How to finance the transition in the EU: the role of the EU Taxonomy

A ERCST discussion with relevant stakeholders on how to ensure a functioning transition finance framework

This meeting is under Chatham House Rules
Speakers are being confirmed

*** Draft Agenda ***

Date: April 23, 2021
Time: 10:00 - 12:00
Location: Zoom Webinar

This ERCST webinar is dedicated to the topic of sustainable finance. This workstream aims at bringing together relevant stakeholders (including policymakers and practitioners from the financial and corporate community) on a regular basis to discuss substantive issues, informed by original intellectual input from ERCST.

This webinar will gather a heterogeneous group to discuss the issue of guiding and incentivizing the sustainable transition in the EU. It will start by a presentation from ERCST outlining the state of play of the EU sustainable finance policy agenda and its transition finance framework. It will then continue with a roundtable discussion with input from the participants that will feed ERCST research on this topic.

ERCST will indeed continue to work on how to best finance the transition whilst monitoring and benchmarking the EU and international strategies on sustainable finance.

Background

The EU Taxonomy can represent a key tool to drive investments towards climate neutrality by 2050. In a nutshell, the Taxonomy assesses the alignment of an economic activity with an environmental goal; however, this is not enough for assessing and communicating the interim steps of a transition pathway. The public feedback on the delegated act on climate, received during the stakeholders’ consultation, identified 4 main issues of the Taxonomy technical screening criteria.

First, Taxonomy is either too tough or not tough enough for involved actors. Secondly, Taxonomy goes beyond the existing EU law. Thirdly, there is a usability issue in the disclosure required under Article 8, for which the 3 European Supervisory Authorities (ESMA, EBA and EIOPA) published their recommendations on KPIs. And finally, Taxonomy is too binary, and this may represent an obstacle for the transition. Indeed, other feedbacks suggested to further reflect on how the Taxonomy Regulation & the upcoming renewed Sustainable Finance strategy could enable an inclusive transition finance framework.

For this reason, it is timely and important to identify the right role that the Taxonomy can play in enabling the transition, also in the context of other EU legislations that can play a role. With regard to the climate change mitigation objective, the Taxonomy Regulation explicitly defines “transitional”
activities in Article 10(2). However, undertakings and investors may need more clarity and predictability in order to build a transition pathway towards a substantial reduction of their environmental footprints.

The first aspect ERCST intends to analyze is the **binary essence of the Taxonomy**, which identifies only green and non-green activities. This may not be ‘fit for purpose’ with the numerous cycles needed by certain sectors to reach taxonomy-aligned thresholds. Should this particular aspect be tackled by an extended taxonomy? The Platform’s report suggested to include more enabling activities, develop criteria for activities with no significant impact or that cause significant harm, include activities that enable companies to stop performing harmful activities, etc.

Secondly, the **Taxonomy does not come in a vacuum** but in a legislative framework that can already play a role in supporting the financing of the transition. Other EU initiatives and policies’ role such as the EU Green Bond Standards, the Climate Benchmarks, the NFRD review, the corporate governance initiative, etc. will be analyzed.

The capability of the EU economy to attract investments is a precious aspect that need to be ensured for transitioning towards an economy with a sustainable footprint. It is therefore crucial for the EU sustainable finance policy framework to be optimally designed in order to reach the climate neutrality goal without losing its competitiveness.