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The rise and fall of French Ecological Tax Reform: social acceptability versus political feasibility in the energy tax implementation process

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Abstract

The French government has a 10-year history of negotiations with industry, resulting in voluntary agreements on energy consumption. When implemented, these voluntary agreements produced very few results in terms of global reduction of greenhouse emissions (Politiques et Management Public 11(4) (1993) 47), hence the idea of an energy tax became increasingly attractive for many French decision-makers. Ecological/Environmental Tax Reform (ETR) should have been one of the major political decisions and successes of the past leftwing coalition government. Instead it became one of its major failures as the Constitutional Court decided to terminate the energy tax project in December 2000. Through insights gleaned from focus groups and interviews with business-people and decision-makers, an attempt is made to understand the failure of the energy tax project. Firstly, decision-makers lacked crucial information about public and business opinions and secondly, there were conflicts between the relevant administrations. The fuel revolts of 2000 ended any hope of resolving the conflicts and implementing ETR, which was ultimately found unconstitutional. This paper examines the political controversies raised by the ETR project and the reasons for its eventual collapse, in the hope of contributing new understanding to the body of knowledge on the political difficulties of introducing environmental policy instruments.

Keywords: Ecological tax reform; France; Policy process

1. Introduction

Two main principles can be understood in Environmental Tax Reform (ETR):

- Fiscal neutrality—the general underlying principle is to shift taxation from economic 'goods' such as labour to environmental 'bads' such as air pollution.
- Double dividend—in addition to the pollution abatement, carbon taxes can generate a 'double dividend'. This double dividend is, on the one hand economic (recycling tax revenues by reducing distortionary taxes may have a positive impact on the economic growth, employment) and on the other hand environmental (reducing carbon emissions may generate a local pollution decrease as well) (Hourcade, 1996).

From an economic point of view, such taxation—under specific conditions concerning its rate and base—makes it possible to reach "an optimal level of pollution". This optimal level of pollution is the one for which marginal cost for treatment—or non-pollution—equals the marginal cost of pollution (e.g. the marginal cost of damages). In the energy field, this means that savings will be realised in sectors where costs are lowest.

This paper emphasises the conflicts that French decision-makers had to negotiate while trying to

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formalise an energy tax and specifically how they attempted to find a compromise between acceptability to the general public and acceptability to the industry stakeholders.

Through the history of the decision-making process and through the material collected during five focus groups, we firstly assess the political decisions taken in order to increase the social acceptability (e.g., acceptance among general public), and secondly, assess the political strategies used in order to make the project politically feasible (e.g., negotiations with interest groups). From both perspectives, the decisions and arrangements seem to have been futile, based on the perceptions of the general public and business people that were recorded during the interviews and the focus groups.

Two types of explanations can be put forward in order to understand the failure of the energy tax proposal. Firstly, decision-makers were badly informed about business and general public perceptions. Secondly, it is difficult to reach a balance between social acceptability (minimising voters' dissatisfaction and social protest) and political feasibility (negotiating with target groups). There were also conflicts between the administrations, which led to such a "technocratic" project.

We will present the national and international context in which ETR was included in the French political agenda. We then further examine, through in-depth interviews with policy makers, business people and focus groups with the public, the political controversies raised by the ETR project implementation and assess their impacts (effects) on the ETR policy community. Last but not least, we analyse the termination of the proposal in light of the decision-making process which led to the collapse of this policy community.

2. French Ecological Tax Reform

ETR was implemented in France from 1999. It was known as "Taxe Générale sur les Activités Polluantes" or TGAP. Its purpose was to unify and to simplify a set of several existing fees (on industrial and domestic wastes, atmospheric pollution, oil and noise) and to implement new taxes (on detergents, gravel extraction and energy). The revenue of TGAP was used to fund labour tax reduction. This labour tax reduction linked with the shortening and reorganisation of working time (the so-called "35 hours programme"). The labour policy (decided by the past government) was to be partially funded by TGAP. Seventy five percent of the TGAP revenue was to be the energy tax the government planned to implement in 2001.

In the field of energy, the most active stage of the domestic ETR implementation took place within the international context of negotiations concerning the climate change issue. The government presented its domestic energy taxation project as part of its programme. After consultation with the different administrations, on 20 May 1999, the government finalised a new energy tax, due to be implemented in 2001. This decision was presented as a result of the French commitment to the Kyoto Protocol, whereby France must reduce its emissions of greenhouse gas emissions to 1990 levels. This energy tax was due to affect industrial consumption and its revenue (as for the other taxes included in TGAP) recycled to the reduction in social contributions.

A public consultation was organised by the ministries of Finance and Environment during the summer of 1999 in order to finalise the design of this energy tax. This was organised on the basis of a White Book, which recommended a system of excises. Households' energy consumption was to have been exempted from the tax. Some questions remained unanswered, such as whether to tax the energy used in energy production processes, government consumption, renewable energies, the rates, and also the different ways to include energy intensive industries in such an ETR. Three solutions were submitted: tax relief, tax reduction or tradable permits.

This taxation project was confirmed in the "Programme National de Lutte contre le Changement Climatique" (National Programme against Climate Change) formed by the "Mission Interministérielle de Lutte contre l'effet de Serre" (an interdepartmental structure). The programme recommended the introduction of tax relief or reductions for energy intensive industry. These arrangements would be adjusted with the implementation of tradable permits. The major provision of this programme was the confirmation of the rate of this energy tax: it was to be progressively increased, from €23 to €30 per ton of carbon in 2001 and the first following years to €76 in 2008–2010.

After the summer 1999 consultation, two committees, composed of civil servants and industry representatives, went to work on the issue. The first group examined the impacts of implementation of an energy tax on industry with regard to the following criteria: impact on competitiveness; environmental efficiency; and administrative complexity. The second committee assessed the mechanisms of providing incentives for greenhouse gas emissions reduction (voluntary agreements or tradable permits) in energy intensive industries.

According to the first group, taxation should have been based on the typical uses of energy (lighting, cooking, hot water, heating, low-voltage electricity). According to the committee this scenario, coupled with voluntary agreements and tradable permits, should have resulted in strong environmental efficiency. The second group seemed to consider tradable permits (rather than voluntary agreements) as the best incentive system to