Green Budgeting in France

Adrien Zakhartchouk
Head of the Climate, Environment and Agriculture Unit
Directorate General of the Treasury
Ministry of Economy and Finance

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Why a green budgeting?
State of play

• **Before autumn 2018**
  • A “Green OAT Evaluation Council” issues an opinion on specific environmental impact evaluation of expenditures associated with our green sovereign bond
  • 3 reports are attached to the Budget bill:
    • Report on spending related to renewable energy
    • Report on spending
    • List of spending associated with the Ministry for Ecological Transition

• **New commitments**
  • In 2017, France committed to Paris Collaborative on Green Budgeting, an OECD initiative to assess the compatibility of its public finance trajectories with the Paris Agreement
  • The budget bill for 2019 calls upon the government to issue a report on the economic, fiscal and budgetary instruments in support of the environment and climate.
  • In 2019, Energy and Climate Law request a report to Parliament on positive and negative incidence of the budget bill for 2020 on climate change
Why green budgeting?

- An efficient tool for decision-making on environmental and climate policy
- Allows a precise management of environment-compatible expenditures and taxes.
- Allows to identify unfavourable expenditures (especially tax expenditures)
- Transparency is key for public ownership of public policies, esp. on climate
- Strong demand from MPs
Existing methodology

• No existing methodology for a comprehensive green budgeting *per se*

• Very comprehensive works by OECD on environmental taxation
  • “Environmentally related tax means a tax whose tax base is a physical unit (or a proxy of it) of something that has a proven, specific negative impact on the environment” (OECD)

• Some expenditures’ classifications already exist
  • Rio markers (OECD); COFOG classification of government expenditures (INSEE/Eurostat)
  • Peer-reviews on fossil fuel subventions (G20)
  • Few methods assess all environmental objectives
  • Few methods assess unfavourable expenses

• Lots of methodologies exist for private finance but do not apply straightforwardly to public finance
Towards a methodology for a green budgeting
Towards a methodology for a green budgeting

- First step in September 2019: issue of a methodological report
  - Classification of government spending with respect to their alignment with Paris Agreement objectives
  - A preliminary report on the budget bill for 2019 is implementing this method

- A comprehensive and transparent Green Budget will be presented in autumn 2020
  - The final methodology will be subject to a public consultation before proposing the first comprehensive Green Budget

- The first Green Budget will only tackle central government’s spending and not:
  - Spending by local authorities
  - Social spending
A novel methodology

- Assess whether an expense is favourable or unfavourable to the environment
- Assess both investment and operating expenditures

Along the six objectives of the European taxonomy regulation:

- Climate Change mitigation
- Climate Change Adaptation
- Water resources management
- Circular economy and risk prevention
- Pollution abatement
- Biodiversity and sustainable land use
Scoring expenditure for each objective

3 Very favourable: environmentally targeted expenses

2 Favourable: no explicit environmental target, but indirect positive impact

1 Favourable but controversial: short term favourable effects but presence of a long term technology lock-in risk

0 Neutral: no significant impact or no information

-1 Unfavourable: environmentally harmful expenditure
A multi-dimensional score offers better usability than a «black box» synthetic index.

**Table 3: Example of proposed green budgeting methodology applied to transport**

<table>
<thead>
<tr>
<th>Actions</th>
<th>Million euros</th>
<th>Climate mitigation</th>
<th>Climate adaptation</th>
<th>Water manag.</th>
<th>Waste &amp; circular economy</th>
<th>Pollution reduction</th>
<th>Biodiversity landscape protection</th>
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<td>0</td>
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</tr>
</tbody>
</table>
**Need for a counterfactual**

- **A counterfactual must be chosen**
  - Quite tricky when it comes to public expenditures (what if we do not invest in railways anymore?)
  - Difficulties are limited as the aim is not to make an impact evaluation of all spending

- **Examples**
  - **Agriculture**: the counterfactual is non-environmentally targeted aids
  - **Transport**: the counterfactual is the current infrastructure and traffic: modal shift is thus the only effect taken into account for a new infrastructure
  - **Energy**: the counterfactual is the current energy mix
  - **Housing**: the counterfactual is zero soil artificialization
A preliminary assessment of the budget bill for 2019
A preliminary assessment of favourable and unfavourable expenses

- 4 missions have been investigated so far on the 2019 budget bill
  Agriculture, Ecology, Research and Regional Development

- Multidimensional monitoring
  - Objective-specific totals
  - At least once favourable
  - Once favourable without harming other objectives
  - At least once unfavourable expenses
  - Unfavourable without being favourable to other objectives
A preliminary assessment of favourable and unfavourable expenses

- At least once favourable
- Once favourable without harming other objectives
- At least once unfavourable expenses
- Unfavourable without being favourable to other objectives
€35bn of favourable expenditures

- **Transport EUR 7.3 to 9.5bn**
  - €4.3bn for new rail infrastructures
  - €1.0bn for collective transport systems
  - €0.6bn for low emission vehicles aids
- **Environment EUR 5.4bn**
  - €2.0bn for water management agencies
- **Research EUR 6.2bn**
- **Energy and industry EUR 9.6 to 9.7bn**
- **Housing EUR 2.7 to 3bn**
- **Others EUR 0.1bn**
- **Agriculture EUR 2.1bn**

Largest favourable expenses

- **€9.7bn of energy expenditures, among which**
  - €7.3bn for renewable energy development
  - €1.3bn for cogeneration development
- **€9.5bn of transport expenditures, among which**
  - €4.3bn for new rail infrastructures
  - €1.0bn for collective transport systems
  - €0.6bn for low emission vehicles aids
- **€6.2bn of research expenditures**
- **€5.4bn of environment expenditures, among which**
  - €2.0bn for water management agencies
€ 25 bn of unfavourable expenditures

Largest unfavourable expenditures

- €15.2bn of fiscal expenditures:
  - € 12.2bn for exemptions or reduced rates on fuel tax (air transport, sea transport, road transport, taxis, LPG),
  - € 1.3bn for reduced rate of electricity tax on electricity for electro-intensive sites,
  - € 1.3bn of tax expenses relating to new housing

- €5.9bn of transport expenditures:
  - € 0.7 bn of new road and airport infrastructures
  - € 5.2bn of new rail infrastructures that generate non renewable waste
The sole analysis of the budget bill is not sufficient to evaluate the compliance of national policy with international climate and environment commitments

- Environmental regulations are not included in the scope of the budget bill
- To fulfill the ecological transition, not only government expenses, but also private sector and local authorities expenses must be made compatible with environmental and climate commitments
- The green budget does not evaluate the efficiency of environmental expenses

International comparison may not be feasible

- Counterfactual *scenarios* are very technology-dependant
- Expenses granularity in the Budget Bill can vary across countries

Scoring must be regularly revised with impact evaluation progresses
Towards a methodology for a green budgeting

- First step in September 2019: issue of a public methodological report

- A comprehensive and transparent Green Budget will be presented in autumn 2020
  - The methodology is submitted to a consultation with academics and civil society
  - All government expenses in the 2021 draft budget bill will be taken into account

- A new element of the budgetary process
  - A green budget will be issued with each draft budget bill
  - Each new expense will be classified with respect to its alignment with Paris Agreement
Thank you!

Pour plus d’information :
www.tresor.economie.gouv.fr