

Putting a price on carbon to control emissions more effectively

In France, alongside the construction sector, the transportation sector accounts for the most CO₂ emissions, namely approximately 30% of national emissions. Due to the climate emergency, around 80 countries made a commitment to the UN to reduce their greenhouse gas (GHG) emissions significantly by 2050 or even 2030, under the Paris Climate Agreement. The carbon tax and carbon emission quotas are economic measures aimed at making polluters pay in proportion to their emissions (the polluter pays principle) and ultimately to steer companies' and citizens' behaviours and decisions towards a reduction in polluting emissions. Although many countries claim to be willing to apply an emission-sensitive tax, in 2018 only 21 countries and two Canadian provinces had actually introduced an environmental tax on CO₂ emissions.

→ WE ARE ALL CONCERNED

Road haulage is not the only sector to be concerned by the carbon tax. In July 2019, the French government decided to require a solidarity tax on air tickets from air transport companies, the so-called "Chirac tax". This tax, which was created in 2005, applies to all airlines embarking passengers on French territory. Its revenue was initially intended to finance developing countries. Article 20 of the 2020 budget bill¹⁹⁴ recently provided for an increase of this tax on air tickets, revenues from which will be allocated to the AFITF's budget, the funding agency for French transport infrastructure. This "eco-contribution"¹⁹⁵ accounts for a price increase ranging from €1.50 to €18 according to booking class¹⁹⁶. Alongside eight other countries, France has called for the European Union to revive debate on civil aviation pricing through new tax measures with a view to fostering the reduction of the sector's greenhouse gas emissions.

→ THE CHALLENGE OF PRICE ... AND OFFSETTING

The amount of this tax varies greatly. It ranges from €0.9 per metric ton of CO₂ emitted in Ukraine to €118 per metric ton of CO₂ in Sweden. In France, the *Contribution Climat-Energie* (CCE) was introduced in 2014. Initially set at €7 per metric ton of CO₂, the energy transition act provides for a CCE of €100 per metric ton of CO₂. In 2020, in line with the set increase, the amount of this carbon tax was €44.60 per metric ton of CO₂, i.e. an increase of 537% in four years, since the introduction of the measure¹⁹⁷. One of the challenges of the carbon tax is related to setting the pricing level: it must be high enough to change purchasing behaviours but not excessively so as this would result in market distortion. In other words, what is the maximum limit of the effort we are prepared to agree to in order to reduce CO₂ emissions?¹⁹⁸ The second challenge is that of offsetting measures intended to correct the financial effects of the carbon tax on low-income households, without these measures weakening the incentive to change behaviours.

→ A RESOURCE HIT BY TAXPAYERS' DECREASING CONSENT TO PAY

In France, the carbon tax is a component of domestic consumption taxes (TIC) which are applicable to fossil fuels consumed. Its constant rise is increasingly disputed by households and small companies, for whom the tax burden is higher than for others in proportion to their incomes: the 10% poorest are 2.7 times more affected by this tax than the 10% richest. This is compounded by the fact that major companies, which generate high levels of CO₂ emissions, are exempt from the carbon tax, as they are subject to CO₂ emission quotas, which were introduced before the carbon tax was established.

The increase of the CCE from €44.60 to €55 per metric ton of CO₂ was one of the triggers of the "Yellow Vest" protest movement. This led the French government to cancel the carbon tax increase in December 2019¹⁹⁹. The carbon tax is still perceived as punitive in that very few alternatives or support solutions aimed at changing consumption habits are implemented to help households mainly in suburban and rural areas, who are restricted in their behaviours (poor housing insulation, systematic car use, etc.).

→ DISPUTED REVENUE REDISTRIBUTION

Securing the acceptability of such a tax entails improved communication regarding the allocation of revenues from the carbon tax component. While the World Bank announced that it wanted revenues collected by the carbon tax to be entirely allocated to funding infrastructure that promotes less carbon-intensive uses, in France, 20% of revenues from the TICPE's carbon component is allocated to funding the energy transition²⁰⁰ and 3.2% is transferred to the AFITF which invests in transport infrastructure projects²⁰¹. The remaining 77% is allocated to funding local and regional authorities (32%) and to the State's general budget (45%)²⁰².

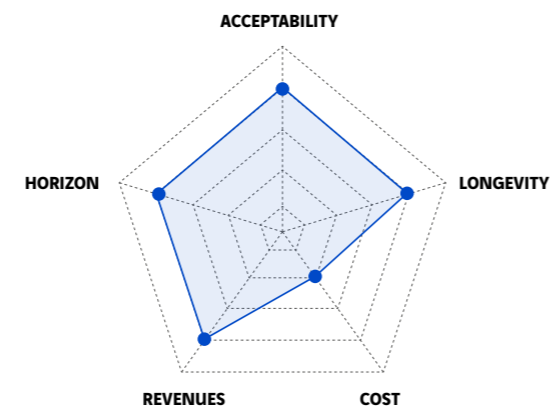
However, unlike the carbon component of the TICPE, revenues from certain taxes are allocated in a clear manner²⁰³. This is in particular the case of the ecotax on kerosene that France will introduce in 2020. Revenues from this air

travel sector contribution (€182 million per year) will be devoted to investments in transport infrastructure which emits lower levels of CO₂, mainly in the rail sector. However, for Christian Gollier, Director of the Toulouse School of Economics (TSE), the carbon tax is not designed to finance the environmental transition²⁰⁴. Its environmental nature is more to do with its existence than with its use. One of the challenges lies in setting the price level. It must be high enough to change purchasing behaviours but not excessively so as this would result in market distortion. In other words, "what is the maximum limit of the effort we are prepared to agree to in order to reduce CO₂ emissions?"²⁰⁵ reminds Christian Gollier.

The actual challenge of the carbon tax therefore lies in the setting of its price level, transparency, the allocation of revenue use and the introduction of offsetting measures. For Jean-Charles Hourcade, economist and Director of the EHESS (School of Advanced Studies in the Social Sciences), "We must define a new social contract which incorporates the climate issue; the use of money generated from the carbon tax is a key element of its construction"²⁰⁶.



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