Leather & Footwear – International Regulatory and Policy Environment

China

The growth of leather industry in China can be attributed to the first wave of economic reforms in 1978 with rapid development of Town and Village Owned Enterprises (TVEs) and second wave with foreign firms investing in China. The Government put in place a lot of incentives for Foreign Invested Enterprises (FIE), which included subsidized land and power, reduction of import duties, tax holidays etc.

The economic reforms encompassed market liberalization measures that enabled China to move from a centrally planned economy to a market economy. Even the State Owned Enterprises (SOEs) were restructured and transformed into limited liability corporations under the newly enacted Company Law. The Chinese government has also followed an 'open door policy' that involved substantial trade and investment liberalisation. This strategy has helped the economy to sustain an average annual growth rate of near 10% for over three decades. In 1990s, the government announced another set of reforms that included the unification of exchange rates, current account convertibility, the reform of tax and fiscal systems, the reorganization of financial regulatory system, and the adoption of Western accounting rules. The Chinese government continues with its liberalization policy even in the present environment of global slowdown; despite witnessing a decline in exports growth since 2008 on account of fall in global demand, the Chinese government has continued with its policy of opening up international trade. The government tried to overcome the crisis by announcing a huge stimulus package encompassing substantial investment in infrastructure and public services, which were aimed at increasing domestic demand and thereby sustain economic growth.

One of the key contributors in China's sustained high economic growth and increased competitiveness in manufacturing has been the massive development in physical infrastructure. China has made large investments in physical infrastructure including highways, railways, ports, airports, electricity and telecommunications. In light of the long term strategy of expanding international trade, the establishment and expansion of coastal ports has been a priority in China in order to support exports growth and facilitate more efficient movement of resources and products along the coast. China has three among the top five busiest ports in the world.

Incentives to Foreign Invested Enterprises (FIEs)

China has provided a favourable climate for FIEs in the form of flexible policies, reduced tax structure and other incentives. Consequently, several FIEs (especially from Hong Kong and Taiwan) have invested in the leather industry and currently account for majority share in the export of leather products. Various incentives that have been provided to FIEs in China are as below:

<u>Taxation</u>

a) Two years tax exemption for FIEs from the date they make profit and 50% tax for the next 3 years.

b) Lower taxes in the Export Processing Zones; corporate tax was only 15% in EPZs while tax rate at other places was 55% for domestic firms and 40% for FIEs.

c) Additional 10% tax exemption is provided for firms which export more than 70% of its products

d) Export tax refund of 15~17% for leather products till 2004 and 13% till 30-June-2007

<u>Subsidies</u>

a) Direct financial subsidies for Research and Development (R&D) expenditure on specified Science and Technology (S&T) projects b) Provision of free or highly subsidized land; the land was sold at a cost less than the development cost and in most local government controlled areas it was close to zero. c) Subsidies for electricity and other utilities **Infrastructure** a) Supporting the factory sites with physical infrastructure by building of roads, ports and provision of other infrastructure like telecommunications, water, electricity **Business facilitation measures** a) Delegation to local authorities the power to approve foreign investment b) One - stop shopping centre for getting all approvals within a few days for foreign investment into China

Source: Deloitte

The leather industry has also been a beneficiary of these reforms. Market liberalisation and entry into WTO has enabled lowering of import tariffs, which enabled Chinese footwear and leather goods manufacturers to import raw materials, chemicals and machinery at lower costs and improved the quality of their products, making them competitive in the international markets.

The major international leather markets like Europe, USA have strict import standards, which often act as trade barriers for leather exporting countries. In order to overcome such technical barriers to trade, the China Leather Industry Association (CLIA) has developed and registered a certification trademark, 'Genuine leather mark', which is internationally accepted.

Most investments in the leather industry in China have taken place in five major clusters, viz. Zhejiang, Fujian, Guangdong, Sichuan and Chongqing. The cluster based approach has allowed Chinese companies to produce and deliver large volumes of footwear per order in most cost efficient manner. When a bulk export order is received, there is a distribution of orders among eligible manufacturers within the cluster. The close geographical location of similar manufacturers in the cluster enables efficient handling of production and delivery, sharing of investment cost of building facilities and other infrastructure like Common Effluent Treatment Plants, and reduction in shipping costs between suppliers and manufacturers. Thus cluster based approach has played an important role in building the competitiveness of Chinese leather footwear and leather goods manufacturers. Both central and local governments also provide support to the industrial clusters to build a favourable environment for improving competitiveness of industries in these clusters; some such measures are illustrated below.

Focus area	Key features
Planning and Guidance	The government has guided the development of industrial clusters in different regions in a coordinated and efficient manner to avoid over-competition and duplicate investment
Better utilisation of resources	Monitors and ensures that all resources such as land, water and energy are utilised in most efficient and environment friendly way.
Nurture leading enterprises and enhance specialization	The government has sought to nurture a number of leading enterprises as well as enterprises

	supporting the leading enterprises.
Innovation	The government has encouraged application of information technology for enterprises to move up the value chain; co-operation between enterprises and R&D institutions is also encouraged
Brand building	The government encourages industry associations to register patents for the brand names of enterprises and their products.
Efforts by local governments	Local governments have launched various plans, guidelines and measures to expedite development of industrial clusters in their jurisdiction; for example measures focused on providing platform for public services, establishing brands for industrial clusters and building industrial parks.

Source: Li & Fung

During the period of global financial crisis, the leather industry too faced decline in exports growth. The government implemented a package plan to deal with international financial crisis, which mainly consisted of investment incentive programs of 4 trillion yuan, and adjustment plans for revitalization of the 10 industries including light industry (covering shoes, leather goods industry). Later, other measures were also proposed to ease financing difficulties among small and medium sized enterprises, to increase fiscal and taxation support for them, and to speed up technological progress and structural adjustment to promote their development. Specific policies for leather industry are as follows:

--- "*New Requirements with Regard to Imports of Raw Hides and Semi-Finished Leather for Processing Trade*" (issued and implemented by the Ministry of Commerce, the Environmental Protection Department, and General Administration of Customs, [2009] No. 8, March 2, 2009.)

--- "*Notice with Regard to Further Raise of Export Tax Rebate Rate of Some Goods*" (issued and implemented on June 3, 2009, Fiscal and Taxation [2009] No. 88.)

Pakistan

The Leather industry in Pakistan occupies a prominent place in the country's economy, especially exports. The industry's exports have increased multifold over the last few decades and export composition has shifted in favour of value added products like leather apparel and footwear as against raw hides and skins and semi processed leather until 1970s. The growth and development of Pakistan's leather industry may be attributed to the industrial, trade policies and measures of the government, that have been introduced over the last decade.

Since 2000, Pakistan has undertaken structural reforms aimed at deregulation of various sectors, greater liberalisation, strengthening institutions, improving competitiveness, building a robust financial sector, taxation reforms and improving physical and human infrastructure. Pakistan's Industrial policy is based on accelerated industrialization, aimed at raising manufacturing's share of GDP to 30% by 2030 (from 19.1% in 2006/07), and diversification away from textiles and clothing.
Liberalization has helped in attracting foreign direct investment in various sectors. Almost all sectors of economy have been opened up with a level playing field for both domestic and foreign investors. Thus,

foreign investors can have full ownership in most of the sectors. The investment incentives, include liberal tariff and tax concessions (e.g. income tax holidays), which are the same for foreign and domestic investors. Additionally, firms in Export Processing Zones (EPZs) receive tax benefits like income tax holidays, indefinite carry forward of losses, duty-free imports, and no import restrictions. However, firms in EPZs are required to export 80% of their output. As regards sales tax, the reforms entail a single uniform rate of 15%, replacing different rates of 15%, 18%, 20% and 23% prevailing during 2001-2003. Leather enjoys exemption from sales tax, thereby rendering the leather products cost competitive in the international markets.

Pakistan is also a beneficiary of preferential trade with several countries as a part of its bilateral and multilateral arrangements with other countries. For instance, Pakistan has benefited from EC's Generalized System of Preferences (GSP) scheme, including the special arrangements to combat drug production and trafficking during 2002-05, involving duty-free access for all industrial items. However, duty-free exports have excluded leather and leather products. Nevertheless, Pakistan has signed FTAs with China, Sri Lanka as well as other countries, which has enabled duty free or concessional duties access for various products including leather products to these markets.

Export measures

The Pakistan government announced Rapid Export Growth Strategy (REGS), in July 2005 that focused on raising exports of key industrial products like Leather goods to US$ 1 billion within three years. The government has set up Trade Development Authority of Pakistan (erstwhile Export Promotion Bureau (EPB), with a focus on global trade development. TDAP's main role is market promotion, e.g. trade delegations, research and trade exhibitions, and facilitating exporters' activities. It also undertakes various sector development projects and implements trade policy initiatives of the government.

Exports are accorded a high priority under the Government's Rapid Export Growth Strategy, and receive substantial financial assistance. Direct export assistance is financed through the Export Development Fund (EDF), which the authorities indicate is fully funded from the Export Development Surcharge charged to exporters at 0.25% of the f.o.b. value of shipments.

Exporters are also assisted via general schemes such as freight subsidy, concessionary finance, tariff concessions on raw materials, intermediate inputs and equipment used in manufacturing products for export, tariff refunds, duty drawback scheme and duty and tax remission for exports (DTRE) scheme. Sector specific schemes have also been introduced such as R&D subsidy and freight subsidy for leather garments and footwear. Leather also enjoys zero-rating of exports since 2004-05.

To ensure an adequate domestic supply of raw hides and skins to the leather goods and apparel industry, the government has introduced several restrictions on exports of raw materials. For instance, (a) regulatory duties of 20% are applied on hides and skins; and (b) raw hides, skins and leather are not eligible for freight subsidy exemption.

Trade policy

The Government of Pakistan has announced a number of policy measures to be introduced under its 3 year strategic trade policy framework from 2009-12. Trade Policy 2009-12 aims to set the country on the path of sustainable high economic growth through exports. The trade policy provides for launching of comprehensive Leather and leather products export plan with a view to achieve diversification of its exports.

Some of the salient features of this policy relevant for the leather sector are illustrated in the table below.

Focus Area	Key features
General Measures	
Short term finance	Businesses need short to medium term certainty in the interest rate for investment. Currently, there is no policy instrument provided by the government or private sector for providing finance at fixed interest rates for a short to medium term. It has been decided to create a Fund to hedge mark-up rate hikes.
Electricity	In order to ensure predictability of electricity supply it has been decided that Ministry of Water and Power would work with the Electricity Distribution Companies, to enter into agreements with clusters of industries whereby electricity is supplied at mutually agreed times. The agreements would have punitive and compensation clauses; and the compensation could be in the form of electricity charges credit.
Freight cost	Extra cost on inland transportation erodes export competitiveness of a range of developmental products. It has been decided that a scheme may be launched to compensate inland freight cost to exporters of cement, light engineering, leather garments, furniture, soda ash, hydrogen peroxide, sanitary wares including tiles, finished marble/ granite/ onyx products.
Research and development	All final use products do require continuous research and development for enhancing competitiveness either by technology up-gradation, skill development or by improved management systems. A fund dedicated to support these activities named Technology, Skill and Management Up-gradation Fund of Rs 3 billion is being established.
Leather specific measures The government will set up an Export Investment Fund for the leather and leather product sector, which would enable the sector firms to avail various facilities, as provided below.	
Leather apparel	• Procurement of expert advisory services to leather apparel manufacturers cum exporters. • Matching grant to establish design studios or design centres in the factories. • Establishment of Research & Development Centres in Karachi and Sialkot by Pakistan Leather Garments Manufacturers and Exporters Associations for providing Research & Development support to Leather Garments & Leather Goods Exporters.
Finished Leather	• Sharing 25% financial cost of setting up labs in the individual tanneries. • To provide matching grant for setting up of effluent treatment plants in individual tanneries.

Raw Hides and Skin	• Export Investment Support Fund may be used for providing matching grants to district governments for installing flaying machines.

Environment related measures

Environmental challenges are faced by the leather industry all over the world. Wastewater, solid waste and air emissions are the main wastes produced during the tanning process. The leather industry of Pakistan has implemented many progressive interventions and technologies in the past to deal with its numerous environmental and energy challenges. The representative association of leather industry i.e. Pakistan Tanners Association (PTA) has long been facilitating a number of initiatives to address the environmental issues of the industry. This has resulted into a more competitive, sustainable and progressive leather industry of Pakistan.

Environmental policy framework in Pakistan includes development of National Conservation Strategy (NCS), National Environmental Action Plan, National Environmental Policy and regulatory instruments like Pakistan Environmental Protection Act (PEPA) of 1997, Environmental Impact Assessment (EIA) procedures etc. National Environmental Quality Standards (NEQS) were first developed in 1993 and later revised in year 2000 that are currently being implemented. At the same time for the last fifteen years several CP initiatives have been implemented in Pakistan. Several CP initiatives have been implemented in Pakistan during the last fifteen years that includes:

- Cleaner Technology Program for Korangi Tanneries (CTP-KT);
- Technology Transfer for Sustainable Industry Development (TTSID);
- Environmental Technology Program for Industry (ETPI);
- Introduction of Cleaner Technologies in Punjab Tanneries (ICT-PT);
- Energy Conservation Program for Tanneries (ECPT);
- Establishment of Cleaner Production Institute (CPI) Lahore;
- Cleaner Production Program for Industries (CPPI);
- Program for Industrial Sustainable Development (PISD).

Skill development measures

Pakistan government has set up several institutes that impart technical education with respect to leather products manufacturing. **Leather Products Development Institute (LDPI)** was established in Sialkot in 2001, to provide technical training in Leather Glove Manufacturing and Leather Garments Manufacturing Technology. Many SMEs have also availed facility of Pattern making, Stitching, Embroidery and consultancy from LPDI. **Apprentices Training Centre (ATC)**, under Technical Education and Vocational Training Authority (TEVTA), also runs two Leather related courses. **Vocational Training institute**, under Punjab Vocational Training Council, provides training to shop floor level workers in stitching and pattern making. SMEDA had installed latest CAD for garments pattern making at this institute. SMEs were also getting facility of pattern making and consultancy about production.

Vietnam

Vietnam is one of the largest footwear producers and exporters in the world. Vietnam's leather and footwear industry is one of the key contributors to the economic growth, exports and employment generation in the country.

Vietnam's 'doimoi' reforms of 1986 led to restructuring of SOEs and paved way for development of the private sector, which has actively contributed towards economic growth and employment generation. The reforms helped in accelerating Vietnamese economic growth, which averaged almost 8percent per year during the period 1990-95. Vietnam was soon recognised as one of the most promising markets and investment locations in East Asia.

Prior to the opening of the Vietnamese economy in the early 1990s, the footwear industry was concentrated mainly in low end activity that involved sewing only the upper parts of products to be exported to the Soviet Union. The *"DoiMoi"* reform policy encouraged the formation of joint ventures with foreign partners, which led to relocation of many factories from countries like Taiwan to Vietnam. Soon, the Vietnamese footwear industry registered a sharp growth bringing the export value to unprecedented heights. The number of foreign-owned enterprises has significantly increased over the last two decades; from around 50 foreign-owned enterprises in 1997 to around 235 in 2008.

Since the initiation of reforms in 1990s, the government has actively supported the industry by way of introducing policies that stimulate production, accelerate investments and encourage exports. The government devised a Master plan on the development of Vietnam's Leather and Footwear industry by 2010. The salient features of this plan have been elaborated in the table below.

Vietnam's leather industry is highly dependent on the outside world for raw materials and semi-finished products (tanned leather, heels, accessories, chemicals, glues, etc.), which puts it at a disadvantage in relation to countries like China in terms of production costs. Consequently, the Vietnamese government has given a priority to development of raw materials and accessories for the industry.

On the export front, Vietnam has enjoyed market access advantage to the Europe and USA on account of various bilateral trade agreements (BTA) signed between Vietnam and these countries. For instance, post the signing of BTA with USA, Vietnamese footwear exports were imported into USA at 3 per cent tax, as opposed to 40 per cent before the implementation of the BTA. In the past, Vietnam's footwear exports have enjoyed tariff concessions to the EU under the GSP scheme until 2008, after which the GSP benefits on the products were lifted. The tariff advantage enjoyed by Vietnam's leather and footwear industry has been one of the key reasons for building the export competitiveness of its players.

Master Plan on the Development of Vietnam's Leather & Footwear Industry by 2010

Investment-related resolution:

- A list of investment projects will be prepared in a bid to call for investors at home and abroad, encouraging the involvement of domestic and foreign economic sectors in investing in the leather and footwear industry, with priority being given to the development of raw materials and accessories for the industry.
- New investment will be made in leather manufacturing plants with advanced technologies, while in-depth investment will go to existing leather tanneries in order to modernize and improve the quality of leather made by footwear manufacturers.
- To enter into a joint venture and association with other enterprises in investing in the production of leatherette raw materials and accessories to cater to the industry, gradually reducing imports.
- To encourage investment by all economic sectors in the production of shoes, slippers, handbags and suitcases for domestic use and exports.
- Relevant manufacturers shall be moved to localities in order to lessen labour pressure as well as to help generate additional employments and change local labour structures.
- Footwear industrial parks will be built, encompassing good infrastructure conditions and environmental treatment facilities, in a bid to draw and facilitate investment in the footwear industry.

Resolution for raw materials and accessories provision:

- Concentration shall be made on investment in the development of auxiliary industry in order to improve the capacity to provide raw materials, semi-products, accessories as domestic feedstock for production, promoting interdisciplinary supplementary links among industries, taking the initiative in providing inputs to minimize external influences and production cost, and raise the value added to exportable products.
- As well as the building of raw materials and accessories mills, relevant entrecotes should be set up in order to improve the provision of raw materials for businesses and in response to increasing demand of exportable footwear manufacturing.

Resolution for human resource organization, management and development:

- To intensify coordination and production allocation throughout the sector along the direction of specialization and cooperation.
- To look into and undertake the application of advanced management modes, cutting down managerial staff and uplifting efficiency in business management.
- To hold regular refresher courses in professional knowledge and skills; to recruit staff doing legislative work and familiar with Vietnam's and international laws in order to ensure production and trading activities in conformity with current laws. Priority shall be given to training shoe designers and proficient marketing and import-export staff for businesses. This will be the major force which helps enterprises convert relevant sustainable modes of production.
- Attention will be paid to building up a competent worker contingent that is capable of acquiring latest technology, dynamic and creative.
- To further strengthen and improve the quality of secondary technical education and college education courses in footwear.
- To deliver training and retraining instructors in a bid to meet the training needs of the sector. For post-university education, to conduct formal training in universities at home and abroad.

Italy

Europe is the largest market for leather goods and Italy is the world's leading producer and exporter of leather goods, both in terms of quantity and high end fashion products. It accounts for nearly half of total EU's production of leather goods. Leather and footwear industry in Italy is largely SME oriented and one of the best examples of successful cluster operations. The leather production in Italy is concentrated in four areas (Lombardy, Toscana, Venice and Campagna), with each area specializing in its field of production (tannery, footwear, leather handicrafts, etc.).

The Italian model of industrialization has been determined by the combination of the evolution of the competitive environment, spontaneous adjustment mechanisms of local SMEs, and related policies at national and local levels. Industrial clusters have been a strategic feature of the Italian industrial system and are the backbone of 'Made in Italy' products. Over the years, there has been a progressive and marked growth in the number of clusters, supported by national and regional legislation. Such clusters that have been able to perform well in the global markets include products like shoes, leather handbags, knitwear, furniture, tiles, musical instruments, and food processing. SME clusters in Italy witnessed high growth in production and exports during the 1970s and 1980s, a time when large enterprises in Britain and Germany were in decline.

The success of SMEs in Italy can be partly attributed to the benefits derived from government legislations, especially from the Sabatini Law of 1965, which became a common instrument in the hands of Italian enterprises. In the thirty years of its existence more than 200,000 subsidies have been granted which have led to approximately 40,000 billion lire in investments. This law allows the acquisition of machine tools by SMEs by subsidizing interest rates, and allowing the buyer to pay in instalments. The law was later modified at the request of the European Union. Details of this law are provided in the box below.

Law 1329, 1965 (Sabatini Law)

How it works: The Sabatini Law is applied to the seller who offers an extended payment plan for a maximum of 5 years at a low interest rate; the seller presents the bills of exchange to an authorized *Mediocredito*banking institute and receives the entire amount. The bank then asks *MediocreditoCentrale*for a contribution to cover the difference between the amount received at lower interest and the amount the bank would have received at current market interest rates.

Eligible investments: The purchase or lease of new machine tools.

Beneficiaries: SMEs that correspond to Community parameters.

Amount: Not more than 3 billion lire. This amount refers to the capital plus the interest on the extended payments. For each local unit, per year, the maximum of investment is 4.5 billion lire.

Eligible operations: Discounting bills of exchange in connection to acquisition or leasing through extended payments for a maximum of 5 years, minimum of 12 months, through a bank licensed by *MediocreditoCentrale*. Capital purchased used as collateral.

Low-cost interest rates: Interest rates are 8 percentage points lower than market interest rates for local production units located in Objective 1 areas and 5 percentage points less than market interest rates for eligible production units located elsewhere.

Types of incentives: Interest account paid to bank to cover the difference between net amount received at low-interest and amount calculated according to market rates.

Procedure: Applications are sent to *MediocreditoCentrale*by a member bank.

Another legal instrument aimed at SME's development and promotion of innovation is the Law 317, 1991. The objective of the law is "to promote development, innovation and competitiveness of small firms", intervening not only by supporting firm investment, but also through the creation of those conditions necessary to the creation of an external environment favourable to competitive growth. Due to the policy focus towards innovation, the SME firms in Italy are encouraged to garner opportunities for innovation and becoming competitive, especially in terms of quality production.

Since the early 1950s, various consortia have been founded by SME firms in Italy, with the purpose of supporting small firms in areas where they are traditionally weak, such as finance or export. These consortia also receive government support at both national and local levels. Public support for consortia in Italy is now supplied both by national and local governments. Local governments are now among consortia's main interlocutors, providing major financial support for specific interventions. Law 317 also puts emphasis on the active participation of local institutions in consortia in roles of responsibility and being the vehicles of economic development.

Besides these laws, the EU, the national Government and local institutions provide foreign investors, Small and Medium Sized Enterprises (SMEs) and start-up companies with several financial support measures and incentives. Details of various incentives are provided later in the Chapter on Capital goods sector.

The Italian government has also focused on a strong education system to support its industries. In case of tannery and leather processing, Italy has an organized educational system. There are Technical Institutes in the four areas where the industry is more active and one University School at the University of Pisa.

France

France remains one of the largest and most competitive economies in the world, accounting for roughly 5 percent of global production. It is the third largest economy in Europe and the sixth largest economy in the world. France is the second largest EU producer of leather goods and is renowned for good design and an ability to set trends in the production of leather goods.

France has a large and diverse industrial base, with presence of both large corporations and many SMEs. Economic growth rates in France have been steady for decades, in part due to the conservative planning of the economy which is centralized by the government. The French government has traditionally practised interventionist supply-side policies. During the *TrenteGlorieuses* (the 'Thirty Glorious Years' of uninterrupted post war economic expansion), modernisation strategies relied upon major industrial projects (nuclear energy, transport infrastructures, defence and space technologies, high-speed trains etc.) initiated by the government. France's growth during the "thirty glorious years" was partly based on the successful adoption of American innovations, particularly with regard to organization in sectors where mass production allowed huge productivity gains. The *TrenteGlorieuses*came to an end with the first oil price shock that hard hit the French economy, following which France witnessed a slowdown in growth between 1973 and 1982. The 1970s were thus characterized by a drop in productivity and a slowdown in the pace of investments. The French government initiated privatisation programme during 1986-1988. However, since the mid-1980s, there were no specific economic planning and sectoral policies as the unification of European markets was fast approaching. The unified European Market project and

European Monetary Union accentuated the shift towards an economic policy concentrating mainly on the general economic framework, macroeconomic stability, and regulation.

The adverse economic conditions before the mid-1990s led to a stagnated demand for leather goods in the EU, which has been the largest market for leather goods. In the second half of the 1990s however, a healthier economy resulted in rising per capita income in the EU and thus stimulated consumer spending in most countries on non-essential items including leather items. Along with favourable demand factors, the economic conditions such as low interest rates also promoted the growth of the industry.

France has a high R&D intensity with respect to its industrial structure and a particularly good performance in labour-intensive industries, such as leather goods. Electricity prices, including for medium-sized enterprises, are also relatively low and energy dependency remains below the EU average. France is one of the countries in the world that invests the most in its education system (6% of GDP spent on education).

France's healthy investment climate makes it one of the most attractive destinations in the world for multinationals. It is also one of the leading nations in outward FDI. FDI outflows have helped boost the competitiveness and earnings of French multinationals. FDI inflows have helped create jobs and boost the incomes of French workers.

Since 2008, France has undertaken several initiatives to improve the regulatory environment. The statute of 'auto-entrepreneurs', introduce in 2008 by the Law on the Modernisation of Economy (LME), is successfully contributing to promote entrepreneurial spirit in France. This statute allows a self-employed person to start a business with no formalities and no capital.

Since 2008, public incentives to business expenditures have been increased and focused on a few key instruments, namely the Research Tax Credit (*CIR*), the 'innovative start-up scheme' (*JeuneEntrepriseInnovante*), funding by the Innovation Agency (*OSEO*) and support to 'Competitiveness clusters' (*Pôles de Compétitivité*). Numerous projects financed by the new 'Investments for the Future' programme also promote business R&D activities. The 'Investments for the Future' programme aims at promoting both a knowledge economy and industrial competitiveness, and put the emphasis on the excellence of the science base, public-private cooperation and knowledge transfer. The programme amounts to EUR 35 billion, out of which 13% are dedicated to the digital economy, 13% to sustainable industry, 6% to SME and industrial competitiveness, and more than 60% to education, research and innovation