ERT POSITION ON THE PROPOSAL FOR A REGULATION ON THE ESTABLISHMENT OF A FRAMEWORK TO FACILITATE SUSTAINABLE INVESTMENT (TAXONOMY)

Key messages

1. ERT shares the European Commission's view that meeting the Paris Agreement commitments and Europe's 2030 climate goals will require huge, transformative investments by both the private and public sectors. ERT therefore welcomes the initiatives under the Action Plan on Sustainable Finance, including the Regulation on the establishment of a framework to facilitate sustainable investment (taxonomy). In their recently launched strategic Position Paper "Strengthening Europe`s place in the world", ERT Members have pledged they will collaborate with policymakers to ensure Europe sets the right policies to "stimulate true growth of innovative, environment-focused businesses" (https://www.ert.eu/sites/ert/files/generated/files/document/pp-final.pdf).

2. European industries are undergoing a far-reaching transformation process towards a successful sustainable economy and will be some of the key actors that have to adjust to the initiatives under the Action Plan. ERT believes the proposed initiatives should encourage and support such transformation, taking into account that it will be a process over time.

3. The proposed taxonomy may help mobilising finance towards environmentally sustainable projects and foster cross-border investments by defining a common language for environmentally sustainable investments. The taxonomy should encourage innovation and the transition of the European industry to a climate neutral and circular economy.

4. The awareness of sustainability in the industrial and financial sector is growing significantly. However, any regulatory approach, aiming to drive this development through incentivising positively contributing actions should be inclusive of all industries, sectors and types of projects/technologies. Hence, ERT would for example not support a brown-list.

5. Non-financial reporting requirements should be fit-for-purpose and aim at facilitating the dialogue with investors and other stakeholders. ERT believes overly restrictive or – in some cases - even unnecessary bureaucracy could result in adverse economic and financing consequences.

Overall objectives

Sustainability is an integral component of the financial markets and will play an even greater role in the future. It is vital that the EU policy approach to the different initiatives under the Action Plan on Sustainable Finance of 8 March 2018 focuses on a positive and incentive driven framework. This should be linked to the EU's overarching objective to mobilise more investments in support of sustainable as well as integrated growth and climate goals.
ERT believes that the taxonomy should facilitate overcoming the challenges of transformation to a low-carbon, circular business model that companies are facing while at the same time remaining competitive in a global competitive market.

Consistency of definitions

The initiatives under the Action Plan will only have a supporting effect if all market participants, many of whom are multinational players exposed to definitions used in other markets, can have a strong, shared degree of confidence in the definition of what “environmentally sustainable” means. Accordingly, the regulatory definitions and criteria should be underpinned by credible scientific evidence and reflect the latest, relevant technological developments. The taxonomy should take into account the current legislation and the political consensus in specific sectors in order to avoid double standards or contradicting requirements.

Inclusive approach

There should be no ex-ante exclusion of certain economic activities or entire sectors. All activities should potentially be able to qualify as “environmentally sustainable”, independent from sector or industry, in order to encourage all industries to contribute to a more sustainable economy. The taxonomy should include all activities that contribute to the environmental objectives and hence should be designed to facilitate all efforts for improvement (i.e. reduction in CO2 emissions, enhancing energy efficiency etc.) in order to fully enhance the potential of environmental sustainability in economic activities.

The principle of technology neutrality is an important aspect to this end and should be the basis of the proposed taxonomy. No activity or sector should be excluded by introducing arbitrary criteria and narrow concepts. ERT believes that an exclusionary approach would significantly limit the development of cutting-edge technologies to reduce greenhouse gas emissions in industrial processes. Furthermore, such an approach would reduce incentives to invest in environmentally beneficial activities.

Respect complex value chains

The taxonomy should adequately reflect the complexity and functioning of industrial value-chains. Basic materials and manufacturing industries produce the building blocks of all environmentally sustainable solutions. Thus, screening criteria should assess the environmental benefits of an economic activity down the value-chain, based on a life-cycle approach: if an energy-intensive activity (e.g. production of a base material) enables the production of environmentally beneficial products (e.g. windmills, solar panels or electric vehicles) delivering GHG savings, that energy-intensive activity should also be considered as sustainable.

Involve actors from the real economy in the entire decision-making process

ERT strongly emphasises the importance of including business representatives from the real economy in the decision-making process. The taxonomy outcome will be more credible and applicable to the wider industry (that will ultimately be required to comply with the regulations) if representatives from Europe’s key industrial sectors have been able to properly provide input to the technical details of the EU’s initiatives.

ERT supports the idea to regularly review the criteria based on a clear process. It is critical to the success of the taxonomy that it remains a dynamic process with a dynamic set of indicators, incorporating scientific, technological and environmental developments as well as changes in environmental objectives (social and governance objectives) in a timely manner.

Fit-for-purpose reporting requirements

Companies already disclose a wide range of mandatory information in the scope of their financial and non-financial reporting and information on sustainability is often available to a sophisticated degree. Sustainable Finance initiatives should therefore focus on fit for purpose reporting requirements that facilitate the dialogue with investors and other stakeholders (i.e. underpinned by harmonised and workable reporting requirements that incorporate the materiality to companies and their stakeholders). Regarding any new reporting requirements, EU companies should not be forced to disclose strategic and forward-looking information that would benefit their competitors.