

The French Carbon Tax:

What went wrong?

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- **The challenge of reducing GHG emissions in the non EU ETS sectors**
- **A short story about the French carbon tax**
- **The recommendations of the “Rocard Commission”**
- **The Government project**
- **The “Constitutional Council” ruling**
- **Some general lessons from a failure**

French emission reductions targets

■ Long term French commitments:

- ✓ “Facteur 4” = 75% reduction for the 6 GHGs in 2050 compared to 1990
- ✓ The implicit carbon price to reach “facteur 4” has been evaluated at 100 euros/tCO₂ in 2030 (“Commission Quinet”)

■ Short term targets:

- ✓ Kyoto targets: to stabilize GHG emissions at 1990 levels by 2012
- ✓ An observed reduction of around 6-8 % between 1990 and 2008
- ✓ Recession impacts: CO₂ emissions expected to decline by 7% in 2009 compared to 2008.

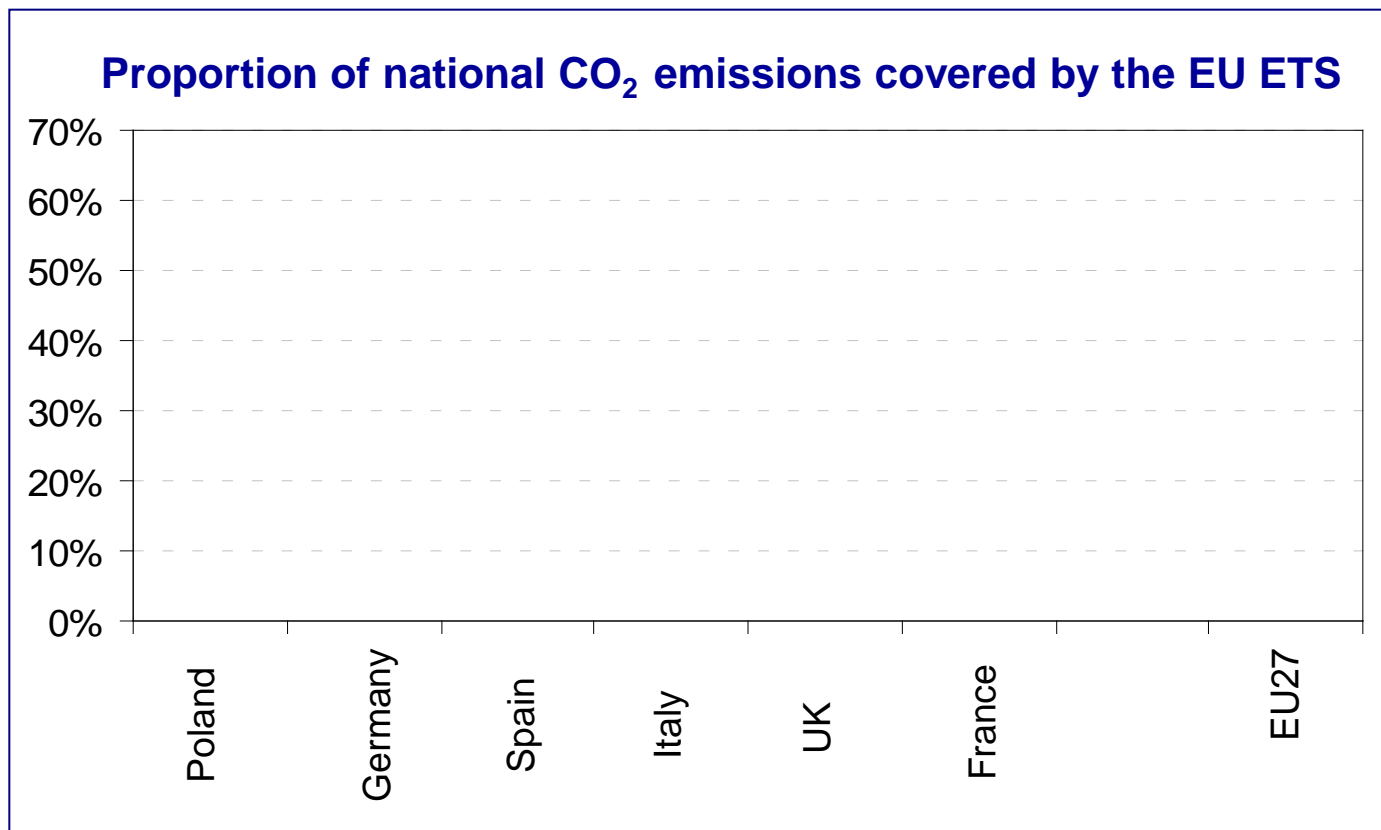
■ Energy-Climate Package targets in non EU-ETS sectors:

- ✓ At the European level: 10 % compared to 2005
- ✓ In France: 14 % compared to 2005

■ The EU ETS covers:

✓ 51% of European CO₂ emissions

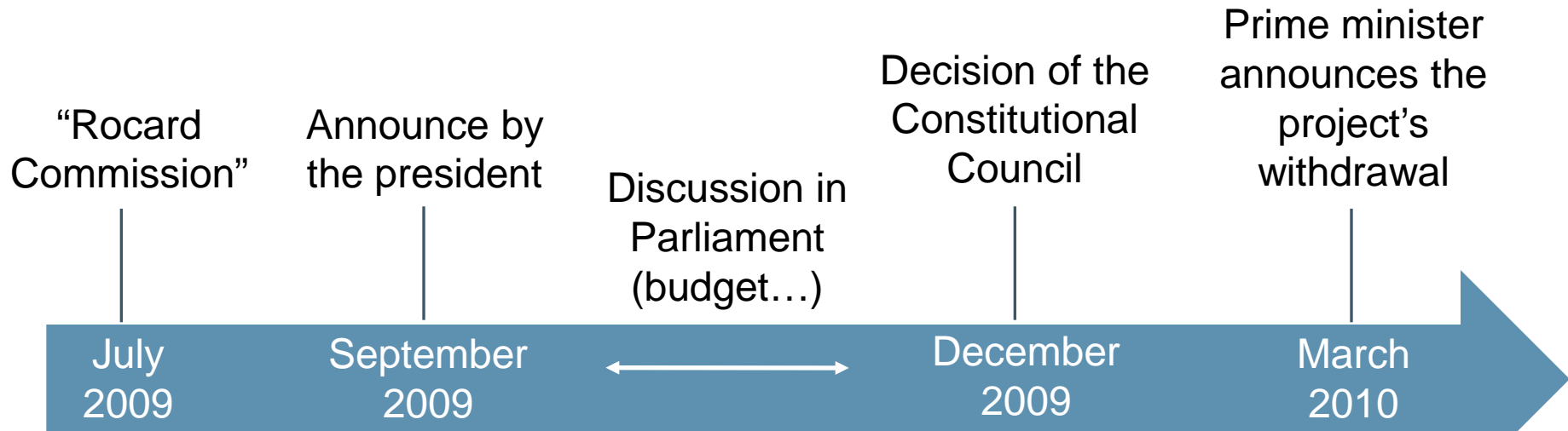
✓ 32% of French CO₂ emissions
(24 % of all GHG emissions)



Source: Mission Climat of Caisse des Dépôts.

- **Tradable “white certificates” scheme in order to promote energy efficiency**
 - ✓ Power companies at the heart of the scheme
 - ✓ First period: July 2006-July 2009 energy saving of 65 TWh (initial target: 54 TWh), which represents 0.5% of the national energy consumption
 - ✓ The objective of the next period still in discussion
- **Domestic use of Kyoto project-based mechanisms**
 - ✓ Because of the long position, no need to buy CER or ERU credits
 - ✓ National use of CO₂ JI-domestic projects :
 - Projects in the pipeline represent 13.7 MtCO₂
 - Most are large projects specifically industrial gases (mainly N₂O)
 - In the energy sectors: fuel switching (mostly biomass) and one energy efficiency project

A short story of the French carbon tax



"This consultation is an opportunity to adjust things at the national level, and to meet our challenge by engaging in a virtuous circle"

"We have been delaying action for too long (...) It is now the time for an environmental taxation"

"Exemptions are against the objective to reduce emissions, and they establish inequalities in treatment"

"Our decisions must take into account competitiveness issues. We want the decisions to be agreed on at the EU level"

■ The tax base:

- ✓ To price carbon for all domestic CO₂ sources (exclusion of non CO₂ gases)
- ✓ Complementary to already priced emissions in EU ETS
- ✓ With no exemption: principal of exhaustive coverage
- ✓ Upstream mechanism: to add a CO₂ component in the existing energy taxes

■ The tax rate:

- ✓ Preference for a unique price, but which price ?
- ✓ Preference for a price of 32 Euros/ton of CO₂ in 2010 increasing to reach 100 euros/ton in 2030
- ✓ How to harmonize the principal of a unique price with the EU ETS market price?

■ The tax compensation: in search of the double dividend

- ✓ No increase of the global fiscal burden (ratio tax/GDP)
- ✓ Integral compensation for households and enterprises with tax rebates
- ✓ Preference for a selective compensation for households identified as the poorest

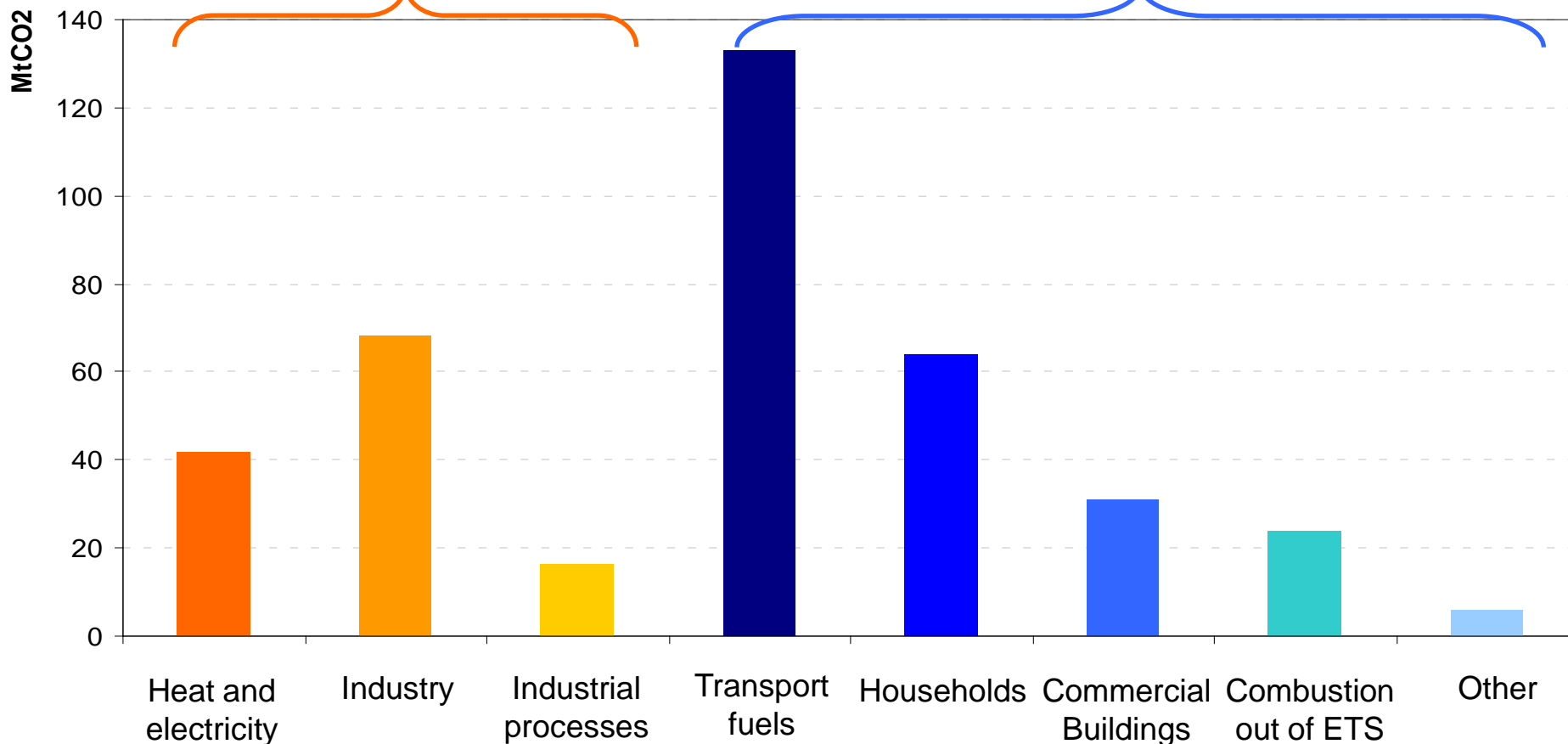
Scope of the EU-ETS and the carbon tax base (emissions of 2007)

European Trading Scheme

127 Mt (32% of emissions)

Potential carbon tax base

260 Mt (65% of emissions)



The Government project

■ Tax base:

- ✓ The coverage of the tax project corresponds to the Rocard's Group recommendation

■ Tax rate:

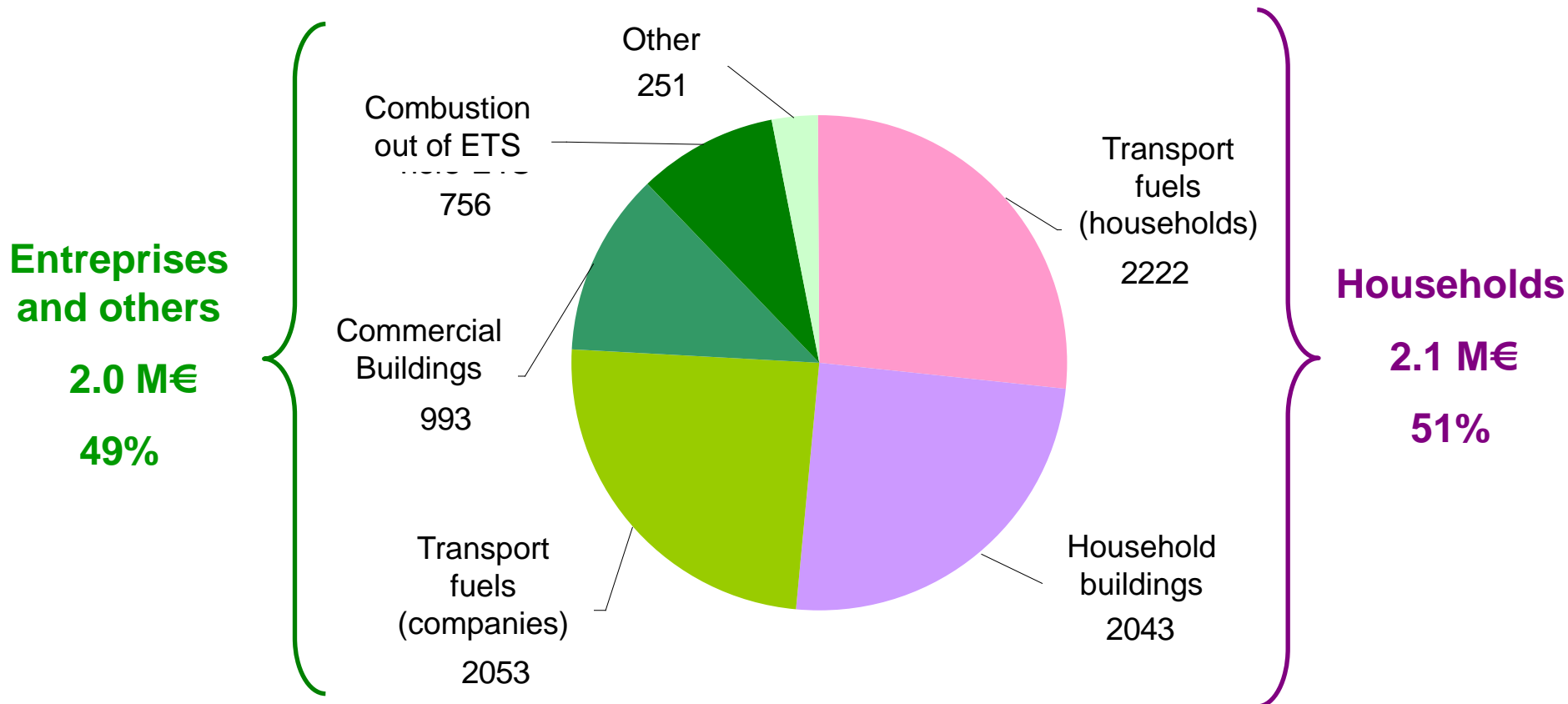
- ✓ Initial price has been lowered to 17 €/t to be in accordance with the EU-ETS carbon price
- ✓ No multi-year provisions: carbon tax revisions will have to be discussed every year in Parliament which makes it difficult to anticipate its level

■ Compensation:

- ✓ Carbon Tax revenues re-allocated to households (2.4 billion euros) with a general rebate (instead of a targeted rebate)
- ✓ No clear compensation for enterprises: multiplication of exemptions or quasi exemptions for several sectors: farming, hauling, fishing ...
- ✓ No compensation for local governments which are going to pay the carbon tax

Expected fiscal revenues with a carbon tax of 17 €/T and a full base

■ Fiscal revenues (calculated with 2007 observed emissions)



The Constitutional Council's ruling

- **The main reason of the rejection by the Council: Violates the tax equality principal in the industrial sectors:**
 - ✓ To many exemptions in sectors not covered by the EU ETS: farming, hauling, fishing
 - ✓ The main distortion for the Constitutional Council: according to the Council, the companies operating under the EU ETS should pay the carbon tax
- **The main question: can we consider the carbon price traded on the market equivalent to a carbon tax with a variable rate?**

Some lessons from a failure

■ Explain carefully what you want to do

- ✓ Most of the people ignore what a “Green Tax” is
- ✓ Asses the economic impacts rigorously
- ✓ Focus on the expected benefits

■ Do it quickly

- ✓ Setting up a tax is an act of Public Authority
- ✓ The right place to discuss it is the Parliament
- ✓ Don't engage indefinitely discussions with the stakeholders or with the experts

■ Do it simple

ATLANTIC WORKSHOP

Thank you for your attention!

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