

A green recovery plan for France

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"We should ask ourselves not only how to overcome the immediate threat, but also what kind of world we will inhabit once the storm passes." Yuval Noah Harari, the Financial Times, March 20, 2020.

Whereas it makes perfect sense to put in place now an emergency package designed to avoid as much irreversibilities as possible for firms and for individuals, that is to avoid as much bankruptcies and terminations of employment contracts as possible, the stimulus package planned for the autumn has to be green. Indeed:

- We need to decarbonize.
- Increasing the carbon tax, the best instrument to achieve this, is highly unpopular.
- French people clearly want the state to take charge of decarbonization, as shown by the Yellow vests protests and what we know of the proposals the Citizens Climate Convention is going to make.
- In normal times, such additional public expenditure would have been complicated to finance; today, because of the coronavirus crisis and the huge economic slowdown it causes, the government is going to inject large amounts of public money into the economy anyway.
- Investing in the decarbonization of the economy is useful even if it turns out that in the third semester of 2020 French people spontaneously start to consume and spend the enormous savings they accumulated during the crisis, and therefore a Keynesian stimulus happens not to be necessary.

However, not every "green" spending is a good spending. A general message would be to favor investments over subsidies, and to avoid creating new rents.

In quantitative terms, I4CE estimates that in 2018 green investments in France were 32 billion euros (1.4% of GDP) and that it would take an additional 20 billion per year to reach France's decarbonization targets. These estimates are very imprecise, but they give a useful order of magnitude. Among these investment needs, about 10% are public investments. Note that in the presence of a rising carbon price, a large part of private green investment projects would be carried out spontaneously, the carbon price making them profitable. In the absence of a credible carbon price path for the future, the task becomes more difficult. Various financial instruments and regulations may then be devised to redirect private investment, which the government can support (green finance, introduction in

macroprudential rules of a malus for fossil industries, etc.).

Green public investments must meet several criteria.

- They must not crowd out more socially useful investments, in health or education for example.
- They must be screened by a rigorous cost-benefit analysis, integrating the social carbon value. In France, the Quinet Commission has produced in 2019 a social carbon value path, reflecting the value society attaches to mitigation actions. This carbon value sets a baseline for calibrating climate policy. Investments that entail an abatement cost below the baseline must be undertaken as they are socially and economically viable. The other ones have to be rejected: the cost of a ton of carbon avoided by these investments would be too high. Ex ante evaluation of investment projects is crucial.
- The distributive effects of the policies, which the standard cost-benefit analysis does not take into account, must be evaluated. The recovery plan must not increase inequalities, neither between people nor between territories. Here again ex ante evaluation is crucial.
- Priority must be given to investments allowing agents to change their behavior. Indeed, there is no point in encouraging people to adopt less carbon-emitting behaviors if they have no alternative. In that respect low carbon infrastructures such as bicycle paths, public transport, electric cars and investments in public goods such as green networks (charging stations for instance) and energy storage are particularly relevant.
- Investments in green R&D, likely to produce significant spillover effects, are also a priority.
- These investments must be able to be mobilized quickly and (possibly) have a sufficient multiplier effect, to be useful for the recovery, and a sufficient positive effect on employment.

The energy renovation of buildings is often also cited as a priority. Direct emissions from buildings account for around 20% of CO₂ emissions in France. 2/3 of these emissions are due to heating. 12% of the dwellings are still heated with fuel oil, 40% with gas. The question is therefore important. In 2018, 4 billion euros has been spent in public aid for renovation. But with few results, as far as we can judge absent serious evaluations. However, France has set a target of renovating 500,000 homes per year, which is very ambitious. Again, a sufficient carbon price would make a lot of these renovations profitable for homeowners, and they would be undertaken spontaneously. But this is not the case. Some suggestions could be to:

- renovate the public service sector (hospitals, schools);
- grant aid to the renovation of uninsulated homes (“passoires thermiques”), to address at the same time fuel poverty;
- grant only means-tested aid, as currently aids do not benefit the poorest;
- help only deep renovations, superficial renovations (like changing windows) having very low efficiency.

The historically low oil price as a result of the sharp drop in demand due to the current recession and the saturation of storage capacities, has in the consuming countries the same effect as a negative carbon. New investments in fossil energy are not discouraged, creating so many potential stranded assets for the future. In addition, the pressure on states to help the “dirty” sectors to overcome the crisis without climate conditionality is very strong. Such a policy would accentuate the negative effect of the low oil price, by encouraging these sectors not to take advantage of the current crisis to initiate a deep transformation. Consequently, the granting of budgetary and fiscal measures must be made conditional on the adoption of investment plans compatible with carbon neutrality. The eco-conditionality of public support would ensure that it does not actually favor the least sustainable technological choices and, on the contrary, that it helps triggering desirable economic and social transitions.

At the same time, it is necessary to initiate the retraining of workers in highly emitting sectors towards jobs that support carbon neutrality.

The French economy must be prepared for the increase in the average temperature and the increase in the frequency of inevitable climate catastrophes (droughts, floods, etc.). Learning the lesson from the coronavirus crisis, it must be accepted that adaptation investments are not immediately profitable. These investments mainly concern the adaptation of agriculture, the strengthening of carbon sinks, the fight against imported deforestation.

Finally, at the European level, the French government could support the establishment of a floor price in the ETS market and the extension of this market, failing the possibility to implement a European carbon tax. The coordination of investments in networks, of research efforts and of adaptation investments (carbon sinks, agriculture) is necessary. Finally, to ensure that the evaluation of investment projects is made on a common basis, it would be crucial to support an European effort to produce a European carbon value path.