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*The French
carbon tax*

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MINISTÈRE DE L'ÉCONOMIE
DE L'INDUSTRIE ET DE L'EMPLOI

AGENDA

- *The process and the preparation of the bill*
- *Economics and rationale*
- *The Government's bill proposal*
- *The next steps*

- ***The process and the preparation of the bill***

The emergence of the carbon tax in the French debate

- The « *Grenelle de l'Environnement* » (2007) : climate plan: **reduction of GHG emissions by 3/4** until 2050. **Art. 2**: consideration of the possible implementation of a carbon tax.
- **25th of October 2007**: speech by Nicolas Sarkozy: implementation - no raising of overall level of mandatory contributions.
- **EU former examples**: the Swedish “green tax shift” from 1991, Norway, Denmark, Finland.
- **“Climate energy package”**: enhancement of EU efforts.

A broad process of public consultation

- An **innovative process**: a dedicated expert commission, chaired by Michel ROCARD, former French Prime Minister.
- A public conference on the 2nd and 3rd of July and conclusions delivered by M. ROCARD at the end of July: **specific proposals** on the tax design, tax base and tax level.
- **10th of September**, public speech by Nicolas Sarkozy: implementation of the carbon tax in 2010.
- Proposals made by the Government in the **2010 budget bill**.

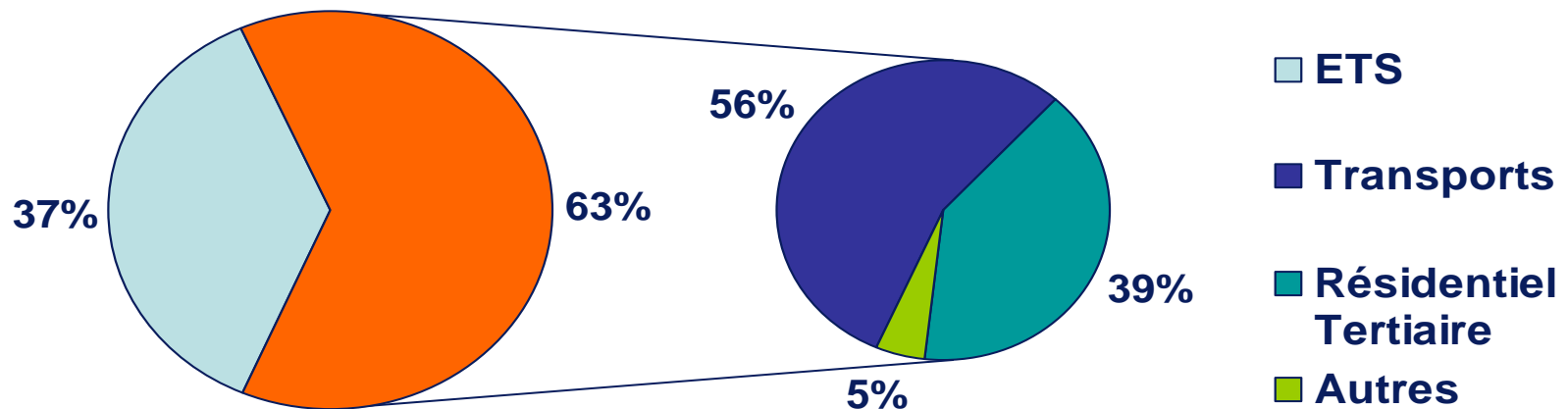
- ***Economics and rationale***

Objective: reduce GHG emissions uncovered by the EU ETS (i)

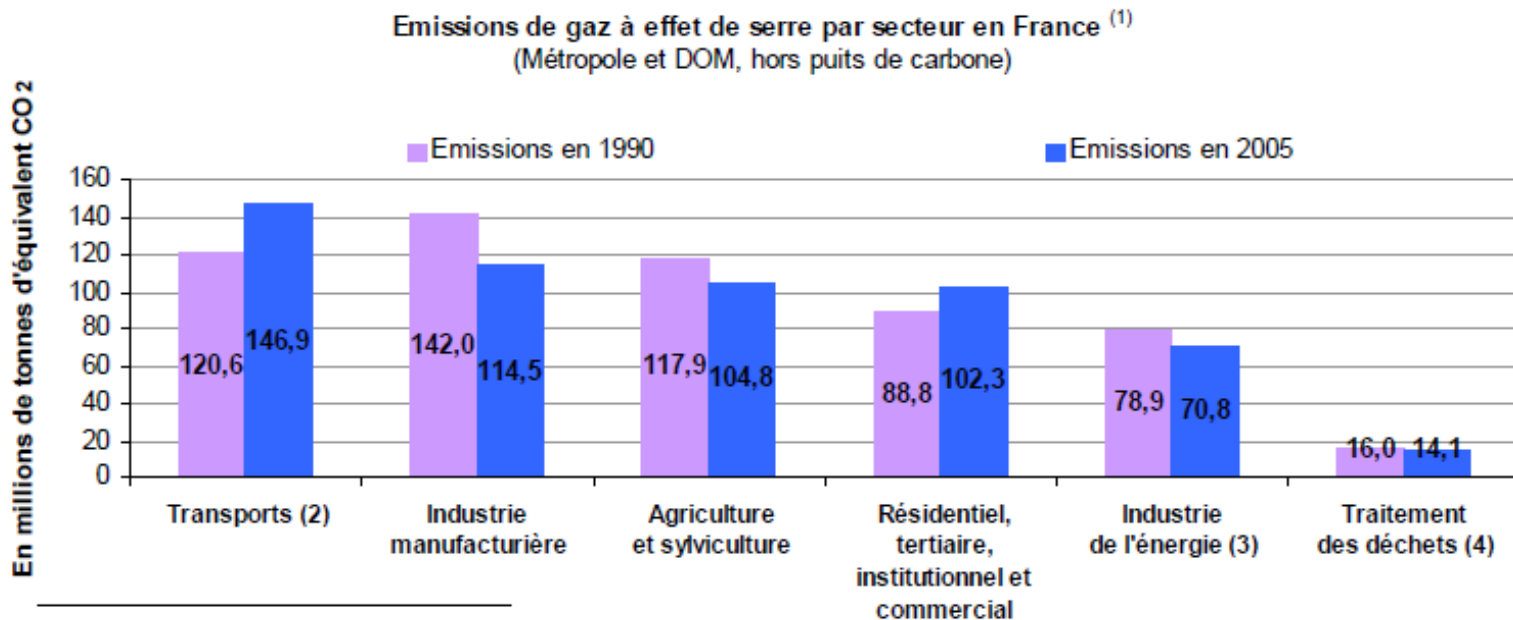
- **EU Emission Trading scheme (ETS):** 2005, 2^d phase 2008-2012
- **Coverage:** large industry and energy; 11 000 European installations (electricity, cement, steel...)
- **Cap:** from 2012 -21% until 2020 on 2005 basis.
- **Implementation:** annual delivery of allowances; companies to give back allowances corresponding to emission levels. An **EU price on carbon** emerging on secondary market.

Objective: reduce GHG emissions not covered by the EU ETS (ii)

- **EU ETS (2005):** large industry and energy ; -21% until 2020 on 2005 basis.
- **Non ETS:** all other sectors ; -14%.
- **But non ETS represents majority (63%) of French CO2.**



French CO2 emissions



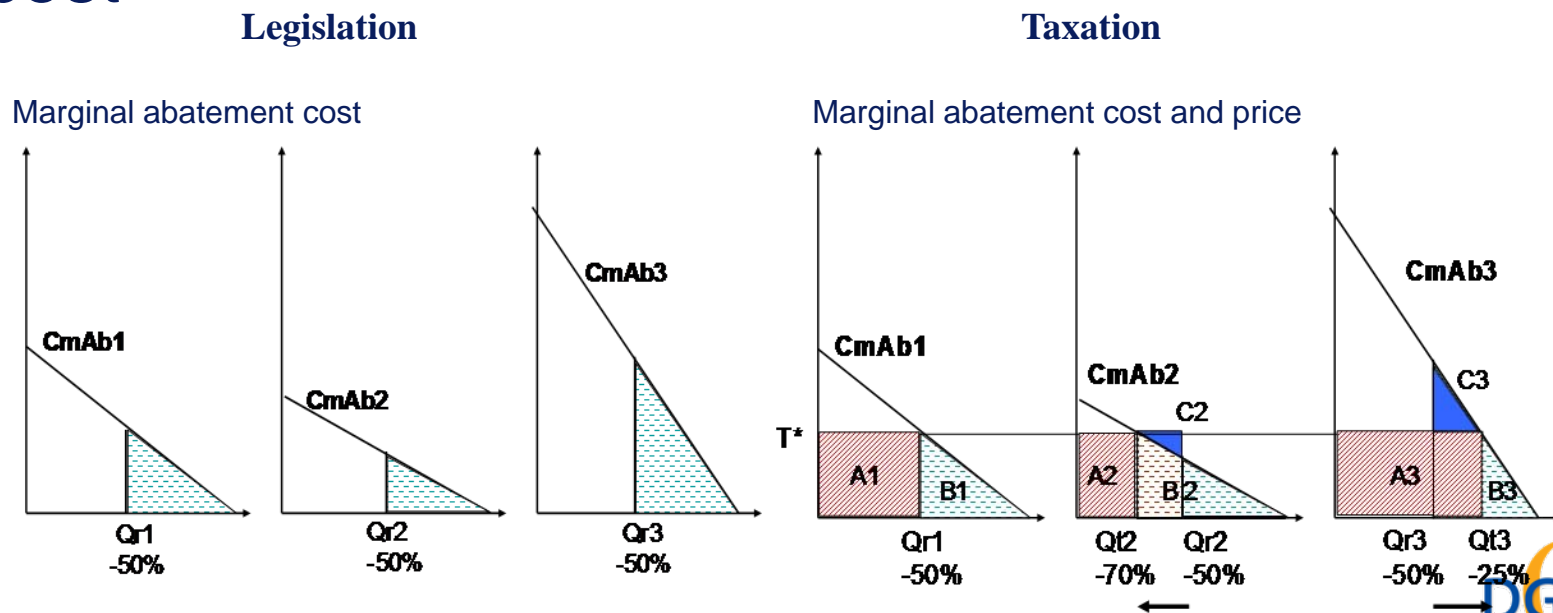
➤ A need for a **dedicated economic instrument** providing a price signal on carbon to address diffuse emissions not covered by the EU ETS 

Main economic justifications of a CO₂ tax

- 1st dividend:
 - Reduce emissions at least cost.
- 2nd dividend :
 - Recycle the revenues generated by the tax to reduce other taxes for a final positive impact on growth and employment.
- 3rd dividend :
 - Provide a macroeconomic stabilization effect.

First dividend: reduce emissions at least cost

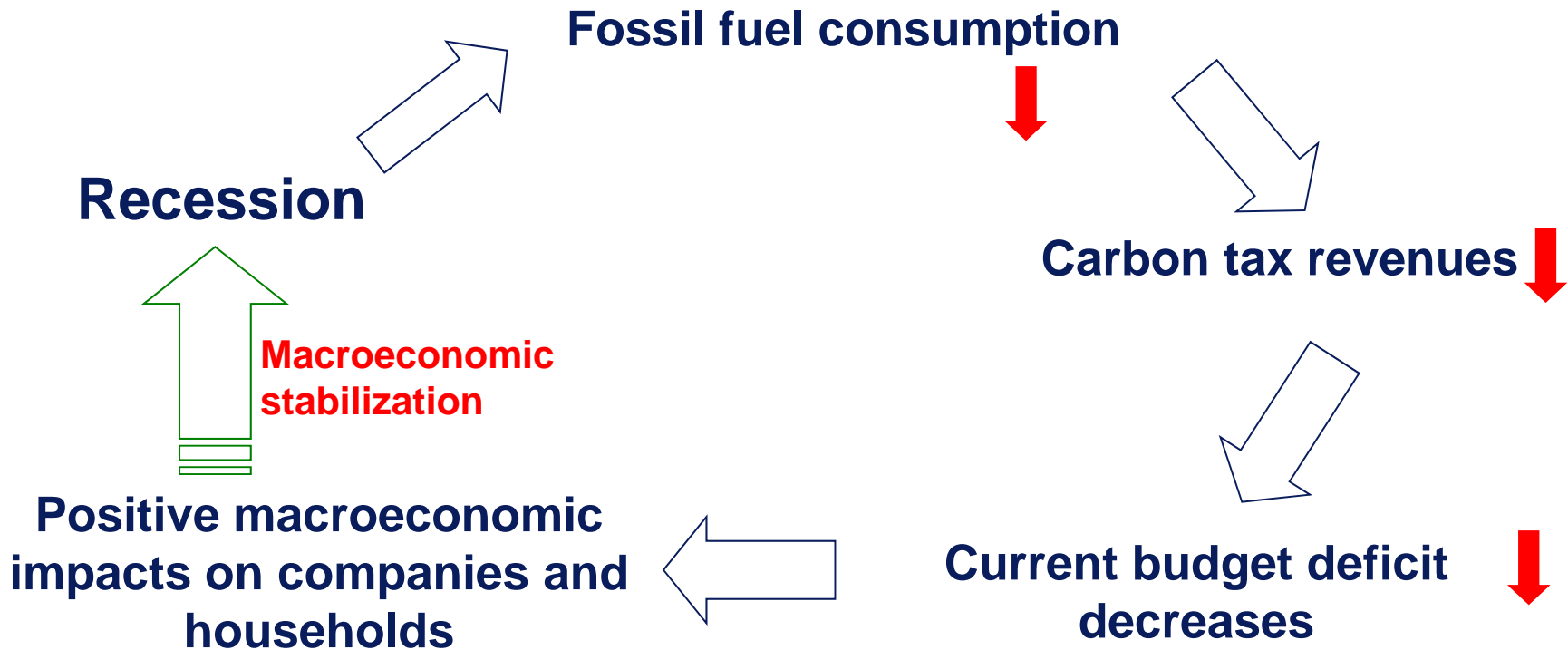
- Taxation leads to **equalization of the marginal abatement costs...**
- ... which **minimizes the global socio-economic cost**



Second dividend: use the revenues generated

- No increase in the overall level of taxation in France means that ...
- ...the revenues are used to **lower existing taxes.**
- **Targeting the most distortionary** taxes leads to positive macroeconomic impact.

Third dividend: macroeconomic stabilization



- ***The Government's bill proposal***

The tax base (i)

- Carbon tax **only applied to sectors not covered by the European carbon market** (large industry, electricity, aviation) : would lead to double taxation otherwise.
- **Carbon tax is based on the energy content of fuels, not the embedded carbon of the production of goods.** Price signal thereafter diffused in the economic chain.
- **Carbon tax adds to the existing taxes on fossil fuels** : increasing the levels of taxation to reflect the carbon price signal.

The tax base (ii)

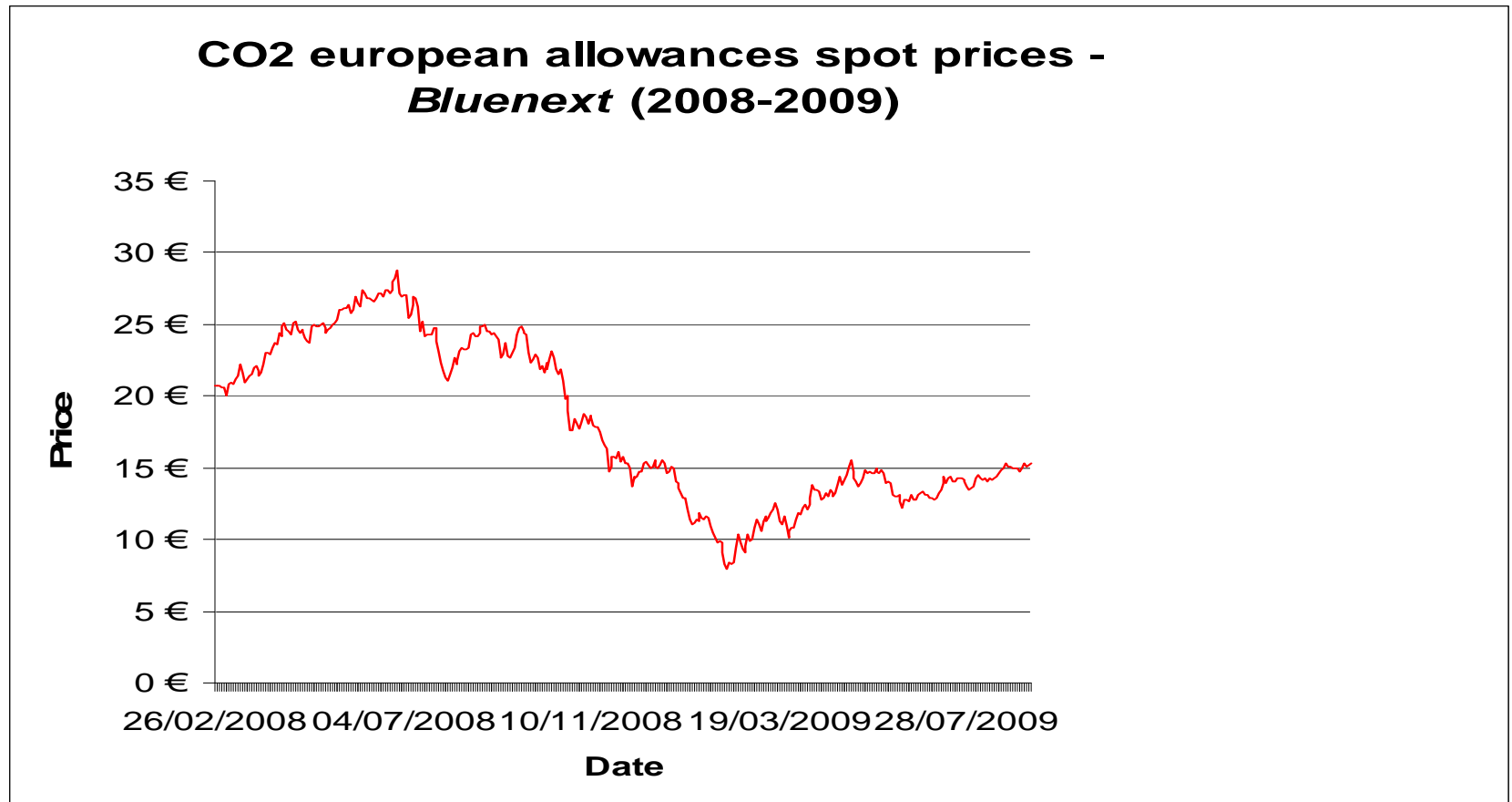
- **CO2 content** of fossil energies.

Gazole	2,66 kgCO ₂ / L
Essence	2,42 kgCO ₂ / L
GPL	231 kgCO ₂ /MWh
Fioul domestique	271 kgCO ₂ /MWh
Gaz naturel	205 kgCO ₂ /MWh

- Therefore, at a **17€CO₂ / t level**, this will lead to :
 - 4,11 € cent / l of fuel: + 2 € for (incl. VAT) for a refill
 - 0,31 € cent / KWh of natural gas: + 33€ (incl. VAT) for a 8 000 KWh yearly consumption
 - 4,5 € cent / l of domestic fuel: + 53€ (incl. VAT) for a 1000 l yearly consumption

The tax level (i)

- Level of the tax **17€/ t**: level was fixed in reference to European CO2 market prices.



The tax level (ii)

- **Progressive** introduction of the carbon tax to allow economic actors to adapt and channel investments and consumption towards low-carbon behaviors.
- Establishment of a “**Green tax Commission**”, in charge of revising the level of the tax each year.

The tax use (i)

- The revenues generated by the tax:

	<i>Revenues (M€)</i>	VAT	TOTAL
Households	2,2	0,4	2,65
Companies	1,9	-	1,9
Total	4,1	0,4	4,5

- The whole revenues will be **completely redistributed** internally.
- For households: **redistribution via a “green tax credit”** for all households.
- For companies: lowering the **professional tax** based on new investments.

The tax use (ii)

- The rebate distributed to households is **differentiated** across categories of households, according to geographic location (urban or rural) and family structure.
- Eg: in area with public transportation, only 46€ against 61€ if you live outside of such an area (+10€ per children).

- ***Next steps***

The way forward

- Bill to the **Parliament on the 6th of October:** parliamentary debate until December, and vote within the context of 2010 budget.
- Agreement before Copenhagen and entry into force in France in **2010**.
- France interested in entering the debate of a carbon tax at **the EU level**.