
Carbon Tax: Some lessons from the French experience

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Outline

- **A Brief history of the French Carbon Tax**
 - Initial attempts (**Lesson 1**)
 - The carbon tax base (**Lesson 2**)
 - The carbon tax rate
 - The “gilets jaunes” revolt (**Lesson 3**)
- **The distributional issue**
 - Without compensation, carbon tax has regressive effects
 - Correcting regressive effects with tax revenues (**Lesson 4**)
 - Facing spatial inequalities is more complicated (**Lesson 5**)
- **Concluding remarks**

Initial Attempts (2000 and 2010)

“An additional tax on polluting activities” (2000)

- Fossil fuels and nuclear sources to be taxed
- Rejected by the Constitutional Court : no reason to tax electricity

“Climate and Energy Contribution” (2010)

- A “contribution” on fossil fuels based on CO₂ contents
- Rejected by the Constitutional Court : to many exemptions

- In both cases: A new fiscal instrument was rejected by the Court.
- What made the 2014 introduction possible: **to incorporate a carbon component in the existing energy taxes (“excise duties”)**. **Lesson 1**

The carbon tax base: a limited coverage

**full carbon tax covers around
50 % of CO₂ emissions**

Energy and large industry under ETS are exempted

- So far, allowances cheaper than the tax
- Free allocations for industrial players

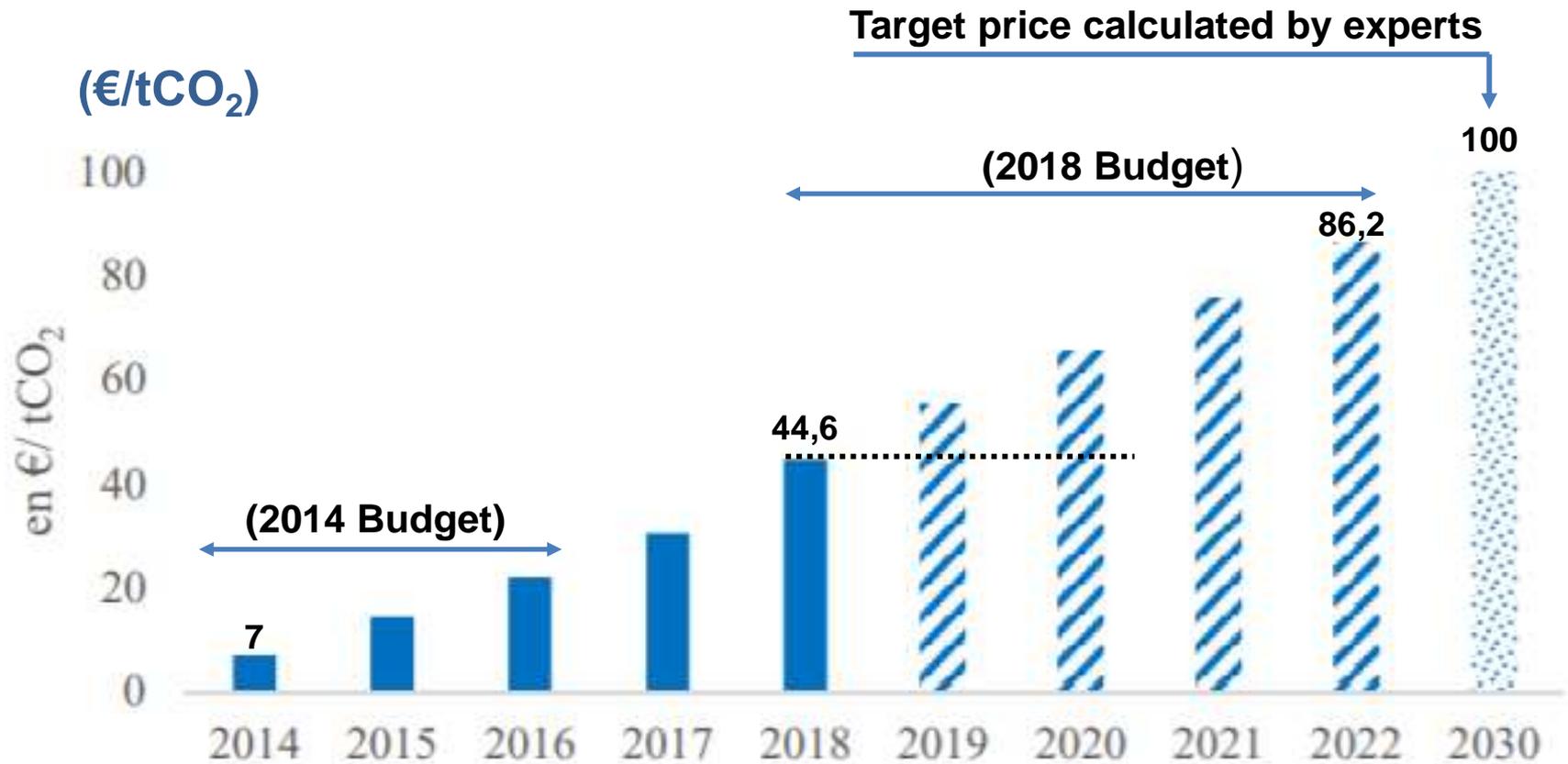
Other exemptions or reduced tax rates

- Full exemptions : aviation, international shipping,
- Reduced rates or exemptions : road freight, farmers, taxis, ...

Lesson 2: Enlarging the tax base is as important as increasing the tax rate
Carbon price signal should be uniform in the economy. Exemptions and ETS specific rules create economic discrepancies and social inequalities.

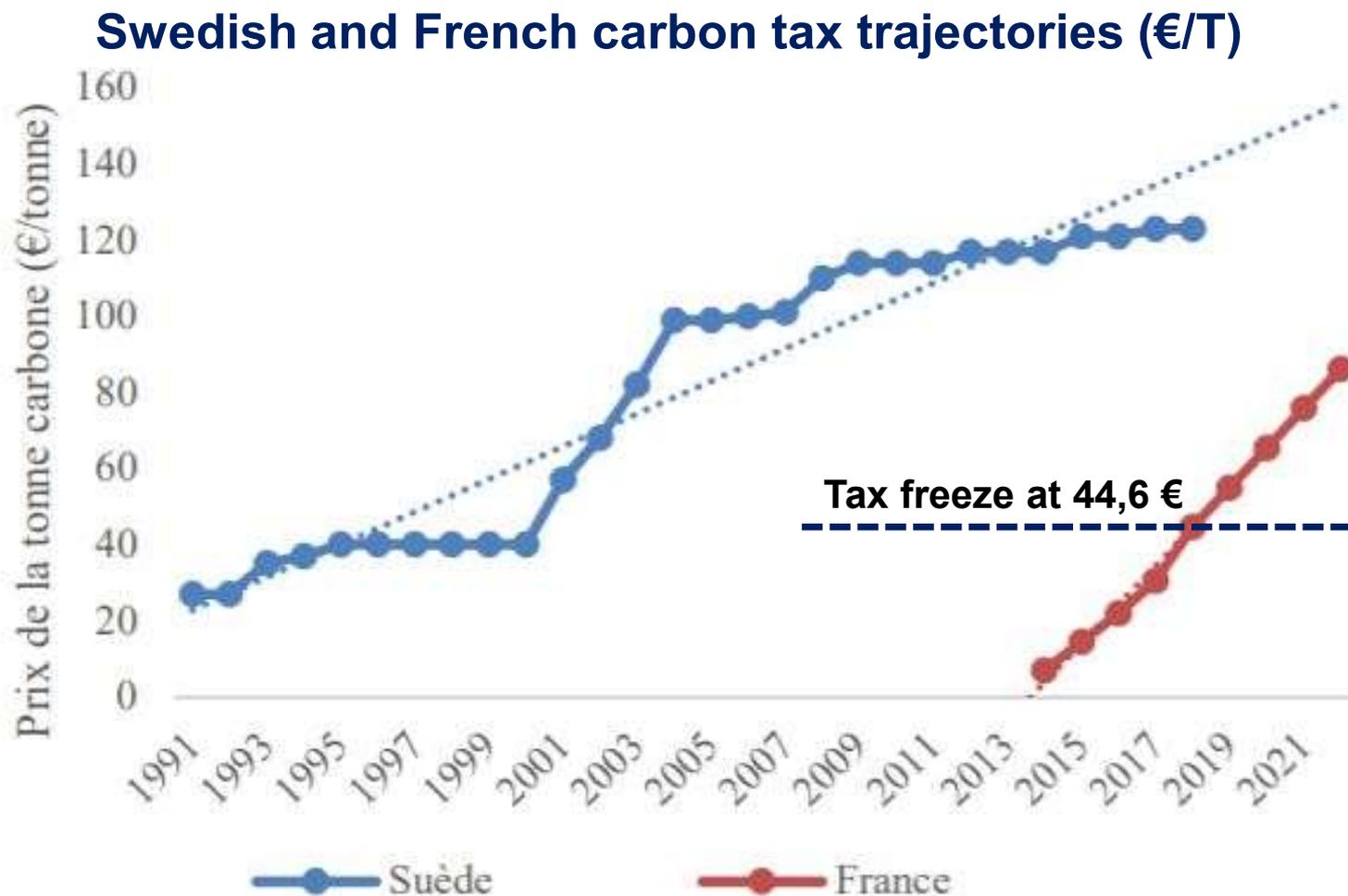
The carbon tax rate freeze in 2018

Implemented and targeted carbon tax rate trajectories



Source : Conseil des prélèvements obligatoires (Sept 2019)

A comparison between Swedish and French trajectories



The “Gilets jaunes” revolt

« It is quite honorable that we seek solutions to circulate by polluting our environment as little as possible.

But the tax increase imposed by the government is not the solution! We are already dependent on oil prices, there is no question that in addition we are subject to an increase in taxes! »

National Petition signed by more than 1.25 million people – winter 2018

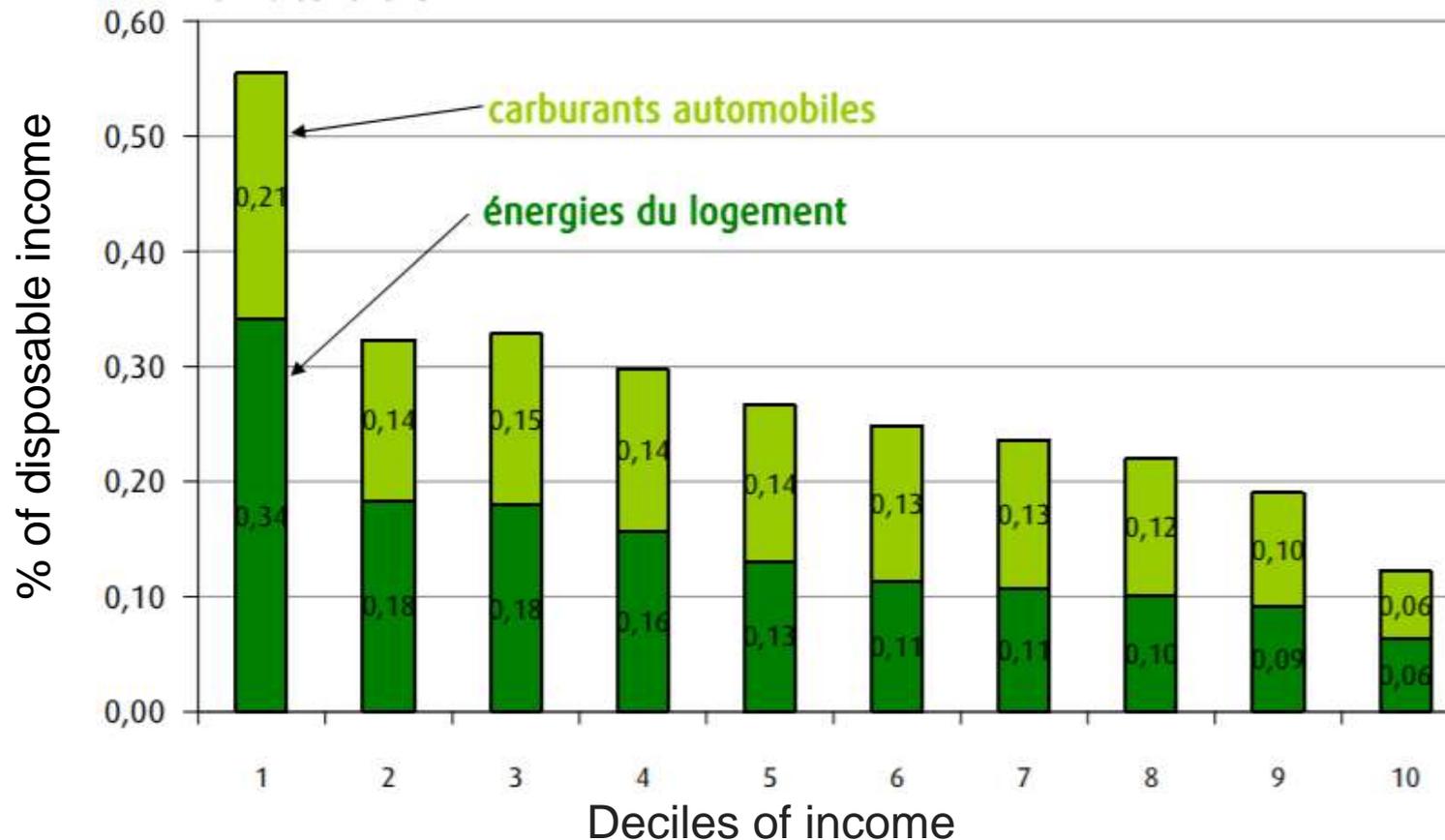


Lesson 3 : What matters is not carbon price, it's energy price

- Carbon tax was painless when oil price declined (2014-2016). What triggered the revolt : oil price increase + carbon tax.
- In addition : double taxation of diesel (reduction of the gap with gasoline), when French government continued to subsidy low emitting diesel cars !

Without compensation, carbon tax has regressive effects

Impact of a 22 €/T carbon tax on the household revenues



Correcting regressive effects with the tax revenues

What was recommended*

- Direct payment to low income households
- based on all energies consumption expenses

(*) By the Green Tax Committee Report

What was implemented

- “Chèque énergie”: a voucher that can be used for energy or isolation equipment.
- Covering only heating energy (no scheme for transportation)

Lesson 4: Carbon tax can generate substantial revenues. A part of them should be redistributed to avoid short term regressive effects.

- Calculation by Audrey Berry (2018): Between 20 and 35 % of the tax could neutralize the regressive effect.
- In practice a main difficulty is to find the adequate channel : Existing welfare scheme or ad hoc channel ?

Carbon tax and spatial inequalities



In majority, “Gilets jaunes” came from:

- Rural areas
- Small towns
- Suburban areas

Carbon tax hits stronger people living far from city centers :

- Longer distances from work, less alternatives to private cars.
- Financial compensation would be complicated to organize and could provide perverse incentives (in favor of urban sprawling).

Lesson 5: Combining carbon tax with strong incentives in favor of alternative transportation systems in rural and suburban areas.

Concluding remarks: The paths forward

In the short run :

- Carbon tax freeze to be prolonged in 2020
- Enlargement of carbon tax base problematic

In the medium run :

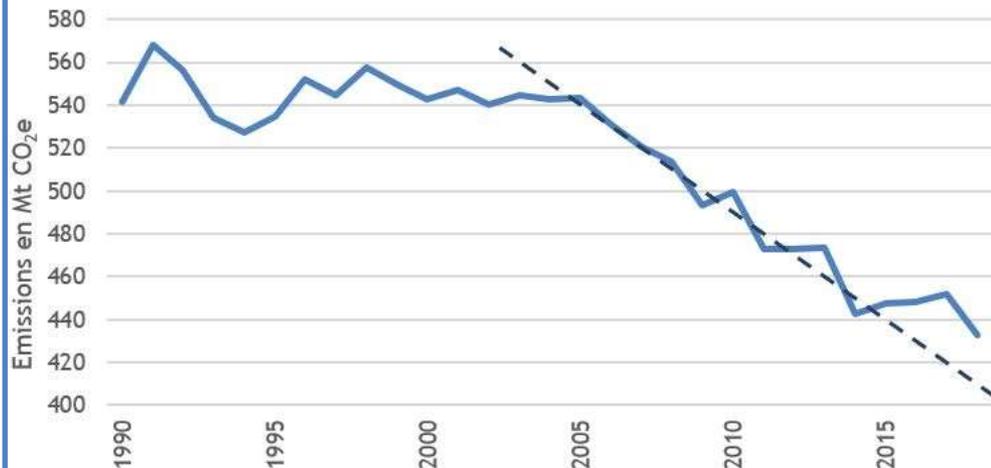
- Correcting distributive impacts is a condition to go forward.
- Better governmental communication is needed.
- EU initiatives could help !

- French GHG on a declining trend since 2005.

- When oil price drops, GHG Emissions recover (2014-2017).

- A stronger carbon price signal is needed to accelerate energy transition.

French GHG emissions, 1990-2018 (Mt CO₂e)



Source: National inventory

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