Oil Market Report: September 2023

The Rugby World Cup (RWC) is now well under way and in a "tradition" that goes back to the 2012 London Olympics, we will link this month's report to a major global sporting event. As hosts and joint favourites to win the tournament, the French rugby team combines power, technical prowess and an uncharacteristic dose of on-field discipline. Does France's energy sector have the same traits and have two more unrelated subjects ever been so clumsily linked?!

As one would expect for the world's 7th largest economy (GDP), France has a mature and competitive petroleum retail sector, with over 11,000 petrol stations (this compared to the UK's 8,500). As you'd also expect from a developed western economy, petroleum products in France are heavily taxed! At 69 euro cents per litre (circa 59 pence per litre = 59ppl), French duty on petrol is notably higher than in the UK (53ppl) and this results in a price for petrol (167ppl) that is around 15% greater than in Britain. When it comes to diesel, France is in line with almost every other country in Europe, whereby excise duty is applied at a lower rate to petrol. Therefore, French diesel buyers pay 61 cents per litre tax, which is in fact about the same as the UK's 53ppl (petrol and diesel are taxed at identical levels in the UK), contributing to an overall diesel price of around 160ppl per litre in both countries.

Unlike their North Sea neighbours, France has no indigenous oil production. Therefore the country is one of the largest importers of crude oil in the world, bringing in over 665,000 barrels (105m litres) per day, predominantly from Norway, USA and the Middle East (obviously Russia prior to 2022). Processing all of this is the French refining industry, which has been through significant downsizing over the last 10 years. In 2012 there were 12 French refineries, but now that number sits at only 6 and of those, all but 2 refineries are owned by France's energy giant Total Energies.

As a company, Total enjoys almost monopolistic power in France's fuel sector and is run by the no-nonsense engineer, Patrick Pouyanné. The son of a customs officer, born in Rouen but raised in France's deep South-West (and by the looks of him, a decent Prop Forward!), Pouyanné became CEO in 2014. Since then, he has successfully transformed the company from a one-trick exploration pony (which many saw as little more than a supplementary arm of the French foreign office), to a truly global energy colossus. It is the 3rd largest "Big Oil" company on the planet (after Exxon and Shell), with revenues over $185 billion and annual profits of around $16bn (twice that of BP). Since 2014 it has provided the highest level of shareholder returns in the "oil major" community, with a whopping 75% return since 2014 (by comparison, Shell sits at 50% and BP a lowly 30%). Such success has placed Pouyanné under considerable public scrutiny in his home country, but there are few signs that "Le Boss" craves either affection or praise. In 2022, he publicly bemoaned the fact that "all politicians seem to have only just discovered that the price of electricity is linked to the price of gas". Moreover, he has been unapologetic in his views around continued oil and gas exploration, which go alongside low carbon investments to the tune of around $35bn (twice that of the industry average). Pouyanné is insistent that only continued oil and gas exploration can generate the necessary returns to pay for these renewable energy projects.

The other energy company in France that comes close to monopolistic status is Electricity de France (EDF). Generating over 80% of the country's electricity, EDF runs every single one of France's 56 nuclear reactors, which account for over 70% of France's electricity. Developed in the 1950's, but rapidly expanded by the French Government after the 1974 oil shock, France's nuclear power sector is the most developed nuclear industry in the world and this position of global leadership is something the French Government is very keen to maintain; they have plans to build up to 14 new nuclear generators by 2050. Whether nuclear is a truly green industry is a debate for another day, but if you lump nuclear generation in with energy from hydro power (11%), wind (7%), solar (3%) and bio/waste (2%), you end up with an incredible 93% of French electricity being generated by "emissionless" sources – an unprecedented state of affairs anywhere in the world. It also results in France having one of the lowest carbon footprints in Europe. Only 6 tonnes of CO2 are emitted per person per annum, compared to coal-hungry Germany (9 tonnes, ie, 50% greater) and Britain at around 7.5 tonnes.

To this observer, France's energy policy (along with their 2023 RWC squad) looks pretty strong. The country's flagship oil and gas company make billions in profits and is run by a grounded technocrat who neither shirks from the realities of energy complexity, nor engages in the tedious world of greenwashing. At the same time, the country's nuclear industry delivers a level of low carbon energy independence, that most developed nations would die for. We Brits may be loath to admit it, but not only does France's Rugby team look very possible winners of this year's tournament, successive French governments have also done pretty well in the Energy World Cup!