

## **ERCST webinar on how to finance the transition in the EU and the role of the EU Taxonomy**

**Date: 23 April 2021**

**Time: 10am – 12pm CEST**

As described in ERCST general background paper, ERCST Sustainable Finance (SF) work-stream starts with work on the Taxonomy Regulation. The focus of the work will be on **the role of the EU Taxonomy Regulation in the transition finance debate** and can be divided into 3 questions:

- 1. How to better define the EU Taxonomy's scope and make it more practical and usable to enhance the transition?**
- 2. How to make the EU taxonomy work, together with other policies?**
- 3. How to make the EU taxonomy an international tool?**

Some areas for debate will include: should this regulation take for addressing the transition issue?; was the taxonomy designed for supporting the transition pathway of the European economy?; should its binary nature (mere division between *green and not-green*) be extended?

### **The EU Transition issue**

The initial design of the Taxonomy Regulation has probably been not taken into account the natural discontinuity between the reality of the current economy in which 2% can be labelled as green in the context of the taxonomy and the rest which is transition. Today, the bulk of the EU economy need to start the journey towards a net zero system and will need to get the finance to do so, whilst taking the financial risks to lower its footprint by using new and innovative technologies.

Through this webinar, entitled "***How to finance the transition in the EU***", ERCST intends to identify the optimal design and role of the EU Taxonomy in financing the transition to sustainability, whilst exploring the possible role of a redefined (or extended) Taxonomy which recognizes the realities of transition.

The EU Taxonomy is currently considered as the EU flagship sustainable finance initiative. However, the latest developments (e.g. the letter of the Platform on SF to Executive Vice-President Dombrovskis and Commissioner McGuinness; the Commission communication on directing finance towards the Green Deal) show that its effort to binarily label the economic world in *green or not-green* caused false expectations in terms of its use. It is therefore probable that it will be redesigned. ERCST intends to analyse the most appropriate policy update and redefinition of the scope of action, taking into account that there are other policies and tools that can support a sustainable transition (and which will be considered in our next step of research and webinars).

A policy redesign should take into consideration the numerous challenges to be tackled over the next period by the EU economy. For example, the establishment, over a proper timeframe, of (sectoral) industrial transition or decarbonisation pathways and phase-out trajectories, which will have different intermediary steps depending on the (sectoral) context. These exercises will have to be fed by agnostic considerations. Policy makers should consider the recognition of the transition effort (in the context of taxonomy by extending it, or in the context of other policies designed to enable the transition process).

The industrial transition process can be seen as a function depending on various variables: *sectoral technological viability; economic costs & risk-return environment; regulatory framework; etc.* All these factors give a sector barriers and opportunities for the (complete) transition to occur before 2050. All stakeholders involved need to be ambitious enough to reach the various interim targets toward climate neutrality.

Industrial sectors will indeed have to take the risk to innovate in order to decrease their emissions and accordingly, their environmental footprint (via e.g. resource efficient, circular and innovative solutions); whilst regulators will have to send the right incentives and create a proper policy design for supporting a functioning enabling framework.

On the base of these considerations, ERCST would like to discuss and address this not-exhaustive list of questions, for better understanding the role of the EU Taxonomy in supporting the transition:

1. *Is the EU Taxonomy the only tool to tackle the EU transition challenge? What is the right role it can play in the context of transition finance?*
2. *Is the EU Taxonomy too binary? Would an extended taxonomy create a better framework for enhancing the transition?*
3. *In which other pieces of legislation should the transition be tackled? Is the legislative environment the only answer? Are there viable voluntary or market-based solutions?*