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THE FRENCH REPUBLIC

NOTE FROM THE FRENCH AUTHORITIES

SUBJECT: Report assessing actions taken to promote biofuels in France in 2007.

Ref. : Directive 2003/30/EC on the promotion of the use of biofuels.

The French authorities hereby submit to the European Commission the report by France provided for in Article 4(1) of Directive 2003/30/EC.

1. An ambitious French policy

France has been encouraging the routine use of biofuels for more than ten years by incorporating them into fuels or domestic heating oil in such a way that users do not need to modify their engines.

To facilitate this, two sectors, the agricultural ethanol sector for petrol and vegetable oils sector for diesel, have developed processed products with characteristics similar to those of the fuels or domestic heating oil with which they can be blended:

- ETBE (ethyl-tertio-butyl-ether), made from agricultural ethanol (wheat or beetroot), can be incorporated into petrols in a proportion of 15%,
- pure ethanol can be incorporated directly into petrol up to a proportion of 5%,
- EMHV (vegetable oil methyl-esters), made from rapeseed or sunflower oil, can be incorporated into diesels in a proportion of 5% until 31 December 2007 and a proportion of 7% from 1 January 2008¹.

¹ Decree of 27 April 2007 modifying the characteristics of diesel and diesel fuel for very cold weather (Official Gazette of 11 May 2007).

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1.1. The French biofuels plan

Further to announcements made in 2004 to enable the indicative targets contained in Directive 2003/30/EC to be met, on 13 September 2005 the Prime Minister unveiled ambitious measures to encourage the production of biofuels and to accelerate their development. Consequently, the target to include 5.75%_{NCV} of biofuels in fuels, initially scheduled for 2010 in Directive 2003/30/EC, has been brought forward to 2008 and increased to 7%_{NCV} in 2010.

These targets were incorporated into Law No 2005-781 of 13 July 2005 in a programme laying out the French energy policy guidelines (as modified by Law No 2006-11 of 5 January 2006 on agricultural guidelines) which sets the targets of 5.75%_{NCV} in 2008 and 7%_{NCV} in 2010, and the indicative target of 10%_{NCV} in 2015 as the basis for the development of biofuels.

	2005	2006	2007	2008	2009	2010
<i>Targets</i>	1.20 % _{NCV}	1.75 % _{NCV}	3.50 % _{NCV}	5.75 % _{NCV}	6.25 % _{NCV}	7.00 % _{NCV}

1.2. Environmental assessment of biofuels

Nevertheless, as the debates at the Grenelle Environment Forum have shown, biofuels must demonstrate both their energy and environmental performance. A working group has therefore been set up consisting of the French Petroleum Institute (IFP), the Agency for the Environment and Energy Management (ADEME) and the government departments responsible, to conduct a critical analysis and update existing studies relating to energy and environmental assessments of first-generation biofuels.

In parallel, the President of the Republic has specified that the policy of supporting biofuels must continue to be pursued without any questioning of the commitments already made, and that priority must be given to improving energy and environmental assessments, in particular by developing second-generation biofuels, which will enable more diverse raw materials to be developed and competition with production for foodstuffs to be restricted.

The parameters of the French biofuels plan must be examined after this work has been carried out, and by taking into account the other components of the French policy of supporting biofuels, such as the development of our agricultural potential or their contribution to our energy independence.

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1.3. The general tax on polluting activities (TGAP)²

In order to encourage the incorporation of biofuels into diesel and petrols, operators (refiners, wholesalers and independent operators) who make available for consumption fuels with a proportion of biofuels below the national incorporation targets provided for must pay, subsequent to the Finance Law 2005 (Article 32), an additional supplement to the general tax on polluting activities (TGAP). Its rate is reduced in accordance with the share of biofuels placed on the market in % NCV, for both the premium-grade petrol and diesel. The amount of this TGAP is a very considerable incentive.

1.4. Tax exemption

In order to meet these ambitious targets the government has maintained the system of partial tax exemption for the internal consumption tax (TIC) which allows for the offsetting of the additional cost of manufacturing biofuels in comparison with fossil fuels. This tax exemption is granted to biofuels produced by units which have received a licence further to a call for tender published in the Official Journal of the European Union. The amounts are adjusted each year on the basis of the Finance Law in order to take into account developments in economic conditions.

The changes in tax exemption amounts, as set in accordance with the Finance Law, are shown below

	Diesel sector ³			Petrol sector	
	Vegetable oil methyl-esters	Biodiesel blends	Vegetable oil ethyl-esters	Ethanol ⁴	ETBE ⁵
2004	33€/hl	-	-	37€/hl	38€/hl
2005	33€/hl	-	-	37€/hl	38 €/hl
2006	25€/hl	25€/hl	30€/hl	33€/hl	33 €/hl
2007	25€/hl	25€/hl	30e/hl	33€/hl	33€/hl
2008	22€/hl	22€/hl	27€/hl	27€/hl	27€/hl

The total amount of tax exemption from which biofuels have benefited is summarised in the table below:

² The TGAP is not applied overseas, primarily because the opportunities to produce biofuels on these territories are currently very limited.

³ The new biofuels, biodiesel blends, animal oil esters and vegetable oil esters, are entered into the accounts under the General Tax on Polluting Activities (TGAP).

⁴ In 2004, for the first year, ethanol incorporated directly into petrol has benefited from a tax exemption.

⁵ ETBE contains 47% ethanol, this part is eligible for tax exemption.

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2005	2006	2007
196 M€	260 M€	500 M€

In 2006 additional licences were granted to allow the biofuel incorporation targets to be met by 2010.

The following table shows the total quantities authorised which were entitled to a tax exemption for the three sectors operating in France:

<i>kTonnes</i>	Vegetable oil methyl-esters	ETBE⁶	Ethanol
2004	401	99	12
2005	417	130	72
2006	677	169	137
2007	1 343	224	337
2008	2 478	224	717
2009	2 728	224	867
2010	3 148	224	867

2. Fuels with a high biofuels content

2.1. Premium-grade petrol (E85)⁷

The government wanted to allow each consumer to be able to choose between fossil fuels or almost pure biofuels between now and the end of the decade. This involves the sector for premium-grade petrol – E85, a fuel which consists primarily of bioethanol.

All the conditions were put in place to authorise the sale of premium-grade petrol throughout the whole territory for professionals and private individuals from 1 January 2007. Therefore premium-grade petrol is eligible for a beneficial rate of tax of 28.33 €/hl (instead of 33.43€/hl in 2007) which currently enables it to be sold at a price of 0.80 to 0.85€/l. Article 65 of Amending Finance Law No 2007-1824 of 25 December 2007 amends domestic consumption tax on premium-grade petrol – E85, therefore the tax benefit remains constant despite the reduction in the tax exemption for bioethanol.

⁶ Only the ethanol used in the production of ETBE has been taken into account, the fossil part is not eligible for tax exemption.

⁷ Fuel containing between 65%_v et 85%_v of ethanol according to the season.

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Lastly, to facilitate and accelerate the development of this sector favourable tax measures have been adopted taking into account the benefits of premium-grade petrol in terms of the environment and independence of energy supply: the granting of amortisation over 12 months, a tax reduction on company cars over eight quarters, and a 50% exemption on the additional tax for registration certificates.

More than 250 service stations currently sell this fuel. This sector is currently in its start-up phase and is growing in significance. Moreover, significant investments are being made at fuel storage depots and service stations.

2.2. Diesel B30 and PVO (pure vegetable oils)

Diesel B30, a diesel with a proportion of 30% of vegetable oil methyl-esters, is authorised for captive fleets with dedicated fuel logistics. This fuel is not on sale to the general public because it is not compatible with the engines of many diesel vehicles which are already on the road in Europe. This new fuel is currently being standardised by the Petrol Standardisation Office (BNPé).

Article 49 of Law No 2006-11 of 5 January 2006 on agricultural guidelines authorises the use, as an agricultural fuel, of pure vegetable oil by operators having produced plants whose oil is pressed for an experimental period of one year. From 2007, this fuel has been authorised for sale as an agricultural fuel.

Since 1 January 2007, all local authorities who so request, may experiment with using pure vegetable oils (PVO), either alone or in blends, in their vehicles which are not intended for use as public transport. In order to do so, however, they must sign a protocol with the government specifying the user obligations in terms of monitoring vehicles and carrying out regular checks. The use of PVOs gives rise to many reservations on the part of motor vehicle and agricultural machine manufacturers, the majority of whom refuse to endorse their use.

3. Consumption of fuels and biofuels in France in 2006

Changes in French consumption of biofuels are shown below:

<i>kTonnes</i>	Vegetable oil methyl-esters	ETBE⁸	Ethanol
2006	631	217	14
2007	1300	382	44

⁸ Quantities shown in tonnes of ETBE, but only include ethanol used in the production of ETBE; the fossil fuel part is not eligible for tax exemption.

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A significant increase has been noted in the total consumption of biofuels during 2006 and this increase has been noted for the three sectors.

The change in the actual percentages of biofuels incorporated into petrol and diesel are as follows:

<i>%NCV</i>	Petrol sector	Diesel sector	Total incorporated
2006	1.75 %	1.77 %	1.77 %
2007	3.35 %	3.63 %	3.57 %

These results are based on a consumption of 31 253 kt of diesel and 9 849 kt of petrol in France for the year 2007.

4. National resources allocated to the production of biomass for energy purposes other than transportation.

The development of biomass as a source of energy must enable a contribution to be made to the ambitious targets laid down in the law in a programme laying out the French energy policy guidelines in terms of developing renewable energy between now and 2010, i.e. apart from fuels for transportation:

- an increase in the share of the production of electricity from a renewable source of 21% of the domestic electricity consumption;
- an increase of 50% in the production of renewable heat.

In 2007, biomass (including the incineration of refuse and biogas) contributed 4.1 TWh to the production of electricity and 9.1 Mtep to the production of heat.

The principal support mechanisms which are currently in place are:

- the obligation to purchase electricity produced by installations using biomass for power ratings of below 12 MW.
- two calls for tender for biomass have been launched, one in 2003 and the other in 2006. All of the projects accepted in the framework of these two calls for tender represent a power rating of more than 400 MW.
- Investment aid for collective wood heating allocated by ADEME in the framework of its Wood – Energy plan.
- A tax credit serving as an incentive for private individuals purchasing, for their main residence, equipment for the production of renewable energy, including wood heating equipment.