

Comment

France fuel tax protests: lessons for policymakers

Céline Charveriat and Emma Watkins, 11 Dec 2018



Following French president Emmanuel Macron's decision to rethink a carbon tax on vehicle fuel in the face of widespread protests, Céline Charveriat, executive director, and Emma Watkins senior policy analyst at the Institute for European Environmental Policy (IEEP), consider what lessons policymakers should learn from the gilets jaunes affair.

Following the latest IPCC and UNEP emissions gap reports, scientists and sustainability experts increasingly agree that an accelerated low-carbon transition is required. As current policies are showing their limits, using a full range of policy tools, including taxation, will be essential.

Current ETS price signals are still weak and don't apply to sectors like transport. European emissions are rising again, with increased transport emissions explaining most of the overall increase. Nevertheless, the *gilets jaunes* debacle in France might have a serious chilling effect on green taxation, in spite of the evidence that green taxes are in fact very low, and that European countries disproportionately tax labour over natural resource use and energy.

In 2016, the most recent year of available Eurostat data, environmental taxes represented only 6.3% of total tax revenues, compared to 49.8% on labour. The share of total tax revenue from environmental taxes even fell in some European countries between 2011 and 2016.

France is now rethinking its approach. How should other countries avoid a rerun of the French misadventure? Here are five lessons:

Plan for a just transition: This requires better anticipation of the impacts of low-carbon policies not just on different economic sectors and regions, but also on households. Past responsibility for pollution, the impact of tax rises on living standards, and the ability to respond to price signals all vary due to income levels, occupation, geography, household composition and age. In the French case, the proposed diesel tax increase created a perception of unfairness. It would have disproportionately affected rural households in a country where poverty is higher and access to public transport alternatives lower in rural areas. After years of public policies promoting diesel use to reduce oil import dependence, the proposed measure was a major policy reversal, with poorer households less able to adjust by purchasing a new vehicle. It also came on top of increased heating bills, with poorly insulated households less able to invest in energy efficiency improvements. An alternative approach, inspired by the UN Sustainable Development Goals (SDGs) which take into account the need for affordable and clean energy or reduced inequalities, would have included accompanying policies to address the economic and social dimensions, for instance by providing low-carbon rural transportation and energy before the tax was introduced, not as an afterthought.

Take a holistic approach to green taxation as well as overall taxation: The lack of inclusion of all fuels created doubts about intentions to internalise environmental externalities. For instance, fuel used by the aviation and maritime sectors would have remained largely untaxed. In effectiveness terms, a comprehensive approach addressing all carbon emitting fuels and activities would make more sense. It would also address equity concerns, particularly since richer households are disproportionately subsidised by the absence of a carbon price on flying. Integrating green taxation reform, including both material use and carbon related measures, into an overall tax overhaul could create a different political economy of reform. When higher environmental taxes are compensated with lower labour taxes, or accompanied by higher capital taxes to address inequalities, a stronger political case can be made.

Explore the value-added of European-wide taxes compared with national and local taxes: A huge variety of environmental taxes exist within member states both at national and local levels, with variable effectiveness in terms of behaviour change or revenue raising. Reflecting on successful existing approaches would be a good place to start, including options for harmonisation of those taxes which create competitive pressures across member states due to different levels of taxation. Commissioner Oettinger's proposal for a national contribution based on non-recycled plastic packaging to contribute to the EU's own budgetary resources, president Juncker's proposal to introduce majority voting on certain tax matters, and new ideas for enhanced cooperation around taxation, all provide a useful backdrop for further discussion at European level.

Create greater coherence by addressing all relevant stakeholders: Tax systems based on VAT or other final consumption taxes risk poorer households bearing the brunt of the costs of transition. This not only damages political acceptability, but fails to change behaviours at the required scale, especially for products or services with low price elasticity. Instead, the private sector should be pushed to innovate, through business models and processes which are leaner in carbon and materials. Finally, public sector consumption is a major lever for change, with the potential of green public procurement currently underused.

Open a democratic debate around decarbonisation strategies to 2050: Though there is increased public awareness of the reality of climate change, there has been little effective engagement with citizens about the efforts needed, potential impacts on households and the support and benefits that would materialise within a sustainability transition. As impacts differ according to geographical context, local authorities from across Europe might be best placed to spearhead this democratic engagement and create community ownership of decisions within member states, building on efforts to date by the Covenant of Mayors.

If European governments are serious about implementing a long-term emissions strategy or creating a more circular economy, environmental taxation has to be part of the equation. Let's not let the *gilets jaunes* crisis be for nothing; it should be the start of the debate rather than its end.

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