

Lessons learned from French fuel price hike



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French Prime Minister Édouard Philippe finally announced recently that the government shall suspend the plan to further increase gasoline and diesel prices by the end of this year. This moratorium should at least temporarily calm the violence of the *gilets jaunes* (yellow vest movement) in France against the unprecedented fuel price increases under Emmanuel Macron's administration in the last couple of months.

Motorized vehicle users who have made up the largest segment of the widespread protest movement are unable to bear the situation anymore: In a one-year period, the price of diesel in France has increased by more than 22 percent and that of gasoline by 15 percent.

Two factors are behind this increased price. First the growth of the excise duty component in the French fuel price structure and second, the more than 50 percent increase of Brent crude oil prices between June 2017 and September 2018. It is debatable which of the two factors gives more weight to the sharp surge in fuel prices.

President Macron has explained that the price increases were caused by the upswing in the price of crude oil, which comprises around 30 percent of the price if fuel at pumping stations. The excise duty, known in France as the TICPE, on the other hand, is a state decree-based tax set yearly, and it accounts for around 60 percent of the fuel price. By Jan. 1, for example, the government had increased the excise duties to 0.69 euros (78 US cents) per liter of gasoline and 0.59 euros per liter of diesel. These 2018 excise duties correspond to 5 and 15 percent increases respectively from those in 2017. According to the initial plan, the French government would further increase the prices by 0.06 euros for diesel and 0.03 euros for gasoline by Jan. 1.

Two factors are driving this excise duty increase. First is the carbon tax introduced in 2014 during François Hollande's presidency. The government claims that this

tax is part of measures to reach the targeted 40 percent cut in carbon emissions by 2030, to boost the use of cleaner energy and to eliminate conventional internal combustion engine vehicle sales by 2040.

The current French carbon tax is 44.60 euros per ton of emitted carbon dioxide, which corresponds to around 0.11 euros per liter or around 7 percent of the total fuel price. In the initial plan, this tax would increase to 55 euros per ton carbon dioxide by Jan. 1, and then to 86.20 euros per ton carbon dioxide in 2022.

The second factor underlying the increased excise duty is the aim of the French government to equalize the prices of diesel and gasoline by raising the price of diesel. Strong dieselization of the French motorized vehicle fleet occurred between 1995 and 2008 when the excise duty on diesel was significantly lower than gasoline. This fuel price discrimination in favor of diesel was triggered by the necessity to burn excess diesel production following the shift to nuclear power during the seventies and eighties.

This demand was encouraged by a massive increase in production of small diesel cars by French car manufacturers, especially Peugeot and Renault. The new diesel cars had better fuel economy than gasoline cars and were thus attractive to a large segment of the population. However, despite lower carbon dioxide emissions, it has been proved in recent years that diesel engines emit more dangerous pollutants.

How to put this series of events in an Indonesian perspective?

As a net oil importing country, Indonesia has not yet considered the use of excise duties on fuel consumption. In contrast, the Indonesian government has recent-

ly increased diesel subsidies by a factor of four while continuing to pay back the subsidies to Pertamina, a state-owned company, which is maintaining the regulated gasoline price at around Rp 6,500 (45 US cents) per liter level, even though global oil prices have increased by more than 70 percent since early 2016.

With its promise to avoid any price increases for regulated gasoline until the end of 2019, the government has opted to maintain a moderate level of inflation. The government needs to rethink this policy as the cost for imported oil weighs increasingly heavily on the current account deficit and as the opportunity costs of not changing our mobility behavior as soon as possible are mounting.

There are three lessons that the government can take from the French experience: the importance of understanding the economic vulnerability of the target population, the allocation of tax revenue and the use of fuel excise duties as fuel pricing instruments.

First, Macron's government has increased the price of diesel more than gasoline. Today, as a result of dieselization during the 1980s and 1990s, more than two-thirds of registered road vehicles in France are running on diesel, many of which are owned by low- to mid-income households and rural populations. Thus, it is the most economically vulnerable groups who bear the tax increases the most.

Second, while Macron's government argues that the tax increases are necessary to achieve climate change and environmental goals, the actual proportion of the excise duty revenue dedicated to support the development of renewable energy sources, transition énergétique in France, is relatively small. The total revenue from excise duties in 2018 should be about 37.7 billion euros, making it the fourth largest source of state revenue just behind value-added tax and personal and corporation income taxes. But only around 19 percent of the revenue

would be used to finance energy transition activities such as renewable energy or improved energy efficiency.

Third, fuel excise duties have been used in many countries where oil is not produced domestically. With the growing awareness of sustainability issues, these taxes are used as a consumption-based tax to change behavior regarding mobility, namely, to encourage car users to switch to public transport and to stimulate buyers and manufacturers to opt for more efficient technologies.

The efficacy of these duties depends on public acceptance, which is influenced by several factors including the availability of options such as public transport and freight infrastructure and systems. There was a survey conducted in mid-November by the French Institute of Public Opinion (IFOP) that shows how rural populations have greater support toward the yellow vest movement (75 percent) than the urban population (59 to 70 percent).

To sum up, when making the decision to increase energy prices such as fuel, the government must consider both the impacted populations and the revenue allocations. When the impacted population coincides with the economically most vulnerable population, then the government should prepare a well-defined set of accompanying measures to limit welfare losses. In addition, the government must be able to justify the use of the projected revenue. Convincing the public of the proposed use would be difficult but not impossible. In the French case, much of the public opposes the relatively small proportion of the revenue dedicated for energy transition measures which seems to contradict the main reasons given for the tax increase, which bears the name *taxe carbone* (carbon tax).

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