NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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France: Climate Change Strategy - carrots rather than sticks

MARKET INTELLIGENCE REPORT

Summary

President Macron has announced new measures to achieve France's 2030 greenhouse gas targets, highlighting the nexus between growth, trade and the environment. The strategy uses incentives (rather than penalties) to drive change and is guided by the principles of sovereignty, competitiveness and fairness.

New measures include:

- Increasing energy efficiency, deploying more renewable energy, and increasing nuclear energy generation
- €5.6 billion to subsidise efforts by France's top-50 emitting factories to reduce overall emissions, with support for SMEs to follow
- Transport sector incentives and investment to switch cars to electric, encourage use of public transport, and encourage energy savings, including an affordable e-vehicle leasing scheme targeted at low income households for European manufactured electric cars
- Expansion of public transport networks, measures to increase cycling, and encourage teleworking
- Investments in heat pump manufacture and training of installation technicians for home heating
- Tax incentives for green-tech manufacturers and other measures to increase the attractiveness of France as an investment destination (see report here).

Report

In a speech in late September, President Macron set out the key measures through which France intends to meet its net greenhouse gas emission reduction target of 55% by 2030 compared to 1990 levels, and carbon neutrality by 2050. As per the EU Fit for 55 target, French efforts will need to accelerate: from 2017 to 2022 net emissions reduced by 2% per year; in order to meet the target, reductions will need to rise to 5% per year until 2030. The Government will activate around fifty levers across the economy to attempt to achieve these reductions, with around half of the effort resting on companies, a quarter on public authorities and a quarter on households.

The President outlined three principles at the heart of France's ecological transition: sovereignty, competitiveness and fairness. These principles will guide large-scale government investment in France's production capacity of carbon-free solutions, a reduction in dependence on foreign fossil fuels, and targeted incentives and subsidies to support households on modest incomes through the transition.

These measures will be complemented by a biodiversity strategy to be released in October and an adaptation plan due in December. A National Low Carbon Strategy for the 2024-2028 period is due for adoption before the end of the year, as is an Energy Climate Law, to enshrine France's new 2030 target and related carbon budgets.

Decarbonisation

A key goal of the strategy is to reduce France's reliance on fossil fuels in its energy production mix from 60% to 40% by 2030. Coal will be removed from electricity production by the start of 2027, while oil and gas will be reduced over time. (The scheduled closing down of France's last two coal-fired power stations has had to be delayed to avoid energy shortages as a result of the war in Ukraine and maintenance issues with France's nuclear power stations.) These fossil fuels are all imported by France – the reduction of which the President highlighted would help France to achieve a more "sovereign ecology". The plan identifies the triptych of: 1) energy saving and efficiency, 2) deployment of renewable energies, and 3) development of nuclear capacity, to facilitate decarbonisation.

In terms of **industry**, France's 50 biggest emitting factories (representing 11% of the country's total emissions) all have individual plans to reduce overall emissions by 45% by 2030. The French Government will subsidise these investments – primarily involving switching to hydrogen, biomass, electrification or carbon capture and storage – for a total of €5.6 billion. The government will now shift its focus to small and medium-sized enterprises. The strategy prioritises two major projects in the industrial sector: 1) to undertake an inventory of mineral resources in the country (lithium, cobalt and natural hydrogen deposits), which would assist in France's decarbonisation process; and 2) to develop green hydrogen, and carbon capture and sequestration. On the latter, the aim is to develop at least one carbon capture and storage site on French soil by 2030.

The **transport sector** is the most polluting in France, accounting for 30% of national greenhouse gas emissions, with two-thirds coming from private vehicles. The new climate change strategy focuses on reducing transport emissions in three ways: to switch cars to electric, to encourage use of public transport, and to encourage energy savings. It is also counting on technological progress, in particular to decarbonise aviation, with a concrete example of this the Airbus trial with a consortium of five New Zealand entities at Christchurch International Airport.

The government will spend €10 billion on public transport, primarily on expanding France's rail network, including €700 million on 13 new metropolitan train projects. The government is also investing in France's electric car manufacturing industry, with the goal of producing at least one million electric cars on French soil by 2027, and opening four electric battery production plants, which will allow France to become an electric battery exporter by 2027. In terms of improving accessibility of electric cars to low-income households, the government will announce details shortly of a targeted €100-per-month leasing scheme for the first models of electric vehicles produced in Europe. (In parallel, France is seeking to carve-out cars produced outside of Europe from its e-car purchase subsidy scheme on environmental grounds. Details of the regulation have yet to be released.)

Other goals in the transport sector, which the government will incentivise, include tripling the use of bicycles, shifting seven million employees to telework three days a week, as well as five million French people opting for more local tourism.

Another priority area is **housing**, where the government is planning to invest both in France's own heat pump production industry, but also in incentivising households to switch to heat pumps. (Prime Minister Borne had floated the prospect of a ban on new gas boilers in homes in May, but the government has backed away from that idea, in favour of making heat pumps the more attractive option.) The government's objective is to triple French production of heat pumps to one million by 2027 and to train 30,000 new heat pump installers. The government will continue its scheme of providing financial support to households installing a heat pump to replace a coal, gas or oil-fired boiler. It will also accelerate investment in thermal renovation of the country's housing stock with an increase from €2.4 billion to €4 billion in subsidies for the most modest households and social housing landlords.

France's 2024 budget will include a €7 billion increase in funding to support the transition to a low carbon economy, bringing this vote to a total of €40 billion. Some fossil fuel subsidies such as those benefiting French farmers will start being wound back (but not phased-out as initially planned). A new tax credit will also be introduced, enabling green technology manufacturers to benefit from a tax reduction representing 20% to 45% of their investments.

International competitiveness

In a nod to the Brexit catch-phrase, President Macron also foreshadowed action to "take back control" of the price of electricity. This relates to the EU electricity price-setting mechanism, which has been brought to the fore with the war in Ukraine and soaring EU electricity prices, impacting both households and France's industrial competitiveness. In addition to the various subsidy schemes previously mentioned, the adoption of a bill on green industry is expected to lower investment costs for large industrial companies and increase attractiveness of France as an investment destination for green solution industries, in competition with similar support measures in China and the US.

At the European level, France is applying the principles of fairness and competitiveness, through promoting a level-playing field, mirror clauses and a European carbon border tax – which is "an absolutely essential mechanism for justice and loyalty to our producers", according to Macron.

The 21% increase in France's green transition budget will help address just transition issues for lower income households. It will also help businesses, via consumer subsidies to purchase greener goods, corporate fiscal incentives, or by excluding competitors from local schemes (e.g. the e-car purchase subsidy will be restricted to European cars). The yet-to-be-detailed measure on e-cars underscores the fierce international competition over green technologies and the growing involvement of governments to protect their national industries.

Agriculture

The agricultural sector was not addressed in the announcement, although it is France's second largest emitting sector. The sector's target is nonetheless to lower emissions by 16% by 2030 from 2022 levels. The livestock sector is expected to contribute to 40% of this target, although this is primarily expected to result from the ongoing attrition of France's national herd (as well as carbon storage and feed management). Nitrous oxide should make up over 45% of that reduction, through switching to synthetic fertilisers and better crop management.

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