

EU Renewed Sustainable Finance Strategy : a contribution.

The proposed EU Renewed Sustainable Finance Strategy has been analysed to formulate a number of observations as a contribution to the public consultation about the proposal.

The observations focus on the EU Taxonomy-proposals in the framework of the “EU Green Deal Investment Plan” and its objectives “a climate neutral, green, competitive and inclusive economy”.

The Taxonomy-proposals are about : “The EU Taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy.

The Taxonomy sets performance thresholds (referred to as ‘technical screening criteria’) for economic activities which:

- make a substantive contribution to one of six environmental objectives (Figure 1);
- do no significant harm (DNSH) to the other five, where relevant;
- meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).”

The observations to make are formulated in relation to the proposed EU Green Deal and Recovery Packages and to the UN SDG-Agenda 2030 and the Paris Agreement Climate objectives, and in function of the concept of “A Safe Operating Space for Humanity” and its “Planetary Boundaries”. The latter concept allows for the integration of an approach of risk assessment and risk mitigation in the public interest in the EU decision making about the EU Green Deal and Recovery Packages, and would include the root causes of a pandemic of the nature of the current Covid-19 crisis.

The note in annex provides an analysis of this approach and of the observations that can be made in relation to e.g. finance.

The observations about the proposed EU Renewed Sustainable Finance Strategy refer to the approach briefly described above.

The proposed “six environmental objectives” : “prevention and pollution control” and “circular economy” are about tools rather than an “environmental objective” :

“Prevention and pollution control” would be of relevance when considered under the agreed EU-principles of “Prevention, Precaution and the Polluter Pays”: doing so would raise the question about compliance with these principles since their adoption

over the past decades, across the EU-policies and measures (e.g. on the stated EU goal of halting the loss of biodiversity, stated in 2000 and in 2010, and the actual outcomes by 2010 and 2020, and on the outcomes of the Emissions Trading System and the unintended consequences of “windfall profits” benefitting a number of actors),

“Circular Economy” and the role the concept is to play will be a function of the policies and measures the EU is to adopt with the Green Deal and Recovery Packages : “circular economy” is to be seen as a sub-set of a “green economy” : the European Environment Agency and its “Multi- annual Work Programme 2014-2018 - Expanding the knowledge base for policy implementation and long-term transitions” informs about :

“One of the overarching challenges in environmental policymaking, as was concluded in the SOER 2010, is to respond to the unprecedented change, interconnected risks, and increased vulnerabilities the European environment faces. The many links between environment and climate challenges and their underlying driving forces point towards increasing complexity, and have resulted in an appreciation of the human-induced systemic risks and vulnerabilities that threaten long-term ecosystem resilience.

At the core of responding to systemic risks is a stimulation of a fundamental transition to a green economy (2) — as called for, for example, in the Roadmap to a Resource Efficient Europe, the Low Carbon Economy Roadmap, the Energy Roadmap, the EU's climate policies, and the 7th EAP.

A transition to a green economy and society requires proper consideration of the interplay between socio-economic and environmental factors, and an understanding of the linkages between environmental trends, emerging issues, associated uncertainties, and the resulting systemic risks.

Assessing these systemic risks to support the transition to a green economy is the focus of SA2, with the five-year 'state and outlook of the environment' reports (SOER) and annual indicator reports being the vehicles for drawing together all the relevant threads of knowledge developed through the activities in SA1 and SA2. “

end of quote.

The other four “environmental objectives” - to be considered as such -, relate in part to the major global environmental issues described in the analysis of “A Safe Operating Space for Humanity” and the “Planetary Boundaries”. An EU-policy response to the “systemic risks” observed in the EEEA-analysis cited above would require a “systemic approach” to the whole of these “Planetary Boundaries”-issues in the

perspective of risk mitigation in the public interest. The note in annex provides information about this approach and includes a reference to “policy coherence for sustainable development”.

The “performance thresholds” in the Taxonomy-proposal would have to be aligned to the approach briefly described above.

In addition, an assessment of the negative externalities inherent in the current unsustainable production- and consumption patterns in the EU, reflected in the environmental footprints based on final consumption indicators, would allow for calculating the cost related to the externalities, and would contribute to value the investment in green alternatives (reference to “payments for eco-system services”). At the same time risk pricing of this nature would allow for further considering the opportunities for “green fiscal policies” also with a view to reduce taxes on work in the framework of “A Just Transition”.

Policy responses for the purpose of the Green Deal and Recovery Packages, and proposals for the Renewed Sustainable Finance Strategy - “EU-governance and policy coherence for sustainable development” - are further informed by the OECD-analysis referred to here. The analysis offers opportunities for setting the priorities in response by addressing “environmentally harmful subsidies” and public budgets :

The analysis of the relationship of “**finance and biodiversity**” and the occurrence of major adverse impacts on biodiversity :

OECD 4 2020 : “**A Comprehensive Overview of Global Biodiversity Finance**”, Final report, April, 2020, Prepared by the Organisation for Economic Cooperation and Development (OECD) :

“.....Building on OECD’s 2019 report to the G7 Environment Ministers on “Biodiversity: Finance and the Business and Economic Case for Action”, which included a preliminary update on global biodiversity finance flows, this report aims to address this information gap by providing a more comprehensive overview and an aggregate estimate of global biodiversity finance. The report also provides an overview of government support potentially harmful to biodiversity, and offers recommendations for improving the assessment, tracking and reporting of biodiversity finance.

Based on currently available data, global biodiversity finance is estimated at USD 78 - 91 billion per year (2015-2017 average).

Meanwhile, governments spend approximately USD 500 billion per year in support that is potentially harmful to biodiversity i.e. five to six times more than total spending for biodiversity. The total volume of finance flows that are harmful to biodiversity (i.e.

encompassing all public and private expenditure) is likely to be many times larger.”

end of quote.

The analysis “**Stranded Assets in Agriculture: Protecting Value from Environment-Related Risks**”

- 2013 - informs about a number of issues relevant to (priority) public policy responses (today) :

“..... From a government perspective, stranded assets are a problem because they often arise from market failures and the materialisation of long-overlooked external costs and the associated poor regulation of the economy. Stranded assets can often carry with them implicit government insurance to ease ‘transition’ costs when things go wrong.....

- Risk and exposure to stranded assets is often compounded because of the problems of path dependency and short term decision-making biases -

From a macroeconomic perspective, stranded assets are a problem because if otherwise unsustainable assets are kept in production for too long they become a drag on productivity, economic growth, social welfare and the public purse.

The risks of stranded assets are therefore of interest to finance ministries and central banks concerned

about **system-wide stability and economic performance.**”

end of quote.

Accountability, sustainability performance indicators and assessment-methodology are informed by an analysis about the Future EU Common Agricultural Policy : the advice to the Minister of Agriculture, Nature and Food Quality : 'European Agricultural Policy: Working Towards Circular Agriculture' - the Council for the Environment and Infrastructure, The Netherlands - May 2019.

“At your request the Council for the Environment and Infrastructure has considered how to make best use of the common agricultural policy (CAP) in your endeavour to establish a circular agricultural system, and what this means for the Dutch CAP Strategic Plan.

.....

[2] Link the eco-schemes to private sustainability schemes, subject to oversight by an independent organisation.

Linking eco-schemes to existing sustainability schemes will give farmers a stronger and unambiguous incentive to green their operations, encourage the agribusiness sector to make the transition to circular agriculture and increase the

effectiveness of government spending. It will also reduce farmers' uncertainty about the size of payments for eco-schemes. In the Commission's proposals these will be annual commitments and so different numbers of farmers will be able to take part each year. As the management and oversight of these schemes will be in the hands of private organisations (accredited and supervised by government), implementation will be lean, bureaucracy kept to the minimum and the possibilities for synergy increased.

[3] For the implementation of the eco-schemes use an integrated points system based on transparent performance indicators that show how much progress the farm is making towards circular agriculture.

Under a points system farmers will be able to choose between different schemes (which may vary from 'entry-level' to more ambitious schemes) according to their specific needs and circumstances. A points system will also allow for annual reviews in which the eco-schemes can be made more ambitious or broadened in scope by setting higher standards or additional priorities (for example on climate-friendly farming), all within the existing system. The government will be responsible for designing the points system and the eco-schemes.

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Integrated points system for sustainability

The eco-schemes could be based on an integrated points system based on performance indicators showing what the farmer has to achieve to meet the objectives for biodiversity, climate, soil, water, animal welfare, etc.: in short, the objectives that go to make up a circular agriculture system. Examples of such a points system are currently being used or being developed for dairy farming and arable farming. The number of performance indicators should be kept to a manageable number by choosing those that together encapsulate the essence of circular agriculture. Each should consist of a scale with a minimum standard and a series of steps towards a maximum performance level. This would do justice to the different possibilities and priorities of individual farms: some will score more points on one indicator while others will perform better on other indicators; all will be able to work towards circular agriculture in a way best suited to their particular form of farm management. By 'integrated' we mean that the indicators taken together cover all the relevant environmental and sustainability aspects of circular agriculture and that each indicator sets a minimum standard; this will ensure that no objectives are overlooked or avoided.

Linking eco-schemes to sustainability schemes

The points system could be used for multiple purposes, including private sustainability schemes, certification, quality labels and such like. A key

advantage of a points system is that it allows eco-schemes to draw on existing or future sustainability schemes developed by various organisations, such as food companies, farmers' collectives, regional partnerships, conservation management organisations and other civil society organisations. An integrated points system avoids friction between different schemes and commitments – plus the associated bureaucracy – and creates the conditions for synergy. This is important, because it is not just farmers but also companies and other parties in the agribusiness chain (storage, transport, supply, support and retail) that will have to adapt their operations, and because they provide farmers with information, advice and resources. As circular farming often involves extensification of production, the food industry may have to look at reorienting towards smaller production volumes, possibly for export. At the same time, markets for products from circular agriculture will have to be found in market segments where there is a willingness to pay for new services such as nature conservation, cutting carbon emissions, etc. to allow the costs of such social goods and services to be incorporated into the market price.

Linking the eco-schemes with sustainability schemes follows the principle of equivalence (see Infographic 2, 'European agricultural policy for circular agriculture'). The government designs the eco-

schemes and can decide to set a range of easier and more demanding schemes according to the objectives to be achieved and the number of points that can be obtained. Sustainability schemes can be designated as equivalent to eco-schemes, as is the case in the current CAP with organic farming (SKAL certification mark) and sustainable arable farming (the Skylark Foundation). Farmers that take part in an equivalent sustainability scheme could then apply for and receive the payment approved by the government for the relevant eco-scheme.

Management and oversight of compliance would be the responsibility of the organisations offering the sustainability schemes, with checks by government to determine the adequacy of the oversight by these organisations. This will ensure equivalence and prevent double bureaucracy.

Linking sustainability schemes to the eco-schemes is not only efficient and effective, but it would also provide an extra incentive to farmers to take part and prepare for higher standards or more demanding eco-schemes. The system would generate the necessary momentum if the minimum requirements for the eco-schemes are raised over time and the sustainability schemes gradually incorporate all the requirements of circular agriculture.”

end of quote.

Gertjan Storm,

ambassador of The Netherlands, retired,

Brussels, July 14, 2020.