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From:	Mr Luca JAHIER, President of the European Economic and Social Committee
Subject:	Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks - Opinion of the European Economic and Social Committee

Delegations will find attached the opinion of the European Economic and Social Committee.

Encl.: ECO/467



European Economic and Social Committee

ECO/467

Sustainable finance: taxonomy and benchmarks

OPINION

European Economic and Social Committee

Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment

[COM(2018) 353 final – 2018/0178 (COD)]

Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks

[COM(2018) 355 final – 2018/0180 (COD)]

Rapporteur: **Daniel MAREELS**

Consultation	Council of the European Union, 06/07/2018 European Parliament, 05/07/2018
Legal basis	Article 114 of the Treaty on the Functioning of the European Union
Section responsible:	Section for Economic and Monetary Union and Economic and Social Cohesion
Adopted in section	03/10/2018
Adopted at plenary	17/10/2018
Plenary session No	538
Outcome of vote (for/against/abstentions)	182/0/0

1. Conclusions and recommendations

- 1.1 The EESC welcomes the proposals regarding the taxonomy as a first step towards implementing the action plan on financing sustainable growth¹. They establish what qualifies as an "environmentally sustainable economic activity", which in turn makes it possible to define "environmentally sustainable investments", which is what the proposal is all about.
- 1.2 The Committee also welcomes the proposal relating to the development of new low-carbon and positive carbon impact benchmarks.
- 1.3 In light of the objectives of the Action Plan, it is extremely important, right from the outset, to lay a firm foundation for all further action. The taxonomy performs this role, and the Committee fully endorses the decision to start with it.
- 1.4 That foundation also needs to mesh with the big ambitions set out in the Action Plan, which states that "Europe is well-placed to step into the role of global leader". It is now time to take action in line with that ambition and to develop the taxonomy accordingly.
- 1.5 It is of the utmost importance for the whole of the EU to speak with one voice in this regard and to take the same approach. The European taxonomy should thus be in a position to transcend and replace the existing individual and scattered approaches in the Member States. Where possible, it should be based on existing international frameworks.
- 1.6 This would also benefit the internal market, especially in terms of attracting capital for sustainable investment from across the EU. Indeed, market participants would face lower costs, and investors would have more choice.
- 1.7 The Action Plan and its implementation present major challenges. This is an environment that is highly dynamic and constantly evolving. The taxonomy should therefore be seen as an evolving tool that needs regular review and adjustment.
- 1.8 In view of the above, the Committee agrees that the gradual, restrained approach taken in the proposals is preferable. It is a good move to start with a limited number of areas and with a limited number of legal obligations,
- 1.9 As mentioned above, the current proposals relate to environmental aspects. From a holistic point of view, however, the Committee continues to call for attention to be paid to overall consistency. It welcomes the fact that minimum social and governance guarantees must be taken into account, but additional steps still need to be taken. For example, it will be important in future to work on extending the system to social sustainability and governance goals.

¹ [COM\(2018\) 97 final](#).

- 1.10 The Committee fully supports the decision to make the EU taxonomy highly granular. It is vital to achieve certainty and clarity as to which activities are genuinely environmentally sustainable, and to eliminate doubts in that regard right from the outset.
- 1.11 Similarly, the practicability of the taxonomy is of crucial importance, and will also benefit consumers and investors. Moreover, the decision that the taxonomy will only be used once it is stable and mature can be fully endorsed.
- 1.12 The taxonomy should also take account of how it will be implemented by businesses, as they will be largely responsible for the "real" transition to a sustainable economy. An approach that takes account of the differences between sectors and the size of businesses will definitely be needed. It is likewise essential to ensure that competition is not distorted with regard to attracting funding for environmentally sustainable economic activities.
- 1.13 At the same time, the taxonomy must also be useable both in a large, international context and in a local one. For the Committee, it is clear not only that it is important to avoid tailoring these measures too closely to the needs of very large entities, but also that they must benefit SMEs.
- 1.14 It is to be welcomed that the European supervisory authorities will play a key role in the development of the EU taxonomy. It needs to be useable by all financial institutions and applicable to all financial products, while also remaining viable for all the business activities concerned. Its compatibility with European financial legislation should also be kept in mind. Additional regulatory and supervisory burdens and costs must be minimised, not least on the basis of the proportionality principle.
- 1.15 The Committee also sees information and communication as crucially important. For example, the Committee considers it highly appropriate to pay close attention to informing and communicating with all stakeholders including the operational business environment, and with the general public. A plan could be developed to provide all stakeholders and the public with as much information as possible and to engage with them, in order to gain buy-in. It could also include financial education and training. People make the difference!

2. **Background²**

- 2.1 At international level, the adoption of the UN's 2030 Agenda for Sustainable Development (2015) and the Paris Climate Agreement (2016) have brought about a substantial change in attitudes towards climate change and environmental degradation. In short, the world has chosen to take the path towards a more sustainable environment.
- 2.2 The EU was already taking initiatives before this, but things have stepped up a gear since the aforementioned international texts were adopted. Moreover, the shift towards sustainability will require major efforts and significant investment – figures of EUR 180 billion a year are being quoted for climate and energy alone.

² The "background" section is to a large extent based on the explanatory memorandum to the proposal for a Regulation and on the Action Plan on Financing Sustainable Growth – [COM\(2018\) 97 final](#).

- 2.3 A High Level Expert Group (HLEG) was therefore set up in 2016 to develop an EU strategy on sustainable finance. Among other things, the group proposed two initiatives relating to the European financial system:
- 2.3.1 The first was to improve finance's contribution to sustainable and inclusive growth;
- 2.3.2 The second was to improve financial stability by incorporating "environmental, social and governance" (ESG) factors into investment decision-making.
- 2.4 The HLEG also issued eight recommendations that it believes are essential building blocks of a sustainable financial system. These included a call to establish a technically robust classification system at EU level – a "taxonomy" – to provide clarity on what is "green" or "sustainable", making it possible to determine whether an economic activity is "environmentally sustainable".
- 2.5 Following on from the HLEG's work, in spring 2018 the Commission launched an action plan on financing sustainable growth, envisaging, among other things, the proposals to which this opinion relates.
- 2.6 The purpose of said proposals³, published on 24 May 2018, is:
- 2.6.1 To lay the foundations for a taxonomy as referred to above, also making it possible to determine what constitutes "sustainable investment";
- 2.6.2 To establish clear guidelines for investors. These guidelines, specifically for certain financial market participants, aim to bring clarity and consistency on the question of how to integrate ESG risks into investment decisions and advice to investors;
- 2.6.3 To establish more transparency requirements for certain financial market participants, including with regard to how they integrate the guidelines referred to in point 2.6.2 into the aforementioned decisions and advice. They will also need to demonstrate how they achieve their sustainability objectives;
- 2.6.4 To establish new "low carbon" and "positive carbon impact" benchmarks that the developers will need to apply in order to give investors certainty on the matter.

3. **Observations and comments**

- 3.1 The EESC welcomes these proposals as a first step towards implementing the action plan on financing sustainable growth. In the first instance, that involves developing a taxonomy, which establishes what qualifies as an "environmentally sustainable economic activity". This in turn makes it possible to define "environmentally sustainable investments", which is ultimately what the proposal is all about.
- 3.2 Moreover, these proposals are far from the only ones that contribute to achieving this objective. On the contrary, this is an extremely complex matter on which numerous actions and initiatives will need to

³ [COM\(2018\) 353 final](#) and [COM\(2018\) 355 final](#).

be taken. Some of them are already on the table, and others are expected in the near or more distant future.

- 3.3 In light of the objectives of the Action Plan, it is extremely important, right from the outset, to lay a firm foundation that can provide a basis for all further action. The taxonomy performs this role, and the Committee fully endorses the decision to start with it. It is at any rate important to start by establishing a good understanding of what "green" and "sustainable" really mean.
- 3.4 That foundation also needs to mesh with the big ambitions set out in the Action Plan, which states, among other things, that "Europe is well-placed to step into the role of global leader". It is now time to take action in line with that and to develop the taxonomy accordingly.
- 3.5 It is therefore important for the taxonomy to be unimpeachable, and to be generally accepted by all relevant stakeholders. If that is not the case, there is a risk that it may have a negative impact on all future developments and on achieving the objectives set. A weakness like this should be avoided at all costs.
- 3.6 The European taxonomy should thus also be in a position to transcend and replace the existing individual and scattered approaches in the Member States. This does not, however, mean, that the good experiences gained to date should simply be thrown overboard – where possible, they should be made use of. In that connection, it is also important for the taxonomy to be supported by existing national frameworks.
- 3.7 Ultimately, it is of the utmost importance for the whole of the EU to speak with one voice in this regard and to take the same approach. This also benefits the internal market, as it makes it easier to attract capital for sustainable investment from across the EU. Indeed, market participants will face lower costs, as they will no longer need to comply with different requirements in different Member States. Investors will also have more choice, and find it easier to make cross-border investments.
- 3.8 As is quite rightly pointed out in the Action Plan, "the science around sustainability is dynamic and evolving, as are social expectations as well as investor and market needs"⁴. The taxonomy should therefore be seen as an evolving tool, and will need to be evaluated regularly and amended and/or adjusted where necessary. It will be important to progress quickly, but not too quickly.
- 3.9 In view of the above, the Committee agrees that a gradual, restrained approach is preferable. The same applies to the implementation of the various actions and objectives set out in the Action Plan.
- 3.10 It is a therefore good idea to start with a limited number of areas⁵ and, in the first instance, with a limited number of legal obligations⁶ only, as it gives everyone a chance to learn about the new approach and to gain the necessary experience. Moreover, the environment we are living in is evolving rapidly, and we should take account of the fact that economic transitions always take a certain amount

⁴ [COM\(2018\) 353 final](#), p.7.

⁵ Particularly the environment, with other areas such as social issues coming later.

⁶ For example Article 4 of the draft regulation.

of time. It is thus likewise important to assess the results achieved and progress made on a regular basis. The Committee endorses the proposal to do so every three years.

- 3.11 In line with the above comments, the Committee can endorse the approach taken in the present proposal as regards the environmental dimension. From a holistic point of view, however, the Committee continues to call for attention to be paid to overall consistency. In that connection, it is good that the principles enshrined in the European Pillar of Social Rights have been followed, and that the criteria require that the economic activity be carried out in compliance both with minimum international social and labour guarantees and with accounting standards. At the same time, it should be noted that the former are minimum guarantees, and that additional steps therefore still need to be taken. In the same way, it will also be important in future to work on extending the system to social sustainability and governance goals.
- 3.12 At the same time, it is important to try to maximise clarity and certainty from the outset. The Committee fully supports the decision to make the EU taxonomy highly granular. It makes it possible to have the greatest possible clarity at all times about what activities are genuinely environmentally sustainable, and to eliminate any doubts right from the outset. This will also make it easier to measure and map the contribution made to the environmental objectives. This is not only important in itself, but also with a view to further developments in the future.
- 3.13 Alongside clarity and certainty, the practicability of the taxonomy and of all subsequent decisions made on the basis of it is equally crucial, as a variety of "stakeholders", many of which are not specialists, will need to work with them. They will need to be trained to speak the same "language". Moreover, businesses will not always have the same perspective as financial market participants.
- 3.14 The regulation should therefore be tailored to businesses, taking account of their activities and of the fact that they are at the end of the chain. The taxonomy must also be useable both in a large, international context and when it is applied by small businesses and in a local context. In view of the major differences between them, a sector-specific approach is necessary here. For the Committee, it is clear that these measures also need to be of benefit to SMEs, especially since they are the backbone of the European economy. It is therefore necessary for the criteria also to be scalable.
- 3.15 When attracting funding for environmental sustainable economic activities, it is necessary to avoid distorting competition between businesses. The technical screening criteria should be designed to ensure that all relevant economic activities within a specific sector can qualify as environmentally sustainable and are treated equally if they contribute equally towards the specified environmental objectives. In this context, the Committee calls for particular attention to be paid to the challenges that will arise when harmonising the technical screening criteria for the various economic (sub-)sectors and data confidentiality.
- 3.16 In connection with the aforementioned practicability, the Committee welcomes the fact that account has broadly been taken of the work of the Regulatory Scrutiny Board. For example, the change to the texts such that the taxonomy will only be used once it is stable and mature can be endorsed.

- 3.17 Similarly, and in the interests of compatibility with European financial legislation, it is to be welcomed that the European supervisory authorities⁷ will play a key role in the development of the EU taxonomy. This should ensure that it is useable by financial institutions and applicable to financial products. It is appropriate to take account of the proportionality principle, in the interests of small and local institutions. Overall, it is important to minimise additional regulatory and supervisory burdens and costs.
- 3.18 Moreover, the focus on practicability will benefit not just businesses and financial market participants, but also consumers and investors. They will also be able to take advantage of it, because it will make it possible to create even greater certainty and clarity with regard to the sustainable investments they make or for which their funds are used.
- 3.19 More generally, the focus on the aforementioned principles of certainty, clarity and practicability is also appropriate in order to maximise the chances of success and of achieving the objectives of the Action Plan effectively and in full.
- 3.20 The Committee also welcomes the development of new low-carbon and positive carbon impact benchmarks. They will improve the functioning of the single market by eliminating the existing fragmentation, and improve protection and transparency for investors by providing more and better information. In addition, these benchmarks will lead to the availability of more and better climate-related information for businesses, and ensure its comparability. They can also make a major contribution towards projects and assets that help to meet the climate objectives in the Paris Agreement.
- 3.21 The Committee also sees information and communication as crucially important. The objectives of the Action Plan and all steps taken in that connection could also be significantly facilitated in other ways. For example, the Committee considers it highly appropriate to pay close attention to informing and communicating with all stakeholders and with the general public. A plan could be developed to provide all stakeholders with as much information as possible and to engage with them, in order to gain buy-in and make everyone a partner in achieving the objectives. It could also include financial education and training. People make the difference!

Brussels, 17 October 2018

Luca JAHIER,
The president of the European Economic and Social Committee

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Better known by the abbreviation ESA.