

■ POSITION PAPER

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SUBJECT: Position Paper on the EU Taxonomy

Keep the EU Taxonomy science-based, please?!

The EU Taxonomy for sustainable economic activities ('EU Taxonomy') might be facing the end of a hopeful beginning. Political interference in the thresholds and criteria of the EU Taxonomy is not just about numbers. It is about maintaining trust between all parties that have a role to play within the climate transition.

The climate crisis is real, the targets ambitious. Dutch pension funds are committed to contributing to the targets of building a climate neutral economy in 2050. In order to do so, common and reliable definitions and measuring points throughout the economy are essential. Reliable and science-based definitions and pathways are a cornerstone of building trust between politicians, companies, financial institutions and clients.

For this reason, Dutch pension funds have been actively supporting the development of international and European reporting standards on sustainability, in particular the development of the EU Taxonomy. **Common, science-based definitions enable financial flows towards economic activities that align with the global and European climate ambitions as long as these definitions are reliable.**

The EU Taxonomy provides such definitions. Definitions and thresholds that are based on scientific trajectories in the transition to a carbon neutral economy in 2050. **The scientific basis leads to high credibility and will help institutional investors to mobilize their capital and explain which investments significantly contribute to a carbon neutral economy. We need to keep these definitions "clean" in order to mobilize the private capital needed for the transition while maintaining trust between investors and their clients, and between pension funds and their participants.**

The need for common definitions

- To reach the goals that are set in Glasgow and the European Green Deal we need public as well as private investments that substantially contribute towards the realisation of these goals. A common European (and preferably international) EU Taxonomy is well suited to create trust and foster the necessary private investments provided the definitions rely on scientific scenarios and not subject to disproportionate political interference. Without strict adherence to the science-based framework, the value of the EU Taxonomy would be seriously diminished. What would then be the difference with other frameworks and taxonomies in the market?

Misunderstandings and negative spill-overs for green labels

The EU Taxonomy is not an instrument for governments to direct financial flows to, or even greenwash, their preferred economic activities. One of the key aims of the EU Taxonomy is to prevent greenwashing and increase transparency on capital flows towards environmentally sustainable economic activities. It is important to highlight important principles behind the EU Taxonomy regulation:

1. Financial institutions remain free to invest in all economic activities;
2. The EU Taxonomy dictates which investments can be called environmentally sustainable;
3. There is no obligation for financial institutions to invest in any environmentally sustainable economic activity under the EU Taxonomy.

By stretching the definition for green activities, access to green finance might decrease. For example, the EU taxonomy is directly linked to the Green Bonds Standard. If the EU taxonomy would include economic activities that do not significantly contribute to reaching climate goals, the same would apply to the EU Green Bonds standard. This would harm the integrity of the EU Green Bond and consequently makes the EU Green Bonds less attractive.

An improved approach?

Concerns on the financing of energy projects should be addressed in a way that fosters private and institutional investments. The key to mobilizing private capital is to create common, science based and reliable definitions to classify sustainable investments. We acknowledge the 'binary nature' of the current EU Taxonomy. The current set-up leads to either including or excluding certain economic activities as environmentally sustainable. This in turn might lead to the impression that what is not green is not good. That false interpretation should be solved.

- In this context we do note that Article 26.2(a) of the EU Taxonomy Regulation requires the European Commission to publish, by the end of December 2021, a report describing the provisions necessary to extend the scope of the EU Taxonomy Regulation. The EU Platform on Sustainable Finance has already advised the European Commission on this matter. In July 2021, a ‘Public Consultation Report on Taxonomy extension options linked to environmental objectives’ ([link](#)) was published. This report considers two additional levels of economic activities in addition to the existing EU Taxonomy eligible economic activities. It suggests including (red) economic activities that significant harm these objectives, and preferably should be discontinued and (amber) ‘intermediate’ economic activities that do no significant harm, and may contribute somewhat, but not significantly, to the EU Taxonomy environmental objectives.

Keep the EU Taxonomy clean

We ask all involved in the EU Taxonomy legislative process to consider the introduction of an intermediate, transitional category in the EU Taxonomy. We are convinced that the classification of economic activities under the EU Taxonomy can only be based on rigorous scientifically based pathways and thresholds. The scientific proof should be acknowledged by a wide range of experts in the field. Only when that condition is met, can the EU Taxonomy maintain credibility, mobilize private capital and build the necessary trust with citizens, investors and companies. Trust that is urgently needed to catalyse the flow of private capital to projects that significantly contribute to the goals set in Glasgow and the European Green Deal.