

REFUND +

Qualitative assessment of direct fiscal measures

Study of the French case Market experts

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Observ'ER

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I. Introduction

1. Context

The French government implemented a national fiscal measure for the period 2005-2009 to encourage the purchase of renewable energies heat systems by domestic consumers. This measure first foresaw a 40% tax credit on the equipment costs for the installation of solar thermal or wood energy appliances or heat pumps. In 2007, the tax credit was raised to 50%. More details on the measure can be found in the project website : www.energies-renouvelables.org/refund.

To benefit from the fiscal measure, people have to fulfil the following criteria :

- The fiscal support corresponds to 50% of the equipment cost.
- Each citizen can benefit from the fiscal measure, even if he does not pay taxes
- According to the size of their household, the ceiling for the costs of equipment to be declared ranges from 8 000 euros to 16 800 euros.
- Systems should be installed in the main residence.
- In order to be eligible, the equipment has to be bought and installed by an installer.

Renewable energies sectors covered by this study are solar thermal energy, wood energy and geothermal heat pumps.

2. Methodology

5 telephone interviews of 20 minutes were conducted in March and April 2008. Interviewed people represent companies involved in the three renewable energy industries studied (solar thermal appliances, wood energy and heat pumps). Four of them hold a place of manager in the commercial department of their company and one is at the head of the company.

The interviewed professionals were recruited on the phone out of a list of companies of each sector.

Sample description:

First name	Job title	Size of company	Activities of company	Number of sales for the concerned technology in 2006
Gilles	Sales Manager	Worldwide company	Boilers (Gas and fuel, solar, wood energy), flat plat collectors and heat pumps	NC
Thierry	Sales Director	Worldwide company	Boilers (Gas and fuel, solar, wood energy), flat plat collectors, heat pumps and electric heaters	Nc
Jean-Marc	Sales Director	Europe	Fireplace, Stove (wood pellets, logs)	7 270 appliances (for France)
Bernard	Managing Director	France	Boilers (traditional and fueled by renewable energies), Heat pumps since recently	1 898 appliances (for France)
Eric	Marketing Director	Worldwide	Heat pumps	51 326 heat pumps (for France)

II. Perception of the measure

1. General perception

The general perception of the measure is really positive. Manufacturers from different sectors agree on the positive impact of this measure for the economy as well as for the expansion of renewable energies in the French society.

Even when they have critics to this public measure, they recognise that it contributes to clarify the positioning of renewable energies. They also consider that this measure is easier to implement than the former support given under the form of a regional subsidy.

2. Perception of the impacts of the measure

- A real development of the RES market observed by manufacturers from different industries.

A global positive change on the market was noted and someone spoke of the tax credit as a means to stimulate the RES market. 3 out of 5 sales managers agree on this vision of the market.

The first impact is the increase of sales in the different sectors. The actual mechanism of the incentive facilitates the purchase of RES.

“It contributes to develop our sales. But nothing new on prices or the offer in the catalogue. We already had a large offer” (Solar Thermal appliances, Sales director)

“And it created professional activity. If it were to be stopped suddenly, it would lead to a decrease of the sales” (...)

The second impact was identified as the appearance of new actors on the market. Especially in the solar thermal sector.

For the wood energy sector, an interviewee spoke of the tax measure as a leverage for individual wood heating appliances cumulated with the increase of fuel prices. Another wood appliances sales manager observed that the fiscal measure helped people to take the plunge.

Commercial development versus the destabilizing of the market?

Another approach is perceived. Whereas most manufacturers spoke about a development, one of them mentions a destabilization of the “informal rules” running the market”.

Legislation changes are not anticipated enough by public authorities from the air/air heat pumps manufacturers’ point of view.

Other destabilization that occurred with the tax credit is the fact that there were several steps in the law such as for air/air heat pumps. Firstly, only air/air heat pumps centralised under one external unit were eligible to the fiscal measure. From July 2007 onwards, air/air heat pumps with several external units were also eligible to the fiscal measure. The heat pumps manufacturer explained that these unexpected changes were a difficulty to handle by the sector : installers who had already sold estimates under the first legislation had to reconsider the offer they made.

“Installers that had already given estimates were awkwardly placed” (air/air heat pumps, Sales Director).

And manufacturers had to rewrite their communication for installers.

Another one evoked some “destabilization” of the market as the tax credit led to the entrance on the market of new professionals from other sectors, who were not really experienced in the RES sectors, which could interfere with the quality of the installations.

- Rise of quality of the products

The fiscal measure also contributed to improve the quality of the products, by requiring specific levels of efficiency.

- Negative impacts

After probing, only one professional out of 5 spoke about the rise of prices when asked. The heat pumps sales manager spoke about the rise of prices in this industry.

3. Role of the measure

2 out of 5 of the interviewed managers said they use the fiscal measure in the sales pitch model as an argument.

“We would be stupid not to use it to sell our materials” (Wood, Sales Director)

Most of the interviewed manufacturers belong to important companies that don't directly sell to consumers. They are working with a network of distributors and installers they formed on the fiscal measure. Manufacturers provided their installers with the appropriate information on the measure and with an appropriate sales speech. One of them specified the use he exactly made of the fiscal measure in its company by that the tax credit was not the main argument of the sales pitch but that it comes as a "support" for the sale.

The typical speech would sound like :

"We first say that this kind of appliances works with a clean energy, that the efficiency level is good and finally that there is 50% of tax credit on equipment costs » (Heat pumps, Sales Director).

The sales managers created communication to facilitate the installers' learning on the subject: the law itself, the context, the way to explain it to consumers...

If they form their installers in order to enable them to include the fiscal measure in the sales speech, they also explained that they don't do systematically calculations during the appointment. They include very general calculations in their catalogues. For example, the basic calculation of the credit tax or the return time on investment for a classic appliance such as gas boiler. Otherwise, they do not systematically make calculations for their clients. They do it when they go further in the details of the sale when there is a particular project needing thorough explanations before installing the equipment.

« No, we do not do any calculations. The customer is not here to buy a fiscal measure. He is here to buy a product. The fiscal measure just allows to decrease the bill » (Wood, Managing Director)

- The trigger role of the fiscal measure

Generally speaking, they found that the fiscal measure had a trigger role in a specific context of high energy prices and incertitude on the future availability of energy. Only one interviewed manager thought that people would have turned towards renewable energies even without the fiscal incentive.

"Firstly, the tax credit has a trigger role, it's a way to sensibilise people on renewable energies" (Wood, Managing Director)

After probing, 2 manufacturers spoke about the facilitator role of the measure. The form of the actual fiscal aid of the government is easier to implement than the previous one.

"The fiscal measure became part of everyday life, it is an argument in sales speech" (Wood, Sales Director)

"The role of the fiscal measure is between a trigger one and a facilitator one" (heat pumps, Sales Director)

The windfall effect really took place at the beginning of the fiscal measure, when most buyers had made their decision before knowing that there would be a tax

credit. After this first phase, most people were supported in their decision by the fiscal measure.

A sales manager working for an international company analysed the success of the French fiscal measure by considering 2 motivations of the French consumers profile:

- People don't want to be dependent anymore on fossil energy.
- People want efficient equipments.

- Level of awareness on the tax measure is good

Concerning the degree of information of consumers, 4 out of 5 sales managers thought that people were well informed. People know that there is an public support concerning renewable energy heat systems.

"When people arrive at the shop, they already know what they want to buy and they have an idea of the price". (Solar thermal appliances, Sales manager)

"Someone who tries to get in contact with any actor of the professional chain would get information on the measure.

"Consumers begin to have a great knowledge on this subject" (Wood, Sales manager)

However, manufacturers noted that some consumers were not well informed on the significance of the "credit" part of the measure. People would still confuse the meaning of fiscal deduction and fiscal credit. 3 out 5 professionals estimated that there should be more communication effort to explain this aspect. They had heard of customers who didn't pay taxes and wanted to invest in RES system but were still suspicious towards the notion of credit.

"It's difficult to understand for those who don't pay any taxes. Why does the Tax department give money back even to them?" (Wood, Sales Director)

"The fiscal system is not legible enough. We have to inform domestic consumers" (Heat pumps, Sales Director)

According to the professionals, installers are a good channel to pass information on the fiscal measure.

III. Success / failure factors

Success factors

Financial level

The way the measure has been thought is perceived as a "facilitator" for the sales manager of solar appliances. With a tax credit of 50 %, he thinks that there is a real demonstration of encouragement to incentivise consumers' investment. The financial level of the fiscal incentive is really appreciated by consumers as well as by manufacturers.

What is striking is the fact that the measure probably surprised people. The fiscal process that consists in giving back money to people even if they don't pay taxes surprised consumers according to most of the interviewed manufacturers.

The fact that the help went through the purse of household had an important impact. According to the professionals the way this financial support was implemented in France really corresponds to the way French people need to be mobilized. It means that a communication essentially based on ecological arguments or on European objectives for national clean renewable energy production would not have been sufficient to mobilize citizens. Moreover, there is negative background in the historical relationship between citizens and the taxes department. The fact that the State financial support arrives through a channel that normally takes money is eventually a good point. That is why people were probably suspicious wondering what kind of trap was hiding behind the fiscal incentive.

"It has a psychological impact. It gives the French people the impression that they take something from the Tax department. It's a very French point of view" (Wood, Sales manager)

Focus on RES

Some of the interviewed managers pointed out the fact that the way the measure was planned encouraged professionals from different renewable energies industries to develop a commercial approach on their activity to appeal consumers. Each industry has to develop arguments in favour of its renewable energy equipments: technical characteristics, aesthetics and respect of environment, efficiency.

"Each sector uses its arguments. Every one of them will try to be the first to convince customers." (Wood, Sales manager)

Renewable energies for individual heating are a recent challenge in France. A lot of explanations were to be delivered to customers, and manufacturers / sellers are in direct contact with them. They had to take up the burden of this pedagogy. Constructors had to manage on a pedagogical way to highlight the most advantageous characteristics of their business.

"There is a fear from consumers towards the Tax department" (Wood, Sales Director)

Another success factor is to be found in the national communication that has been made these last years. Events like the Grenelle de l'Environnement also contribute to increase public awareness.

Critics to the fiscal measure

The fact that the fiscal credit is given back a few months later is considered for some sales managers as a blocking factor for a part of the customers.

The tax measure is accused by some to have introduced confusion on the market. Before, it was easier to decide how to warm oneself because people had few choices: either gas or fuel. With all these new solutions heating professionals have to reorganize themselves in terms of commercial and technical formations. The increase of technical offers puts people in a state of indecision and makes them wonder what

the best solution is for them. Professionals think that a large part of the people is in a wait-and-see state of mind.

Professionals noted that the tax credit could paradoxically destabilize the market because no policy is scheduled to take over. They are all afraid on what could happen later. Some of them began to think of solutions within their company to compensate the end of the tax credit in 2009. No further information was given on this point.

IV. Improvements

If the measure is stopped from one day to the next, the aftermath of the measure could be difficult. A decrease of the production would lead to the decrease of employment in the global RES sector.

The measure is seen as a concrete public policy with effective impacts on the development of renewable energies. Its end has to be carefully planned.

- Future orientation of the fiscal measure

This measure has to be linked with high-performance equipments. It has to incentive equipments with high efficiency. A wood sales manager explained that nowadays a customer is buying equipment around 30% more expensive than the budget he first decided. He does it because he knows that he'll get 50% on the price material with the fiscal measure. Finally, its purchase is more expensive than the one he decided to do first. If the fiscal measure disappeared, people would probably invest less in this kind of equipment.

"If there is no more fiscal incentive after 2009, producers will have to reorient customers towards bottom-of-the-range equipments" (Wood, Sales Director)

- Opinion on the concrete implementation of the law

The measure should be simplified, especially for installations composed of 2 parts that do not give the same rate of fiscal incentive. It would diminish the risk of confusion for the customer if both rates could be harmonised. One example was cited twice: the installation of solar panels with a condensing boiler.

V. Conclusions and recommendations

Improvements of the context

The market of RES has to be considered as being in a stage of transition. Offer and demand are there but means to reconcile them are not exactly operational. Some concrete actions can be undertaken that will contribute to the success of the public policy.

A sales manager from the solar thermal industry spoke about the **training of installers**. The fiscal measure had an impact on the increasing number of installers on this market. It means that there are not enough professionals reliable to answer the demand.

“Installers have to be formed, especially on new kinds of risks issuing from this new source of energy. It’s a new job so there are new risks (...). Bad references on installers don’t have for the moment negative impact on the market” (Solar thermal appliances, Sales manager)

Then, an **emphasis of the communication** on the fiscal measure could clearly contribute to clarify the comprehension by consumers.

“Public authorities should draft a leaflet to present the different applications of the credit rate” (Solar thermal appliances, Sales Director)

Evolution of the measure itself

If the actual incentive has to disappear, it has to be done progressively, not as a brutal stop. The transition could take the form of a **grant** for the replacement of old conventional equipments. The priority is that the transitional measure keeps up with the improvement of the efficiency of equipments.

According to their point, the government has to carry on with this kind of policy to encourage the French people but also to sustain a sector that is starting.

“Whatever would be the method, it’s a priority to carry on to incentivise consumers with a grant or a credit” (Heat pumps, Sales Director)

They call for a renewal of the incentive. Even under another form. What is important is the fact that they don’t want a brutal breaking off. Manufacturers insist on the fact that they had to adapt their means of production in order to increase the production and be able to satisfy the demand. If the fiscal measure were to stop, they would have to take measures to make the production coincide with the fall of global demand.

An interviewee proposed to subdivide the financial division of the measure in several subcategories in order to give more importance to different specific investment and rise up the ceiling. So it would favour the realization of different types of investment for a consumer.

But even if the fiscal measure were to disappear, it would be important to keep a special measure for first acquisition.

- Reduce the fiscal incentive to the equipment that need it the most

RES equipments with a **low level of efficiency should be excluded** from the fiscal measure. And installation of RES in new building could be more encouraged by public authorities.

Finally, the fiscal measure needs to be more adapted to the specificity of the equipment. Some professionals underlined some inconsistencies. For example, for vertical heat pumps, the fiscal credit is on the material. But the most expensive part of the purchase is the workforce, not the material because installer has to dig deeply to install this kind of equipment. In this case, the fiscal measure doesn't encourage people to do this kind of investment, as the major part of the purchase remains very expensive.

Annexes

Guide d'entretien experts marketing

1. Introduction (5 mn)

- Présentation de l'interviewer
- Confidentialité (pas de nom, ni attribution de propos)
- Présentation du sujet de la discussion : « Votre expérience du crédit d'impôt dans un pays qui incite/favorise l'installation de chauffage individuel fonctionnant à partir d'énergies renouvelables. Enquête qualitative dans le cadre d'une étude comparative européenne REFUND +.
- Ancienneté sur le marché français de l'entreprise interviewée vendus (*faire préciser le type d'appareils vendus pour le bois énergie*).

2. Les impacts visibles de la mesure à différents niveaux de votre secteur d'activité (10 mn)

- (*En spontané*) Quels sont les principaux impacts de la mesure sur votre secteur d'activité ces trois dernières années ?
- (*Guidé si cela n'a pas été cité en spontané*) D'après vous, quels sont les impacts de la mesure sur :
 - Le marché
 - Les prix
 - Les offres de produits
- Degré d'information des clients sur la mesure du crédit d'impôt : Quel est leur connaissance de la mesure ? Quels sont les principaux canaux d'information utilisés ? Comment s'approprient-ils la mesure ? Viennent-ils dans vos magasins avec une idée claire du concept et de ce à quoi ils ont droit ? Comptent-ils sur le vendeur pour les renseigner sur la mesure ?
- (*En spontané*) D'après vous, quel rôle joue la mesure dans les projets d'investissement des consommateurs ?
- (*Guidé*) Dans certains pays, on a constaté que la mesure fiscale pouvait jouer différents rôles : déclencheur, réassurance de l'achat, facilitateur-maximisateur, effet d'aubaine. Par rapport à ces différents rôles identifiés, comment classifiez-vous votre clientèle ? Quelle logique suit-elle ? Par rapport à ces rôles du CI, quels profils de consommateurs voyez-vous apparaître ?
- Utilisez-vous le CI comme argument commercial ? Comment ? Si non, pourquoi ? (*Si possible, faire dérouler le discours commercial*). Quel type de calcul d'investissement réalisez-vous pour vos clients ? Leur donnez-vous des conseils pour remplir leur déclaration d'impôt ?

4. Facteurs de succès/ Facteurs de blocage ou d'échec (10 mn)

- Quels sont les impacts de la mesure fiscale ? Pourquoi ? Quels sont les facteurs de succès ou d'échec de la mesure ? Pourquoi est-ce que cela fonctionne ? pourquoi pas ?

- Quels sont les autres facteurs jouant un rôle en parallèle au crédit d'impôt (*l'augmentation du prix de l'énergie fossile, la communication/manque de, la corrélation avec d'autres aides, le processus administratif, la complexité des calculs, le fait que le CI ne porte que sur le matériel...*)
- Y a-t-il des aspects problématiques dans cette mesure ? Si oui, lesquels ?

5. Améliorations de la mesure (5 mn)

- Globalement, que pensez-vous de la mesure ?
- Comment jugez-vous son application concrète ?
- Tous les points d'insatisfaction en spontané
- Quelles améliorations peuvent être apportées au dispositif du crédit d'impôt ? Quoi d'autre ?
- Quelles améliorations sur la mesure elle-même ?
- Quelles améliorations en accompagnement du système ? (Ex : les aides)

Remerciements