

Energy Taxation in France

State of Play in the Run-Up to the EU Energy Tax Reform

Ola Hanafi



The EU Commission is planning to amend the Energy Tax Directive [2003/96/EC]: tax rates for fossil fuels shall be based on their CO₂ content and fossil fuel subsidies be phased out. For France this means:

- ▶ France has a head start over other EU Member States, since French energy taxes on fossil fuels are already based in part on their CO₂ content and some fossil fuel subsidies will be reduced by 2020.
- ▶ The French energy tax system currently still contains substantial fossil fuel subsidies in the form of tax exemptions and reductions, which amounted to 13.6 billion euros in 2018. France should step up its plans for their gradual reduction.
- ▶ EU minimum tax rates for fossil fuels based on their CO₂ content and an EU-wide definition of fossil fuel subsidies would reduce competitive distortions and thus facilitate the phasing-out of fossil fuel subsidies.
- ▶ In order to increase the acceptance of higher CO₂ taxation after the Yellow Vest protests, the French government should return a considerable part of the revenues from taxes on fossil fuels to households and companies.

Content

1	Introduction	3
2	EU Legal Framework for Energy Taxation	3
3	Energy Taxation in France	4
3.1	Conventional Energy Taxation Scheme	5
3.2	Incorporation of Carbon Pricing into Energy Taxation (“Carbon Tax”)	6
3.3	Comparison with other EU Member States	7
4	Fossil Fuel Subsidies in France	8
4.1	Three Definitions of Fossil Fuel Subsidies	8
4.2	Current Fossil Fuel Subsidies	9
4.3	Planned Changes to Fossil Fuel Subsidies	10
5	Assessment	11
6	Conclusion	11

Figures

Fig. 1:	Energy taxes as a percentage of GDP	7
---------	-------------------------------------------	---

Tables

Tab. 1:	Trajectory of the CCE “carbon component” tax rate in France and CCE revenue	6
---------	-----------------------------------------------------------------------------------	---

1 Introduction

Traditionally, energy is taxed by national governments mainly to raise revenue but also to incentivise energy savings. At EU level, the Energy Taxation Directive [2003/96/EC] (“ETD”) dating back to 2003 harmonised the minimum tax rates on energy among Member States in order to align energy costs for companies operating in the common market.¹ In view of rising concerns about climate change and the 2050 EU climate neutrality objective², the EU Commission is planning to align EU taxation policy with its climate goals.³ This includes amending the ETD so that tax rates for fossil fuels can be based on their CO₂ (carbon dioxide, hereinafter: “carbon”) content.⁴ Additionally, this strategy involves the phasing out of still widely used fossil fuel subsidies in all EU Member States. France has been requested by the EU Commission to report, in its final National Energy and Climate Plan (NECP), on all its energy subsidies, in particular for fossil fuels.⁵ France is the only Member State which has increased fossil fuel subsidies since 2008⁶, and it starts reducing them in 2020.

In the run-up of the planned alignment of EU taxation policy with EU climate goals, this ceplInput analyses the system of energy taxation in France and takes a closer look at French fossil fuel subsidies in order to identify lessons other Member States might learn from the French experience. To this end, we briefly outline the EU legal framework (section 2) and then provide an overview of French energy taxation (section 3) and fossil fuel subsidies (section 4). This is followed by an assessment of the French situation in relation to the planned changes to energy taxation and fossil fuel subsidies at EU level (section 5). We end by drawing some conclusions (section 6).

2 EU Legal Framework for Energy Taxation

The ETD sets minimum tax rates for “energy products” – petrol, diesel fuel / gas oil, light and heavy fuel oil, kerosene, liquid gas, natural gas, coke and coal – used as motor and heating fuels and for electricity generation. These indirect taxes on energy products are based on their volume or mass. The ETD also defines the various conditions under which tax exemptions and reductions may be applied by the Member States.

Attempts by the EU Commission in 2011 to oblige Member States to tax fossil fuels also according to their carbon content as an incentive to reduce CO₂ emissions were unsuccessful as its proposal for an amendment of the ETD failed to pass the Council.⁷ The proposal had been amended by the European

¹ Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2003:283:0051:0070:EN:PDF>.

² European Council (2019), European Council meeting (12 December 2019) – Conclusions, <https://www.consilium.europa.eu/media/41768/12-euco-final-conclusions-en.pdf>.

³ EU Commission (2020), Inception impact assessment – Ares(2020)1350088, <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12227-Revision-of-the-Energy-Tax-Directive>.

⁴ EU Commission (2019), The European Green Deal, Communication COM(2019) 640 of 11 December 2019 [hereinafter: COM(2019) 640], p. 4, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>.

⁵ EU Commission (2019), Assessment of the draft National Energy and Climate Plan of France, Commission Staff Working Document of 18 June 2019 SWD(2019) 263 [hereinafter: SWD(2019) 263]; https://ec.europa.eu/energy/sites/ener/files/documents/fr_swd_en.pdf.

⁶ Ibid.; EU Commission (2019), Energy prices and costs in Europe, Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2019) 1; <https://ec.europa.eu/transparency/regdoc/rep/1/2019/EN/COM-2019-1-F1-EN-MAIN-PART-1.PDF>.

⁷ EU Commission (2011), Proposal COM(2011) 169 of 13 April 2011 for a Council directive amending directive 2003/96/EC on restructuring the Community framework for the taxation of energy products and electricity, <https://eur->

Parliament to eliminate the proposed removal of preferential tax treatment of diesel for agriculture and commercial transport. Negotiations within the Council faced strong opposition from the United Kingdom, Germany and Poland.⁸ No consensus was reached. As taxation issues are subject to unanimity, the EU Commission withdrew its proposal in 2015.⁹

The EU Commission is planning to update the ETD by June 2021.¹⁰ This Directive, in the Commission's view, is no longer in line with EU energy efficiency and climate change objectives.¹¹ Responsibility for the revision of the ETD lies with Paolo Gentiloni, the Commissioner for Economy, in coordination with Frans Timmermans, the Executive Vice-President for the European Green Deal, and with Kadri Simson, the Commissioner for Energy. The new ETD will have to contribute to achieving the goals of the European Green Deal by providing the right incentives to “steer behaviour of producers, users and consumers towards a climate neutral economy”¹², specifically in the transport sector. This includes ending fossil fuel subsidies, which would help renewables to compete with fossil fuels on an equal footing.¹³ Among fossil fuel subsidies to be phased-out, Frans Timmermans highlights the tax exemption on kerosene.¹⁴ However, at the current stage, only a few details of the announced proposal are publicly available. Four points were raised at the hearings of the Commissioners involved. First, for Paolo Gentiloni and Kadri Simson, the level of ambition of the new ETD is linked to the Commission's energy and climate targets and to the updated form of the EU-ETS, i.e. as it is to be extended.¹⁵ Second, the new energy taxation needs to be “just and socially balanced”.¹⁶ Third, Member States would be required to provide detailed information on their existing fossil fuel subsidies and on their policies to reduce them.¹⁷ Finally, the question of unanimity of Council decisions on energy policy needs to be addressed.

3 Energy Taxation in France

This section gives an overview of energy taxation in France. Firstly, we describe conventional energy taxation as it is currently in place. Secondly, we analyse the evolution of French energy taxation to incorporate carbon pricing through the gradual introduction of carbon taxes since 2014. Finally, the energy tax rates in France are benchmarked against the EU.

lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011PC0169&qid=1581694196168&from=EN; see Reichert, G. / Voßwinkel, J. S. (2011), Energy Taxation, [cepPolicyBrief](#).

⁸ Conseil des Prélèvements Obligatoires (2019), La fiscalité environnementale au défi de l'urgence climatique, p. 195 [hereinafter: CPO Report (2019)], https://www.ccomptes.fr/system/files/2019-09/20190918-CPO-fiscalite-environnementale_0.pdf.

⁹ EUR-Lex, Procedure 2011/0092/CNS, https://eur-lex.europa.eu/procedure/EN/2011_92.

¹⁰ EU Commission (2020) Inception impact assessment – Ares(2020)1350088, <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12227-Revision-of-the-Energy-Tax-Directive>.

¹¹ EU Commission (2019), Commission Staff Working Document: Evaluation of the Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity, [hereinafter: SWD(2019) 332 final], https://ec.europa.eu/taxation_customs/sites/taxation/files/energy-tax-report-2019.pdf.

¹² Gentiloni, P. (2019), Answers to the European Parliament, p. 7.

¹³ Simson, K. (2019), Hearing of Kadri Simson, p. 13, <https://www.europarl.europa.eu/resources/library/media/20191003RES63376/20191003RES63376.pdf>.

¹⁴ Timmermans, F. (2019), Answers to the European Parliament, p. 43, <https://www.europarl.europa.eu/resources/library/media/20190927RES62422/20190927RES62422.pdf>.

¹⁵ Gentiloni, P. (2019), Answers to the European Parliament, p. 7; Simson, K. (2019), Hearing of Kadri Simson, p. 13.

¹⁶ Gentiloni, P. (2019), Answers to the European Parliament, p. 7.

¹⁷ Timmermans, F. (2019), Answers to the European Parliament, p. 10.

3.1 Conventional Energy Taxation Scheme

Energy taxation in France constitutes a major part of its environmental tax policy, accounting for € 46.57 billion in 2018 – 83% of total environmental tax revenues.¹⁸ Tax rates are fixed annually by Parliament.¹⁹ French energy taxes fall into three subgroups: taxes on fossil fuel consumption, taxes on electricity consumption and a third assorted group covering all remaining energy taxes.

Taxes on fossil fuels – 73% of total energy taxation – consist of three domestic consumption taxes: on oil products (TICPE)²⁰, on gas (TICGN)²¹ and on coal (TICC)²². The tax levied is based on the volume or mass of energy products and their CO₂ emissions (Section 3.2). The TICPE is an important source of revenue for the French government accounting for € 31.8 billion in 2018 which was 68% of the total energy taxation revenue in France in that year.²³

Taxes on electricity consumption – 22% of total energy taxation – mainly consist of local taxes on final electricity consumption for subscribed demand up to 250 kW (TLCFE)²⁴ – € 2.13 billion in 2018 – and a contribution to the public electricity service (CSPE)²⁵ – € 7.71 billion in 2018.²⁶

Other energy taxes – 5% of total energy taxation – mainly include a flat-rate tax on network businesses (IFER) payable per MW or kW of installed power.²⁷ IFER taxes accounted for € 1.35 billion in 2018.²⁸

Energy taxation in France was historically created to generate revenue.²⁹ However, revenues from taxes on electricity consumption were partly assigned to the special allocation fund for energy transition (CAS TE)³⁰ used mainly to finance the deployment of renewable energy.³¹ The EU Commission criticised this revenue allocation as it meant that, via these taxes, imported electricity was helping to support the deployment of renewable energy – which only benefited French producers.³² As a result, in 2017 the TICPE and the TICC became the main source of energy transition funding. The fixed amount allocated to the CAS TE³³ is determined according to expenditure forecasts. In 2018, only 20% – € 6.6 billion – of the revenue from, e.g., the TICPE consumption tax on oil products was allocated to energy transition.³⁴

¹⁸ CPO Report (2019), pp. 209 et seq.

¹⁹ Conseil des Prélèvements Obligatoires (2019), Panorama de la fiscalité environnementale en France, p. 39, [hereinafter: CPO Special Report n°1 (2019)], <https://www.ccomptes.fr/system/files/2019-09/20190918-rapport-particulier1-CPO-fiscalite-environnementale.pdf>.

²⁰ “Taxe Intérieure de Consommation sur les Produits Énergétiques” (TICPE).

²¹ “Taxe Intérieure de Consommation sur le Gaz Naturel” (TICGN).

²² “Taxe Intérieure de Consommation sur le Charbon” (TICC).

²³ CPO Report (2019), pp. 209 et seq.

²⁴ “Taxes Locales sur la Consommation Finale d’Electricité” (TLCFE).

²⁵ “Contribution au Service Public de l’Electricité” (CSPE).

²⁶ CPO Report (2019), p. 21.

²⁷ “Impositions Forfaitaires sur les Entreprises de Réseaux” (IFER). The IFER not only comprises energy networks but also network businesses in transport and telecommunications.

²⁸ Calculation by the author based on data from CPO Report (2019), pp. 209 et seq.

²⁹ CPO Report (2019), p. 50.

³⁰ “Compte d’Affectation Spéciale Transition Énergétique” (CAS TE).

³¹ Cour des comptes (2018), Compte d’affectation spéciale «Transition énergétique»- Note d’analyse de l’exécution budgétaire 2018, p. 12, <https://www.ccomptes.fr/system/files/2019-05/NEB-2018-Transition-energetique.pdf>.

³² Ibid., p. 52.

³³ LOI n° 2017-1775 du 28 décembre 2017 de finances rectificative pour 2017, Art. 3, <https://www.legifrance.gouv.fr/eli/loi/2017/12/28/2017-1775/jo/texte>.

³⁴ CPO Report (2019), p. 34.

3.2 Incorporation of Carbon Pricing into Energy Taxation (“Carbon Tax”)

Energy taxation in France changed considerably with the introduction of carbon pricing in the transport and heating sectors (“carbon tax”) in 2014. Technically, carbon pricing was achieved by a “carbon component” (CCE)³⁵ proportional to CO₂ emissions caused by the consumption of oil, natural gas and coal that was added to the corresponding fossil fuel taxes. Electricity consumption was excluded from the CCE, given that electricity in France is predominantly produced by nuclear power. Table 1 documents the trajectory of the CCE. The rate was initially set at € 7 /t CO₂ with the aim of increasing it over time.³⁶ CCE trajectories with annual values were set in the Finance Act 2014³⁷, the Law on Energy Transition (LTECV 2015)³⁸ and the Finance Act 2018³⁹. The 2020 and 2030 levels were announced in the LTECV 2015. In reaction to the protests of the Yellow Vest movement, in its Finance Act 2019 the government froze the CCE at its 2018 level for the period from 2019 to 2022.⁴⁰

Table 1: Trajectory of the CCE “carbon component” tax rate in France and CCE revenue

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2030
Tax rate [Euro / t CO₂]										
Finance Act 2014	7.00	14.50	22.00							
LTECV 2015				30.50	39.00	47.50	56.00			100.00
Finance Act 2018					44.60	55.00	65.40	75.80	86.20	-
Finance Act 2019						44.60	44.60	44.60	44.60	
CCE revenue [billion Euro]										
	0.30	2.30	3.80	5.50	10.30					

Source: Legal texts; CPO Special Report n°1 (2019), p. 45.

With carbon pricing, revenues from fossil fuel taxes started to increase considerably. The level of carbon pricing in France is oriented towards the so called “shadow price of carbon”⁴¹ – an imputed carbon price necessary to achieve a predefined emission target. In 2019, the shadow price of carbon was adjusted by the responsible commission to the new national carbon neutrality objective for 2050.⁴²

³⁵ “Contribution Climat Énergie” (CCE).

³⁶ LOI n° 2013-1278 du 29 décembre 2013 de finances pour 2014, Art. 32 [hereinafter: LOI n° 2013-1278], <https://www.legifrance.gouv.fr/eli/loi/2013/12/29/2013-1278/jo/texte> in conjunction with Projet de loi de finances pour 2014, n° 1395, Art. 20, exposé des motifs [hereinafter: PLF 2014] <http://www.assemblee-nationale.fr/14/pdf/projets/pl1395.pdf>.

³⁷ Ibid.

³⁸ LOI n° 2015-992 du 17 août 2015 relative à la transition énergétique pour la croissance verte, Art. 1, https://www.legifrance.gouv.fr/eli/loi/2015/8/17/2015-992/jo/article_1 as modified by LOI n° 2015-1786 du 29 décembre 2015 de finances rectificative pour 2015, Art. 16, https://www.legifrance.gouv.fr/eli/loi/2015/12/29/2015-1786/jo/article_16.

³⁹ LOI n° 2017-1837 du 30 décembre 2017 de finances pour 2018, Art. 16 [hereinafter: LOI n° 2017-1837], https://www.legifrance.gouv.fr/eli/loi/2017/12/30/2017-1837/jo/article_16 in conjunction with Projet de loi de finances pour 2018, n° 235, p. 45, Art. 9, exposé des motifs [hereinafter: PLF 2018], https://www.performance-publique.budget.gouv.fr/sites/performance_publique/files/farandole/ressources/2018/pap/pdf/PLF2018.pdf.

⁴⁰ LOI n° 2018-1317 du 28 décembre 2018 de finances pour 2019, Art. 64, <https://www.legifrance.gouv.fr/eli/loi/2018/12/28/2018-1317/jo/texte>; CPO Special Report n 1 (2019), p. 45.

⁴¹ Documentation française. (2009). La Valeur Tutélaire du Carbone, Rapport de la Commission présidée par Alain Quinet <https://www.vie-publique.fr/sites/default/files/rapport/pdf/094000195.pdf>; France Stratégie (2019). La Valeur de l’Action pour le Climat, Rapport de la commission présidée par Alain Quinet, https://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/fs-2019-rapport-la-valeur-de-laction-pour-le-climat_0.pdf.

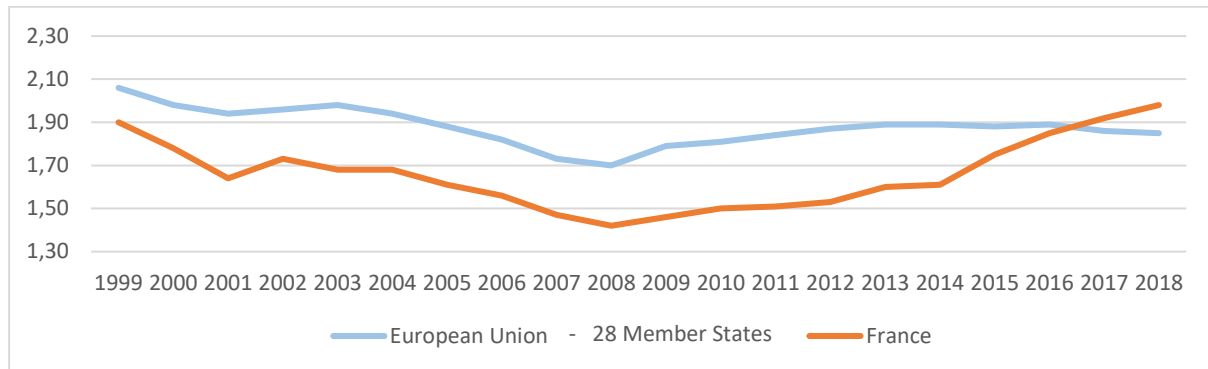
⁴² The shadow price of carbon increased from € 100 /tCO₂ to € 250 /tCO₂ in 2030.

The French government had, however, already aligned the CCE tax rate trajectory in 2018 with the updated CO₂ objective, even before the shadow price was updated.⁴³ This upward shift of the CCE added € 3.9 billion to CCE revenue in 2018.⁴⁴ Overall, since 2014, tax revenues from the TICPE have increased by 7 to 10% annually; tax revenue from natural gas consumption multiplied tenfold between 2014 and 2018.⁴⁵ Additionally, the TICPE on diesel fuel has been impacted not only by the carbon tax but also by the petrol-diesel tax convergence raising the diesel fuel tax to the level of the petrol tax applicable from 2015 to 2021.⁴⁶ Accordingly, the cumulative increase in the diesel price, in 2019, amounted to 10.93% of its price at the pump.⁴⁷ However, the freezing of both the CCE and the petrol-diesel tax convergence for 2019 until 2022, has led to the stagnation of fossil fuel tax revenues.

3.3 Comparison with other EU Member States

In France, energy tax revenues as a share of GDP have been – since at least 1999 – below EU average. The introduction of the CCE in 2014 and its sharp increase enabled France to catch up with the EU average and overtake it in 2017 by 0.08 percentage points (Fig. 1).

Fig. 1: Energy taxes as a percentage of GDP



Source: Eurostat.

At EU level, the level of petrol taxation is rather varied among Member States with an average of € 557 / 1000 litres – which is considerably higher than the minimum tax set by the ETD of € 359. In contrast, diesel taxes present less variation between Member States and the average level of € 448 / 1000 litres is closer to the minimum level set by the ETD of € 330.⁴⁸ As of 1 January 2019, France had the fourth highest taxation level in the EU for both petrol – after the Netherlands, Italy and Greece – and diesel – after the UK, Italy and Belgium. Petrol is taxed in France at € 683 / 1000 litres which is € 126 higher than the average petrol tax rate in the EU. Diesel is taxed in France at € 594 / 1000 litres which is € 169 higher than the EU average. Compared to its neighbouring countries⁴⁹, the fuel tax in

⁴³ LOI n° 2017-1837, [Art. 16](#) in conjunction with PLF 2018, [Art. 9](#).

⁴⁴ SENAT (2017), Projet de loi de finances pour 2018: Fiscalité de la transition écologique, Avis n° 113 (2017-2018), p. 34, <https://www.senat.fr/rap/a17-113-1/a17-113-1.html>.

⁴⁵ CPO Report (2019), p. 22.

⁴⁶ LOI n° 2014-1654 du 29 décembre 2014 de finances pour 2015, [Art. 36](#), https://www.legifrance.gouv.fr/eli/loi/2014/12/29/2014-1654/jo/article_36; LOI n° 2017-1837, [Art. 16](#) in conjunction with PLF 2018, [Art. 9](#).

⁴⁷ Gloriant (2018), Une Evaluation Quantifiée De La "Taxe Carbone" Française, Information et Débats N°2018-57, Climat Economic Chaire, <https://www.chaireeconomieduclimat.org/wp-content/uploads/2018/10/ID57.pdf>.

⁴⁸ European Automobile Manufacturers Association (2019), ACEA Tax Guide 2019, p. 8, https://www.acea.be/uploads/news_documents/ACEA_Tax_Guide_2019.pdf.

⁴⁹ Considering the average level of fuel taxation in Austria, Belgium, Germany, Italy, Luxembourg, Portugal, Spain and the United Kingdom.

France is 16% higher for petrol and 21% higher for diesel. However, the difference is smaller if we take energy tax revenues as a percentage of GDP.⁵⁰ This discrepancy can be explained by the large number of tax credits and exemptions applied in France (see section 4).

4 Fossil Fuel Subsidies in France

In its draft National Energy and Climate Plan (NECP), submitted on 15 February 2019, France claimed to have no fossil fuel subsidies.⁵¹ In its assessment of the draft NECP, however, the Commission disagreed on this issue and requested France to include in the final draft a list of its energy subsidies as well as the actions undertaken or planned in order to phase them out, particularly those for fossil fuels.⁵² The gap between the French view and that of the Commission arises from differences in the definitions used by both sides.

4.1 Three Definitions of Fossil Fuel Subsidies

There are three different definitions of fossil fuel subsidies used by those international organisations that publish data on the matter: International Energy Agency (IEA), OECD and IMF. For its NECP, the French government uses to the IEA definition.

The **IEA definition** includes all government payments in favour of the energy sector that involve a reduction in the production cost of energy, an increase in the price paid to producers or a reduction in the price paid by consumers.⁵³ The IEA uses a price-gap approach that measures the gap between full production or import price and prices paid by final users. Using this definition, there is currently no fossil fuel subsidy in France. The **OECD** definition includes all measures that maintain consumer prices below market price or producer prices above market price, or reduce costs for consumers or producers, and do so even when prices paid by final users are higher than the production price.⁵⁴ The OECD definition of energy subsidies also encompasses forgone tax revenues (“tax expenditures”) – e.g. through tax credits or other fiscal incentives. Using this extended definition, energy subsidies in France include all forgone tax revenues from domestic consumption taxes on energy products as well as direct subsidies (“budgetary transfers”) given to energy producers or consumers financed through the budget. The OECD records € 4.8 billion of French subsidies to fossil fuel through tax expenditures and € 79.8 million through budgetary transfers in 2015.⁵⁵ The **IMF** extends the IEA and OECD definitions by incorporating external costs into the full production costs, which requires a list of externalities and a calculation of their monetary value. Under the IMF definition, French fossil fuel subsidies amounted to € 32.2 billion in 2015.⁵⁶

⁵⁰ French energy tax revenue as a percentage of GDP is only 10% higher than the average of its neighbouring countries.

⁵¹ Projet de Plan National Intègre Énergie-Climat de la France [hereinafter: Draft-NECP] p. 90, https://ec.europa.eu/energy/sites/ener/files/documents/france_draftnecp.pdf.

⁵² SWD(2019) 263, p. 12.

⁵³ IEA (2019), Energy subsidies, <https://www.iea.org/topics/energy-subsidies>.

⁵⁴ OECD (2018) Companion to the Inventory of Support Measures for Fossil Fuels 2018, <https://www.oecd.org/environment/oecd-companion-to-the-inventory-of-support-measures-for-fossil-fuels-2018-9789264286061-en.htm>.

⁵⁵ OECD (2019), Fossil Fuel Support – FRA, https://stats.oecd.org/Index.aspx?DataSetCode=FFS_FRA.

⁵⁶ FMI (2019), Global Fossil Fuel Subsidies Remain Large: An Update Based on Country-Level Estimates, p. 35, <https://www.imf.org/en/Publications/WP/Issues/2019/05/02/Global-Fossil-Fuel-Subsidies-Remain-Large-An-Update-Based-on-Country-Level-Estimates-46509>.

4.2 Current Fossil Fuel Subsidies

The report of the Court of Auditors, and the joint report of the General Council for the Environment and Sustainable Development and the General Inspectorate of Finance, use the OECD definition and, unlike the French Government, they also regard tax expenditures on international aviation and navigation, as well as the tax difference between petrol and diesel, as a fossil fuel subsidy.⁵⁷

Tax expenditures, including energy tax exemptions and reductions, are regulated EU wide by the ETD. They are either imposed at EU level or authorised by the EU to be implemented at national level. Exemptions imposed at EU level include air transport, maritime activities and navigation, and energy products and electricity used for electricity production.⁵⁸ Tax exemptions and reductions defined at national level in France include partial tax refunds for agricultural activities⁵⁹, public road passenger transport, taxis, hauliers and diesel for public work machinery (“off-road”-diesel).⁶⁰ Additionally, CO₂-intensive industrial plants subject to the EU-ETS and energy-intensive installations included in the “carbon leakage list” of the EU are exempt from the CCE.⁶¹ Tax expenditures related to energy are mainly found in the TICPE and the TICC. Those linked to measures imposed at EU level⁶² amounted to € 4.3 billion in 2018 of which 78% benefit transport.⁶³ Tax expenditures resulting from national measures amounted to € 5.85 billion in 2018.⁶⁴ Of these, the TICPE alone combines twenty-three measures which amounted to € 5.83 billion in 2018. Of these twenty-three measures, fifteen – € 5.3 billion – are classified by the Court of Auditors⁶⁵ as “environmentally unfavourable” which means that they do not induce behavioural changes such as energy saving or increases in energy efficiency.⁶⁶ In the TICC, exemptions benefit enterprises dedicated to converting biomass to energy.⁶⁷ The tax difference between petrol and diesel amounted to € 3 billion in 2018.⁶⁸ Budgetary transfers have been largely phased out so that only research and development subsidies for fossil fuels – of about € 38.4 million in 2018 – remain.⁶⁹

In addition, environmental NGOs⁷⁰ also define export credits to projects on fossil fuel production as subsidies – as they constitute public support for national exporters competing for overseas sales.⁷¹ Export credits may take the form of “direct credits to foreign buyers, refinancing or interest-rate

⁵⁷ Inspection Générale des Finances (IGF) / Conseil Général de l’Environnement et du Développement Durable (CGEDD) (2019), Green Budgeting: proposition de méthode pour une budgétisation environnementale [hereinafter: IGF / CGEDD (2019), Green Budgeting], p. 13, <https://www.vie-publique.fr/sites/default/files/rapport/pdf/194000745.pdf>; CPO Report (2019).

⁵⁸ ETD (2003), Art. 14 (1).

⁵⁹ LOI n° 2013-1278, Art. 32 in conjunction with PLF 2014, Art. 20, exposé des motifs.

⁶⁰ Réseau Action Climat (2019), Subventions aux énergies fossiles – où sont passés les 11 milliards d’euros?

⁶¹ Commission Decision of 27 October 2014 determining, pursuant to Directive 2003/87/EC a list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage, for the period 2015 to 2019, [2014/746/EU].

⁶² ETD (2003), Art. 14.

⁶³ CPO Report (2019), p. 15.

⁶⁴ Ibid.

⁶⁵ Ibid., p. 16.

⁶⁶ Cour des comptes (2016), L’efficience des dépenses fiscales relatives au développement durable, <https://www.ccomptes.fr/sites/default/files/EzPublish/20161108-efficience-depenses-fiscales-developpement-durable.pdf>.

⁶⁷ IGF / CGEDD (2019), Green Budgeting, Annex X, p. 26.

⁶⁸ CPO Report (2019), p. 17.

⁶⁹ IEA (2019), Energy Technology RD&D Budgets 2019, <https://www.iea.org/reports/energy-technology-rd-and-d-budgets-2019>.

⁷⁰ Réseau Action Climat (2019), Subventions aux énergies fossiles – où sont passés les 11 milliards d’euros?

⁷¹ OECD (2019), Export credits, <https://www.oecd.org/trade/topics/export-credits/>.

support or export credits insurance or guarantee for credits provided by private financial institutions”⁷² and totalled € 450 million in 2018 and cover mainly natural gas projects.⁷³ Altogether, French fossil fuel subsidies amounted to € 13.64 billion in 2018.

4.3 Planned Changes to Fossil Fuel Subsidies

The Finance Act for 2020 contains three new measures on fossil fuel subsidies. Two are aimed at reducing fossil fuel subsidies, and one introduces a new subsidy: first, the increase of the TICPE rate on diesel used for road freight transports of 7.5 tons or more, and second, the gradual phasing out of preferential tax rates under the TICPE for off-road diesel. The third measure is a new tax cut to be introduced on electricity used by maritime vessels stationed in ports.

Road freight transport: The partial tax refund benefitting road freight transport – of 7.5 tons or more – will be reduced by 2 ct/l to increase the incentive to invest in cleaner vehicles and to develop intermodal transport. Extra revenue collected from this measure will be used to improve non-concessional national road infrastructure.⁷⁴ This measure was passed despite its rejection by the French Senate which argued that the sector faces strong international competition and is mainly composed, in France, of small and medium-sized and very small enterprises. The French Senate had highlighted the fact that the market share of French road freight at the international level has declined by 85% over the last 20 years.⁷⁵

Off-road diesel: The French government’s attempt to phase out preferential tax rates for off-road diesel was renewed in the Draft Finance Act for 2020 (PLF 2020). This phase-out had already been envisaged in 2018 in the PLF 2019⁷⁶ but was cancelled along with the freezing of the increase in the carbon tax rate and the petrol-diesel tax convergence.⁷⁷ In its second attempt, the French government proposes a progressive phase-out over three years. The tax on off-road diesel will initially double to 37.86 ct/l in 2020 and go up to 50.27 ct/l in 2021 and 59.40 ct/l in 2022.⁷⁸ The agriculture sector is excluded from the phase out. Additionally, railway transport, inland waterway transport, port handling in major seaports and extractive industries highly exposed to international competition will continue to have a preferential tax rate. Finally, enterprises affected by the off-road diesel tax increase will benefit from support for investing in energy efficient engines.

Electricity tax cut for maritime vessels: Tax exemptions imposed at EU level⁷⁹ on fuel for maritime navigation and electricity produced on board a vessel make it cheaper for vessels to produce their own electricity from oil when they are stationed in ports. This practice pollutes more than if vessels use electricity available in ports. Therefore, the tax on electricity used by vessels stationed in ports will be reduced to € 0.50 / MWh – as compared to € 22.50 / MWh – once approved by the Council of the EU.⁸⁰

⁷² Ibid.

⁷³ Bpifrance (2019), Evaluation Environnementale et Sociale, Assurance Export, <https://www.bpifrance.fr/Qui-sommes-nous/Nos-metiers/International/Assurance-Export/Evaluation-Environnementale-et-Sociale>.

⁷⁴ LOI n° 2019-1479 du 28 décembre 2019 de finances pour 2020, Art. 71. [hereinafter: LOI n° 2019-1479], <https://www.legifrance.gouv.fr/eli/loi/2019/12/28/2019-1479/jo/texte>.

⁷⁵ SENAT (2019), Projet de loi: PLF pour 2020, Amdt n° I-105, http://www.senat.fr/enseance/2019-2020/139/Amdt_I-105.html.

⁷⁶ Projet Loi de Finances pour 2019, n° 1255, Art. 19, <http://www.assemblee-nationale.fr/15/pdf/projets/pl1255.pdf>.

⁷⁷ Castrec (2018), Dans le Finistère, les « gilets oranges » choisissent de lever le camp, <https://www.lefigaro.fr/actualite-france/2018/12/04/01016-20181204ARTFIG00321-dans-le-finistere-les-gilets-orange-choisissent-de-lever-le-camp.php>.

⁷⁸ LOI n° 2019-1479, Art. 60.

⁷⁹ ETD (2003), Art. 14.

⁸⁰ LOI n° 2019-1479, <https://www.legifrance.gouv.fr/eli/loi/2019/12/28/2019-1479/jo/texte>.

5 Assessment

The planned amendments to the ETD will probably lead to the establishment of minimum tax rates for fossil fuels in the EU that are partially based on their CO₂ content. Accordingly, these rates will increase at EU level, and a price for carbon will be established in those Member States and sectors where no carbon pricing so far exists. The corresponding alignment of tax rates at a higher level improves the functioning of the EU internal market because the ability of Member States to give their industries a cost advantage through very low fossil fuel taxes will be reduced. Moreover, higher minimum tax rates contribute to the reduction of fossil fuel subsidies according to the IMF definition because fewer external costs are left unaccounted for. In France, energy taxes on fossil fuel are already levied on both the volume/mass and the CO₂ emission of energy sources. The introduction of the CCE carbon tax is an important step towards efficient carbon pricing in France. However, the deployment of renewable energy is negatively affected by the unpredictability of the carbon price trajectory and its freezing in 2019 as this limits the planning security of investors.

The proposed amendments to the ETD also consider the phasing-out of fossil fuel subsidies. The EU Commission already requires EU Member States to list their energy subsidies, especially for fossil fuels. However, the EU should set clear-cut definitions of what is considered to be an energy subsidy. Fossil fuel subsidies like tax exemptions, tax cuts, budgetary transfers or other forms of “tax expenditures” act as an obstacle to achieving significant CO₂ emission reductions, as energy savings and energy efficiency gains in the subsidised sectors remain limited. They also result in unfavourable tax treatment of low carbon fuels and renewable energy. However, fossil fuel subsidies remain difficult to phase out in sectors competing cross-border such as road freight transport, as high differences in the rates applied by Member States, which differ significantly from the minimum rates set in the ETD, allow the practice of “fuel tourism”. This is particularly the case in border areas and in transport by heavy goods vehicles because of the capacity of their fuel tanks.⁸¹ In aviation, worldwide “fuel tourism” will remain a problem as long as the removal of kerosene subsidies is only implemented in the EU and not globally. In France, in addition, tax expenditures contribute to the low public acceptability of the CCE carbon tax.

6 Conclusion

In view of the EU Commission’s focus on climate policy for the upcoming revision of the ETD, France has a head start over other EU Member States: French energy taxes on fossil fuels are already based in part on their CO₂ content and it is planned to reduce some fossil fuel subsidies in 2020. The CCE is an important step towards efficient carbon pricing in France. A handicap to the success of carbon pricing has been that most revenues go to the general budget while only 20% of the TICPE is allocated to financing the energy transition. The Yellow Vest protests revealed the lack of public support. In order to regain its initial carbon taxation trajectory, the French government should redistribute a considerable share of the carbon tax revenues to households and industries. Since energy taxes in France still involve significant fossil fuel subsidies in the form of tax exemptions and reductions, France should increase its efforts to phase out fossil fuel subsidies in order to increase the effectiveness of its carbon taxation. EU minimum tax rates for fossil fuels based on their CO₂ content and a European definition of fossil fuel subsidies would reduce competitive distortions and thus facilitate the phasing-out of fossil fuel subsidies.

⁸¹ Conseil des Prélèvements Obligatoires (2019), *La fiscalité environnementale au défi de l’urgence climatique*, p. 194.

Recently published in this series:

No. 08/2020: Combating the Corona Crisis (March 2020)

No. 07/2020: Default-Index Frankreich 2020 (March 2020)

No. 06/2020: Reform der Strompreiskompensation (March 2020)

No. 05/2020: Data Pools as Information Exchanges between Competitors (February 2020)

No. 04/2020: The Money of Tomorrow? (February 2020)

No. 03/2020: Reformland Frankreich (February 2020)

No. 02/2020: Umverteilung durch die EU und den horizontalen Länderfinanzausgleich (January 2020)

No. 01/2020: Instrument for Convergence and Competitiveness (January 2020))

**Author:**

Ola Hanafi is policy analyst in the Centre de politique européenne, Paris.