

République Française

Framework for the Green OAT

10th January 2017

I. Introduction

France is one of the most ambitious countries on climate change mitigation and environmental protection. France is also convinced that Green Bonds may become a key tool, at the international level, to channel investments to green assets and thereby to contribute to countries' Nationally Determined Contributions.

France already supports the development of Green Bond markets with various laws, and decided to go further with the creation of this Green OAT Framework that will enable Agence France Trésor to issue a Green OAT. Such Green OAT will become an integral part of France's 2°C strategy.

The Green OAT is designed to provide investors with the Best of both Worlds: liquidity and high standards. It will bring additional liquidity as the Green OAT will progressively grow aiming at an outstanding size comparable to other OATs for comparable maturities. It will follow high standards because, in addition to the compliance with Green Bond Principles (2016 edition), and the second opinion from Vigeo-Eiris, France will provide three reports to investors and in particular a report on impacts that will be reviewed by an independent Council.

II. Background on French commitments and environmental policies

As one of the most industrialized country in the world, one of the richest countries in the world in terms of biodiversity¹ and a country eager to contribute to the achievement of Sustainable Development Goals, France has a special role on climate and environmental protection and is ready to step in to assume this responsibility.

Significant efforts have already been made to decarbonize the economy. The country already ranks among the industrial countries with the lowest greenhouse gas emissions (1.2% of GHG emissions, while accounting for 4.2% of global GDP) and France was one of the first countries to align itself with the Intergovernmental Panel on Climate Change (IPCC) recommendations to limit the average global temperature rise to 2°C. France has reduced its GHG emissions by 11% between 1990 and 2013 (491.1 MtCO₂eq in 2013), contributing to the EU and its member states commitment under the Kyoto protocol. France is also among G20 countries with the lowest level of fossil fuel subsidies (according to IMF definition): 1% of GDP in 2015.

France has taken a number of commitments to step up its climate improvements by 2030 and 2050. The French government played a decisive role in the negotiation and ratification of the Paris Agreement (2015). In this Agreement, for the first time, all nations committed to combat climate

¹ Within the World's Top 10 in terms of number of species and Europe's n°1 for its variety of amphibians, birds and mammals, World's n°2 for its maritime domain, World's n°4 for its coral reefs

change, and to keep temperature rise of this century well below 2 °C compared to 1990 and pursue efforts to limit it even further to 1.5°C. The agreement also requires all parties to put forward their efforts through “nationally determined contributions” (NDCs) and to strengthen these efforts in the years ahead. In Europe, the 2030 Climate & Energy framework provides member countries with a roadmap for reducing greenhouse gas emissions, boosting the share of renewable energies in energy mix and increasing energy efficiency. This has been implemented in France by the Energy Transition for Green Growth Act (*Loi pour la Transition Energétique et la Croissance Verte*) (Aug. 2015) which has enshrined the key objective to emit 40% less greenhouse gas emissions in 2030 compared with 1990*.

France is also highly committed to actively protect biodiversity. The country is a member of the Convention on Biological Diversity and has voted (Jul. 2016) the Restoration of Biodiversity, Nature and Landscape Act which provides an advanced legislative framework to protect biodiversity and announces the creation of the French Biodiversity Agency.

As a European member state, France has also taken a number of strong commitments on pollution control. The Waste Framework Directive institutionalizes the « Polluter Pays Principle » and set recycling and recovery targets to be achieved by 2020 (50% for household waste and 70% for construction and demolition waste). The Water Framework Directive asks Member States to address pollution from urban waste water and from agriculture, and to plan river basin management. The Marine Strategy Framework Directive asks for an integrated management of the land-sea interface and an efficient marine biodiversity management.

As a result, France has chosen that its Green OAT Framework would be oriented toward four national objectives:

- *Climate Change Adaptation*
- *Climate Change Mitigation,*
- *Protection of Biodiversity*
- *Reduction of Air, Soil and Water Pollution*

III. France’s existing support to the Green Bond market

France has already showed its support to the Green Bond market by a number of laws that promote, directly or indirectly, investments in such instruments.

First, Article 173 of the French Energy Transition Act is designed as a consistent package of measures, with provisions regarding corporate disclosure of climate related information (III and IV) and provisions regarding the integration of climate related issues in the financial sector (V and VI). Provision VI of Article 173 introduces the obligation for institutional investors to regularly publish ‘climate reporting’ on their investment decisions. France is the first country to set up such an obligation for the financial sector.

Second, France created in 2015 an official label for mutual funds “Transition Energétique et Ecologique pour le Climat” (TEEC) aiming at promoting the energy and environmental transition.

TEEC Label was inspired from Green Bond Principles and the Climate Bond Initiative taxonomy. Fixed income funds which want to benefit from this label must be invested in Green Bonds, for more than 83.5% of their net asset value. Such Green Bond must follow the Green Bond Principles.

IV. Application of Green Bond Principles for the Green OAT

a. Use of Proceeds

i. Definition and scope of Green Eligible Expenditures

Green Eligible Expenditures are the State expenditures that can qualify under the Green OAT Framework. It includes some green expenditures within the State budget and the *Programme d’Investissements d’Avenir* (“Invest for the Future” plans).

Green Eligible Expenditures include tax expenditures, investment expenditures, operating expenditures and intervention expenditures, as any of such expenditure can be used to deploy France’s climate and environmental policy.

Green Eligible Expenditures will exclude any French State expenditure financed by a dedicated resource, in order to avoid any “double accounting”. For instance, subsidies to renewable energies, which represent more than € 5bn/year, are already specifically financed by an allocated tax on energy (CSPE) and are therefore not included in Green Eligible Expenditures.

Green Eligible Expenditures can be directed at state agencies, local authorities, companies and households. Nevertheless, Green Eligible Expenditures will exclude any State expenditure to a French agency or to a local authority that such entity could use itself to issue its own Green Bonds.

Green Eligible Expenditures include expenditures related to real assets such as land, energy efficient buildings and infrastructures. They will also be related to some intangibles assets such as human capital and organizations, applied research and innovation, which may later be capitalized by public or private actors, and scientific knowledge, as a better way to understand oceans, atmosphere and biosphere which is paramount to manage the transition to a low carbon economy.

ii. Green Sectors

Six sectors have been defined, in which the vast majority of Green Eligible Expenditures are classified (see Table 1).

Green Sector	Definition and main Green Eligible Expenditures	Available amount (see iii.c)
Buildings	<p>Improve buildings’ energy efficiency</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> <i>Energy efficiency investments by households, social housing corporation (tax credits, subsidized loans, etc.)</i> 	€4,100m

Transport	<p>Maintain, increase and promote public transportation and support multimodal transport solutions, and reduce use, improve energy efficiency and decrease carbon intensity of vehicles</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Support to rail and waterways operators</i> • <i>Innovation in energy efficient transportation systems and technologies</i> • <i>Investment in infrastructures triggering modal switch</i> 	€2,450m
Energy (incl. smart grid)	<p>Develop renewable energies technologies and invest in assets (wind, solar, hydro, geothermal, marine), incl. their efficient integration in power systems (smart grids)</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Research and innovation in renewable energy</i> • <i>Investments in smart grids</i> 	€1,700m
Living resources	<p>Promote organic farming, and enhance biodiversity and land environmental protection</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Sustainable forestry management</i> • <i>Support to certified organic farming</i> • <i>Investment in protected areas</i> • <i>Research on living resources and biodiversity protection</i> 	€2,850m
Adaptation	<p>Develop climate change extreme weather events observation systems and support adaptation related research, and develop adaptation related infrastructure</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Atmosphere, oceans and biosphere monitoring systems, incl. ships and satellites</i> • <i>Research on adaptation systems and infrastructures</i> 	€900m
Pollution and eco-efficiency	<p>Develop pollution monitoring and control systems and promote sustainable consumption and production modes (e.g., waste reduction and recycling, e.g., “circular economy”)</p> <p><i>Main Green Eligible Expenditures:</i></p> <ul style="list-style-type: none"> • <i>Monitoring systems</i> • <i>Research and innovation</i> • <i>Promotion of the circular economy</i> 	€300m

Table 1: Green Sectors and Main Green Eligible Expenditures

Some State expenditures, such as for instance the PIA investment in Eco-Cities (*Ecocités*) are contributing significantly to several Green Sectors together and therefore deemed to be “transversal”. Available transversal expenditures amount €700m.

b. Process for Expenditure Evaluation and Selection

An Inter-Ministerial Working Group has undertaken the selection of Eligible Green Expenditures. The process is described in Figure 1.

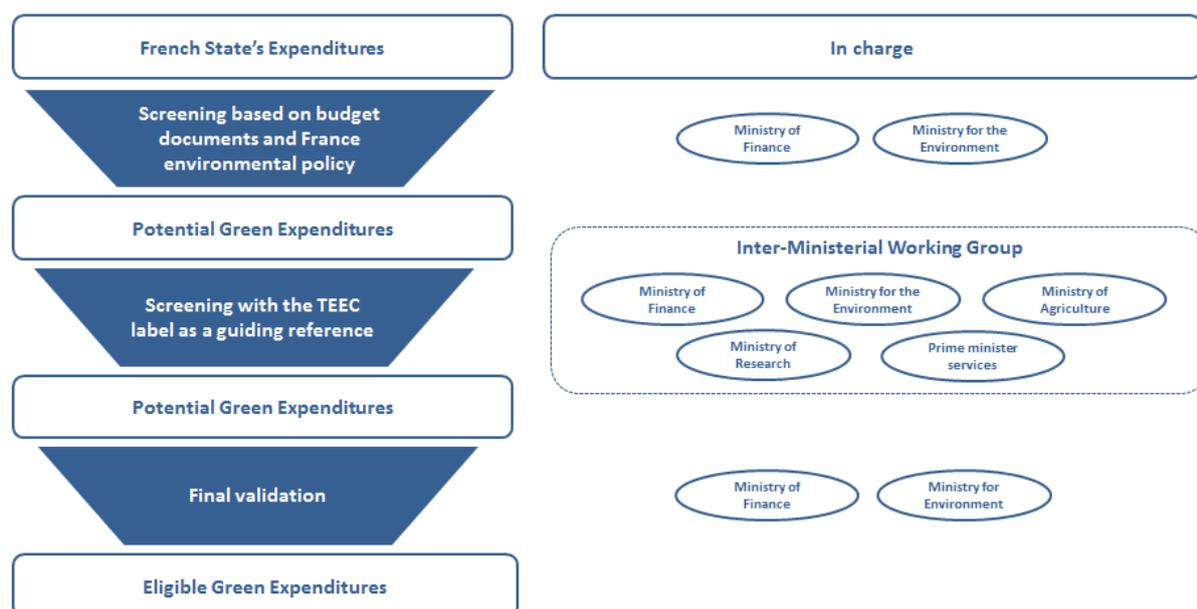


Figure 1: Selection Process for the Eligible Green Expenditures

The TEEC label has been used as a guiding reference for such selection process, as a well as the four Green Objectives listed above and the six Green Sectors. Each ministry has been responsible for identifying Eligible Green Expenditure within its programmes. The Inter-Ministerial Working Group has aimed at excluding all nuclear activities, all armament and any expenditure mainly related to fossil fuel.

c. Management of Proceeds

The tracking of Green Eligible Expenditures will be done by the Ministry of Finance.

The management of Green Eligible Expenditures will be done in order to:

- insure more than 50% of the allocation of the Green OAT are expenditures related to the current year budget or future years budget, and
- be able to provide full transparency to investors on the nature of allocations.

As a result, Green Eligible Expenditures will include in priority Recent Expenditures (i.e., all expenditures of the French state general budget and PIAs made in the previous year) and Current Expenditures (i.e., all expenditures of the French state general budget and PIAs to be made in the current year), and may include, if necessary because the two latter categories have been exhausted, Future Expenditures (i.e., all expenditures of PIAs to be made in the coming years).

Once the fiscal year is over, AFT will communicate on the nature of allocations made during this given year, in terms of sector and nature of the expenditures (Current, Recent and Future) and, the share of Current and Future Expenditures.

d. Reporting

i. Approach

Three types of reporting will be provided to investors (see Figure 2):

- the allocation of bond proceeds, reviewed by an external audit firm,
- the outputs of Eligible Green Expenditures, i.e., existing state performance indicators, (see <http://www.performance-publique.budget.gouv.fr/>), and
- an ex-post reporting on environmental impacts of Eligible Green Expenditures, under the oversight of Green Bond Evaluation Council will assess this reporting (see next section).

Examples of outputs indicators and impact indicators are provided on Figure 3.

	Allocations	Outputs	Impacts
Frequency	Annual until the complete allocation of bond proceeds	Annual until the complete allocation of bond proceeds	Adapted frequency depending on sector until the maturity of the Green OAT
Content	Reporting on the nature of expenditures	Output reporting based on the current performance assessment of public expenditures	An ex-post impact reporting
Examples	Allocation of Green OAT proceeds in terms of type of assets, type of sectors, type of expenditure, etc.	Number of households benefiting from tax credits for retrofitting its housing, Monitoring of air quality indices, etc.	Avoided GHG emissions, preserved land and water volumes with rich biodiversity, improvement of air quality, etc.
	<i>Verified by an audit firm</i>	<i>Available in public document</i>	<i>Under the oversight of the Evaluation Council</i>

Figure 2: Reporting approach

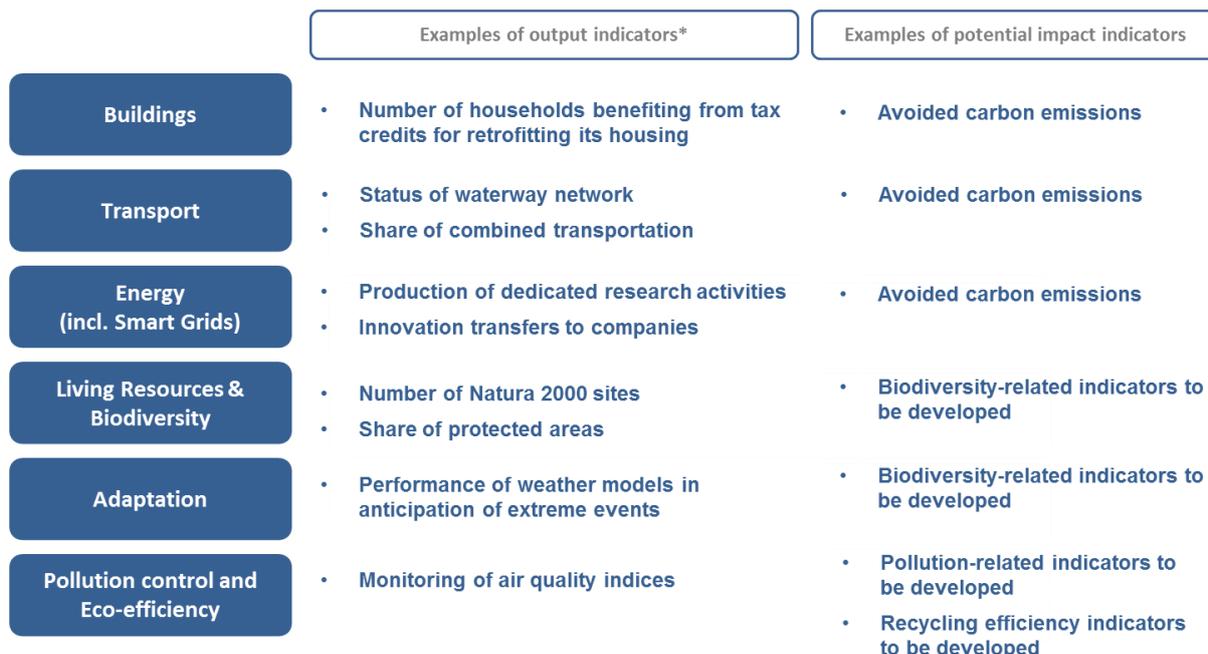


Figure 3: Examples of output indicators and potential impact indicators provided for the Green OAT

ii. Green Bond Evaluation Council

France creates a Green Bond Evaluation Council (the “Council”). The Council will define the guidelines and the frequency of the environmental impact reporting that would be most appropriate to the selected Eligible Green Expenditures. Evaluations would be conducted independently.

The Council would assess the quality of the evaluation reports and ultimately the relevance of results. Its opinions will be published on a dedicated web-site.

Key international agreements ratified by France, and especially the Paris Climate Agreement, will be used by the Council as reference texts.

The Council will be made of 6 to 8 independent experts in green finance, named for 3 years. It will be established and starts acting as presented in Figure 4.



Figure 4: First 18 months agenda for the Green Bond Evaluation Council

V. Second opinion

This Green OAT Framework obtained a “Second Opinion” by Vigeo-Eiris. This opinion is available on Agence France Trésor websiteⁱ.

This Second Opinion certifies ex-ante the relevance of this approach in view of the announced objectives and the compliance of Eligible Green Disbursement with the TEEC label.

VI. Legal documentation

The following wording will be added in the “Arrêté d’émission” of the Green OAT.

«L’Etat a l’intention de réaliser des dépenses dans les secteurs des énergies renouvelables, des transports, du bâtiment, de l’adaptation au changement climatique et de la protection des ressources vivantes, de l’atmosphère et des océans (les « Dépenses Vertes Eligibles ») pour un montant équivalent à la présente émission. Ces Dépenses Vertes Eligibles contribuent, pour tout ou partie, aux objectifs de lutte et d’adaptation au changement climatique, de protection de la biodiversité et de lutte contre la pollution

L’Etat publie annuellement un rapport d’information relatif aux dépenses vertes éligibles ainsi qu’à leurs indicateurs de performance jusqu’à réalisation complète de ces dépenses. Un rapport d’information relatif aux impacts environnementaux des dépenses précitées est publié selon une fréquence appropriée. »

ⁱ http://www.aft.gouv.fr/articles/green-oat_12846.html