

Czech Republic

**France**

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Spain

United Kingdom

# Cutting Europe's lifelines to coal

## Tracking subsidies in 10 countries

Leah Worrall and Laurie van der Burg

## France



### Key findings

#### Transparency – subsidy reporting

**Rating: poor**

- The French government does not publish an overview of the country's coal subsidies, and the country has not yet committed to fossil fuel subsidy peer review under the G20 process.

#### Coal mining – subsidy phase out

**Rating: not applicable**

- There are no operating coal mines or private coal companies in France.

#### Coal fired power – subsidy phase out

**Rating: very poor**

- Despite France's plans to phase out coal power by 2023, the government is introducing a capacity mechanism in which coal plant operators are eligible to receive payments for being able to respond to periods of peak demand.

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## 1. Trends in the production and use of coal in France

France has a strong reliance on nuclear energy, while coal plays a very limited role in the country's energy mix. There are no operating coal mines or private coal companies in France (Kitson, 2015). The last coal mines in France shut down in the 1980s, due to no longer being profitable. In 2014, coal accounted for a mere 2% of electricity production, down from 5% in 2004, while nuclear energy accounted for 78%, followed by hydroelectric power, which accounted for 11% (WDI, 2016). The decrease in coal-fired power generation is the result of the closure of old coal plants: there were seven unit closures in 2015 driven by European Union (EU) legislation on air pollution limits, resulting in the stranding of coal assets (Littlecott, 2015). Following the shut-down of significant coal capacity in the 2013 to 2015 period, just five of France's coal power units remained online (Réseau de transport d'électricité (RTE France), 2015; Littlecott, 2015), while it has introduced policies to progressively replace coal power stations with those that are gas-fired.

Corresponding with its small share in electricity generation, coal accounts for only a small fraction of France's total emissions. In 2015, greenhouse gas emissions from coal-fired power were 2% of France's total emissions, or 11 million tonnes of carbon dioxide equivalent (Sandbag, 2016). France saw a significant (40%) decline in electricity sector emissions between 2013 and 2014. This was primarily due to a 40% decline in output from thermal power plants (including oil, gas and coal) because of lower electricity consumption linked to weather conditions, alongside an increase in renewable resources feeding into the electricity grid (RTE France, 2015).

Despite a declining emissions trend and a small role for coal in France's electricity mix, the social and environmental costs of coal-fired power in France remain high, in part because it is heavily impacted by coal plants in neighbouring countries, including Germany, the United Kingdom, Poland and Spain (Jones et al., 2015). The pollution costs were estimated to range between €0.6 to 1.1 billion in 2015. Although coal-fired power production has declined since 2013, coal plants caused an estimated 390 premature deaths that year, out of a total of 48000 premature deaths linked to air pollution (Schaible et al., 2016).

France has adopted an objective to reduce fossil fuel use by 30% by 2030 compared to the 2012 level. A complete phasing out of coal-fired power would provide a clear first step towards meeting this challenge. The French Secretary of State has advocated that the remaining coal-fired power stations should be closed down by 2023 (de Tannenberg, 2016), with president Francois Hollande announcing this shut-down at the UN climate change summit in Marrakesh in November 2016 (England, 2016). This wider coal phase-out is elaborated within the drafted French multi-annual energy policy for the 2016 to 2023 period and

should be taken forward by the new government following the 2017 election. However, in 2005, E.On proceeded with the upgrade of two coal-fired power plants and stated that it plans to operate these until 2025, beyond the 2023 deadline. More recently, EDF announced the intended upgrade of two plants (Cordemais and Le Havre) and plans to keep these running until 2035 (Littlecott, 2015).

Prior to signalling a coal-fired power phase-out by 2023, the French Government proposed a carbon price floor of €30/tCO<sub>2</sub> in 2016, with a plan for this to be introduced in the 2017 budget. This ambition was subsequently scaled back to apply to just the four-remaining coal-fired power stations – and even this was eventually scrapped by the government in the light of opposition from the industry (de Tannenberg, 2016).

## 2. Status of subsidies to coal and coal-fired power in France

As a part of the G20, France has repeated its commitment to phasing out fossil fuel subsidies every year since 2009. In 2016, as a continuing EU member and therefore part of the G7, the country called on all nations to end fossil fuel subsidies by 2025. The European Commission has furthermore repeatedly called on EU Member States to end environmentally harmful subsidies, including those to fossil fuels, by 2020.

In the past, the French government has subsidised coal mining through capital grants to Charbonnages de France (Cdf), the state-owned mining company (to cover insufficient equity), as well as payments to cover interest on its coal mining debts (see list of subsidies below). Since the closure of the coal mines in the 1980s, most of the remaining subsidies have been allocated to retirement schemes for workers and to environmental rehabilitation.

While there are no operating coal mines in France today and domestic coal-fired power production is low, a capacity mechanism was introduced on 1 January 2017, following its clearance by the European Commission in November 2016 (see van der Burg and Whitley, 2016, for more details on the European Commission state-aid review process) (Opera Energie, 2017). The stated aim of France's capacity mechanism is to ensure security of supply and increase the flexibility of the electricity grid through 'capacity payments' to energy producers for their ability to respond to periods of peak demand on the grid (European Commission, 2016). Five old coal-fired power plants are eligible to receive payments under the capacity mechanism, despite government plans to phase out coal-fired power by 2023.

When it comes to the taxation of coal-based energy use, there have been some steps in the right direction. Before 2007, the consumption of coal, lignite and coking coal was left untaxed in France, but France introduced a tax rate of €1.19/MWh in 2007, which was progressively increased to €9.99/MWh in 2017. However, as in most European

countries, industries that use a lot of energy also benefit from a reduced tax rate and some exemptions still apply for the use of coal for purposes other than combustion and also for the use of coal in electricity production. In 2014, some of the exemptions for household energy consumption were removed (IEA, 2016).

While not the focus of this brief, the French government subsidised coal production internationally in addition to domestic support until 2015. It did this through public guarantees provided by the French export agency, Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), which was estimated at €1.2 billion in total support between 2011 and 2014 (Barbière, 2015a). This resulted in France becoming the fifth largest subsidiser of coal energy projects abroad within the Organisation for Economic Co-operation and Development (OECD) in the 2007 to 2013 period (Barbière, 2015a). The French government has also supported the financing of coal-fired power generation and coal mining activities in developing countries through multilateral development – equivalent to €50 million in 2014 (ODI, 2015).

More recently, the French Government has shown leadership in scaling back international financing for overseas coal production. In October 2015, the French Minister of Energy and Environment, Segolene Royale, announced that ENGIE, a private sector company with 33% government ownership, would withdraw from its international investments in coal (Kitson, 2015). The French Development Agency (Agence Française de Développement) formally withdrew from funding coal-fired power plants in developing countries as of July 2014, following the introduction of the framework law on international development and solidarity (Kitson, 2015). Subsequently, the former French Prime Minister, Manuel Valls, announced that COFACE, the France Export Credit Agency, would also adopt the policy with immediate effect (Kitson, 2015).

### 3. France's coal subsidy measures explained

#### Annual average coal subsidies (see table): €2 million

The breakdown below provides a chronological overview of France's historic, continuing and new coal subsidies. The historic subsidies are not included in the annual average estimate of coal subsidies as these have been phased out.

- **Interest payments on past debt of Charbonnages de France (Cdf) (historic: 1997 to 2007):** These were provided to Cdf (a French state-owned enterprise created following the nationalisation of private mining companies) by Cour des Comptes (the supreme body for auditing the

spending of public finances in France). They annually covered the interest payments on coal mining debts in 1997 to 1999 and ended with Cdf's liquidation in 2007. A total of €64 million is estimated to have been provided between 2006 and 2007 (OECD, 2015). This support measure is not included in the annual estimate as it was phased out in 2007.

- **Capital contribution to Charbonnages de France (Cdf) (Historic: 1997 to 2007):** Like the measure described above, these subsidies were provided by Cour des Comptes. Following the termination of direct State aid to Cdf in 1997, annual capital grants were provided to the state-owned mining company to cover insufficient equity. Annual payments were made until Cdf's liquidation in 2007. A total of €2.9 billion is estimated to have been provided between 2006 and 2007 (OECD, 2015). This support measure is not included in the annual estimate, as it was phased out in 2007.
- **Excise-tax exemption for use of coal in drying biomass (continuing: 2004 onward)** This measure exempts certain producers of biomass (such as producers of alfalfa) from paying the regular excise tax on coal products. The coal products are used for dehydrating biomass. Eligible biomass producers are those for whom energy purchases represent at least 3% of their annual revenues. This measure is entirely allocated to bituminous coal. A total of €18 million is estimated to have been provided between 2004 and 2015 (OECD, 2015).
- **Energy tax exemptions (continuing: 2007 onward):** Before 2007, the consumption of coal, lignite and coking coal was untaxed in France. However, France introduced a tax rate of €1.19/MWh in 2007, which was progressively increased to €9.99/MWh in 2017. Like in most European countries, industries in France that use a lot of energy benefit from a reduced tax rate and some exemptions still apply for the use of coal for purposes other than combustion and for the use of coal in electricity production. In 2014, some of the exemptions for household energy consumption were removed. It was not possible to quantify this subsidy to coal in France (IEA, 2016).
- **Capacity mechanism (New: 2017 onward):** In most federal states, a fee must be paid to extract ground water. Lignite mining uses large amounts of this, especially for the clearance of the lignite. Lignite mining companies in most federal states are exempted from paying this water extraction fee. This exclusion is an indirect subsidy to the mining industry (OECD, 2015).
- **Research and development budget for coal (continuing):** Despite announced plans to phase out coal-fired power, France continues to allocate some of its RD&D budget to coal. Between 2011 and 2013 an annual average of about €0.2 million went to coal RD&D.

## 4. Opportunities to phase out coal subsidies in France

The French Government has shown leadership within the global arena in its scaling back of international financing for overseas coal production, and has only a few steps left to take before it can be considered coal subsidy free. These commitments should be complemented by concerted efforts to phase out coal subsidies through the adoption of timelines for gradually eliminating remaining government

support, including through the capacity mechanism and the excise tax exemption for coal use by biomass producers. Despite the plans to phase out coal power by 2023, the government is introducing a capacity mechanism that will make coal plant operators eligible to receive payments for responding to periods of peak demand. To prevent operators from keeping coal-fired power stations open to benefit from these subsidies, the French government should exclude coal from participating in the capacity market.

**Table 1. Existing and new measures that support coal**

Measure	Subsidy type	Subsidy category	Fuel	Annual average (€ millions)	Year(s) for which estimate calculated	Source
Excise tax exemption for biomass producers	Tax expenditure	Industry	Other bituminous coal	2.3	2007-2014	OECD (2015)
Energy tax exemptions	Tax expenditure	Coal-fired power (other)	Coal	Not available	Not applicable	Sainteny (2017)
Capacity reserve payments (new)	Budgetary support	Capacity mechanism	Coal	Not available	Not applicable	European Commission (2016)
R&D budget for coal	Budgetary support	Research and Development	Coal	0.2	2011-2013	IEA(2016)

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This country study is a background paper for the policy brief *Cutting Europe's lifelines to coal: tracking subsidies in 10 countries*.

For the purpose of this country study, subsidies to coal include: direct spending, tax expenditure and other support mechanisms (e.g. capacity mechanisms). Where information is available, estimates for all of these categories are included in the national subsidy total for each country and in the Country Studies. The policy brief provides a more detailed discussion of the methodology used for the country studies. The authors welcome feedback on both this country study and the policy brief to improve the accuracy and transparency of information on coal subsidies.

A data spreadsheet summarising coal subsidies data for the 10 European countries reviewed is available at [odi.org/coal-subsidies-Europe..](http://odi.org/coal-subsidies-Europe..)

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