is not disclosed to the third parties since each partner acts in its own name.

6. Sole Proprietorships

In France, a foreign investor can be a sole proprietor, but a single shareholder is only possible in a SARL and an SAS. Furthermore, sole proprietorship results from the records of the company and liability depends whether the investor decides to form a partnership or a corporation.

7. Subsidiaries/Branches/Representative Offices

A liaison office is not a legal entity distinct from the parent company. It does not conduct commercial business but merely serves as a post address, a presence and an information center for both the parent company and third parties. With the exception of bank and insurance company offices, a liaison office does not need to be listed with the Trade Register. However, in case of registration, the representative of the office who is not a EU national or a national from certain partner countries must request a trader's card (*a carte de commerçant*).

The branch, just as the liaison office, is not a legal entity distinct from the parent company. Several formalities must be accomplished for the registration of a branch.

The French branch of a foreign company must pay corporate taxes. In addition, after tax net profits of a branch are subject to a withholding tax which can amount to 25% in the absence of a treaty to prevent double taxation between France and the country where the mother company is registered. As a taxable entity, and although it is not a legal entity, a branch must hold accounts separate from those of a foreign company.

There are other tax differences (VAT, registration duties) but in practice, the tax differences all together are not that significant.

8. Trusts and Other Fiduciary Entities

With the exception of a tax law provision which assimilates the payments made by trusts to distributed foreign security dividends, there are no rules regarding the legal and tax treatment of trusts.

Case law, however, admits the existence of trusts legally constituted pursuant to a foreign law, so long as they do not infringe on French imperative rules (*règles d'ordre public*).

In particular, judges make sure that the rules applicable to the succession are applied. Indeed, French law prohibits a person in the organization of his estate, from freely disposing of the entirety of his assets so as to ensure that part of his assets will necessarily be bequeathed to his children after his death.

The tax treatment for trusts is not yet established, with the sole exception of the tax treatment of revenues incurred in France from a foreign trust which are considered as dividends and thus submitted to the progressive tax rates on the personal revenue of natural persons. Such a treatment depends on the revocable or irrevocable character of the trust.

If the trust is revocable, the contribution of assets to the trust is subject to a fixed tax. If the trust is irrevocable, it would appear that the transfer taxes which are due on the basis of the contribution are only effectively payable at the time of the actual transfer of the property of the asset to the beneficiary, i.e. at the end of the trust, and in accordance with the tax rules enforced at that time. Where the end of the trust is set at a date after the death of the settler, the tax administration does not immediately claim inheritance taxes.

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If the trust is revocable, the French resident settler remains subject to the wealth tax; if the trust is irrevocable, it cannot be excluded that the tax authorities will claim wealth tax from the settler, the trustee or the beneficiary.

Income tax

As it is difficult to adduce proof on the nature of the capital payment made by a foreign trust to a person residing in France, in practice all revenue received from trusts are subject to income tax.

The investor can be the grantor, trustee or beneficiary.

VIII. REQUIREMENTS FOR THE ESTABLISHMENT OF A BUSINESS

1. Alien Business Law

Foreign investors are not subject to alien business law in France. Nevertheless, there are special regulations in the area of communication. Indeed, the legislator, in order to guarantee information pluralism in the media, has taken particular provisions intended to avoid an important concentration of the press companies. Foreign investors are not allowed to own more than 20% of a press company.

2. Registration

Registering a company is the first and most important step in establishing a business in France. Without registering your company, it will be impossible to: hire local labor, open a bank account, import equipment, import or export materials, get government contracts. A company does not become a legal entity until it is registered, and thus prior to its registration, it cannot act in its own name (see below for details on the registration process).

3. Antitrust Laws

The French Law on the New Economic Regulations of May 15, 2001 contains similar rules to European Union legislation concerning anti-competitive agreements and abuse of a dominant position having an impact in France. Fines may be subject to a tax of up to 5% of the turnover earned, before taxes, in France during the previous fiscal year.

This law also provides for criminal and civil sanctions against restrictive trade practices such as price fixing, unfair commercial practices, and discriminatory pricing.

The rules concerning the control of concentrations are quite recent, in French law as in European law. Concentrations between or among previously independent undertakings, however effected, have been regulated in France since the law of July 19, 1977 came into force, this law introduced threshold criteria and procedures for the control of concentrations under French law. Amendments were made to the original legislation in 1985. Shortly thereafter, the Ordinance of December 1, 1986, which set out rules applicable to competition law in France in general, included a slightly modified version of the rules on concentrations. The latest modification of these rules occurred in 2001, with the Law on New Economic Regulations ("*Loi NRE*"). Merger control in France is an administrative process. An actual or proposed concentration is subject to control by the Minister of Economy. There is a legal obligation for the undertakings concerned to notify a concentration to the Minister. Once a notification is filed, the Minister's power to control the concentration will be limited to a specific timeframe. Procedural rules are set forth in a Government Decree of April 30, 2002.

Overall, very few concentrations have been blocked in France. Operations are usually given the go-ahead after having been subject to amendments where necessary.

The European merger control does not add to the French one, it replaces it when the operation reaches certain thresholds. The European Commission then has jurisdiction to review the operation.

4. Environmental Regulations

Environmental regulations may apply to both industrial processes carried out and to products or services placed in the stream of commerce. Industrial activities usually need operating permits and/or administrative declarations, while products and services require compliance with product safety regulations, certification requirements, etc. The acquisition of ultra-hazardous activities, mining, quarrying and waste storage business requires the submission of financial guaranties and preliminary governmental approval. Other businesses are less cumbersome to acquire or set up. Although procedures to obtain permits may entail significant consulting costs, there legally exist no audit requirements at the present time.

5. Government Approvals

With very few exceptions, foreign investment in France is free from any prior administrative control. Foreign companies may settle in France under a variety of forms, depending on the investors' development strategies (see above).

Individual entrepreneurs and staff of foreign Companies may obtain more specific information from organization such as *Agence pour la création d'entreprises* (APCE), *Centre de Formalités des Entreprises* (CFE) or URSSAF.

6. Insurance

In France, businesses are required to carry civil and product liability policies. There is no State monopoly on insurance.

7. Licenses/Permits

There are no particular licenses or permits required except for some regulated activities.

IX. OPERATION OF THE BUSINESS

1. Advertising

France has strong regulations on advertising. Advertisements on tobacco, alcohol, guns and ammunitions, medical sector (medicine and professions) and politics are strictly regulated.

Having been forbidden for a long time, comparative advertising, despite being allowed since 1992 is also strongly regulated.

Advertisement on television is forbidden for new movie release (but not tapes and DVD), press and newsmagazines and distribution.

Advertising endangering the confidence in the State, as well as advertising promoting discrimination, reckless behavior, or that are false, secret or subliminal are forbidden.

2. Attorneys

There is no requirement for a company to have an attorney in order to operate its business. However, the presence of an attorney is mandatory before some courts.

French regulations concerning lawyers make it necessary to have a local counsel in case of litigation. French lawyers cannot be member's of more than one French bar association. Therefore, local counsels are necessary when the hearing in a case takes place outside the range of the attorney's bar.

There is no specific way in which a local counsel can be found. Usually, the attorney would look for lawyers registered at the local bar and contact them.

Attorney fees are not fixed and can vary widely, depending on the nature of the case, the hourly rate asked for by the attorney or any other specifics of the case. French regulations make it illegal however for an attorney to be paid in proportion to the reward accorded by the judge.

3. Bookkeeping Requirements

Accounting is to be kept in Euro currency and French language. A transaction denominated in a currency other than Euro may be recorded without being translated where justified by the nature of the transaction and activity of the entity. In that case, only the balance of the account recording the transaction is to be translated into Euro at the closing date of the financial year.

All entities are to keep an accounting journal, a ledger and an inventory journal for the annual asset and liability review.

Accounting entries are to adhere to the double entry system whereby every transaction or change recorded in the accounting system is to be represented by an entry establishing an equivalence between respective debits and credits to the various accounts affected by the entry. Each entry is to make clear the origin, contents and attribution of each data item, as well as the references to its supporting documentary evidence.

4. Business Ethics/Codes

The French Commercial Code (*Code de Commerce*) regulates all commercial activities in France.

5. Consumer Protection Laws

The French consumer is protected by the *Code de la Consommation* which dispositions may apply to the investor's operations.

6. Construction

Construction permits are required for all construction other than: walls less than 2 meters high; antennas less than 4 meters high; indoor pool smaller than 20 square meters; poles less than 12 meters high; terraces not higher than 0.6 meters from the ground; and all other works which ground surface is less than 2 square meters and which are less than 1.5 meters high.

Construction permits are obtained through an administrative procedure. The procedure is free, yet the construction of housing space of more than 5 square meters gives rise to specific taxes. It usually takes between 2 and 6 months to receive the permit.

To obtain the authorization, a request has to be made at the town hall. The request must include: a specific request for construction permit (forms are available at the town hall); a plan describing the terrain; the general construction plan; the plan of the façade. The request must also have a landscape aspect with two pictures to show the terrain within the landscape and a notice describing the insertion of the projected construction in its surrounding environment.

There are some specific national regulations on dangerous substances in construction products:

- Asbestos: the French Decree 96-1133 of 24 December 1996 laws down provisions on a total ban on use, production, import and national marketing, exportation of every kind of asbestos fibers or all products containing asbestos.
- Formaldehyde: French regulations law down restrictions on installation of urea-formaldehyde foams in buildings intended for permanent or semi-permanent human occupation. The content of formaldehyde coming from wall insulated with urea-formaldehyde foams shouldn't exceed 0.2ppm per volume, in every room.
- Hydrocyanic and hydrochloric acids: in the internal installations of buildings accessible to the public, the use of the materials and products of synthesis such as the plastics, fibres and synthetic fibres, elastomers, paints and varnishes, adhesives, the composition of which comprises nitrogen or chlorine which can be released in the form of a hydrocyanic acid or in the form of hydrochloric acid, is subject to restrictions
- Lead and lead compounds: there is a prohibition on the use of the brazing containing additions of lead in the fixed generating, treatment and distribution of water intended for human consumption.

7. Contracts

As a general rule, any foreign investor can freely enter into local contracts, with the exception of some investments which require prior approval. Need an approval all investments related to guns, ammunitions, powder and other explosives, as well as all military material, investments concerning the public health or endangering the public order.

Concerning international contracts, the contracting parties can choose to decide that the contract will be governed by the law of a country other than France. This provision has to be written, otherwise the judge analyzes the contract and decides which law is to be applied.

The law chosen by the parties will govern the contract, with the exception of French or international public order provisions.

8. Price Controls

French law provides that prices are freely fixed according to the demand and the offer. Yet products such as electricity, gas, tobacco and medicine are subject to specific legislation

X. CESSATION OR TERMINATION OF BUSINESS

1. Termination

In France, a business can be terminated without government approval or intervention.

With the exception of sole proprietorships, a company is placed into bankruptcy at the time of its decision to dissolve or wind up. The dissolution of a company can result from the company's term, or from a contractual dissolution or agreement between the partners. Dissolution can also result from a court decision either at the end of a bankruptcy procedure or while the company is still in bonis, if a partner can demonstrate a grounded motive.

The partners are, in principal, free to organize the conditions of the winding up or dissolution. However, certain rules should be taken into consideration:

- the prohibition to act as a bankruptcy receiver for the company (*liquidateur*)
- publicity of the appointment of the receivers
- assignments or contributions of assets
- criminal and civil liability of receivers
- the meeting of the partners to vote on final accounts and approve the closing of same
- winding up or, failing this, the intervention of the commercial court

- publicity of the closing of the winding up procedure

When dissolution is by agreement, a receiver is appointed by the partners given that certain conditions pertaining to majority and quorum, which differ depending on the type of company, are met. In the case of court dissolution, the commercial courts appoint one or more receivers, who may be partners or third parties.

The receiver represents the company. He has the utmost power to realize assets. Restrictions to said powers by the by-laws or the receiver's writ of appointment cannot be opposed to third parties.

The receiver takes all necessary measures for the conservation of corporate assets, recovers receivables and realizes assets. He is empowered to pay the company's creditors who are paid off as they appear. In all cases, the receiver should accomplish various publicity formalities; make an inventory of assets and liabilities; convene partners to meetings; and when the assets are lacking to pay off creditors, file for bankruptcy (*déposer un bilan*) and request the opening of a reorganization or liquidation procedure against the company.

Tax consequences:

When a company is dissolved, it will face the following direct taxes:

- immediate taxation of the profits not yet taxed;
- and, as a rule, taxation of capital gains

When the termination occurs with the dissolution of the company, profits and capital gains are taxed at the partner's level.

Costs

Liquidation fees must be paid, as well as notary (0.825 percent, tax not included) and mortgage fees when buildings or real estate rights are involved.

2. Insolvency/Bankruptcy

Insolvency

Insolvency implies that the company is not able to satisfy its debt obligations as they come due with its available liquid assets (suspension of payment). In this case, the law makes it an obligation for the managing executive of the business to file a petition for bankruptcy at the commercial court within 15 days of the suspension of payments. If on purpose, they do not comply with this legal obligation, executive managers may be exposed to civil or even criminal action (action for the replenishment of liabilities, *action en comblement de passif*; personal bankruptcy; prohibition to manage companies).

If the "*fonds propres*" (share capital, reserves and long term debts) of a SA, SARL or SAS fall under a half of the share capital, the partners have to decide whether the company is to be dissolved or re-capitalized.

Bankruptcy

Proceedings for the appointment of a special authorized agent, *mandataire ad hoc*, and the conclusion of an out-of-court settlement are provided for by a law dated 1984, modified by the law of June 10, 1994. These proceedings are initiated by the businessman or the company, before the insolvency can be observed, in order to allow the business to surmount its cash difficulties. This is made possible by the intervention of a mediator and the conclusion with the major creditors of agreements which provide for delays for payments and remissions of debt.

As soon as the company is in a situation of insolvency, it is subject to the regulation set forth in the law of January 25, 1985, supplemented by the decree of December 27, 1985, applicable to court-ordered rehabilitation and liquidation. This regulation was also modified by the law of June 10, 1994.

The primary goal of current regulation is to save the debtor's business, to continue his operations, maintain employment and settle the debtor's debt.

The decision opening a bankruptcy procedure implies that the debtor be totally or partially kept out of the administration of his business. He is assisted or sometimes even replaced by a court administrator (*administrateur judiciaire*) appointed by the court. Suits brought in individually by the business' different creditors are frozen and the common interest of all creditors is represented by another court agent called the creditors' representative (*représentant des créanciers*).

The law organizes the continuation of the activity during the observation period. During that period, the economic situation of the business is analyzed and a solution to the financial problems is sought.

Reorganization

At the end of the observation period, the business subject to the bankruptcy proceedings faces different possibilities:

1- The commercial court can determine a plan for the continuation of the activity and the survival of the business. In this case, a court agent (*mandataire judiciaire*), *the commissaire à l'exécution du plan*, is appointed to enforce the debtor's compliance with the obligations resulting from the plan, in particular that debts are paid (reduced and delayed) as coming due according to the plan.

2- When a reorganization of the business cannot be taken in account, the court orders the liquidation of the business and appoints a receiver, *liquidateur*. The judicial liquidation can be

ordered before the end of the observation period, and even by the time of the opening of the procedure, if it is already obvious that reorganization is not possible.

3- Eventually, the court can order the sale of all or part of the business to a third party with a view to a transfer of a living economic entity in which united work and means are put towards the business. The third party pays the price and undertakes the obligations which have become necessary on account of the reorganization. The transfer is carried out by the court administrator.

XI. LABOR LEGISLATION, RELATION AND SUPPLY

1. Employer/Employee Relations

Under international private law, the employment contract of a foreign employee seconded in France (temporarily) is an international contract for which the parties are free to choose the applicable law, subject to compliance with internal public order provisions. If they fail to make a choice, French labor law applies.

Under internal law, foreign employees, whether or not EU nationals, benefit from the same rights in the company as French employees. In some cases, they can even benefit from additional rights due to their foreign status (contract translation, support for their relocations in their country of origin, etc.).

Enhancing the skills of staff and Companies is a priority. Several financial arrangements are available to assist Companies in implementing their training plans. The major arrangements are handled at the national scale by the Ministry of Social Affairs, and can be adjusted at the regional scale. Small and medium-sized companies may also benefit from a tax credit on profits, calculated as a portion of their vocational training expenditures. The hiring of certain categories of staff may also entitle them to workplace training aids.

2. Employment Regulations

Labor relations are governed by the Labor Code and collective agreements (*conventions collectives*) that reflect the practices of each economical or industrial sector.

The legal working time in France is 35 actual hours per week, or 1,600 hours per year. Beyond, any extra time worked is considered as overtime and involves an overtime premium. A limit on overtime work is set in the eventual collective agreement.

An employee cannot work more than 6 days per week. Therefore, a full day (24 hours) of rest has to be given, usually on Sunday. However, some companies can be authorized to do business on Sunday, on a case by case basis.

If a company's business fluctuates in a predictable although uneven manner during the year, the hours worked by employees can be averaged out over the full year without extra costs. The maximum working time is 10 hours a day and 48 hours a week, with a maximum of 44 hours per week on average over a period of 12 weeks.

The 35-hour week does not apply to executives and managers whose work does not directly relate to production. Their maximum working time is set to 13 hours per day and 217 days per year.

Companies that enforce the 35-hour week benefit from lower social security contributions, on a per-employee basis. This benefit also applies to companies that settle in France.

Employees are entitled to 5 weeks paid vacations (2.5 days of paid vacations per month). There are at least 11 public holidays each year but only one is compulsory: May 1st. Vacation is taken at the request of the employee, subject to the consent of the employer. An employer may refuse to let an employee go on holiday if the firm is too busy at the time. Employees are nevertheless entitled to take between 12 days and 4 weeks (24 days) off during the period between May 1st and October 31.

Additional so-called long-service paid leaves are also provided under certain collective agreements, as well as leave for personal or family reasons (wedding, birth, death of a close relative) under the French labor Code.

The minimum wage or SMIC (*salair e minimum interprofessionnel de croissance*) in France is determined by the government and revised at least every year in order to adjust it to the cost of life. The minimum wage is currently of €7.61 per hour or €1,154.18 per month on a 151.67 hours basis (35-hour week). However, the collective agreement can set its own minimum wage, but only if it is more favorable to the employee than the SMIC.

3. Hiring and Firing Requirements

Hiring:

A Company may hire staff as soon as it is registered at the *Registre du Commerce et des Sociétés*.

There are no specific positions that must be held by nationals. However, in general, non-EU nationals must hold a business card (*carte de commerçant*) to be allowed to have management functions.

Hiring a new employee involves, before he/she may actually take on his task, filing a hiring statement (*déclaration unique d'embauche* or DUE) which is to be sent to the URSSAF branch nearest to the Company's location. The declaration may be sent electronically. Based on the DUE, URSSAF completes all the formalities required, such as registering the employee for

social security, unemployment insurance, etc. New employees are subjected to a medical check-up.

The National Unemployment Office (ANPE) may assist companies in recruiting their staff, by providing information about the positions offered by the company, helping it select applicants, and offering and organizing preliminary training sessions. Based on requirements, the government and the regions, in charge of lifelong training, can organize specific training schemes for certain categories of future employees.

Dismissal:

There are two main types of work contract in France: the *contrat à durée indéterminée* or CDI, which has no set time limit and the *contrat à durée déterminée* or CDD, which is only valid for a fixed term.

A fixed term contract cannot be interrupted by anticipation, except for serious breach of contract or in case of force majeure. It can, however, be interrupted if both parties agree to it. There is no specific procedure.

A CDI can be terminated on real and serious personal grounds (misconduct) or for economic reasons (if the Company is faced with difficulties). Employers must always state the grounds for dismissal in writing and follow a procedure set down by law: a letter must be sent by registered mail to the dismissed employee explaining the reasons for the dismissal. In most cases, a meeting with the employee is to be held prior to the sending of the letter.

The employer has certain obligations towards the dismissed employee. An employer must give the dismissed employee the documents necessary to claim unemployment benefits. The employer must also pay various indemnities, the nature of which vary depending on the grounds for dismissal, the employee's status (i.e. executive or non executive) and his seniority.

Special regulations apply to layoffs for economical reasons, such as a layoff plan (*plan de licenciement*) if over 10 employees are affected; resettlement or outplacement support; consultation with the staff representatives; information and reports to the Ministry of Labor; payment of severance benefits.

4. Labor Availability

France's private sector labor force combines high quality with relatively competitive unit-wage costs. French absenteeism is modest by European standards and in the private sector peaceful labor relations prevail.

One of the key characteristics of the French labor market lies in the possibility to use extra staff to serve momentary requirements. This option complements the various means related to the organization of working time. Contracts without a set time limit and temping are governed by strict regulations that restrict their use to cases provided for by law, for a maximum period of 18

months. They are effective means for companies to meet their requirements, to such an extent that France is the world's second market for temping, behind the United States.

5. Labor Permits

See below for more details on work permits.

6. Safety Standards

There are very strong safety regulations that must be followed by the employer. The labor inspectors (*inspecteurs du travail*) enforce the regulations concerning labor law and safety standards through inspections.

The enforcement of said rules is also controlled by the staff representatives who, in businesses with more than 50 employees, exercise these control functions through a special authority: the Comité d'Hygiène, de Sécurité et des Conditions de Travail (CHSCT).

7. Unions

While the rate of unionization in France has steadily declined in the past few years, French labor law provides an extensive institutional role for employee representatives and for organized labor.

In Companies with more than 10 employees, employee delegates are elected for a one year term. They are authorized to present individual or collective claims and grievances relating to working conditions, to inform government labor inspectors of any complaints under the labor law, and to concur with management in any reorganization of the workweek. Management is required to meet with employee delegates at least monthly.

A Company with more than 50 employees must have a joint management/employee enterprise committee, to which employee representatives are elected. The committee must be consulted for all major corporate decisions, but has no veto. The enterprise committee must be provided with the same information that is made available to shareholders. It is funded by the company at a rate equal to at least 0.2% of the firm's payroll, and uses this money to finance social and cultural activities for the benefit of employees.

Workers also hold most slots on occupational health and safety committees, which are mandatory in medium and large size companies. Labor Tribunals (*Conseils des Prud'hommes*) are comprised of an equal numbers of union and employer representatives.

In France, unions are legal and recognized by the government.

- SUD (*Solidaires unitaires et démocratiques*): more or less communist

- CGT (*Confédération Générale des Travailleurs*): communist
- FO (*Force Ouvrière*): socialist-communist
- CFDT (*Confédération française et démocratique du travail*): socialist
- CFTC (*Confédération française des travailleurs chrétiens*): christian-democrat
- CFE-CGC (*Confédération française de l'encadrement*): democrat, managers union
- CNT (*Confédération nationale du travail*): anarchist

Other unions may be in the investor's business if they justify that they are representative of a population with regards to an economic activity or a special profession (e.g., SNB, national union of banks).

XII. TAX ON CORPORATIONS

1. Calculation of Taxes

Taxable profit is calculated on income minus deductible expenses. Income encompasses all proceeds from business, sales, or services. Only expenses incurred as part of the business conducted can be deducted.

Deductible expenses are depreciation of tangible and intangible assets (excluding goodwill), reserves, building and equipment rents paid, salaries, social security charges, goods purchased, energy consumption, advertising costs, and financial expenses.

The deductibility of certain categories of expenditures is limited in order to prevent abuse. This is in particular the case with so-called "extravagant expenditures", such as the use of private vehicles. In that case, the deductible depreciation and rent expenses are capped at €18,300 including VAT.

The French Government has recently adopted new corporate tax measures. The additional levy of 3% on corporate tax paid is to be abolished within two years : reduction of 1.5% for fiscal years ending in 2005 and 1.5% for fiscal years ending in 2006.

Corporate tax rates will therefore change to 33.83% and 34.93% in 2005, and 33.33% and 34.43% in 2006.

Changes in long term capital gains for companies which are subject to corporate income tax have led to an immediate reduction of tax rates from 19% to 15% for the fiscal year beginning in 2005.

Since 2000, the standard rate of value-added tax is of 19.6%.

2. Registration Duties

Traditionally, the registration formality consists in the analysis of a deed by a civil servant who assesses and collects the duties provided for by law. Accordingly, registration has a tax purpose mainly, but this formality also entails civil consequences: it gives the deed a legal date and in certain cases it determines the validity of legal deeds. For real property transfers, it allows the updating of real estate records.

Normally, registration formalities for deeds are subject to the payment of duties. However, in certain cases, payment may be made in installments or deferred. Lastly, duties on transfers without consideration (duties to be paid when deeds for gifts or for the return of estates) may be paid in the form of art works handed over to the State, subject to ministerial approval.

Such a tax is normally collected for appropriation to the State. However, duty on sales of real property is collected for appropriation to towns, departments and regions.

The assessment basis normally consists of the market value of the property at the of the deed or transfer, as mentioned in the deed or the estimated return filed by the parties, and then audited by the authorities. The market value of a property corresponds to its sales value, i.e. the price at which this property may be sold or bought on market conditions.

Registration duties are fixed, proportional or progressive, depending on the type of deed or legal transaction subject to the formality:

- Fixed duties are constant when applied to deeds classified in a given category or not liable to proportional or progressive duties.
- Proportional duties represent a constant percentage of the value of assets covered by legal deeds or transactions. This mainly applies to sales, insurance contracts and certain corporate transactions.
- Progressive duties are duties the rates of which increase as the values rise. This applies in particular to transfers for valuable consideration of businesses (*fonds de commerce*) and similar agreements and to transfers without valuable consideration.

3. Sales Tax or Other Turnover Taxes

VAT is a territorial tax:

VAT is a general consumption tax, which is charged on all goods delivered and all services provided in France. Foreign trade transactions (exportation of tangible goods and similar deliveries, supply of services linked with international traffic of goods and transactions connected with ships and aircraft, intra-EC deliveries) are generally VAT exempt. However, liable persons who carry out such transactions are entitled to deduct the VAT, which they have borne with respect to the purchase of the goods and services involved in such transactions.

Importation and similar transactions as well as intra-EC purchases are normally taxed under the general provisions of domestic law.

VAT is a real tax:

Liability to VAT is determined by the type of transactions or products, regardless of the personal situation of the subjected person or his customer. Thus, it is levied on deliveries of goods and supply of services arising under an economic activity (regardless of the type); provided for valuable consideration; carried on by subjected persons, i.e. persons independently carrying on transactions falling within the scope of VAT.

There are several exemptions, concerning particularly:

- the activities and operations achieved by statutory bodies acting as public authorities, except if their non-subjection distorts competition;
- teaching;
- medical and paramedical activities and hospitalization costs;
- charities.

For certain exempt activities, VAT liability may be elected deliberately (lessors of unfurnished premises for professional purposes, lessors of rural property, certain operations carried on by local authorities, etc.).

VAT is an indirect tax:

VAT is finally borne by the end user, since it is included in the sales price of products or services. Each intermediary (manufacturer, tradesman, etc.) bills its customer for the tax provided for by law and pays it back to its local tax collecting office, less input VAT paid upstream to its own suppliers.

In fact, VAT is paid only on "value-added", i.e. the value brought to the product or service in each production or marketing stage, in such a way that the overall tax burden at the end of the

economic channel by which goods or services reach the buyer, regardless of the length of the cycle, corresponds to the tax computed on the final sales price to the consumer.

VAT is a proportional tax:

VAT is calculated by applying a proportional VAT rate to the basis of the transaction without VAT, regardless of its amount.

Assessment basis:

Generally, the assessment basis corresponds to the total sums, values, goods or services received or to be received by the seller or service provider from the buyer, the taker or a third party in return for delivered goods or supplied services, including grants linked directly to the price of such transactions.

Thus, in addition to the agreed-upon price, the assessment basis includes all taxes, duties and levies of any kind, except VAT itself and all incidental expenses. Such expenses include, inter alia, transport, insurance, packaging, etc. On the other hand, the taxable price does not include price reductions (cash discounts, rebates, returns), nor expenses and taxes advanced by the supplier on behalf and for account of his customer to whom he reports the exact amount disbursed.

For deliveries of goods and services, persons subjected are exempted from VAT when their turnover without VAT during the previous calendar year does not exceed 15 300 euros (or 37 400 euros for certain authors, artistes and lawyers). Such persons are VAT-exempt from the start of their activity subject to VAT. However, they may elect to waive this exemption and opt for payment of VAT instead.

Moreover, tax laws provide for standard or actual-basis tax treatment depending on whether or not turnover falls below certain amounts.

Computation of VAT payable to the State:

To determine what he will have to pay, the person deducts from the chargeable VAT on his receipts the VAT paid in respect of the purchase of goods and services used to carry out the transactions subject to VAT.

The amount of gross tax is computed by multiplying the amount of net receipts by the rate applicable to the transaction concerned.

The applicable rates are:

- the standard rate of 19.6 %. This rate applies to all transactions not subject expressly to another rate;

- the reduced rate of 5.5 % for most food and agricultural products, certain types of animal food, medical drugs not reimbursed by social security, books and certain services (accommodation supply, meals supply to company cafeterias, passenger transportation, certain entertainment);
- the special rate of 2.1 % charged in particular on press publications and medical drugs reimbursed by social security
- special rates apply in certain Overseas *Départements* (Guadeloupe, Martinique, Réunion) and in Corsica.

Deduction of the VAT tax paid by the person liable:

With some exceptions (e.g. restaurant and accommodation expenses, passenger transportation, etc.), VAT on the cost price of purchases, overheads and investments which is billed to the liable person by his suppliers, is deducted from gross VAT, but only if such acquired goods and services are used to carry out VAT-liable transactions.

The overall amount of VAT to be paid is determined by:

- the person liable himself when subject to actual-basis tax treatment;
- the authorities when the person liable is subject to standard-basis tax treatment, based on the annual tax return filed by the person liable.

A tax exemption (*franchise*) or relief (*décote*) are provided for small enterprises.

If the difference between gross tax and the VAT tax paid to the supplier is negative, the person liable normally sets off the surplus against his future tax payments or may, under certain conditions, request its refund.

Obligations of persons liable to VAT

VAT is subject to the following requirements :

- reporting the existence of a business or its identification or discontinuance;
- detailed book-keeping, supported by any evidence or a special ledger;
- invoices bearing the VAT-free price, the VAT rate and the amount of VAT;
- filing turnover returns on a monthly or quarterly basis, depending on the amount of tax payable annually;
- filing goods movements for certain intra-EC transactions for statistical and tax purposes;
- spontaneous payment to the tax collecting office along with the return or, in the case of persons liable who are subject to standard taxation, according to a predetermined schedule.

Requirements are fewer for small enterprises.

4. Territoriality Rules

Unlike all other countries of the European Union which apply worldwide taxation on profits, France assesses corporation tax only on profits made by companies operated in France, regardless of their citizenship. Consequently, profits made by companies operated abroad are not subject to corporation tax, while foreign companies pay corporation tax on the profits made by companies they operate in France.

Therefore, as soon as a foreign company conducts profitable business in France, the said profit is taxed in France. Accordingly, companies taxable in France cannot report losses incurred by enterprises operated abroad. This rule applies regardless of the type of the company (subsidiary, branch or permanent establishment). In the case of a branch or a permanent establishment with no separate legal status, the proceeds of the business conducted in France are derived from the accounts of the foreign company.

As an exception to the rule of territoriality, French companies may use the earnings from all their direct operations for the French assessment basis (worldwide profit taxation). They may also elect the consolidated profit system which enables them to take into account their share in the earnings of their French or foreign subsidiaries endowed with independent legal status when they own at least half the voting right thereof.

These two exceptional arrangements apply to companies who have requested beforehand such arrangements and have been authorized by ministerial decision (approval).

Moreover, an optional integration regime allows a French parent of the company to integrate in its taxable profits or losses the profits or losses of French subsidiaries in which it holds at least 95% of the capital.

Tax treaties are signed between France and other countries helps avoid double taxation (see above).

5. Withholding Taxes

Applicable rates of withholding tax are defined in tax treaties between France and the concerned country, e.g. the tax treaty with the US sets withholding tax at 5% of dividends, branch earnings and management fees. This rises to 15% for dividends distributed to US residents individually owning less than 10% of the equity of the French Company. In general, no withholding tax is charged on interest payments for loans within the same group of companies.

No withholding tax is charged on dividends or earnings of branches paid to European parent Companies or the head offices of European Companies.

XIII. TAX ON INDIVIDUALS

1. Tax Treaties

France has adopted more than 100 tax conventions with almost 80 countries. The main objective of such treaties is to avoid double taxation. Some conventions concern certain more specific taxes, such as registration taxes, income tax, company tax and wealth tax. Two tax conventions are applicable between France and the USA:

- The Convention of November 24, 1978, which aims at preventing double taxation and at circumventing tax evasion with regard to taxes applicable to inheritance and donations;
- The Convention of August 31, 1994, which aims at preventing double taxation and at circumventing tax evasion and fraud with regard to Income and wealth tax.

2. Income tax

The income tax is based on the household's net revenues of the previous year. The fiscal household includes any income of a spouse or children under 18. The rate of taxation is also proportional to the size of the household – the more people in the household, the lower the rate.

The schedule of the 2004 income tax is the following:

| | | | |
|--------|--------------------------|---------|-------------|
| 0% | for incomes of less than | | €4,334. |
| 6.83% | for incomes between | €4,334 | and €8,524 |
| 19.14% | for incomes between | €8,524 | and €15,004 |
| 28.26% | for incomes between | €15,004 | and €24,294 |
| 37.38% | for incomes between | €24,294 | and €39,529 |
| 42.62% | for incomes between | €39,529 | and €48,747 |
| 48.09% | for incomes over | €48,747 | |

Yet, the rate indicated above may vary due numerous factors.

3. Capital Gains:

Capital gains are taxable depending on the nature of the goods and on how long they have been detained before the sales. The gains should be over €4,600 a year concerning real estates and over €3,050 a year concerning personal estates.

Capital gains on the sale of stocks or shares are taxed at a rate of 27% if the annual amount is over €15,000.

Different adjustments apply to long-term capital gains, i.e. those realized more than 2 years after the acquisition of the real property. The cost price of the property, including purchase price and expenses incurred in acquiring the property, is increased according to the variation of the consumer price rate between the date of acquisition and the date of disposition. Expenses incurred in acquiring the property may be estimated at 10% of purchase price, unless the property owner substantiates higher expenditures. Furthermore, the capital gain, i.e. the difference between the sale price and the purchase price, is reduced by 5% for each full year the property is held beyond the second year after sale.

Unless there is a special international treaty preventing it, all capital gains of a foreigner concerning the selling of real estate are taxed at a rate of 33.33%.

4. Filing and Payment Requirements

The fiscal declaration is filed in March each year and taxes are paid in three installments.

5. Inheritance and Gift Tax

Successions and donations are subject to a progressive tax rate, depending on the existing relationship between the deceased or donor and the beneficiary.

Between parent and child or grandchild, as well as spouses, the rate varies from 5 to 40%.

Between siblings, the rate is 35% and 45% over €23,000.

Between uncles and aunts or nieces and nephews, the rate is 55%.

Between relatives behind the 4th degree or third parties, the rate is 60%, with the exception of transfers made to foundations or associations which enjoy a favorable status (exoneration or reduction of taxes which favor the enrichment of public art collections or of public monuments and historical objects).

In addition to the varying rates outlined above for the calculation of transfer taxes, various reductions on the calculation of the tax due are granted in the case of donations depending on the family relationship between donor and beneficiary: €76,000 between spouses, €0,000 from parent to child but no allowances between siblings. These thresholds may be increased during the year 2005 to respectively €126,000 and €50,000

Donations made by persons under 65 years old allow a tax reduction of 50%. If the donor is between 65 and 75 years old, the reduction is of 30%. An allowance of €15,000 is granted for the donations from a grandparent to his/her grandchildren. This amount is raised to €30,000 until December 31st 2005.

6. Real Estate/Habitation Tax

Property taxes are levied by the local authorities against both owners (*taxe foncière*) and tenants (*taxe d'habitation*).

7. Social Security and Welfare System Contributions

Since its inception in 1945, the social security system has been mostly financed from contributions levied on earned incomes. Thus France differs from other European Countries where social expenditures are funded through taxation.

However, in order to address the problem of financing an increasing social security budget, the French government enacted some levies in the form of taxes.

The *Contribution Sociale Généralisée* (CSG, widespread social security contribution):

It was introduced in 1991 and applies only to individuals domiciled in France, at a 7.5% rate. The CSG is levied on a broad assessment basis, as it is normally levied on earned income and substitute income, property income and proceeds from fixed-interest securities subject to a levy discharging income tax liability.

The CSG on earning income and substitute income: the assessment basis consists of gross wages and fringe benefits in cash or in kind granted to the person. As of January 1st 2005, this assessment basis is lowered by 3% for professional expenses. In this case, the CSG is levied at a 7.5% rate at source. It is deducted by the employer, who pays it back to organizations responsible for collecting social security contributions.

Substitute income (pensions, unemployment benefits, health and maternity allowances, industrial injury benefits) is normally subject to the CSG at the rate of 6.2% Low incomes are liable to a CSG reduced rate of 3.8% and recipients of substitute income are exempt from CSG when income does not exceed certain amounts which entitle to exemption from local taxes.

The *Contribution au remboursement de la dette sociale* (CRDS, Contribution for the reimbursement of the social debt):

An ordinance of January 24, 1996, on the reimbursement of the social debt introduced a contribution for the reimbursement of the social security debt. Albeit based on the same principle than the CSG, this tax is applied on a broader basis, and is paid at a 0.5% rate.

Its collection method are identical to those of the CSG, except for the contribution connected with earned and substitute income from foreign sources collected individually like the social debt contribution levied on property income.

The 2% social levy:

A 2% social levy on property income and proceeds from fixed-interest investment income subject to the levy discharging income tax liability was introduced in 1998. All individuals domiciled in France for tax purposes are liable to that levy. Its assessment basis and collection method are in line with those of the CSG relating to the same income.

Levy on property incomes:

The following types of income are liable to the three levies (of a total rate of 10%), collected annually in the same conditions as the income tax:

- real property income;
- life annuities for valuable consideration;
- income from transferable securities other than that subject to a levy discharging income tax liability;
- capital gains from the transfer of real property and of shares in unlisted companies whose assets are substantially real property;
- capital gains and profits subject to income tax at a proportional rate;
- income from rental of furnished premises derived from a non-professional activity;
- any other income not expressly named;
- any other income the taxation of which is attributed to France by an international convention.

8. Tax on Income

Income of French residents (whether national or non-national) is subject to progressive rates of taxation by brackets ranging from zero to 48.09% (see above).

The State tax is the only tax on income, as other taxes are not directly based on income.

9. Territoriality Rules

Regardless of the citizenship, every person having a domicile in France for tax purposes are taxed on their worldwide income.

Regardless of the citizenship, every person not domiciled in France is taxed on the income from French sources only. Are considered income from French sources only the following categories:

- Income from real property located in France or from rights connected to such property;
- Income from French movable property and any other stocks and shares invested in France;
- Income from concerns (*exploitations*) located in France;
- Income from any professional activities carried on in France or from for-profit transactions carried out in France;

- Capital gains on the transfer, for financial consideration, of property or rights of any kind and profits derived from transactions, in particular those carried out by real estate brokers when such profits are connected with businesses (*fonds de commerce*) operated in France as well as real property located in France, real property rights connected therewith or shares in unlisted companies which assets mainly consist of such property and rights;
- Capital gains on the transfer of corporate rights resulting from the transfer of rights pertaining to companies having their head offices in France;
- Compensations, including salaries, in consideration of artistic or athletic performances provided in France.

When the debtor of such income is domiciled in France for tax purpose, the following elements are also considered income from French sources: pensions and annuities; fees received by inventors or as copyrights as well as any income derived from patent and similar rights; compensations paid in consideration of any services provided or used in France.

People not domiciled in France do not pay income tax when they are domiciled in a State or territory which has signed a convention with France for the avoidance of double taxation, even if such conventions do not contain any provision in this respect. French citizens can also avoid taxation on their income if they prove that they are subject to personal taxation on their total income in the country or territory where they have their domicile for tax purposes and that the income tax paid in that State or territory is at least equal to two third of the tax they would have paid in France on the same assessment basis. Citizens of countries which have signed a reciprocal agreement with France and satisfy the above mentioned conditions can also avoid taxation on their income in France.

Taxpayers domiciled outside of France who receive income from French sources or have one or more homes at their disposal in France, must normally file a tax return.

10. Wealth Tax

Individuals are subject to tax based upon his/her wealth: a progressive wealth tax is applicable to property exceeding €732,000. The rates are progressive from 0.55% to 1.8% when the total value of property exceeds €15,255,000.

The wealth tax must be paid annually. As a rule, the amount of the wealth tax and the income tax can not exceed 85% of the annual revenues of the person taxed. There are some allowances concerning professional properties.

Persons with a tax domicile in France must pay the tax on their worldwide properties. Persons with a tax domicile abroad must only pay the tax if their properties in France exceeds €732,000.

A reform of the wealth tax being currently under way, the rules exposed above may not be accurate for the tax filling of 2005.

11. Withholding Tax

Certain types of income from French sources received by persons not domiciled in France are subject to a withholding tax.

Non-commercial Professional profits:

Non-commercial or similar income paid to persons (or companies) without a permanent business facility in France is subject to a withholding tax of 33.33% This rate also applies to compensation paid for services of any kind actually supplied or used on French territory.

A 15% rate is applied to amounts, including wages, paid for artistic or athletic performances in France. However, many international conventions signed by France make this levy inapplicable or at a lowered rate of 5%. In spite of this withholding, the artist or athlete still has to file income tax return.

Wages, annuities, pensions:

When paid to persons not domiciled in France, wages, pensions and annuities are subject to a withholding tax calculated at the following rate:

- 0% for annual income under €10,356
- 15% for annual income between €10,356 and €30,036
- 25% for annual income above €30,036

Other levies:

Proceeds from variable-interest securities: Dividends and similar income distributed by French companies are subject to a 25% levy discharging income tax liability, unless provided otherwise in an international convention.

Proceeds from fixed-interest securities: such income is usually subject to a 15% levy.

Capital gains and profits from real property: this rule applies to legal entities or organizations, regardless of their form, having their headquarters outside of France.

Capital gains from transfer of corporate rights derived from substantial interests: a 16% levy is imposed if such rights have represented at least 25% of corporate profits at any time during the last five years.

XIV. TAX ON OTHER LEGAL BODIES

As a general rule, not-for-profit associations, charities and foundations are exempt from tax, V.A.T. and other levies such as the Professional Tax. They usually lose the exemption if they start making profits.

The fact that some associations, charities and foundations are not-for-profit does not mean that their management and workers have to work for free. Although volunteer work is very common, the management of an association can be paid if it is provided for by the Charter of the Association and if the association has had more than €200,000 on average in private resources over the previous 3 fiscal years.

French law provides some specific regulations:

- An association that makes profit can be taxed only in three cases: if the management has a financial interest in the association; if the management has no financial interest but the association competes with the commercial sector; if the association competes with the commercial sector, and is managed as a commercial company.
When taxed, the association is taxed at the usual corporation tax rate of 33.33% and is subject to other taxes, V.A.T. and levies otherwise applicable to corporations.
- Some associations can make profits and yet not be subject to taxation. This is the case only when the association's profit does not exceed €60,000, when the management has no financial interest and when the not-for-profit activities of the association remain significantly preponderant.
- Association making a profit of less than €7,630,000 are taxed at a reduced rate of 15% on average.
- Not-for-profit associations are taxed only on their incomes from real property and/or from agriculture at a reduced rate of 24% and at a rate of 10% for some securities income.

XV. IMMIGRATION REQUIREMENTS

1. Immigration Controls

Since November 26th 2003, nationals from the EU, countries who belong to the European Economic Area and Switzerland are no longer required to obtain a European Union Resident Card within 3 months of entering France.

However, during the validity of the transitional measures envisaged on the matter by the Treaty of Accession of the country from which they are nationals, remain subjected to the obligation of obtaining a residence card and except if this treaty stipulates some differently, nationals of the Member States of the European Union who wish to carry on in France an economic activity."

Furthermore, special rules also apply for nationals of certain countries, often former parts of France such as Algeria.

As a rule, a non resident alien must apply for a visa before entering into the French territory. If his visit in France has private purposes, the alien must present a *“certificat d’hébergement”* (housing certificate). Nationals from the EU and the EEA (European Economic Area) do not need any entry permit since they benefit from the rules regarding the free circulation of workers, provided for by Article 48 of the Rome convention. So long as the foreigner has an entrance visa, he can come and go on the French territory for the duration of his/her visa. This is not only true for trips made within the Schengen area but also for trips made in and out of it.

2. Immigration Requirements/Formalities

Except for EU or EEA nationals, foreigners must have been authorized to stay (or stay AND work) in France by either:

- the *“carte de résident”* (resident permit, equivalent to the American Green Card) is valid 10 years, almost automatically renewed. It is the most difficult to obtain;
- the *“carte de séjour temporaire, mention salarié”* (CSTS or temporary permission to reside and work as an employee in France). Despite its name it is actually reserved to staff hired under an indefinite term contract or under fixed term contract of a duration at least equal to one year. Valid one year, it can be renewed three times;
- the *“autorisation provisoire de travail”* (provisional work permit). An application for a *“carte de séjour temporaire”* must be made at the same time. This is the most appropriate card for short-term missions. In fact, it is only awarded to certain categories of persons (student, research scientists, seconded executives, etc.). It is valid only for the job in the company mentioned on the permit and in case of anticipated termination of the contract, the title is no longer valid. Maximum duration is 9 months, renewable once;
- the *“carte de commerçant étranger”*. An application for a *“carte de séjour temporaire”* must be made at the same time if the individual also wishes to reside in France. This card is necessary for a foreigner to operate a business in France, in particular to operate in certain managing positions in partnerships and companies.

It usually takes at least 30 days to receive authorization and immigration procedures can vary depending on the kind of permit sought and the status of the foreigner in France. However, following documents are most likely to be required: employment contract, photographs of the employee, an undertaking to pay the OMI contribution; a filled in form concerning the employee’s personal details, a valid passport.

If executives are sent on assignment to France, specific documents must be provided: certificate of employment from their employer abroad, certificate from the company receiving them in France, undertaking by employee to leave France upon completion of his mission.

In case of petition for a foreign trader's card, the applicant must also provide a clean criminal record and must have never filed for bankruptcy.

3. Visas

As a rule, visas are required to enter France. There are different kind of visas:

- circulation visa: for entry and a stay up to 3 months;
- short term visa: for tourists, businessmen or foreigners visiting relatives;
- long term visa: for a stay of more than 3 months.

A list of countries whose nationals must request a visa is set up within the frame of the Schengen Convention. France can and has added other countries to this list. About 150 countries are concerned. Provided that the foreigner complies with all conditions set forth by the Schengen Convention for a uniform visa to be granted, he will be allowed to circulate freely within this Schengen area. If he/she is not granted a uniform visa, his title is only valid in France.

A foreigner must apply for a visa at the French consulate in his/her own country. For CSTS (see above), application must be made by the company hiring the individual. Most likely, the foreigner must give all justification for:

- the nature of his stay in France (hotel reservations, tour planned, insurance in case of a tourist stay; professional documents if it is a professional stay; take-in certificate, if the foreigner comes to visit relatives;
- his/her capacity to pay the costs of his/her stay;
- his/her return guaranties.

It is difficult to estimate how long it will take for the consulate to process the application. But, it usually depends on various factors, such as the nationality of the applicant and the purpose of his/her stay. For business reasons the visa can be obtained with a reasonable delay.

The cost for a visa depends on the length of the stay:

- transit visa and short term visa (maximum 90 days) : €35
- long term visa (more than 90 days): €99

XVI. EXPATRIATE EMPLOYEES

1. Cost of Living and Immigration

Prices in the Paris metropolitan area can be relative high since the exchange rate is of €0.76 for a dollar. However, in other French regions, prices can be significantly lower.

Following are some approximate samples:

Housing (to rent): two rooms, kitchen, bath, utilities included: €760.

Public transportation: bus/streetcar/metro, one way ticket: €1.40

Book of 10 tickets: €10.50

Taxi (center of Paris/Roissy CDG): €40

TGV Ticket (Paris-Lyon): €75

Food prices: Bread (*baguette*): €0.80

Average restaurant meal: €15

Cars: Car rental for the week (compact car): €86

Compact car for sale: €15,000

Miscellaneous items: Postage Stamp (anywhere in France and Europe): €0.55

Postage Stamp to the USA and the Canada: €0.90

Cinema ticket: approximately €9,50

Doctor visit (basic fee): €20

Non-European residents who stay in France less than six months can get a refund of the Value Added Tax (VAT or TVA in France) on purchases amounting to €175 or more. When making purchases, ask the store to complete a VAT refund form, then submit the form to customs when leaving France (be prepared to show the goods). Customs will stamp the form, which then must be mail to the store where purchases were made. Refunds are credited to your credit card account or sent to you by mail.

Credit cards are accepted in most hotels, restaurants, stores and shops. ATM machines accept VISA and MASTERCARD cards and do not ask for a specific fee.

The rate of inflation over the last four years has reached an average 2%.

2. Drivers' Licenses

Drivers with a driving license from a European Union member State or a European Economic Area (Iceland, Norway and Liechtenstein) or a State with which France has signed a specific Treaty can use it without any time restriction.

Even if there is no such treaty between France and the United States, there are specific treaties with some American States. Therefore, holders of a driving license from Colorado, Connecticut, Delaware, Florida, Illinois, Kansas, Kentucky, Michigan, New Hampshire, Ohio, Pennsylvania, South Carolina and Virginia can use their license without any time restriction in France.

To be valid in France, foreign driving license must be valid in its State of origin; issued from a State where the holder had its real residency; written in French or with an official translation in French. A person can drive in France only if he/she is more than 18 years old.

Drivers with a driving license from other States can use it for a period of one year. Within the first year of residency, they can ask for an exchange. In the case of an exchange, the former driving license will not be returned.

In order to exchange the driving license, the holder of a foreign driving license must contact the police headquarters, fill the Cerfa n°11247*02 form (demand for an exchange of driving license), produce an ID and two identity photos.

After one year of residency, the holder of a foreign driving license can no longer drive in France or ask for an exchange. The person must take the French driving test.

Applicants for a French driving license must take the written and the driving portions of the French licensing examination. The “written part” consist in a multi media examination of the knowledge of the driving code. In order to make the written test easier for non-French speakers, you may request to be assisted by a translator, who may be a friend or relative. Once the written test is passed, there is a required two weeks before the candidate is permitted to take the driving test. The driving test consists in an average 20-minute drive with an inspector. Therefore, although there is no required number of lesson hours, it is almost compulsory to go through a driving school.

The fees involved vary from region to region, each region having its own tax. The fees can also vary according to the driving school chose to pass both tests.

A holder of an international driving license can drive freely in France as long as the license is still valid and the holder at least 18 years old.

3. Education

All kinds of schools are available in France. France has a very well developed public school system and a rather good private school network. Scholl attendance is compulsory in France from the age of 6 to 16. Any foreign child living in France and possessing the appropriate legal documentation is entitled to study within the French system.

Tuition in public schools is free in France, as well as school books (except in high school, where the kids usually have to buy the books). One of the few fees is the school meals.

One can always choose to send their kids to a private school. Contrary to the public schools, they are not free. Public and private schools have to propose the same basic curriculum which is defined by the French education minister.

Nursery School (*l'école maternelle*):

Although not compulsory, many children between the ages of 2 and 5 attend nursery school in accordance with the number of space available. This level of schooling concentrates on social integration of the pupil into a classroom environment, rather than on academics, and prepares them for their future studies.

Primary School (*l'école primaire*):

A child's entrance into primary school marks their commencement of the first complete level of compulsory education. Primary School students are about 6 to 11 years old and learn basic reading, writing and mathematical skills, creating the basis for secondary school training. Foreign language study may begin in primary school but it is not compulsory.

Secondary Schools (*enseignement secondaire*):

In France, the secondary level of schooling is divided into two successive cycles: *collège* and *lycée* (high school).

- *Collège* is the first cycle of secondary education, students are usually between 10 and 14. Pupils work towards increased linguistic proficiency, acquire new knowledge through logic, observation, and writing. *Collège* is the place, for those who have not commenced already, where pupils begin to study foreign languages. The *brevet des collèges*, based on key disciplines taught throughout *Collège*, is administered at the end of the 4th year in *Collège (la troisième)* and qualifies students to enter high school. It is the first test taken by French pupils.
- *Lycée*: the high school level of education is usually completed in 3 years (*seconde, première, terminale*) by students between the ages of 15 and 18. Following the *troisième*, the student, parents and teachers confer to decide the direction their studies will take. The first basic option is between the General and technological *lycée* (a continuation on to higher education) or the vocational *lycée* (aimed at helping pupils to enter the work force). A second choice is offered after the *seconde*: the pupil may go into a scientific section, an economics section, a literary section or a technological section.
This second cycle assists students in their preparation towards their *baccalauréat*, known also the "*bac*", that signifies successful completion of secondary studies. Students choosing a vocational education study toward a CAP, the nationally recognized diploma for skilled laborers and workers, or the BEP, which qualifies the recipient for a number of trades in the vocational technologies sector. They may also continue to take the *Brevet de Technicien Supérieur*, the vocational baccalaureate.

The *baccalauréat de français*, is administered at the conclusion of the *première*. It consists in a written and an oral exam of a student's language capabilities and knowledge. Other tests

comprising the *baccalauréat* are given at the end of *terminale*. The successful completion of the *bac* is necessary to enter the working life.

Acceptance of foreign diplomas as a *baccalauréat* equivalent (especially to enter French universities) is subject to an examination of corresponding course requirements.

Long established foreign communities in France provide a number of educational opportunities. Three types of schools are available: International Schools that are run for a particular community or country interest group, bilingual schools that use both French and another language (most commonly English) and French schools system that leads to the *bac*. Often, when pupils are introduced into French schools with little or no prior knowledge of the language, extra tutoring might be provided until the student attains a sufficient level.

Higher Education:

The French system is extremely complex and is comprised of both public and private schools. Besides the French universities, there is the system of *classes préparatoires* (preparatory classes) and *grandes écoles* (great schools).

In France, registration fees for universities are minimal (about €300). Admission in Universities is compulsory for every students having the *bac* or a foreign equivalent. University studies are divided into three cycles: the DEUG, which consists of 2 years of general studies; the second cycle (*deuxième cycle*) is divided between the *licence* (3-year degree) and the *maitrise* (4-year degree); the third cycle (*troisième cycle*) consists of either further specialization in a subject matter leading towards working life (a DESS) or research in an area of study (a DEA). The DEA often leads to a *doctorat* (the equivalent of a Ph.D.).

A European reform has been launched, the Bologna process, in order to establish a European Area of Higher Education by 2010. The objectives are the introduction of undergraduate and postgraduate levels in all countries, with first degrees no shorter than 3 years; a European Credit Transfer System and the promotion of mobility.

Tuition fees for the preparatory classes can widely differ depending on the type of school (public or private), its reputation or its location. The *classes préparatoires* prepare the students to take the entrance exam for the *grandes écoles*.

The *grandes écoles* provide education for the future *élite*, i.e. future leaders of administration, technology, and business. Theses schools focus on specific areas of study and have their own candidate selection process that is highly competitive.

4. Moving & Housing

Names of companies proposing moving and related services may be found in national and local news publications, housing journals, the yellow pages and online information.

No matter how possessions are moved, a declaration of their status must be made at the *douane*. The procedure also involves the signing of a document affirming that all items are personal possessions and will not be resold following the entry in France. Some items are subject to specific regulations: e.g. vehicles must have been purchased more than six months prior to the move.

Electricity, gas and the telephone involve individual contracts. All utilities must be activated or installed when moving into a new place of residence and discontinued upon departure. Telephone lines are under the control of France Telecom, which has the monopoly to install new phone lines. The Postal service in France is known as *La Poste*.

No matter where a person chooses to locate in France, the option to rent, lease or buy a residence is available through a variety of sources. Prices in cities and larger towns are usually based upon the number of square meters or the number of rooms (*pièces*) contained within the residence. The majority of apartments available for rent and for lease are unfurnished, but it is possible to ask for a furnished apartment. In places like Paris, it is also possible to find a lot of short-term rentals, for a duration of between a week and a year.

One of the most common methods of searching for housing is through real estate agencies which are present in nearly every town. Such agencies act as the intermediary between the tenant (*le locataire*) and the landlord (*le propriétaire*). In general, the tenant pays the fee for the agency's services.

Renting directly from the landlord eliminates these fees, but leaves the tenant responsible for ensuring that legal formalities are correctly completed and it also involves a lot of work from the tenant as apartment for rent are sometimes very hard to find. However, a number of publications, both national and local, print a special real estate section (*immobilier*).

All tenants are required to possess a comprehensive insurance policy, known as the *assurance multirisque habitation*. This insurance policy insures renters against fire, water, ice and storm damage, as well as accidents involving family members and a third party. Although it also insures against theft, security locks on doors and window shutters are required to qualify for reimbursement.

Additional insurance, known as *vol complémentaire*, may be purchased to cover valuable possessions. In that case, it is wise to keep receipts of these items to prove their existence and their value if a claim needs to be made.

5. Importing Personal Possessions

EU citizen:

An EU citizen may import a car duty-free if owned by the person for at least six months. Other possessions may be imported duty-free if these possessions have already been used for a certain period of time.

Non-EU citizen:

A non-EU citizen may import a car duty-free if the car is owned by the person for at least 12 months. Effects and furniture are considered personal effects and can be shipped duty-free if owned and used for at least 6 months.

The following documents are required for the duty-free shipment of personal effects and furniture by a person moving to France:

- A change of residence certification (*certificat de changement de domicile*). It may be obtained at the French Embassy or consulate nearest the place of departure. This certification states the date of the change of residence and must be stamped by a French consular official. French regulations require that the effects be shipped within a period of one year from the declared date on the stamped document.
- A detailed inventory (*inventaire détaillé*). It consists in a list of all personal effects and furniture, including automobiles, being imported. It must be dated and signed by the importer. This inventory should be as complete as possible, indicating the value in dollars (or relevant currency) and giving a description of all valuable properties, such as antiques, collector's items, and cars. The inventory must also include a sworn statement declaring that the articles listed on the inventory have been owned and used by the importing party for at least 6 months for all personal effects and furniture, for at least a year for automobiles and stating that there are no outstanding taxes owed on the vehicle.

This inventory should be in French and must be stamped at a French Embassy or consulate.

Are included as duty-free household effects: cats and dogs; stamp collections, provided they are for personal and not for commercial use; tradesmen's hand tools; bicycles; sewing machines; typewriters; automobiles; one television and one radio.

Are not duty-free motors imported separately from the vehicle or appliance; speed boats; pleasure craft (except canoes and kayaks); school, store and office furniture; wine and alcoholic beverages; trucks and utility vehicles; and raw materials.

All tax-free goods imported by non-EU citizens must be kept for at least a 12-month period from the date of importation.

Restrictions on duty-free households effects:

A person who is importing a television should go to a *Radiodiffusion Television* office soon after arrival in France. All televisions used in France are subject to taxation (approximately €110 a year). Furthermore, France uses a SECAM L system, which may not be compatible with other systems.

There are also some customs restrictions on the importation of various guns, ammunitions, and certain printed matter.

6. Medical Care

Social Security:

In France, the State assumes the role of administering the country's health care system. The social security (*sécurité sociale*) currently provides for universal medical coverage, complementary protection, and in addition dispenses the poorest patients from paying initial treatment costs and waiting for reimbursement.

All individuals with employee status and students meeting certain requirements are covered by the social security. An insured person's coverage benefits extend to immediate family members, who are not covered under an employee or student regime. People not covered by social security are required to take out special insurance, known as *assurance personnelle*. To increase reimbursement rates, additional insurance may be required through a *mutuelle* or *assurance complémentaire*.

Medical Care:

There are two main types of doctors: a *médecin généraliste* is a general practitioner or a family doctor that may be consulted regarding any health problem. A *médecin spécialiste* is a specialist who concentrates on a specific field.

Patients are free to choose their doctor in accordance with their personal needs and family situation, but most people choose a doctor who works within the framework of the social security system.

Pursuant to a reform in the healthcare system in 2005, every person who is 16 or older and covered by the French healthcare system will have to choose a *médecin traitant* by July 1, 2005. This is best described as a referring doctor; in most cases, it will be a general practitioner or family doctor, but it need not be so. Any medical doctor, including a specialist, may be selected provided he or she agrees. The idea is that the *médecin traitant* is the one who knows the patient best and to whom the patient turns in case of any medical problem.

Furthermore, the *médecin traitant* is also the one who can direct the patient to another doctor, for instance a specialist. Note that the *médecin traitant* may recommend a specialist, the choice of which specialist to consult remains with the patient, and consulting a specialist other than the one recommended by the *médecin traitant* does not change the rate of reimbursement. It is also possible to consult a specialist directly, i.e. without going through the *médecin traitant*, but in that case, coverage may be reduced.

Patients are responsible for paying consultation-related fees and their reimbursement by the social security depends on the status of the doctor. If the doctor is *conventionné*, the prices of the

consultation are fixed by the social security (€20) and a fixed portion of the costs are reimbursed. The difference being reimbursed in part by the patient's *mutuelle* if he/she has one. If the doctor is *conventionné à honoraires libres*, high fees are authorized, thus the cost of a consultation varies in accordance to social security and *mutuelle* reimbursement rate. If the doctor is *non conventionné*, the price is fixed by the doctor and the level of reimbursement depends only on the *mutuelle*.

When moving to France, patients should bring copies of their medical records to assist with possible medical consultations, as well as a vaccination record. Babies in France receive a *Carnet de Santé* that will contain their medical history from birth until their majority. Other medical records related to social security claims are contained in the *feuille de soins*, an insurance form, now being replaced by the *Carte Vitale*, an electronic medical history record.

France offers both public hospitals and private clinics, both with a high quality of care, though the rate of reimbursement may differ. Private clinics are run independently from the State and have high fees whereas public hospitals are run by the State and tend to have automatic payment agreements with the social security system. A service called *SOS Médecins* is available in most large towns. This service has doctors on call 24 hours a day, 7 days a week, who make house calls for serious problems.

In France, many medicines are available uniquely through prescriptions given by a doctor (*ordonnances*) and may only be purchased in a *Pharmacie*. In addition to filling prescription, the *pharmacien* (who possesses a State diploma acquire after medical school) may be able to advise a client on non-prescription medicines for minor ailments and can explain the correct use of specific treatments.

Only medicine prescribed by a doctor qualify for reimbursement from the social security or other health care regimes. A pharmacist is authorized to sell "generic" medicines to replace a prescribed brand if the composition is identical.

7. Tax Liability

Income of all nature and origins perceived by a person residing in France, as well as income perceived by a non-resident from a French source, is taxable in France.

The fiscal residence is determined according to the habitual place of residence of the person and his or her own family; principal place of residence in cases of residence in two or more countries; main place of occupation where domicile and principal place of residence are in two or more countries; the focus of economic interest in the case of double residence; or the citizenship of the person. Yet, the situation may vary depending on the eventual tax treaties between France and other countries.

The taxable amount of wages and salaries is based on the salary after deduction of social security and related levies and an allowance of 10% for professional expenses and eventual other allowances.

8. Employment Contracts

As a general principle, work contracts are not required to work in France.

However, any employee is in a strongly regulated relation with its employer. There can be either a written contract, an oral contract, or simply a work relation. Judges in France have the power to consider that the work relation is indeed equivalent to a non-written work contract.

In order to avoid any litigious situation, it is recommended to use one of the three types of employment contracts available in France: temporary employment contract, fixed term contract, permanent contract.

Temporary employment contract:

The employee is hired and paid by a temping agency. Temporary employment contracts may be renewed once, on the condition that the total days of employment doesn't exceed 18 months. The temping agency recruits to replace an employee on a temporary basis, to cover a temporary increase in work or for seasonal workers.

Fixed term contract (*Contrat à durée déterminée – CDD*):

A fixed term contract must state in writing the duration of the contract. The probationary period for a contract of less than 6 months may not exceed 2 weeks and for contracts of over 6 months the probationary period may not exceed 1 month. The CDD is fixed for a defined period of time up to a maximum of 2 years.

Permanent contract (*Contrat à durée indéterminée – CDI*):

The contract signed by both parties stipulates the date of employment, social security details and the place of work, the remuneration, notice period, length of probationary period (1 to 3 months) and the position occupied.

No work permits are necessary to invest in France.

9. Work Permits

To be able to work in France, non-EU citizens must have arranged employment approved in advance by the French ministry of Labor and they must have obtained a long-stay visa before entering France. Foreigners who disregard the visa requirement and apply in France for a work

permit are required to leave the country to obtain the appropriate visa at a French consular office in the country of origin. Coming to France expecting to find a job and to regularize one's status after arrival is an expectation unlikely to be fulfilled and personal hardship may result.

All French work permit applications are dealt with by the local *Direction Départementale du Travail, de l'Emploi et de la Formation* (DDTEFP) on a town by town basis. It is therefore impossible to give absolute processing times as it varies depending on the workload of the local offices. There are two types of work permits for France: the temporary secondment and Full Work permits.

Temporary secondment (*détachement*):

This is for a non-French company which needs to place their employees on its client's site in France. This can be applied for by the foreign company but needs the full-cooperation of the French client. The seconded employee must remain in the employ, pay and line management of the foreign service provider. There is no maximum duration of these permit, as long as a valid employment contract and client service contract exists between the two companies involved. The candidate must earn more than €3,835 a month.

The application is lodged with the local DDTEFP and incomplete applications are returned. The processing takes generally 4-6 weeks. When a decision is reached, the approval will be sent by post to the French client. The candidate then applies for a long term visa at the French consulate in their usual country of residence, they may then travel to France to start work. Shortly after their arrival in France, the candidate will be invited by the *Office des Migrations Internationales* (OMI) to take a medical exam. The French company will be charged the €160 fee and the candidate will be issued a residence card (*carte de séjour*).

Full work permit:

A French work permit application must be made by an established French company. The French company is required to sign a direct employment contract with the candidate and to take on responsibility for all tax and social security matters.

The accepted requirements regarding experience and qualifications require that the candidate must be a professional, so high level work experience and a degree are essential.

Holders of a "*carte de séjour salarié [pour] toutes professions salariées*" are authorized to work in any salaried post in any profession provided that it is not a temporary job.

In practice, the law of issuing a full French work permit is applied with a large degree of discretion by the DDTEFP, who has a significant amount of decision-making power when determining whether or not one is granted a work permit, as well as what type of work permit.

There are three main things that are considered, in order of importance, that determine whether or not one is attributed a work permit:

- The salary level, which should be as high as possible. In general, the candidate's salary should exceed that of an equivalent French worker and must be above €3,835 and must be paid directly from the French employer in Euros. If the salary level is less than €3,600 per month, a notice has to be posted at the ANPE for three weeks before application can be made.
- Education is very important as the French authorities consider highly-educated candidates more able to integrate into French society, which is a consideration in the work permit application. Knowledge of the French language is also taken into account and will only be of benefit to the application.
- The type of work or work contract is also important. Indeed, for the application to be considered, it is important to show that the job can hardly be done by a French national. Therefore, the applicant should aim for managerial position or a high-level professional or highly skilled technician.

There are 5 basic steps to the process of issuance of work permit: the whole application and supporting documents must be lodged at the regional DDTEFP office. The DDTEFP office approves (or not) the application, and returns it to the employer. The approved application is taken to the French consulate in the candidate's country of residence. The French consulate issues a long stay visa and then the candidate can travel to France, and is invited by the OMI to take a medical exam to be granted a residence permit from the police headquarters (*préfecture de police*).

There is a reciprocal agreement between France and the United States on exchange training programs for young workers with a minimum of one-year experience and a written job offer. The contracts are only for duration of three to eighteen months. More information can be obtained at the *Espace Employé International* at the ANPE (French National Unemployment Agency) in France.