G20 subsidies to oil, gas and coal production: France

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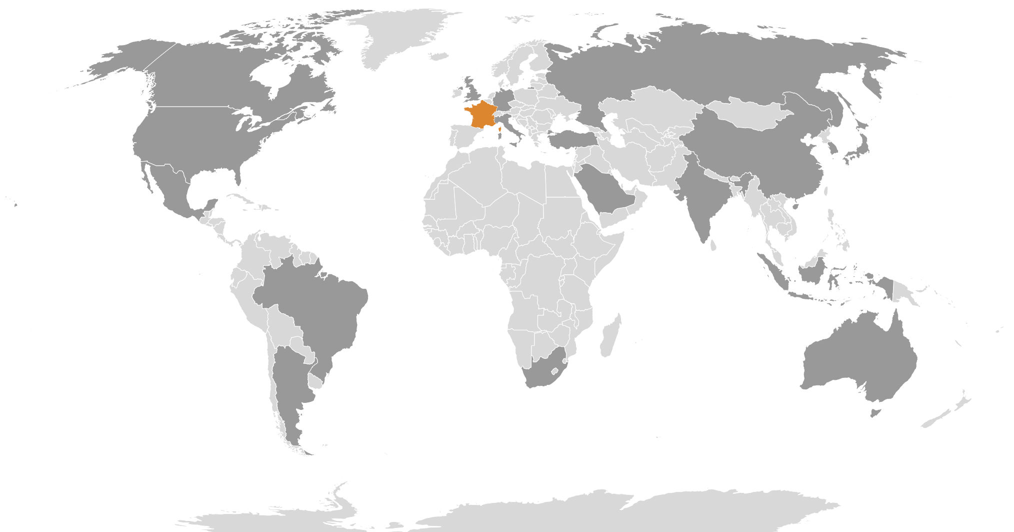

This country study is a background paper for the report **Empty promises: G20 subsidies to oil, gas and coal production** by Oil Change International (OCI) and the Overseas Development Institute (ODI). It builds on research completed for an earlier report **The fossil fuel bailout: G20 subsidies to oil, gas and coal exploration**, published in 2014.

For the purposes of this country study, production subsidies for fossil fuels include: national subsidies, investment by state-owned enterprises, and public finance. A brief outline of the methodology can be found in this country summary. The full report provides a more detailed discussion of the methodology used for the country studies and sets out the technical and transparency issues linked to the identification of G20 subsidies to oil, gas and coal production.

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

A Data Sheet with data sources and further information for France's production subsidies is available at:
http://www.odi.org/publications/10093-G20-subsidies-oil-gas-coal-production-France

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Country Study
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Background

France has very limited conventional fossil fuel reserves – there are no operating coal mines and in 2014 production of oil and gas amounted to just 6.1 million barrels of oil equivalent (mboe). By contrast, shale gas reserves are estimated to be some of the largest in Europe. However, fracking has been banned in France since 2011 and the Energy Transition legislation does not envisage exploitation of these reserves (Republique Française, 2011; Etchanchu, 2015).

In the electricity sector, nuclear accounts for the majority of energy generation (77% in 2014), followed by hydropower (12.6%). Fossil fuels account for a very small proportion of generation (5% in 2014 with the share of natural gas at 2.7%, coal at 1.5% and oil at 0.8%) (Réseau de Transport d'Électricité, 2015). The Energy Transition legislation envisages that the share of nuclear will fall to 50% by 2025 and the share of renewables will increase to 32%.

The once state-owned oil company Total is now under private ownership, but the state retains a substantial interest in natural gas (through its minority share in ENGIE), and in the electricity sector (through its majority shareholding in Électricité de France (EDF)). While attempts have been made to liberalise both these sectors, ENGIE maintains its predominant position in natural gas importation and distribution, and EDF still accounts for the majority of electricity generation, is sole owner of the transmission network through its subsidiary Réseau de Transport d'Électricité (RTE), and accounts for more than 90% of the supply to consumers.

National subsidies

With limited reserves, France has very few national subsidies for fossil fuel exploration and production. Since 2010, it has phased out tax deductions for exploration cost and VAT exemptions for offshore oil and gas drilling equipment. However, natural gas producers continue to receive an excise tax exemption, equivalent to $3 million in 2014, which reduces the cost of exploration.

Excise tax exemptions also apply to fuels used in refining and to fossil fuels used in electricity generation in co-generating installations, reducing operational costs.

In terms of direct spending, the state continues to fund the French Institute of Petroleum (IFP). This research institute has five priority areas including the expansion of fossil fuel reserves. In 2014 total government funding was $173 million, which was supplemented by funds from the private sector (République Française, 2015). We assume that 20% of this funding is related to fossil fuels, reflecting the five priority areas.

In total, these subsidies amounted to an average of $125 million (€97.7 million) per annum over the years 2013 and 2014, with the largest subsidy being the excise tax exemption for refinery gas used in refining (see Table 1).

In addition, and not included in the data in the table below, there are also some local tax exemptions for exploration and mines onshore and offshore or some temporary exemptions for firms opening or having installations in some geographical areas.

State-owned enterprise investment

The French state holds an 84.4% share in EDF, the electric utility company. EDF is engaged in all stages of the electricity value chain including generation, transmission and distribution, and supply, and operates across the globe. The French state also holds a minority share (33.29%) in ENGIE, which engages in natural gas exploration and production as well as natural gas distribution and electricity generation (see section on private electricity companies). However, double-voting right provisions introduced in 2014 mean that the French government currently has effective control over the company, although reports suggest that the legislation is likely to prompt the government to dilute its stake (Reuters, 2015). At the distribution level, some 160 'entreprises locales de distribution', created and owned by local authorities, distribute electricity or gas to 3.5 million consumers in 2,800 municipalities across France.

In France, EDF's generating capacity is predominantly nuclear, with less than 5% of generation being fossil fuel-based. However, EDF also operates overseas – notably in the United Kingdom, the Benelux countries, Italy, Poland, Hungary, North America and China – with almost all generation in these markets from fossil fuel sources. In addition to generation, EDF also engages in other stages of the fossil fuel value chain. For example, through its 97.4% share-holding in the Italian company Edison, it has interests in fossil fuel exploration and production in the Mediterranean and North Seas, gas storage projects, gas distribution networks, pipeline construction projects and liquefied natural gas (LNG) facilities.

Total investment by EDF averaged $17 billion (€13.3 billion) over the two-year period 2013 to 2014, with $16.6 billion of investment in 2013 and $17.3 billion of investment in 2014. Operating investment for development averaged $5.4 billion, with $5 billion in 2013 and $5.7 billion in 2014. Much of this expenditure related to nuclear and renewable energy spend. As we cannot isolate the proportion of EDF expenditure linked to fossil fuel power, we have not accounted for any state-owned enterprise (SOE) investment from France.

Table 1: France's national subsidies to fossil fuel production, 2013–2014 ($ million except where stated otherwise)

Subsidy	Subsidy type	Targeted energy source	Stage	2013 estimate	2014 estimate	Estimated annual amount
Excise tax exemption for fuel used by refiners	Tax exemption	Refinery gas	Refining	47.0	57.6	52.3
		Liquefied petroleum gases (LPG)		0.5	0.6	0.5
		Fuel oil		5.5	6.8	6.2
		Petroleum coke		9.0	11.1	10.0
		Other oil products		2.1	2.6	2.3
		Natural gas		8.7	10.6	9.7
Excise tax exemption for cogeneration	Tax exemption	Refinery gas	Electricity generation	0.1	0.1	0.1
		Fuel oil		-	-	-
		Other oil products		0.3	0.2	0.2
		Natural gas		4.7	3.5	4.1
Excise tax exemption for natural gas producers	Tax exemption	Refinery gas	Production	3.8	3.8	3.8
IFP Research Institute	Direct expenditure	All fuels	Research	36.0	34.7	35.4
Totals						
Total national subsidies ($ m)						124.7
Total national subsidies (€ m)						97.7

Sources and additional data are available in the Data Sheets that accompany each Country Study.

Public finance

Domestic

We have not been able to identify any sources of public financing for fossil fuels domestically in France.

International

The French state has a history of supporting fossil fuel projects overseas through its public finance institutions. In recent years, a series of announcements by the government suggest that such funding will be substantially reduced for coal-fired power stations, although it will continue for other fossil fuel-related projects.

In March 2013 the French Development Agency – Agence Française de Développement (AFD) – announced that it would no longer be funding coal-fired power plants in developing countries unless carbon capture and storage (CCS) technology was included. This announcement was formalised in the framework law on international development and solidarity in July 2014. In September 2015, the French Prime Minister Manuel Valls announced that the French export credit agency – Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE) – would do likewise and with immediate effect (Besson, 2015; Barbiere, 2015). Since 2001, the agency has provided guarantees to five coal-related projects totalling $1.7 billion (converted at 2014 exchange rates) (Lutzky, 2014).

AFD continues to support other fossil fuel-linked projects such as transmission line development and restructuring of electrical utilities. AFD's private sector arm, Proparco, was found to have financed two natural gas power projects in 2013 and 2014 for a total of $105 million, or $52 million annually. COFACE also continues to support fossil fuel projects. In 2013 and 2014, COFACE fossil fuel financing averaged $1.03 billion in fossil fuel project guarantees, or $518 million annually (Table 2). Since 2001 COFACE has guaranteed 23 further fossil fuel projects in addition to the five coal projects, covering activities such as gas and oil exploration and production, refining and gas-fired power stations. These guarantees have amounted to $5.8 billion (Lutzky, 2014).

France also contributed an annual average of $812 million to fossil fuel projects in 2013 and 2014 through its shares in the World Bank Group, European Bank for Reconstruction and Development, European Investment Bank, Asian Development Bank, Inter-American Development Bank and African Development Bank, which range from 1.9% to 16.1% depending on the institution.

Table 2: France's public finance for fossil fuel production, 2013–2014 ($ million except where stated otherwise)

Institution name	Coal mining	Coal-fired power	Upstream oil and gas	Oil and gas pipelines, power plants and refineries	Multiple or unspecified fossil fuels	Total fossil fuel finance 2013 & 2014	Annual avg. fossil fuel finance
Domestic							
N/A	-	-	-	-	-	-	-
Subtotal domestic	-	-	-	-	-	-	-
International							
COFACE	-	172	259	605	-	1,036	518
Proparco	-	-	-	105	-	105	52
Multilateral development banks	1	49	375	1,198	-	1,623	812
Subtotal international	1	221	634	1,908	-	2,764	1,382
Totals							
Total public finance ($ m)							1,382
Total public finance (€ m)							1,083

Sources and additional data are available in the Data Sheets that accompany each Country Study.

Private companies

Private upstream oil and gas companies

France has very limited oil and gas production, and no coal production: in 2014 total fossil fuel production was 6.1 mboe. Accordingly, in-country company revenues and government take associated with fossil fuel production are very small. The associated free cash flow for producing companies was $37.9 million, ($146.9 million if companies without losses are excluded). Total government take from this was $44.4 million. Table 3 shows this information for the 10 largest producers.

Private midstream/downstream oil and gas companies

Midstream and downstream operators can benefit from the national subsidies identified in Table 4 in relation to refining and electricity production, although none of these is very significant.

Refining capacity has fallen in recent years in response to the economic downturn, declining from 1.97 million barrels per day in 2000 to 1.4 million barrels per day in 2014 (ENI, 2014). Four companies are active in the market, operating a total of nine refineries, with Total accounting for five of these.

Private coal companies

France does not have any private coal companies.

Private electricity companies (fossil fuel-based)

The electricity market in France is highly concentrated, with EDF representing 91.5% of generation, and a couple of other operators taking minor shares – the most significant among these are ENGIE which accounts for 5.1% and E.ON France which accounts for 2.6%.

In October 2015, the French Minister of Energy and Environment – Segolene Royale – announced that ENGIE would withdraw from its investments in coal as part of the government decision to end support to coal (Le Figaro, 2015). At the time of writing (October 2015), EDF continues to invest in coal projects.

Table 3: Top private upstream oil and gas producers in France, 2013–2014

Company	Headquarter country	Oil production (million barrels in country)		Gas production (billion cubic metres in country)		Sum of operating expenditure & capital expenditure, including exploration expenditure ($ million)		Profitability (from country operations, as measured by free cash flow)	
		2013	2014	2013	2014	2013	2014	2013	2014
Vermilion Energy	Canada	3.7	3.7	0	0	160	199	136	78
Total	France	0.6	0.3	0.5	0.5	211	184	17	-85
Lundin Petroleum	Sweden	1.0	0.9	0	0	59	43	22	31
GeoPetrol	Monaco	0.3	0.3	0	0	18	10	9	14
Other partner(s)	Other	0.2	0.1	0	0	17	13	3	9
European Gas	Australia	0	0	0	0	3	3	4	2.8
Hess	United States	0.1	0.1	0	0	55	31	-37	-12
ENGIE (GDF SUEZ)	France	0.1	0.1	0	0	1	1	6	5
Petrorep	Italy	0.1	0.1	0	0	8	5	0.2	1.5
Gazonor	France	0	0	0	0	1	1	1.8	1.3

Source: Rystad Energy (2015).

Table 4: Top private companies operating in France's downstream oil and gas sectors

Company	Headquarter country	In-country refining capacity ('000 bbl per day)	Global net income ($ bn)*
Total	France	829	4.15
ExxonMobil	US	374	4.19
Ineos	Switzerland	210	NA
LyondellBasel	US	80	4.17

Source: Exxon Mobil (2015); Ineos (2015); LyondellBasell (2015); Total (2015); Yahoo Finance (2015).
*Note: N/A indicates data was not publicly available at the time of publication. *Data from Yahoo finance taken on 7 September 2015.*

Methodology

(for detailed methodology see Chapter 3 of main report)

This report compiles publicly available information on G20 subsidies to oil, gas and coal production across G20 countries in 2013 and 2014. It provides a baseline to track progress on the phase-out of such subsidies as part of a wider global energy transition. It uses the following terms and their definitions.

Production subsidies

Government support for fossil fuel production. For the purpose of this country study, production subsidies include national subsidies, investment by state-owned enterprises (SOEs) (domestic and international) and public finance (domestic and international) specifically for fossil fuel production.

Fossil fuel production

Production in the oil, gas and coal sectors. This includes access, exploration and appraisal, development, extraction, preparation, transport, plant construction and operation, distribution and decommissioning. Although subsidies for the consumption of fossil fuels can support their production, this report excludes such subsidies as well as subsidies for the consumption of fossil fuel-based electricity.

National subsidies

Direct spending, tax and duty exemptions and other mechanisms (such as forms of capacity markets) provided by national and sub-national governments to support fossil fuel production. Normally, the value assigned for a national subsidy is the number provided by the government's own sources, by the OECD, or by an independent research institution.

State-owned enterprise (SOE) investment

A SOE is a legal entity created by a government to undertake commercial activities on its behalf. SOEs can be wholly or partially owned by governments.

It is difficult to identify the specific component of SOE investment that constitutes a subsidy, given the limited publicly available information on government transfers to SOEs (and vice-versa), and on the distribution of investment within their vertically integrated structures. Therefore, this report provides data on total investment by SOEs in fossil fuel production (where this information is available from the company), which are presented separately from national subsidies.

For the purpose of this report, 100% of the support provided to fossil fuel production through domestic and international investment by an SOE is considered when a government holds >50% of the shares.

Public finance

Public finance includes the provision of grants, equity, loans, guarantees and insurance by majority government-owned financial institutions for domestic and international fossil fuel production. Public finance is provided through institutions such as national and multilateral development banks, export credit agencies and domestic banks that are majority state-owned.

The transparency of investment data for public finance institutions varies. Assessing the portion of total financing that constitutes a subsidy requires detailed information on the financing terms, the portion of finance that is based directly on public resources (rather than raised on capital markets) or that depends on the institutions' government-linked credit rating. Few of the institutions assessed allow public access to this information. Therefore, we report the total value of public finance from majority government-owned financial institutions for fossil fuel production separately from 'national subsidy' estimates.

For the purpose of this report, 100% of the support provided to fossil fuel production through domestic and international financing is considered when a government holds >50% of the shares in the bank or financial institution.

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