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Country Study

Fossil fuel exploration subsidies: France

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This country study is a background paper to the report **The fossil fuel bailout: G20 subsidies for oil, gas and coal** by Oil Change International (OCI) and the Overseas Development Institute (ODI).

For the purpose of this report, exploration subsidies include: national subsidies (direct spending and tax expenditures), investment by state-owned enterprises and public finance. The full report provides a detailed discussion of technical and transparency issues in identifying exploration subsidies, and outlines the methodology used in this desk-based study.

The authors would welcome feedback on the full report and on this country study, to improve the accuracy and transparency of information on G20 government support to fossil-fuel exploration.

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Background

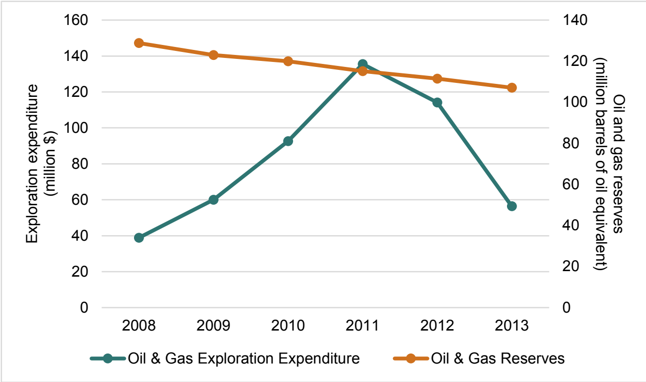
France has very limited domestic fossil-fuel resources and relies on nuclear energy for most of its electricity. Total oil and gas exploration expenditure in France varies by year but is consistently small (Figure 1) (Rystad Energy, 2014). In July 2014, French Minister of Foreign Affairs Laurent Fabius renewed the call for an end to fossil-fuel subsidies in general, including in France, and for both public and private financial institutions to invest in renewable energy rather than fossil-fuels in order to meet the global 2-degree climate goal (Le Figaro, 2014).

Furthermore, while shale-gas activity is beginning to grow in other parts of Europe, France has a moratorium on hydraulic fracturing (fracking), although some worry that this provisional ban could be lifted. The French Institute of Petroleum (discussed below) is actively involved in evaluating shale-gas resources across Europe.

National subsidies

With negligible conventional fossil-fuel resources and as one of the few countries with strong restrictions on the extraction of unconventional oil and gas, France has only limited national subsidies for exploration and has made progress on phasing them out (Table 1). However, France continues to provide about $42 million in annual national subsidies, mostly through the direct funding of oil and gas exploration research.

Figure 1. Oil and gas exploration expenditure and reserves in France



Source: Rystad Energy, 2014

France subsidises oil and gas exploration through the French Institute of Petroleum (IFP), which received $200 million in government funding in 2013 (Sénat, 2013). While IFP engages in research on a range of topics from biofuels to carbon sequestration, one of the Institute's five strategic priorities is the expansion of fossil-fuel reserves through exploration (IFP, 2014a). IFP has developed a range of exploration software programmes to quantify petroleum resources, including through 3D seismic imaging. IFP also has numerous joint exploration projects with industry, including several to identify shale-gas

Table 1. France's national subsidies

Subsidy	Subsidy type	Targeted fossil-fuels	Estimated annual amount (million $)	Timeframe for subsidy-value estimate	Stage
Direct spending					
Exploration research through the French Institute of Petroleum (IFP) (Sénat, 2013)	Direct spending	Oil and gas	$40*	2013	Exploration
Tax expenditure					
Partial tax deduction for exploration costs: allowed oil and gas companies to deduct a percentage of revenue if the amount was reinvested in exploration (phased out in 2010) (OECD, 2013)	Tax deduction	Oil and gas	0	Phased out	Exploration
Value-added tax (VAT) exemption: certain offshore oil and gas drilling equipment was exempted from 19.6% VAT (phased out in 2011) (OECD, 2013)	Tax exemption	Oil and gas	0	Phased out	Exploration
Excise-tax exemption for natural gas producers (OECD, 2013)	Tax exemption	Gas	$2	2011	Extraction (including exploration)
Total annual national subsidies			**$42**		

**Total IFP funding was $200 million in 2013; we assume that one-fifth of this total funding was dedicated to exploration activities, as the expansion of fossil-fuel reserves is one of IFP's five strategic priorities.*

resources across Europe (despite the fracking moratorium within France). Finally, at the request of the Ministry of Economy, Finance and Industry, IFP conducts regional studies to identify petroleum resources in France and its overseas territories (IFP, 2014b).

In 2010, France phased out the subsidy that allowed oil and gas companies to deduct a fixed percentage of their revenue from their income tax base if they reinvested the deducted amount in exploration. In previous years, this subsidy totaled up to $20 million (OECD, 2013). Unlike subsidy phase-out in some other countries that is implemented gradually and can take decades for full elimination, the repeal of this provision came into effect immediately.

Similarly, the 2011 policy to phase out the exemption of offshore drilling equipment from the 19.6% value-added tax (VAT) took effect from the beginning of 2012. The subsidy, in place since 1971, was meant to encourage exploration and development of oil and gas resources in France's continental shelf (OECD, 2013).

The French Government still provides a production subsidy through an exemption from the excise tax on fuel consumption for natural-gas companies, which reduces the costs of gas exploration in France. However, as a result of France's limited natural-gas resources and production, this subsidy is relatively small at $2 million per year (OECD, 2013).

Public finance

Domestic

We did not identify domestic public finance for exploration in France.

International

In 2013, France's export credit agency, Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), provided two loan guarantees to Sercel in Russia totaling $61 million for overseas exploration projects (Table 2) (COFACE, 2014). In 2013, these guarantees were the only exploration financing from COFACE since at least 2010, resulting in an annual average of $15 million of French public financing over the 2010 to 2013 period.

France also contributed an annual average of $52.5 million to fossil-fuel exploration projects from 2010 to 2013 through its shares in the World Bank Group, European Bank for Reconstruction and Development, European Investment Bank and Asian Development Bank, which range from 2.3% to 16.1% depending on the institution (Oil Change International, 2014).[1]

Major companies

Oil and gas

In 2013, oil and gas companies made $850 million in revenue from upstream operations in France. The net income for the French industry totaled $211 million that year, and if companies that had losses are excluded the industry's net income rises to $243 million.

Of the $850 million in revenue, the French Government received $127 million through income-tax payments (and $60 million in royalty payments), resulting in an income-tax share of revenue of 16%.[2] Table 3 displays these figures for the top three oil and gas producers in France in 2013: companies that produced over 1,000 barrels of oil equivalent (BOE) per day.

Only three companies – Vermillion Energy, Total, and Lundin Petroleum – produced more than 1,000 BOE of oil

Table 2. COFACE fossil-fuel exploration guarantees, 2010 to 2013

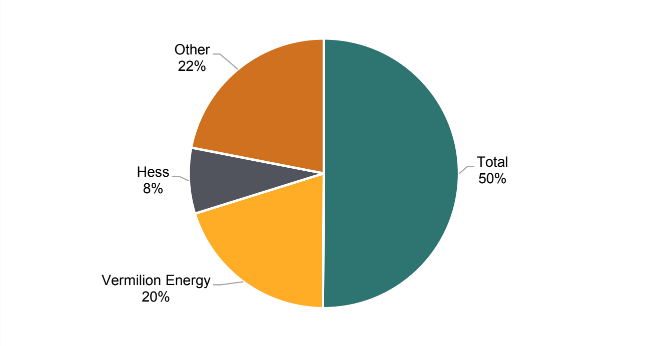
Project	Country	Company	Year	Amount (million $)	Stage
Equipment for petroleum research	Russia	Sercel	2013	$23	Exploration
Equipment for petroleum research	Russia	Sercel	2010	$38	Exploration
Total fossil-fuel exploration financing, 2010 to 2013				$61	Exploration
Average annual fossil-fuel exploration financing				**$15**	**Exploration**

Source: COFACE, 2014

1 Data are based partly on shares of multilateral development banks (MDBs) held by each G20 country sourced from the respective MDB annual reports and replenishment agreements.

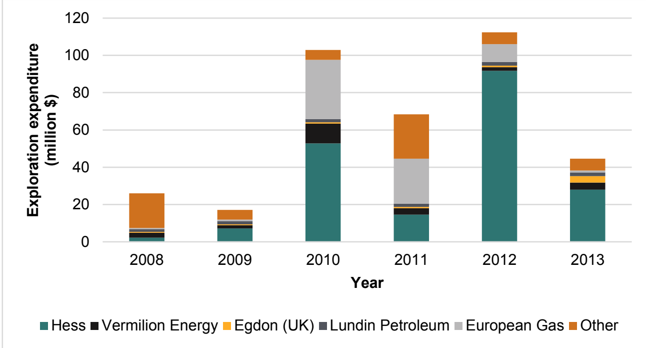
2 Income tax share calculated by dividing income tax by revenue, excluding royalties, bonuses, and government profit.

Figure 2. France's top oil and gas reserve holders' share of total reserves as of January 2014



Source: Rystad Energy, 2014

Figure 3. Oil and gas exploration expenditure in France (Rystad Energy, 2014)



Source: Rystad Energy, 2014

and gas in France in 2013. At the start of 2014, France had 119 million BOE of oil and gas reserves. Total alone held half of these reserves, followed by Vermillion Energy with a 20% share (Figure 2).

Exploration expenditure in France has varied in recent years, and is down from a high of $112 million in 2012 to stand at $45 million in 2013 (Figure 3) (Rystad Energy, 2014).

While Hess produces only a very small amount of oil and gas in France, it is the country's leader in exploration expenditure and as such also holds the third largest share of France's reserves. Because France has eliminated most of its exploration incentives for private entities, however, it seems likely that Hess and other oil and gas companies reap only a relatively small amount of subsidies for their exploration activities.

Coal

There are no active coal mines in France.

Table 3. Top three French oil and gas producer (by revenue): revenues, profits and income taxes, 2013

Company	Headquarter country	Revenue (million $)	Profit (million $)	Income-tax payments (million $)	Income-tax share of revenue
Vermilion Energy	Canada	$392	$142	$84	23%
Total	France	$260	$30	$7	3%
Lundin Petroleum	Sweden	$102	$32	$19	20%

Source: Rystad, 2014 Energy

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Oil Change International is a research, communications, and advocacy organization focused on exposing the true costs of fossil fuels and facilitating the coming transition towards clean energy.