

Platform on Sustainable Finance

Request to provide advice on financing transition

Introduction

The Taxonomy Regulation entered into force in July 2020. It represents a key step towards supporting the objective of achieving a climate-neutral European Union by 2050 and a sustainable economy in line with the European Green Deal.

The EU sustainable finance taxonomy is one of the key instruments that can guide investments, including in the context of Europe's recovery towards the EU's long-term climate and environmental goals.

The Commission is preparing the first delegated act establishing the technical screening criteria for economic activities substantially contributing to the two climate change objectives - mitigation and adaptation. This is in line with and in compliance with the ambition and objectives of the Taxonomy Regulation. Commission services are currently conducting a comprehensive evaluation of the public feedback received from a four-week stakeholder consultation in late 2020, including the Platform's response to the draft delegated act.

In addition, by 1 June 2021, the Commission will adopt a delegated act setting out the content, presentation and methodologies for complying with the disclosure requirements under Article 8 of the Taxonomy Regulation.

The role of the EU taxonomy in enabling the financing of transition is important. We know that financing the transition of sectors and enterprises towards the climate targets is essential.

The Taxonomy Regulation sets out different means by which economic activities can substantially contribute to that objective. With regard to the objective of climate change mitigation, the Regulation explicitly defines "transitional activities" as making a substantial contribution within sectors where low-carbon alternatives are not yet available and thus caters in some respects for the need to support the transition. Transitional activities are considered sustainable to the extent that they meet clear requirements and support the transition to climate neutrality in line with EU climate objectives.

While this framework has the major advantage to set clear science-based targets, companies and investors need more clarity on how to transition from activities causing significant harm to less harmful activities and from less harmful to ultimately sustainable levels of environmental performance. Identifying such activities and environmental performance levels could be a helpful tool to support companies in their transition path. There is a need to give reassurance that the taxonomy will not block access to finance for enterprises and sectors in transition towards our climate targets.

The feedback from private and public stakeholders confirms the need to exploit and articulate the full potential of the EU taxonomy to support transition investment flows. The feedback indicates that further reflection is needed on how the taxonomy framework and the existing sustainable finance framework could enable inclusive transition finance for all companies investing to improve their environmental impact. Transition finance will be one of the key areas of policy to be explored in the Renewed Sustainable Finance Strategy. Building on the 2018 Action Plan on financing sustainable growth, the Strategy will explore how to empower companies to move away from unsustainable activities and transition to sustainable activities.

Request for advice

The work and expertise of the Platform on Sustainable Finance is of particular relevance in this respect. As part of their deliverables, the subgroups on negative and low-impact activities and on data and usability are each considering the applicability and use of the taxonomy to guide and incentivise the transition to a sustainable economy from different angles. The expertise and preliminary findings of the Platform would therefore provide very valuable input at this stage and could feed into the Commission's work on finalising the delegated act on climate change objectives, the future Article 8 delegated act and the Renewed Sustainable Finance Strategy.

In line with Article 20 (i) of the Taxonomy Regulation, which mandates the Platform to advise the Commission on the evaluation and development of sustainable finance policies, the Commission is asking the Platform on Sustainable Finance to provide advice on the existing and potential use of the EU taxonomy framework for enabling the financing of the transition towards a sustainable economy. As the issue is time sensitive, we would ask that the Platform to provide its advice by mid-March 2021.

Scope of advice

The Platform should provide answers to the following questions:

- Can the current EU taxonomy framework be used to provide greater support for attracting capital for the transition of companies towards “sustainable” activities, including in ways not yet proposed by the Commission and if so in which ways?
- Can the EU taxonomy framework support finance for companies undertaking activities that do not yet meet, or may be unable to meet, the substantial contribution criteria? And how can this be done?
- Can the current EU Taxonomy framework support finance for companies active in sectors that are not covered in the Taxonomy Regulation's Delegated Act?
- How does the use of key terminology such as “sustainable”, “green” and “harmful” compare across the taxonomy framework and other relevant sustainable finance frameworks and how can it be clarified and harmonised?
- What further avenues could be explored to enable financing the transition through development of the taxonomy framework and beyond?
- Can we clearly address the concerns that the taxonomy will be used to prevent financing of transitional activities, while at the same time ensuring that we are not facilitating “green-washing”?