

## Position paper - sustainable finance (taxonomy)

### Background

The EU has committed to several climate- and environmental goals, such as the Paris Agreement and the UN sustainable development goals. Reaching these goals will require considerable investments. It has been estimated that the green transition in Europe will require yearly investments of approx. 270 billion Euros in sectors such as transport, energy, waste and wastewater.<sup>1</sup> EUs framework for sustainable finance plays a key role in mobilising necessary capital to deliver on the policy objectives under the EU Green Deal, as well as the EU's international commitments on climate and sustainability.

The EU framework for sustainable finance includes the development of harmonised sustainability criteria for a wide range of economic activities ("taxonomy"), requirements for non-financial reporting for large public-interest companies with more than 500 employees (e.g. information related to climate, environment, social responsibility, human rights), harmonised criteria for green bonds, integration of ESG<sup>2</sup> risk in the Capital Requirements Regulation, inclusion of sustainability in financial advising, etc.<sup>3,4,5</sup>

A renewed European sustainable finance strategy is expected by Q4 of 2020.<sup>6</sup> It is an ambition to include sustainable finance in existing EU measures, such as public procurement, and to harmonise the structure and priorities of the EU financing programs with the sustainability criteria in the taxonomy.

### Taxonomy

The taxonomy is a classification tool, which defines harmonised criteria for what is considered sustainable economic activities. The taxonomy is based on six environmental objectives: (1) climate change mitigation, (2) climate adaptation, (3) sustainable use and protection of water and marine resources, (4) transition to a circular economy, (5) pollution prevention control, and (6) protection and restoration of biodiversity and ecosystems. An economic activity must substantially contribute to at least one of the six environmental objectives, while avoiding significant harm to the four other environmental objectives. In addition, the activity must comply with certain minimum safeguards.



Figure 1: Basis for the European taxonomy

The EU-Commission will establish technical screening criteria for a wide range of economic activities in delegated acts to the Taxonomy regulation. The criteria for climate mitigation and - adaptation will build on the recommendations from a technical working group, which published a report with their suggestions for technical criteria for approx. 70 economic activities in march 2020.<sup>7</sup> A draft delegated act with technical screening criteria for climate mitigation and - adaptation will be published in October 2020 and be subject to a four weeks public consultation. The final delegated act will be adopted in 2020 and come into force by 1 January 2022.<sup>8</sup> In order to contribute with the development of technical

<sup>1</sup> [https://ec.europa.eu/info/sites/info/files/180308-action-plan-sustainable-growth-factsheet\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180308-action-plan-sustainable-growth-factsheet_en.pdf)

<sup>2</sup> Environment, Social and (Corporate) Governance

<sup>3</sup> [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en)

<sup>4</sup> [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en)

<sup>5</sup> [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en)

<sup>6</sup> [https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy\\_en](https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en)

<sup>7</sup> [https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy\\_en](https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en)

<sup>8</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN> art. 27

screening criteria for the remaining four environmental objectives of the taxonomy, the Commission has appointed 50 members/experts from industry federations, financing institutions and NGOs to a so-called "Platform". This Platform stated its work in October 202 and will publish a report with draft proposals for technical criteria by May 2021. A delegated act laying down technical criteria for the last four environmental objectives will come into force by 1 January 2023. The Federation of Norwegian Industries holds membership in several of the EU federations, which are represented in the Platform.<sup>9</sup>

Economic activities, for which no technical criteria are established, are per definition not included in the European taxonomy. The set of technical criteria which are to be developed by the new Platform may include different economic activities than the ones established for climate mitigation/- adaptation.

## Consequences

Financial institutions tend to have their own frameworks for "green financing". Banks may offer more favourable conditions than normal for "sustainable industrial projects". Due to the lack of harmonised EU-criteria, several financial institutions have established their own screening criteria for "sustainable investments". Increased access to capital to sustainable projects provides new industrial opportunities.

The EU taxonomy will initially have consequences for the development of green bonds and other green financial products. A classification as "green or sustainable" may increase the desire to invest in such activities. In the longer term, the taxonomy may also be used in other regulation and economic support schemes. Thus, the EU taxonomy is likely to have sequential effects and to affect other policy areas.

Branches and economic activities which are not included in the taxonomy or which do not comply with the technical screening criteria, may experience poorer access to capital, more expensive financing or lack of investments. Financing institutions may have to offer highly favorable conditions to increase the investments in green transition in the magnitude indicated by the EU-Commission. This may lead to large differences in conditions for financing for sustainable and not-sustainable activities due to e.g. competition to offer green financing, increased share of loans being allocated to economic activities defined as sustainable and integration of ESG in risk assessments performed by financing institutions.

Economic activities that are not currently included in the draft taxonomy criteria for the environmental objectives climate mitigation and - adaptation are e.g. aquaculture, mining industry and oil and gas.

The Federation of Norwegian Industries is uncertain of the consequences, should economic activities which comply with the taxonomy, and have gained access to capital on favourable conditions, fail to meet expectations on profitability and return. Financing institutions which provide favorable financing conditions to sustainable activities which do not meet expectations, or default on loans, may have to compensate for economic losses by increasing margins towards consumers or other corporate clients. However, it may be challenging to achieve acceptance for higher margins in a competitive market.

## The Federations of Norwegian Industries priorities:

- The EU taxonomy must be developed to include a wide range of economic activities. Aquaculture, fisheries and production and mining of minerals, metals and critical raw materials are crucial to the green transition of the EU economy and must not be excluded from access to green financing.
- The development of the taxonomy must build on lifecycle assessments, where the whole value chain, from production, use and waste management (e.g. recycling), are considered. Frameworks and technical screening criteria must be developed in a transparent, inclusive and predictable way.
- The EU taxonomy must be based on realistic criteria, awarding industry and other economic activities, which are environmental frontrunners within their branches. The taxonomy should allow for investments in green technology in branches that may be perceived as pollutant, as of today.

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<sup>9</sup> [https://ec.europa.eu/info/publications/sustainable-finance-platform\\_en](https://ec.europa.eu/info/publications/sustainable-finance-platform_en)