ERT

Expert Paper

Renewed Sustainable Finance Strategy ("RSFS")

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Recommendations on the RSFS

1. The **Platform on Sustainable Finance** is well positioned to ensure a consistent collaboration between the public and private sector on both the policy framework and its governance. It therefore is very important that **all relevant stakeholders and industries** are involved and consulted on an ongoing basis – even those that are not members of the Platform. This is necessary to ensure the practical applicability of instruments such as the taxonomy, as well a realistic timeframe for their implementation.

   - ERT therefore calls on the European Commission to promote on a national, European and international level that such a balanced representation and consultation is essential.

2. A **stable and technology-neutral regulatory framework** can support sustainable investments and complete the shift to long-term value creation.

   Such a framework must:

   - Offer **long-term certainty** to all relevant stakeholders.
   - Be based on **harmonised definitions, methodologies** and **assessments.**
   - Adequately factor in **transitional** and **enabling activities** across sectors to ensure that all activities and sectors that can contribute to the energy transition are properly considered for EU Sustainable Finance instruments.
   - Provide a **balanced mix of incentives** to ensure that sustainable investments are **economically** and **competitively beneficial** in order to create the momentum for a **market-driven** rather than a policy-driven transition.
   - Adopt a **technology-neutral** regulatory environment, **ensure comparability** and **safeguard competitiveness.**
   - Overcomes difficulties to **quantify sustainability** effectively due to a range of existing definitions, criteria and methods.
   - Allow for enough **flexibility** to accommodate the non-linearity of the process of decarbonisation in many different sectors.
   - Have **screening criteria** reflect **transitional** and enabling activities to ensure that all activities and sectors that can contribute to the **energy transition** are properly considered for EU Sustainable Finance instruments.

3. It is important that the EU Taxonomy **facilitates a successful energy transition throughout the entire value chain** while taking careful consideration of the range of challenges that companies and industries face in their journey to decarbonise. Currently there are some inconsistencies in the Taxonomy criteria compared to other EU legislation and existing standards.

   - To this end, the EU taxonomy **must be brought in line with existing classification systems and existing EU legislation.** This creates clarity and consistency.
   - Furthermore, different EU Sustainable Finance instruments and initiatives (e.g. the EU Taxonomy and the proposed EU Green Bond Standard) must also all align with each other to prevent uncertainty that could negatively impact decarbonisation efforts. It is important that the terms used are clearly defined.

4. The EU taxonomy should **encourage all sectors and industries** to contribute to a more sustainable economy.

   - Therefore, all sectors and activities that can contribute to the energy transition should be included in the Taxonomy to be able to form part of the solution. All decarbonisation efforts should be supported in order to fully enhance the potential of environmental sustainability in all sectors and activities. Technology neutrality is an important aspect to this end and no activity or sector should be excluded or punished by introducing arbitrary criteria and narrow concepts. An exclusionary approach would significantly limit the development of cutting-edge technologies to reduce greenhouse gas emissions and would reduce incentives to invest in environmentally beneficial activities.

- Instead of assessing an exclusionary, or possibly even punitive, approach ERT believes that the primary focus in the near future should be on carefully monitoring the practical implementation of the Taxonomy Regulation and its screening criteria as currently being developed and its impact on financial markets while maintaining an open dialogue between policy makers and all stakeholders, including industry, to explore all potential technological solutions towards a sustainable economy.

5. The transition towards a sustainable economy will require **significant investments in R&I** and there is thus a strong need support these investments through sustainable finance tools.

   Very often, for an innovative technology to become an economically viable investment, it needs scale to realise the necessary cost reductions. There are a number of examples of (subsidy) arrangements that have been developed by Member States that aim to help technologies - especially those at higher Technology Readiness Levels (TRL) – along to the point where they are economically viable.

- ERT would suggest that the European Commission examines best practices in the Member States and discusses in the Platform on Sustainable Finance whether such arrangements could be made available at the EU level. In such an exercise technology-neutrality should be considered a crucial aspect as no activity or sector should be excluded to ensure that R&I support is available for all promising technologies and activities that can contribute to the energy transition.

- Moreover, ERT underlines that support along the entire TRL scale is essential for the development of a more circular and climate neutral economy. Therefore, also support to fundamental research must – at least – be maintained to drive the development of breakthrough technologies.

6. **Global alignment** to realise a **fair and effective framework** is very important for a global level playing field. However, instead of global alliances to harmonise frameworks, one can observe a proliferation of standards, benchmarks and labels that are difficult to compare. Therefore, in terms of **global coordination** on definitions and standards (e.g. on metrics for ESG reporting) further work and consensus building is needed. Increased international cooperation on efforts to further develop sustainable finance instruments and promote the **integration of markets** is essential. This presents the EU with a great opportunity to bring together the international community and develop best practices on a global level.

- ERT believes that the recently instated International Platform on Sustainable Finance is well positioned for this purpose and should liaise with existing fora – such as the G20, G7, IMF, UN and OECD, WEF, as well as the International Organization of Security Commissions, the International Association of Insurance Supervisors and the International Organisation of Pension Supervisors.

- It is also very important that all relevant stakeholders are involved and consulted by the Platform. Including business representatives from Europe's key industrial sectors can increase the practical applicability of the taxonomy as an efficient tool for financing the transition to a more sustainable economy and in a way that encourages finance to transitioning companies.

7. There is a **proliferation of national calls** for regulation in corporate responsibility, including for mandatory due diligence.

- ERT requests mechanisms to **ensure alignment** across these initiatives to support companies to respect human rights. We believe that the answer to those calls does not necessarily lie in mandatory due diligence laws. However, given that it's important to develop a harmonised playing field ERT could support an EU framework for supply chain due diligence related to human rights, subject to the contents of such a framework.

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This paper was developed in the Working Group on Finance & Tax of the European Round Table for Industry.

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