



EU Taxonomy: impact on other policies

11 March 2022

Andrei Marcu, ERCST
Olivier Imbault, ERCST
Pietro Cesaro, ERCST

ERCST

Roundtable on
Climate Change and
Sustainable Transition

Message 1: There is confusion regarding the EU Taxonomy scope

- The topic to be clarified is: what is the real specific scope of the EU Taxonomy?
- The initial intended scope of the EU Taxonomy was the identification of a green list of activities to avoid greenwashing therefore, the EU Platform on SF is against the inclusion of nuclear and gas (they are “amber” and not green)
- Taxonomy is going beyond its original scope: the debate around the purpose of the EU Taxonomy is being twisted and there is currently a lack of consistency
- Energy policy vs green taxonomy issue: it is important to differentiate between the energy transition needs (gas and nuclear) and what is sustainable in the long term for the EU
- In this context, there is however fear from lot of stakeholders not to be financed in case they will be out of the EU Taxonomy.
- Furthermore, it is important not to stigmatize the sectors and activities outside the DNSH. How to solve this imbalance?

Message 2: The EU Taxonomy Regulation needs a more robust link with entity-base reporting frameworks

ERCST

Roundtable on
Climate Change and
Sustainable Transition

- The reporting link of activity-based and entity-based approaches need to be developed
- The financial sector is relatively easy to green via a switch of tracking mechanisms, the industrial transition of the EU economy is the main issue (need to change their accounting systems and most importantly their corporate long term strategy)
- Defining and developing generally agreed transition pathways can be a problem solver
- Overall challenge in this context: find comparability (in the net-zero target there is a lot of greenwashing): CSRD will play a key role for the net-zero pledges
- Link with initiatives like TPI; DG GROW work on sectoral transition scenarios; Japan's government work on transition scenarios; etc. should be further developed
- The Article 8 text is still a bit vague and more work is also needed for developing forward looking KPIs
- Another key political process to be tracked: EU GBS Regulation and the possibility to link it with transition pathways (cf. EP amendment proposal)

Message 3: The EU Taxonomy is not the only tool for sustainable finance

- Taxonomy is a good instrument: it has legal value, it provides a basic investment vocabulary, a good benchmark, it solves the problem of greenwashing and information asymmetry
- There is, however, the need for a broader set of policies to build the right incentives for the industrial transition.
- At the same time, there is the need to track somehow the consistency of all the other interacting pieces of regulation influencing the industrial transition
- The EU Taxonomy alone will not ensure an appropriate financing of the future sustainable activities/companies
- One of the real drives, on top of functioning policies, will be the strategic change of companies as well as environmental pricing mechanisms. Important to learn the spillovers and connection points with the EU Taxonomy
- Transition plans and pathways are key for linking the Taxonomy with entity-base reporting but also for building and assessing pragmatical interim steps in the transition and identifying the right incentives for meeting them

Message 4: in need of a functioning EU transition finance framework

ERCST

Roundtable on
Climate Change and
Sustainable Transition

- Greening companies in hard-to-abate sector need to be financially supported to lower the EU environmental footprint
- State aid policies should also cover the fundamental risk of transition in hard-to-abate sectors: it's not only a matter of incentives and carbon price, but also about funding
- The next 5 years are more important than 2050, important to understand that the EU economy cannot be greened from one day to the other
- The green bond market is also growing globally (ICMA; UNFCCC climate finance framework; etc.) and it should be an inspiration to build a functioning EU transition bond standard on top of the already existent green one
- Some suggestions for the transition finance criteria developments: consistency with low-carbon development and “lock-in” analysis (e.g., low-carbon gas projects under certain conditions are Paris aligned)

Session 1) EU Taxonomy impact on other sustainable finance policies

EU Green Bond Standard: influencing the public and private stakeholders' financing decisions

- The EU Taxonomy list of selected activities will influence the financing decisions of companies (and countries) wishing to issue an EU Green Bond. This opens a legitimate question regarding the appropriateness of the activities listed (and not listed) in the various delegated acts of the EU Taxonomy and the logic behind such decision.

CSRD: the link with EU Taxonomy Article 8 link and how to avoid overlaps: the role of transition pathways

- Article 8 of the Taxonomy Regulation requires companies falling under the CSRD scope to disclose their Taxonomy alignment with: 1) Turnover; 2) Capex; & 3) Opex. In this context, ERCST would like to continue its discussion on the role of transition pathways.

Impacts on Corporate Governance

- The EU Taxonomy is likely to shape corporates' decision-making process and environmental risk management systems. To what extent EU Regulation should influence the private market?

Session 2) EU Taxonomy impacts on other climate and environmental policies

ERCST

Roundtable on
Climate Change and
Sustainable Transition

On carbon pricing: the right balance between market and regulation

- The EU Taxonomy will inevitably send market signals conceived with a top-down approach. This element can represent a shift of the EU balance between market and regulation towards a more centralized economy. ERCST would therefore like to consider not only the EU Taxonomy short-term impact, but also its medium and long one.

On public financing: DNSH principle and new markets formation

- First consideration: the need to check the consistency of the DNSH principle across different legislations.
- This consideration brings us to the second point of the discussion: the Taxonomy is not the only tool for delivering the transition. It is a labelling tool and therefore not able to create a functioning low-carbon and green market framework, with a functioning set of incentives.
- Since the RRF and InvestEU will have a key role in setting these incentives, ERCST thinks it is timely to focus on how new market incentives should be designed.

The 2 Working Groups: questions and considerations

Working group 1: “Impacts on other SF policies (EU GBS, CSRD, Corporate Governance)”

- *How to ensure a functioning EU Green Bond market and how the EU should design a “low carbon” and “transition” bond standard*
- *The interconnections between the CSRD proposal and Article 8 of the EU Taxonomy, and the role of transition pathways*
- *The right balance between regulation and market, notably the EU Taxonomy Regulation overall impact on the Corporate Governance Initiative and on companies’ decision-making process*

Working group 2: “Interplays with other environmental policies (ETS, ETD, RRF and InvestEU)”

- *The right balance between market (ETS) and regulation (Taxonomy) approaches for reaching climate neutrality*
- *The interconnections of the Taxonomy with carbon pricing (i.e., ETS and ETD), carbon leakage risks, technological neutrality principle, and the impact of the Climate Change Mitigation & Adaptation Delegated Act recognizing only best 10% CO2 emitters (10%) in some sectors.*
- *The Taxonomy DNSH principle exported in the RRF and InvestEU regulations*
- *Pragmatic approaches to establish low-carbon and green marketable projects, for addressing fundamental uncertainties and related costs of the industrial transition*

Thank you!

ERCST

Roundtable on
Climate Change and
Sustainable Transition