The French « Carbon Component » in national energy taxes

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The 3rd version of a system for carbon taxation at national level

- A first attempt in 2000 : project for the extension of the tax on polluting activities to electricity, gas and coal
  - **Project canceled by the Constitutional Council : no differentiation of taxation for electricity produced either with renewables, gas, coal...**
- A second attempt in 2009 : project for a carbon tax
  - **Once again rejected by the Constitutional Council which considered that there was too many exemptions**

Finally, the carbon component in energy taxes is adopted in 2014

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The main characteristics

- The carbon component is not a new tax
- This component is integrated in energy taxes : the level of taxation for each product does not appear explicitly
- It was adopted in 2014 with a level of taxation determined for 3 years : 2014-2016
- In 2015, a long-term trajectory (until 2030) was included in the National law on Energy Transition for Green Growth
- The transcription for each energy products is adopted in annual Tax laws : the last modification occured in 2016 with levels defined for 2016-2017

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Preliminary discussions

- Appointment of a Commission « Rocard » in 2009 : analysis and recommandations
- Taking into account Quinet Commission results of 2008 : publication of a report on the price of carbon in public investments
- Synthesis on the impacts of a carbon tax in 2009 : Ademe (French agency for energy and environmental management) and ministry of Environment
- Recommandations from the Comittee for a Green Tax System (2013) using previous results ans complementary evaluations

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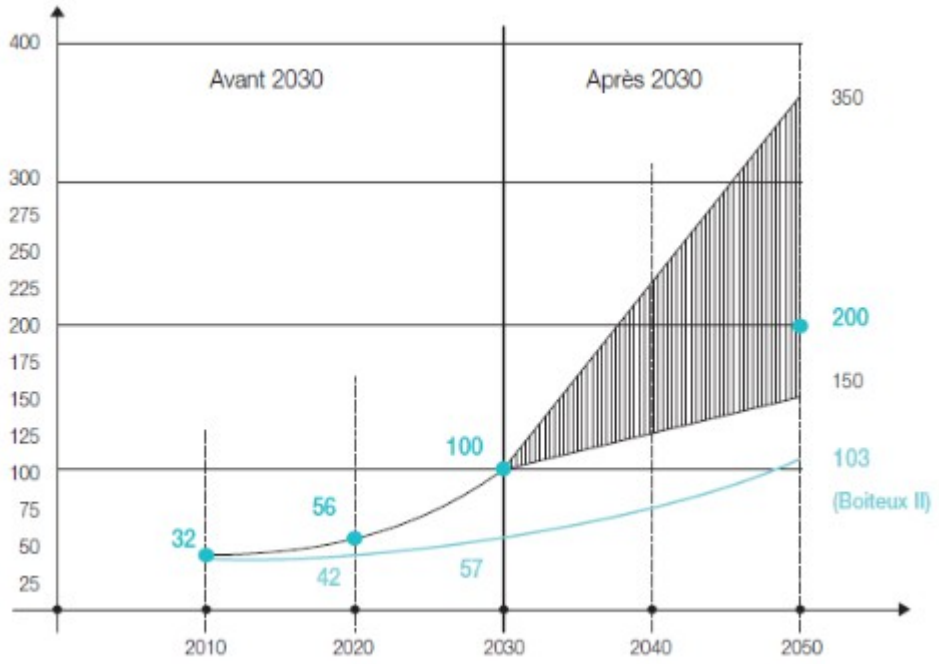
The level of taxation

- Levels defined by the Quinet Commission in 2008 for 2010-2050:



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The level of taxation

- Recommandation from the Rocard Commission: 32 €/tCO2 in 2010
- Level scheduled in the 2010 project : 17 €/tCO2 in 2010
- Levels for the 2014 carbon component
  - **7 €/tCO2 in 2014, 14.5 € in 2015, 22 €/tCO2 in 2016**
  - **For 2014, the first step of 7 €/tCO2 applied only when the level of taxation was lower than this threshold**
  - **Targets for 2017-2020 and 2030 included in the Law for Energy Transition : 56 €/tCO2 in 2020 and 100 €/tCO2 in 2030**
  - **Level in 2017 : 30.5 €/tCO2**
    - **Corresponding to a total carbon component of 8.1 ct€/l on diesel and 7.0 ct€/l on gasoline**

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The level of taxation

- When comparing carbon taxes, it is necessary to have in mind the global level of taxation
  - **The level of total French taxes on gasoline in 2017 (exc VAT) is equivalent to about 250 €/tCO2**
- Other elements have modified the level of taxes : like for example between 2015 and 2017 the convergence of taxes on gasoline (- 3 ct€/l excluding carbon component) and diesel (+ 4 c€/l)
- The level is important but also the long-term visibility
- For the implementation, emissions factors have to be defined :
  - **Different values are available (French levels are based on the draft for the revision of directive 2003/96)**
  - **Specific questions like bio-energies (biofuels, biogas...)**

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The perimeter of taxation

- All types of energies with some mandatory exclusions because of international and European rules (e. g. international aviation)
- The same level is applied to all types of energies
- With exemptions for specific sectors: mainly agriculture (only a part of the 2014 first step was applied) and freight transport (no impact of the carbon component)
    - **No rule defined but a decision is taken year by year**
- A specific treatment for energy-intensive business under ETS : the level applied is the one applied in December 2013
- A specific treatment for energy-intensive business non covered by ETS with activites considered as exposed to a significant risk of carbon leakage : the level applied is the one applied in December 2014

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Impact assessment

- **Impact for the level of 2016 (22 €/tCO2)**
  - **The impact on GHG emissions** is mainly on transport and residential-tertiary emissions : reduction estimated to **3.8 MtCO2** (about 0.8 % of 2015 national emissions and 0.7 % of 1990 emissions)
  - **Impact of the carbon component on households budget : 83 € / year on average in 2016 compared to 2013**
  - **Impact on business in 2016 estimated at 0,03 % of added value for tertiary services and 0,10 % of added value in industry**
  - **In a context of a sharp decrease in energy prices**
  - **Positive economic impact expected when the tax benefits are used efficiently**

The total impact on GHG emissions of a carbon component raising to **100 €/tCO2 in 2030** is estimated to about 3 % of 1990 emissions

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How to use the benefits of the tax

- This point is very important when discussing with stakeholders
- It was debated thoroughly during the Commission and Committee works preceding the adoption of the carbon component
- The benefits from 2014 to 2016 have been used to foster innovation and competitiveness in companies and has also allowed to finance measures for households which were adopted at the same time
- Since 2015, the law on Energy Transition explicitly mentions that the increase of the carbon component must be compensated by decreasing other taxes

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A measure belonging to a large ecosystem

- This is one element of the National Low Carbon Strategy adopted in 2015
- It will contribute to the limitation of GHG emissions in accordance with the carbon budgets defined for 2015-2018, 2019-2023 and 2024-2028
- Some examples of other measures :
  - Funding renewable energies : 5.3 Mds € / year
  - Energy savings certificates : 850 M€ / year
  - Fund for renewable heat : 220 M€ / year
  - Tax credit for energy savings in buildings : 1.4 Mds € / year
  - Incentives for electrical vehicles : 370 M€ / year
  - New regulation on building construction

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Some key elements

- The implication of stakeholders and the discussion on goals and means of implementation are essential
- It is important to define the starting level, the trajectory but also to evaluate the impacts and to discuss the use of the benefits
- The definition of the perimeter and how specific cases are taken into account : coordination with carbon markets and sectors facing competition (industry, transport sector)
- The long-term visibility of the trajectory
- A discussion at the European level would help to make progress : France has invited, together with other Member States, the Commission to restart the work on energy taxes

More generally, France strongly supports carbon pricing at a global level

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Some key elements

- The ambitious target adopted by Europe to reduce greenhouse gas emissions by 40 % between 1990 and 2030 goes hand in hand with an efficient carbon pricing.

- French Minister of Environment, Ségolène Royal, encouraged her European counterparts to adopt national measures to expand carbone pricing to all sectors (in particular construction and transportation).

- France also supports effective measures to get the right carbon price signal in the ETS. The discussion in progress on the revision of the ETS directive is key to find the most appropriate measures in order to provide the right signal to investors and ensure that the European trajectory guided by the 2050 target will be respected.

- Finally, France is fully involved in the international Carbon Pricing Leadership Coalition and pushes for extending the coverage of emissions by carbon pricing in all countries, without imposing a unique way to fix a carbon price.

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Thank you for your attention