

Lists of green and brown budgetary items: explanatory notes

Background and Motivation

To support Member States in developing their own green budgeting practices, DG ECFIN committed to producing a list of budgetary items whose net environmental impact could be considered broadly as 'green' as well as a list of items whose net impact could be considered broadly 'brown'. These two lists (here defined as the 'green list' and the 'brown list') are intended to be only indicative and not comprehensive. Contrary to budgetary tagging, these lists do not capture favourable or unfavourable contributions to the environment of all items of the budgets, but provide only some key examples of 'mostly' green and 'mostly' brown measures. The main objective of these lists is to provide a background for Member States that could serve as a starting point to develop their own tagging methodology. The lists have been discussed with representatives from the EU Member States.

Structure

The two lists have been compiled considering first a possible structure-type of a Member State's budget. The structure considered somewhat follows the classification of the government objectives by functions, loosely mirroring the classification of the function of governments (COFOG), and classifies budgetary items into 'sectors', 'categories' and 'subcategories'. More specifically, a 'sector' identifies a broad function, such as 'transport' or 'education'; a 'category' illustrates possible broad/main objectives for a specific sector; and a 'subcategory' splits the broad objective into more detailed spending programmes. For each subcategory, the lists present some selected measures as examples. Based on these three levels of granularity, the proposed structure, while not matching any particular Member State's budget, features some degree of flexibility that could accommodate different presentational approaches.

As both expenditure and revenue measures can be green or brown, the proposed structure would encompass tax and revenue measures as well as tax expenditure. In many cases, the term 'Support' is indicated to capture measures of different nature (i.e., expenditure, revenue and tax expenditure) but with the same environmental impact. Nonetheless, it is well understood that in many cases budgetary documents would present only expenditure allocations.

Sources

The lists have been compiled drawing on information from specific Member States' budgets, the EU budget and various OECD and EU datasets. To obtain concrete examples of measures, the EU, French, Italian and Irish budgets have been screened, particularly in those annexes or tables with measures for the environment or reports on environmental subsidies, including fossil fuel ones. The information retrieved fed into the 'category' and 'subcategory' elements and, especially, into the specific measures. For the specific measures, additional information was retrieved from the OECD database on policy instruments for the environment¹, the ESTAT database on Environmental Goods and Services Sector² and the National Tax List³ (a supporting dataset to ESA table 9 'Detailed taxes

¹ <http://www.oecd.org/environment/indicators-modelling-outlooks/policy-instrument-database/>

² <https://ec.europa.eu/eurostat/documents/1798247/6191549/EGSS+list+of+env+products.xlsx>

³ https://ec.europa.eu/eurostat/statistics-explained/images/0/0e/National_tax_lists_20210203.xlsx

and social contributions'). For the brown items, these sources were complemented by the OECD fossil fuels inventory.⁴

Within the Commission, the lists benefited from comments from other relevant Directorates, particularly Eurostat, DG Environment, DG Energy, and other units in DG ECFIN.

Functioning

The grouping of the measures into subcategories and categories is not a partition: as a specific measure could belong to different categories or subcategories, some measures show up under various categories. For example, within the green list, the item 'Support for energy efficient renovations' could belong to several categories, such as 'Energy efficiency and transition' (line 51), 'Construction' (line 60), 'Housing development' (line 164) or 'Infrastructure' in the health (line 188) or education (line 198) sectors. It would be then up to the Member States to opt for the most suitable location of the budgetary item/measure, also in view of the broader scope of the project undertaken.

The selection of measures included in the lists required some judgement calls.

- First of all, items for which the impact could be considered ambiguous have not been included. This is the case for example of hydro-power stations, which have a positive impact on climate and a negative impact on biodiversity. Based on the same rationale, no measure related to nuclear energy has been inserted. A similar decision was taken with respect to new construction. While favourable impacts on the climate can be made clear by adding 'energy efficient', the impacts for biodiversity can be still negative and hence these items have been excluded.
- Second, the lists do not account for different degrees of 'green' or 'brown', and measures could have environmental impacts of very different magnitude. A proper budgetary tagging exercise could instead account for different impacts using percentages, for example.
- Third, the green list excludes 'greening' items, i.e., items that are brown but pollute less than items currently in use. A case in point would be gas-based heating systems, which are less polluting than coal-based heating systems.
- Last, the list does treat as brown some budgetary items for which there are no alternatives, e.g. subsidies for air transport, expenses related to the military sector, or fossil fuel subsidies for mining and manufacturing activities where other, clean, options do not yet exist.

In addition, on the revenue side, it is important to consider that the existence of an environmentally-related tax or tariff might not be sufficient to guarantee the shift to sustainable modes of production and consumption. It is, thus, important to try to tackle externalities of a specific activity or product when considering the level of taxation, in order to ensure that the item is efficient and effective.

⁴ <http://www.oecd.org/fossil-fuels/>