Response to renewed Sustainable Finance Strategy

SolarPower Europe welcomes the initiative by the European Commission to renew the Sustainable Finance Strategy. This Strategy will be crucial in ensuring the financial sector effectively supports both businesses that are already sustainable, and those on their path towards sustainability. Renewing the Sustainable Finance Strategy, the European Union has a unique opportunity to take decisive steps to achieve carbon neutrality by 2050. Therefore, SolarPower Europe wishes to provide the following recommendations:

Turning the financial sector and the economy more sustainable

- **Q1:** With the increased ambition of the European Green Deal and the urgency with which we need to act to tackle the climate and environmental-related challenges, we need to:
    - Take incremental additional actions in targeted areas, building on existing actions implemented under the European Commission's 2018 Action Plan on Financing Sustainable Growth.

- **Q4:** Particularly, corporates and financial institutions need to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement and the EU Climate Law.

- **Q5:** In addition to the objective of the Action Plan on Financing Sustainable Growth to encourage investors to finance sustainable activities and projects, the EU should take further action to:
    - Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law.
    - To achieve this, the EU should mainstream green conditionality at European level for the allocation of all EU resources, including State Aid, the Just Transition Fund, InvestEU guarantees and the Connecting Europe Facility. This will support the achievement of climate neutrality in a coherent and cost-effective way, notably by putting an end to the substantial subsidies given for fossil fuels. The "Do No Significant Harm" principle is not sufficient.
    - At the same time, investors should be encouraged to invest in needed solutions to integrate more renewables in the system and foster the integration between sectors to ensure an energy transition at least cost for society and security of supply.

The future of sustainable finance

To achieve the climate objectives set out in the Green Deal, it is crucial that policymakers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on GHG emission reductions prioritizing investments that will not become stranded in the future.

- **Q6:** The three main challenges for mainstreaming sustainability in the financial sector over the coming 10 years are:

- One crucial aspect to making sustainable finance a success will be to expand the options of investment projects and activities that are aligned with the long-term EU's 2030 and 2050 climate goals. Therefore, to successfully achieve these objectives, it is important to expand the options of sustainable investments, including renewable energy assets, such as innovative solar technologies that provide more than energy production alone. This additional functionality could include: greater environment protection, low embedded carbon, the reduction of water evaporation in water scare regions, increased food production and symbiosis with sustainable farming, and housing insulation and other clean building business models such as building integrated solar PV.
- Ensuring asset owners take sustainability into account in their asset allocation. Asset owners should gradually be expected and required to disclose publicly in how far their investment portfolio aligns with the long-term climate goals (1.5°C and 2°C) as well as with the UN Sustainable Development Goal (SDGs).
- That asset managers are required to measures the impact of their investment portfolios through the lens of financial as well as environmental materiality.

- The three main opportunities for mainstreaming sustainability in the financial sector over the coming 10 years are:
    1. Increase the chances of meeting EU 2030 targets and accelerate the transition to reach climate neutrality by 2050.
    2. Increase the number of jobs related to green sectors such as solar, since solar could generate over 60% of the electricity in a 100% renewable Europe by 2050, it could create over 4 million jobs.
    3. Accelerate the expansion of a renewable industry boosting solar manufacturing in Europe, which will bring increased energy security, create growth on the continent, and reinforce the EU leadership in clean energy technologies.

- **Q8:** For the EU to ensure that the financial tools developed to increase sustainable investment flows and manage climate and environmental risks have, to the extent possible, no or limited negative socio-economic impacts, it is necessary to:
    - Prioritize investments in clean and job-rich technologies such as solar. Solar is a renewable energy technology and, therefore, a low-emissions technology. Also, solar is the most socially accepted electricity source for all Europeans and the preferred means to affordably address climate change and help meet the EU's decarbonization objective[1]. Solar is the lowest cost clean energy technology, it is already often cheaper than any other generation technology, and it has the steepest cost reduction curve ahead[2]. Solar is also a highly flexible technology that can be installed virtually everywhere, from rooftops, building's facades, on agriculture and water bodies, to utility-scale plants.
    - To further ensure that financial tools have no or limited negative socio-economic impacts, it is crucial that circular economy criteria in the EU Taxonomy are reflected in the EU Taxonomy criteria across all energy technologies.

- **Q9:** To achieve this, policy-makers should create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, for this reason, the EU should:

[1] European Attitudes toward Climate Change and Energy, European Social Survey (ESS), 2018.
[2] EU Market Outlook. For Solar Power / 2019-2023, SolarPower Europe, 2019.

- Adopt as policy signal to steer investment in renewable energy assets the increase of EU's 2030 target to reduce greenhouse gas emissions to at least 55%.
    - Adopt an adequate policy framework to promote the necessary phase out of assets that are likely to be stranded in the future, at an appropriate pace.
    - Adopt adequate, long-term policy signals to steer investments in "future-proof" assets, which might include the repurposing of existing infrastructure to accommodate renewable energy in the future (for instance, conversion of gas infrastructure to transport and store renewable-based hydrogen).

- **Q10:** Institutional investors and credit institutions should also be required to estimate and disclose which temperature scenario their portfolios are financing (e.g. 1.5°C, 2°C, 3°C, 4°C) in line with the Paris Agreement whilst using a common EU-wide methodology to ensure comparability of the estimates measurements.
    - It should be noted however that such obligation is highly related to the ability of project developers, seeking for financing from institutional investors or credit institutions, to comply with a similar obligation (for example, through SBT certification).

- **Q11:** Corporates, investors, and financial institutions are becoming increasingly aware of the correlation between biodiversity loss and climate change and the negative impacts of biodiversity loss. However, this is not reflected in EU's sustainable finance agenda, which should better reflect the growing importance of biodiversity loss. Specific actions the EU could take are:
    - Natural capital accounting and forward-looking biodiversity impact assessments could play a role in enabling investors to factor biodiversity into company valuation. By requiring such assessments, the EU would be facilitating the channelling of capital flows into companies, projects, and activities that are highly respectful with the environment and ecosystems. Ecosystem impacts, for example, are negligible during the use of solar PV systems compared to those of other power plants since there is no water use or emissions to the air. Even though construction of the plants may involve some disturbance to existing land and wildlife habitats, responsibly developed solar plants can help protect biodiversity and create new habitats for endangered animal and plant species.

- **Q12:** For the Commission to best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan, it can help the establishment of:
    - An EU Observatory, as recommended by the EU High-Level Expert Group on sustainable finance (HLEG). Since official information on the effectiveness of the EU's financial system to deliver sustainability objectives is incomplete and fragmented, the establishment of an EU Observatory could contribute to help close investment gaps in a more precise and effective way by, for example, improving tracking of the EU's sustainable investment needs, tracking of sustainable investment from public and private sources, informing evidence-based policy-making on sustainable finance, and ultimately improve capital formation to meet the investment needs required to meet EU's 2030 climate and energy targets, the European Green Deal, and Green Deal Investment Plan.

- **Q13:** To enable the financing of a sustainability transition, it will be crucial not only to set ambitious objectives but also an enabling regulatory framework that facilitates the deployment of renewable energy and energy efficient solutions. For this reason, further actions enable the financing of a sustainability transition should be:
    - The implementation of the Clean Energy Package in Member States will be instrumental in providing visibility to investors, to cost-competitive sources of financing, and to lower the uncertainty around administrative procedures.
    - A Clean Energy Package Implementation Body should be created to remove regulatory and administrative obstacles that prevent the deployment of renewable energy. The Implementation Body can be formed based on existing structures created for the drafting of the NECPs. It should bring together the EC, Member States, industry, and civil society stakeholders to monitor the implementation of energy law and share regulatory best practices.

Sustainability research and ratings

- **Q17:** We may have some concerns on the level of concentration in the market for ESG ratings and data. In terms of company reporting and transparency, including data reported under the non-Financial Reporting Directive (NFRD) and other relevant ESG data, and on the level of concentration in the market for ESG ratings and data, we recommend that:
    - The EU requirements for companies are consistent with existing recognized standards and frameworks, such as GRI, SASB, and TCFD, and in line with the EU Taxonomy, to prevent unnecessary duplication of standards and reporting.

Definitions, standards and labels for sustainable financial assets and financial products

- **Q22.** The TEG has recommended that verifiers of EU Green Bonds (green bonds using the EU GBS) should be subject to an accreditation or authorisation and supervision regime. Therefore, verifiers of EU Green Bonds should be subject to some form of accreditation or authorisation and supervision, particularly:
    - At European level since it is a European standard. The fact that verifiers of EU Green Bonds may be subject to a formal accreditation or authorisation may lead to an improvement of the integrity and trust of the regime.

- **Q32:** Several initiatives are currently ongoing in relation to energy-efficient mortgages and green loans more broadly. The EU develop standards or labels for these types of products, specifically:
    - A standard or label for green (environmental and climate) mortgages and loans.

Mobilising retail investors and citizens

- **Q50.** Retail investors should be systematically offered sustainable investment products as one of the default options, when the provider has them available, at a comparable cost and if those products meet the suitability test.

- **Q52.** In our view, it is very important to better measure the impact of financial products on sustainability factors.

Project pipeline

- **Q60:** To increase the pipeline of sustainable projects, governments should remove administrative barriers for the deployment of renewable energy and therefore facilitate the mobilization of capital to finance new solar plants and solar manufacturing sites. This should provide an adequate regulatory framework for the deployment of renewable energy at the scale required to meet the 2030 and 2050 climate objectives as well as for dedicated investments in energy storage. For this reason, Member States, and/or the EU, where relevant, should be required to:
  - Identify and remove existing administrative and regulatory barriers to the development of corporate renewable power purchase agreements (PPAs) and direct investments in renewable energy generation as per article 15.8 of the Renewable Energy Directive.
  - Set out an enabling framework for self-consumption of renewable energy, including through corporate renewable PPAs, and stop taxes or charges on self-consumption.
  - Provide an adequate network tariff design that avoids double taxation on energy storage when providing flexibility services and therefore unlock the full flexibility potential of solar power combined with storage solutions.
  - Phasing out subsidies to fossil fuels would also contribute to increase the pipeline of sustainable projects. In this line, there should be an:
    - End to post-tax subsidies, made of pre-tax subsidies, tax expenditures or "non collected" taxes and the "external cost" of fuels including externalities such as the health cost to society.

- **Q61:** The Clean Energy Package Implementation Body will be essential in addressing these obstacles, among others, that remain at Member State level and in some cases in their NECPs.

- **Q65:** Additionally, the EU should take further action in:
  - Bringing more financial engineering to sustainable R&I projects.
  - Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify).
  - Better identifying areas in R&I where public intervention is critical to crowd in private funding.
  - Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds.
  - Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions).
  - Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication.
  - Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions.
  - Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks.

Use of sustainable finance tools and frameworks by public authorities

- **Q70.** In our view, the EU Taxonomy, as currently set out in the report of the Technical Expert Group (TEG) on Sustainable Finance, is suitable for use by the public sector, for example in order to classify and report on green expenditures:
  - But only partially, since the taxonomy is a small set of sustainable activities and therefore it may not have a complete outreach. This will change over time as the taxonomy evolves and expands.

- **Q71.** The EU Taxonomy, as is set out in the report of the TEG on Sustainable Finance, is also only partially suitable for use by the public sector in green public procurement.

- **Q72:** In the context of public spending frameworks at EU level, such as EU funds, Structural and Cohesion Funds and EU state aid rules, the EU Taxonomy should:
  - Play a role when applying the climate and environmental objectives set out in the Taxonomy Regulation. Also, this spending should consider social objectives, as recommended by the TEG on Sustainable Finance, and depending on the outcome of the report that the EC must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.
  - Notwithstanding the above, a diligent statement on the use of the Taxonomy depends on the final design of the framework and of its criteria, which should be sound and robust.

- **Q73.** Public issuers, including Member States, should be expected to make use of a future EU Green Bond Standard for their green bond issuances, including the issuance of sovereign green bonds in case they decide to issue this kind of debt.

Promoting sustainable finance globally

- **Q76:** The current level of global coordination between public actors for sustainable finance is rather insufficient to promote sustainable finance globally as well as to ensure coherent frameworks and action to deliver on the Paris Agreement and/or the UN Sustainable Development Goals (SDGs). The missing factors at international level to further promote sustainable finance globally and to ensure coherent framework and actions are the following:
  - Even though there are many sustainable finance instruments by many donors worldwide, the coordination among these is weak. On the one hand, the coordination between European and non-European (e.g. US) instruments should be strengthened. On the other hand, and more importantly, the coordination among various European instruments and actors (development banks, funds etc) should be strengthened significantly. The "one stop shop" objective of the EU External Investment Plan is a good aim; however, it should be operationalised. GET.invest's Finance Catalyst and Funding Database are good initiatives to facilitate overview and access for beneficiaries. However, coordination should be strengthened on the implementation side as well. Financing instruments should go beyond only financing and should be able to cover technical assistance, capacity building, standard procedures, etc. as well. The renewAfrica initiative is an example for such an approach.

- **Q77:** To facilitate global coordination of the private sector (financial and non-financial) to deliver on the goals of the Paris Agreement and/or SDGs, the European Commission could:
    - Facilitate renewable energy partnerships with key partner countries and regions, enabling the participation of the private sector and development banks in the high-level political dialogue driven by the EU.
    - Support national associations in partner countries and regions for the industry to have a constructive and transparent role in shaping the regulatory environment for renewables. For example, GET.invest's association support is a good practice, and its geographical scope should be extended globally.

- **Q78:** The main barriers private investors face when financing sustainable projects and activities in emerging markets and/or developing economies are:
    - Lack of internationally comparable sustainable finance frameworks (standards, taxonomies, disclosure, etc.).
    - Excessive (perceived or real) investment risk.
    - Additionally, guarantee requirements are a major hurdle in project financing. European DFIs such as the European Investment Bank (EIB) should be enabled and encouraged to provide the necessary securities, particularly, where state guarantees are not an option. Contracts such as PPAs of national utilities are often not fully bankable.

- **Q79:** In the context of European international cooperation and development policy, the EU can best support the mobilization of international and domestic private investors to finance sustainable projects and activities in emerging markets and developing countries, whilst avoiding market distortions, with the following measures:
    - GET.invest's Finance Catalyst is a good practice and it should be broadened to operate globally.
    - Where state guarantees are not an option for project financing (such as in least developed countries), European DFIs such as the European Investment Bank (EIB) should be enabled and encouraged to provide the necessary securities.
    - The European Commission should advocate for the use of the Open Solar Contracts (www.opensolarcontracts.org) developed by the International Renewable Energy Agency and the Terrawatt Initiative with SPE support, to be considered a best practice for a bankable contractual documentation for solar projects' development.
    - The European Commission should streamline the criteria applied by export credit agencies (ECA) for solar PV and assess the potential to integrate the single market concept ECA's content requirements, transitioning from the current practice where local content is assessed on a national basis by each national ECA. We encourage further collaboration between the solar industry and the relevant services of the European Commission to identify a joint approach.

- **Q80:** EU sustainable finance tools (e.g. taxonomy, benchmarks, disclosure requirements) can be used to help scale up the financing of sustainable projects and activities in emerging markets and/or developing economies.
    - All EU sustainable finance tools are already suitable and can be applied to emerging markets and/or developing economies without any change. However, some factors need to be considered, outlined in answer 81 below.

- **Q81:** The EU Taxonomy is suitable for use by development banks, when crowding in private finance, either through guarantees or blended finance for sustainable projects and activities in emerging markets and/or developing economies. However, several factors should be considered:
    - EU Taxonomy obligations may create obligations for non-EU actors (such as World Bank) that are co-funded by the EU through blending for example.
    - EU sustainable finance requirements may need to be adapted to local environmental or sustainable requirements when operating outside of the EU.

Identifying exposures to harmful activities and assets

- **Q82:** In relation to identifying exposures to harmful activities and assets, the development of a taxonomy for economic activities that are most exposed to the transition due to their current negative environmental impacts at EU level, a so-called "brown taxonomy" would:
    - On one hand, allow financial investors and institutions to show the incremental improvements in their investment decisions.
    - On the other hand, there is a risk that a "brown taxonomy" could discourage economic actors who are transitioning away from less sustainable assets, making it even more difficult for them to attract the necessary investments to do the shift. Other regulatory tools exist to discourage further development of carbon-intensive or less sustainable economic activities, such as introduction of carbon price floor, phase-out of fossil fuel subsidies, etc.

Financial stability risk

- **Q84:** Climate change will impact financial stability through two main channels: physical risks, related to damages from climate-related events, and transition risks, related to the effect of mitigation strategies, especially if these are adopted late and abruptly. In addition, second-order effects (for instance the impact of climate change on real estate prices) can further weaken the whole financial system. In our view, the most important channels through which climate change will affect our industry are:
    - Physical risks
    - Transition risks
    - Second-order effects

Natural capital accounting or "environmental footprint"

- **Q98:** To support more businesses and other stakeholders in implementing standardized natural capital accounting/environmental footprinting practices within the EU and internationally, the Commission should consider using:
    - Product Environmental Footprint Category Rules (PEFCR), which examine the whole lifecycle impact of a product. For a successful comparison of environmental footprints among technologies and projects, it is fundamental to establish harmonised and updated PEFCRs for different product groups.
    - Globally recognised standardisation and certification, as carried out by the IEC System for Certification to Standards Relating to Equipment for Use in Renewable Energy Applications (IECRE) in the renewable energy sector.