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SUSTAINABLE FINANCE

Integrating sustainability in all economic sectors

La Banque européenne d'investissement : l'institution de financement de l'Union européenne

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EDITORIAL

SUSTAINABLE FINANCE

It is estimated that in order to achieve carbon neutrality and fulfil the commitments made under the Paris Agreement, the EU will require investments of about €175-290 billion per annum in the energy, transport, construction, water and infrastructure sectors.

To address this challenge, public and private funds will have to be redirected into sustainable investments. The public-sector financing capacities being limited, the private sector will play a crucial role in generating the investment needed to bring about this transition.

To this end, the European Commission has submitted an ambitious and unique Action Plan on Financing Sustainable Growth.

Creating more opportunities for green investment and raising investor awareness about the risks associated with climate change require several legislative proposals. These proposals are designed to guarantee that financial products will be used to promote sustainable activities, and therefore be the driving force behind the transition towards a greener economy.

The cornerstone of the Action Plan and the most important legislative proposal is the Regulation on the establishment of a framework to facilitate sustainable investment which provides for the creation of an EU taxonomy. The proposal will help develop a unified EU classification system for environmentally sustainable economic activity for investment purposes. This will enable Member States to recognize the value of their investment through new labels and standards across the EU, highlighting the path for future law to best support sustainable development.

The other two actions include a proposal to introduce disclosure requirements on how institutional investors and asset managers integrate environmental, social and governance (ESG) factors into their risk processes, as well as a proposal to create low-carbon and positive emission benchmarks to provide investors with better information on the carbon footprint of their investments.

These initiatives, among others under development, demonstrate the EU's commitment to mitigating global warming. The Action Plan marks a proactive effort to integrate climate change factors into state budgeting, public procurement and public investment management. The objective is to implement structural changes in economic, production and energy models to transform our model of growth.

The targets set out in this legislation will involve widespread restructuring and industrial change in all EU countries; it will affect all sectors as the EU develops low and zero-carbon alternatives to replace current technologies. It is imperative to strike a balance between sustainable and social development as demonstrated by the European Commission's new political agenda. Ultimately, thegoal of sustainable finance is to continuously improve the conversion of "brown" activities into "green" ones. This is the new reality of the 21st century if we wish to achieve a world free from carbon by 2050. In this edition of The European Files, we unpack the complexities of this significant legislation to better understand the interest for all stakeholders involved in sustainable finance.

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TABLE OF CONTENTS

Sustainable Finance

Implementing a global strategy for sustainable finance in the European Union

Valdis DOMBROVSKIS

Vice-President of the European Commission responsible for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital markets Union.

As the years pass, the global climate emergency is becoming more evident and pronounced.

Last year was the fourth warmest on record.

Of the 18 hottest years in recorded history, 17 have occurred since the year 2000.

In July, Belgium, Germany, Luxembourg and the Netherlands saw new national temperature records over 40° Celsius in an intense heatwave. In France, Paris recorded its hottest day on record.

So: we either act now or face disastrous consequences, probably in our lifetime.

The European Union is committed to achieving the Paris Climate Agreement goals, including targets for energy efficiency and renewable energy, and for reducing CO2 emissions.

We have gone a step further. The European Commission has proposed moving to a climate-neutral economy by 2050, aiming for Europe to be the world's first major economy to do so.

Realistically, to start out on this path, we only have about 10 years to halve greenhouse gas emissions.

It implies unprecedented modernisation and transformation, on a massive scale.

It will mean widespread restructuring and industrial change across all EU countries; it will affect every sector as we develop low and zero-carbon alternatives to replace more traditional technologies. None of it will be quick, or cheap.

For Europe to achieve its Paris Climate Agreement goals and climate neutrality, we will need between €175 and €290 billion in extra investment each year, to fund everything from small-scale energy efficiencies to large sustainable infrastructure projects.

While at least 25% of EU spending in the next seven-year budget starting in 2021 will support climate action, there is no way that stretched public funds can meet all those needs.

We need the financial sector to play its part to help attract private capital from across the board – in equity, loans, project finance - to help us reach our climate-neutral goal, by investing in economic activities that mitigate climate change.

The European Union was an early mover in this area by recognising the urgency of scaling up private capital to support the transition to a sustainable economy.

Last year, we presented a comprehensive action plan on financing sustainable growth, to create more opportunities for green investment and make investors more aware of the risks of climate change.

Its centrepiece is a proposed law for a unified EU classification system – or taxonomy - to determine whether an economic activity is environmentally sustainable.

This breaks new legal ground and is a vital step towards attracting more investment to green and sustainable projects. We need political agreement between EU countries by end-October.

Two new EU laws aim to incentivise people to invest in green financial products.

Stronger rules on disclosing sustainability factors to end-investors will make it easier for people to make informed choices when they invest in a financial product.

Two new categories of EU climate benchmarks – voluntary labels - will give greater information on an investment portfolio's carbon footprint: one for climate transition and another to allow building a portfolio aligned with the temperature goals of the Paris Agreement.

We will also set up an EU green bond standard, raise transparency for companies on climate-related reporting and expand the use of the EU Ecolabel to financial products.

Many other countries are putting similar initiatives into effect and making substantial progress. It shows clear global momentum to align finance better with sustainable development needs.

With environmental, social and governance issues now a major factor in investment decisions, it is time to make sustainable finance go global by working together with public and private initiatives, among institutions and between countries.

Since finance ministers know most clearly the economic consequences of climate change, I was pleased to see the Coalition of Finance Ministers for Climate Action launch last April.

It is a great example of strong international action on climate change: more than 30 countries signing up to promote national climate action through fiscal policy and public financing.

No country working alone can afford to tackle the socio-economic consequences of climate change.

While national public budgets can only do so much, financial markets are global. And we are up against a global problem, particularly for sustainable finance to reach the scale that the world needs.

The global reach of financial markets can help countries on their transition to carbon neutrality by linking their financing needs to international sources of funding. This is especially relevant for developing countries that face difficulties in accessing finance for their sustainable development.

It is the thinking behind the International Platform on Sustainable Finance (IPSF), launched on October 18th, 2019 in Washington by the European Union together with relevant authorities from Argentina, Canada, Chili, China, India, Kenya and Morocco. The IPSF is open to all jurisdictions willing to exchange best practices and, where relevant, coordinate their approaches on environmentally sustainable finance.

It aims to avoid market fragmentation and to achieve better coordination on initiatives and approaches to environmentally sustainable finance, while respecting national and regional contexts.

It will focus, in particular, on the areas of taxonomies, disclosures, standards and labels, which are fundamental for investors to identify and seize green investment opportunities worldwide.

Building coherent international strategies such as these, with like-minded partners, is the best way to stimulate investment at the scale required for the most important economic transition of our times.

Climate change affects the entire planet, wherever you are. The evidence is overwhelming.

Our response to it should be global, coordinated – and fast.

Non-financial information must become part of corporate governance

Bruno LE MAIRE
French Minister of Economy and Finance

The world economy is at a crossroads. With climate risk materializing, populism gaining traction in many jurisdictions and youth marching for climate action, the involvement of all stakeholders is crucial to shift our economies towards a more sustainable path. We might well be the last generation which has the opportunity to act before the consequences of human activity on our planet become irreversible. And lawmakers do not have the power to change the course of events alone: the role of civil society and corporates will be key to make this shift happen.

The matter is urgent. The economic implication of global warming become obvious. The latest IPCC (The Intergovernmental Panel on Climate Change) report estimates the rise of sea level in the southern hemisphere alone will create 280 million refugees. Severe droughts can trigger a sovereign debt crisis in some fragile countries like Zimbabwe. Extreme weather events like floods are more likely to happen, making businesses endure severe losses. Climate is becoming a matter of financial stability.

Awareness about those issues in the corporate world has become more acute in the past few years. The PACTE law adopted last April in France redefined the role of companies for society, encompassing social and environmental issues and allowing them to adopt a specific purpose broader than profit.

This is the beginning of a global trend: a few weeks ago, the *Business Roundtable*, which gathers CEOs of some of the biggest US companies, acknowledged that corporates should put social responsibility above profit in a first-of-its-kind common statement. Sustainable growth has also been at the heart of the G7 summit's discussions in Biarritz at the end of August. The « *Business for inclusive Growth* » initiative spearheaded by Emmanuel Faber – CEO of Danone – in partnership with the OECD has already gathered 34 companies with 3.5 million employees worldwide.

The financial system needs to sustain this global shift and ESG (Environmental, Social and Governance) factors into account in investment decisions. Yet non-financial information has long been seen as an unnecessary burden. We need a substantial improvement in the quality and relevance of non-financial data for at least two reasons.

First, ESG is becoming increasingly material and could become as relevant as financial data in the short term. Governance and social issues have long been considered as drivers of growth and stability for companies, but their importance is increasing due to reputational risks that are easily reflected on financial markets. Environmental risk was long overlooked, partly because of the so-called "Tragedy of the horizon" as defined by the current governor of the Bank of England, Mark Carney. Yet climate change and the increase in the frequency of extreme weather events make climate physical risk a reality for companies, with already important implications today.

Second, pressure from investors, shareholders and asset owners pushing for more relevant disclosure has been mounting over the past few years. Structures such as the UN-backed *Principles for Responsible Investments* or the *One Planet Sovereign Wealth Funds Coalition* and *One Planet Asset Managers Working Group* are emerging, gathering investors of all sizes and types. Those investors want to efficiently integrate ESG factors in their investment strategies. This can only be achieved through relevant and comparable non-financial disclosure by corporates.

Non-financial data lacks coherence and relevance to final users' needs. There is no harmonised set of relevant ESG indicators at the European level, leaving companies to write hundreds of pages of reports that are difficult to use for investors. A lot of ESG data are provided by non-financial reporting agencies and data providers. But the lack of standardized metrics between companies makes it nearly impossible to compare indicators such as greenhouse gas emissions – as the scope of emissions is not precisely defined – or even the headcount within companies.

To be effective, ESG strategies must be closely integrated into corporate governance patterns. Non-financial reporting should be incorporated in management reports be formally discussed regularly by relevant governance bodies.

Initiatives of all kinds have been flourishing over the last few years, but I firmly believe the time has come for further standardization and clarity in order to mainstream the use of non-financial information in corporate governance – and as a result in financial decision making.

France will push for evolutions in this sense at the European level and support the creation of statutory ESG disclosure standards for companies, following the conclusions of a thorough report released in July 2019 by Patrick de Cambourg, President of the French Accounting Standards Authority. By defining which ESG factors are relevant and by fostering efficient disclosure of those factors, we can shift the economy towards a more sustainable path.

Europe should be at the forefront of this ambition and create a new form of corporate governance that is more responsible and in line with our long term commitments, such as the objectives of the Paris Agreement and the UN Sustainable Development Goals. It will pave the way for the capitalism of the 21st century – a capitalism based on the common values of our continent. We owe it to future generations urging us to achieve this urgent transition.

Establishing a new generation of standards for low carbon to incentivise investment in sustainable projects

Mika LINTILÄ
Minister of Finance, Finland

More ambitious climate action and adaption to climate change are Finland's priorities during Finland's Presidency of the Council of the EU. I firmly believe that investments in green and sustainable projects are a possibility in the economic perspective as well. Successful decarbonisation in the EU can become a business opportunity where the member states can export technology to regions where emissions are set to grow substantially in the coming decades. That is why I constantly argue in favour of being a frontrunner in climate change mitigation and in the technology related to it.

However, the transition from high-carbon to low-carbon societies does not happen by itself. Incentives and political measures are needed. Furthermore, the objectives of the Paris Climate Agreement will not be achieved by using public funds alone. We need leverage from the whole economy, including financial and capital markets, to support the transition.

Since financial markets play a big role by choosing which projects to invest in and which not, sustainable finance is one big priority of the Ministry of Finance during the Finnish Presidency. The legislative package of the "Sustainable Finance Framework" is a key project to direct investments more sustainably and for a climate-neutral future.

For investors to be able to assess the environmental sustainability of a financial product and compare it with other products, and address greenwashing, there is a need for reliable information about the sustainability of the product. This is the aim of the Sustainable Finance Framework.

Firstly, there will be the taxonomy regulation to define what is meant by an "environmentally sustainable" investment.

Secondly, there will be the disclosure regulation to lay down a credible disclosure framework for sustainable investments and to oblige financial market participants to analyse the sustainability risks of their financial products, including their possible adverse environmental impacts.

Thirdly, the revised benchmark regulation will define a new class of sustainability benchmarks, such as low-carbon benchmarks, to make it easier for portfolio managers to compare and find new climate-friendly investees and investment funds.

From investors' point of view, including retail and consumer investors, it is important that they can safely invest in green products without fear of greenwashing. The investment risk will be there, of course, but the current legal framework already includes appropriate disclosure and investor protection rules. The Sustainable Finance Framework will complement this with appropriate disclosure rules, which would also allow comparison between products.

Currently, institutional investors are almost exclusively able to invest sustainably, mostly in green bonds, as they have resources to assess the sustainability elements themselves. Better disclosure rules and a common taxonomy will facilitate making available sustainable investments to retail investors and smaller institutional investors as well.

A wide accessibility of versatile environmentally sustainable products, in the EU, is critical to raising the capital needed for the transition to climate neutral economies.

Renewing the European financial architecture for development is also one part of the puzzle. This work will be launched in October, drawing on the forthcoming recommendations of the Wise Persons Group.

Climate change affects both the global economy and the financial markets. There are physical risks, such as increasing extreme weather conditions, which can influence the financial value of investments and property. Climate change has also enhanced uncertainty in financial markets, for example through increased volatility in securities markets. Besides, there are transitional risks involved. When economies head towards a climate-neutral future, there will be "behavioural changes" in financial markets as well as changes in political stances. Too swift and imprudent decisions can cause unexpected market fluctuations. To address these impacts, we need a rationalised and well-functioning European financial architecture for development.

The transition towards a low-carbon economy relies on economic incentives and fiscal resources. Above, I mentioned a few examples how we plan to enhance them. More measures are with no doubt needed. I am proud to co-chair with the Finance Minister of Chile the work of the newly established international Coalition of Finance Ministers for Climate Action. The Coalition's policy aims to mobilise private climate financing and investments. Finance ministers have, for instance, a key role in the decision-making of the Multilateral Development Banks. Catalysing the systemic change is not only urgently needed but a tremendous chance for businesses and economies.

New green taxation: an opportunity for a better world

María Jesús MONTERO CUADRADO
Spanish Minister (acting) for Finance

One of the great challenges that humanity has to urgently address is how we respond to the climate emergency. It is a global challenge, which concerns to all of us, at both the individual and community level, and that no longer admits any kind of hesitation.

That is why it is essential that all countries make headway with their environmental commitments and achieve as soon as possible a common strategy that allows us to build a more environmentally friendly, sustainable and inclusive world.

When it comes to modifying harmful practices for the environment and, especially, to correcting negative externalities generated by certain goods, services and activities, there are numerous studies that support the role and usefulness of the so-called green taxation. There are also numerous debates on the redistributive capacity of environmental taxes or on their real impact on the economy and public accounts.

It is true that there is still room for improvement of the collection from environmental taxes, but it should be remembered that these kind of taxes do not pursue revenues, but try to provide sufficient incentives for consumers and producers to modify their practices towards a more efficient and respectful use of natural resources.

However, the urgency of addressing the climate crisis is not only a matter of public ethics. Correctly targeted, it is also an opportunity for research and innovation to become the basis upon which to implement structural changes in the economic, productive and energy models, in order to transform our growth model and to guarantee a more prosperous future.

We have already abundant normative provisions and objectives assumed at European or international level in this matter, but now we have to go one step further and to adapt our old fiscal policies to this new scenario of shared responsibilities.

We have to ensure that taxation contributes to the necessary decarbonisation of the economy, acting as a lever for change in the ecological transition, discouraging harmful practices in homes and factories, and ensuring greater social and intergenerational justice. If we want this process of change to evolve towards a climate-neutral development model, it needs as well to be socially beneficial and inclusive.

The Government of Spain has a firm commitment in the fight against climate change. In fact, we have turned this problem into a state policy, and in recent months, we have worked on an ambitious package of measures for a fair ecological transition. An opportunity that can help us to mobilize 236 billion Euros in public investment and to generate between 250,000 and 364,000 new quality jobs between 2021 and 2030.

Taxation is also part of this strategy, with different proposals aimed at decarbonising the economy and promoting sustainable mobility. Among them, the equalization of the taxation on hydrocarbons, starting with a gradual equalization of the taxation on diesel and gasoline fuels, while maintaining the tax benefits for "professional diesel" and that consumed in agriculture and livestock activities.

We believe that environmental taxation can be a good domain for the European Union to set aside the unanimity rule in taxation and to apply the ordinary legislative procedure based on co-decision and on the qualified majority of the Council.

Regarding the existing debate on the taxation of imported products based on their CO_2 emissions, the "Border Carbon Tax" (BCAs) proposal is a Spanish contribution to the 2019-2024 Strategic Agenda, in order to protect the competitiveness of the European industry from unfair environmental practices.

In short, it would be a carbon tax applied on the border on imported products, depending on the CO_2 emissions released in their production, all within the framework of a tax scheme in line with the requirements set by the WTO.

It is worth remembering that in order for Member States to meet their commitments to reduce greenhouse gas emissions, assumed pursuant to the ratification of the Kyoto Protocol, it was approved the Directive establishing a system for greenhouse gas emission allowance trading within the EU. This regime draws on one of the market instruments provided for in the Kyoto Protocol, the emissions trading, which, together with those based on clean technology investment projects in third countries, constitute the so-called "flexibility mechanisms".

The "Border Carbon Tax" could be considered an European Union own resource. It would be easy to manage by the customs authorities since the products would be classified according to their code in the Combined Nomenclature and the amount of the tax could be calculated taking as a reference the tax paid by the industries established within the European Union according to the product concerned.

With this measure, in addition to providing financial resources to the European Union budget, the negative externalities derived from CO_2 emissions in the manufacture of these products would be internalized and the competitiveness of European industries would be protected, which would lead to a lower risk of relocation. In short, we would be updating the tax framework to the new realities of the 21st century and thereby building a stronger economy for a more prosperous future.

Sustainability – now is the time to change the world

Emma NAVARRO

EIB Vice President for climate action and environment

Ambroise FAYOLLE

EIB Vice President for innovation and development

Moving to a greener and more sustainable society is a must as the challenges of global warming, environmental degradation and resource depletion become increasingly pressing.

Sustainability is in the DNA of the European Investment Bank. It shapes our activities and investments. We appraise and monitor all projects we finance based on sustainability. We review environmental, social and governance aspects of each investment. For many years, the EU Bank has been a leader in finding solutions to the world's climate and environmental challenges. We are one of the largest multilateral financiers for climate action. Since 2012, we have provided €150 billion for the climate and environment, supporting €550 billion of investments. To support the European Union's leadership in the fight against climate change, our work is increasing. In 2015, in support of the Paris agreement, we committed to investing $100 billion in climate projects over 5 years, and we are on track to meet this goal.

A big transformation

Helping the world transition to a sustainable, carbon-neutral society is a complex job that requires a big transformation for our economies and lifestyles. We need to make massive investments over the next 10 to 15 years. Achieving carbon neutrality and meeting the Paris agreement will require the European Union to invest an additional €175 billion to €290 billion each year.

To meet this challenge, more public and private financing must be directed to sustainable projects. The financial system and sustainability will need to be closely connected. The EU is moving quickly in this direction with its Action Plan on Financing Sustainable Growth.

A key ingredient of this plan is the EU's sustainability classifications. Classifying sustainable economic activities will provide a common understanding of sustainable investments. The EIB helped develop this sustainability taxonomy. A first draft of these classifications on climate mitigation and adaptation was presented in June and is now under consultation.

Capital markets are the key

To raise the amount of sustainable financing needed to protect the climate, we need to take advantage of the capital markets. The market for green, social and sustainability bonds is growing fast, but it is still a small part of the whole bond market. The EIB pioneered the green bond market, so we understand the potential of this unique investment tool. The Bank launched the world's first green bond in 2007 and has now issued close to €26 billion in green bonds. This makes us the largest multinational green bond issuer. In 2018, we issued our first sustainability bond to support projects that go beyond the climate. We also have contributed to transparency by helping design the proposed EU Green Bond Standard. Better transparency and guidelines are important steps towards a more robust green bond market in Europe.

Sustainability challenges are important to the whole world and require collective action. As with the wider climate goals, progress on sustainable finance in Europe should be linked with other jurisdictions, and various initiatives should be better coordinated. In this sense, the EU's International Platform on Sustainable Finance will be a major step to encourage more dialogue beyond European borders. The EIB will participate in this initiative that is expected to be launched at the World Bank Group/IMF Annual Meetings in October. The Bank is also participating in other international initiatives aimed at sharing principles and knowledge that will help the world transition to a sustainable economy, such as the Central Banks and Supervisors Network on Greening the Financial System (NGFS) or the Coalition of Finance Ministers for Climate Action.

Innovative finance to save the planet

As a public bank whose investments are designed to attract more private investment, we are showing the world how to mobilise other financiers to invest in sustainability. In the last 10 years, the EU Bank has also pioneered the development of blended finance instruments that help the market increase the level of private finance for sustainable activities. Some of these instruments blend public money from the European Commission and individual EU countries with financing from capital markets investors and other international finance institutions. We have also set up multiple financial instruments and innovative funds that focus on climate and the environment, such as our Global Energy Efficiency and Renewable Energy Fund and our Natural Capital Financing Facility.

As climate dangers rise, it is clear we are failing to do enough work to slow global warming. Pressure from the public to take more action is growing and we need to respond to this demand. In Europe, sustainability and climate change are top issues on political agendas, as shown by statements from Ursula von der Leyen, the President-elect of the European Commission. The EIB can play an instrumental role in assisting von der Leyen's vision for a European Green Deal and the Sustainable Europe Investment Plan.

3 new goals from the EU Bank

The EU Bank is ready to embark on a new journey. We accepted the European Council's call in June to step up our activities on climate action. We now have three new proposals that solidify our role as the EU's Climate Bank:

- At least 50% of EIB lending are to support climate and environmental sustainability by 2025.
- We will significantly help grow sustainable finance from billions of euros in investment to trillions. The EIB Group aims to unlock €1 trillion in investments from the public and private sectors for climate and environmental sustainability by 2030.
- We aim to align all EIB Group activities with the principles and goals of the Paris agreement by 2020. Any financing that is not green will be made sustainable, according to the requirements of the Paris deal.

A good example of this transition is our new Energy Lending Policy under consideration by our Board of Directors. In the new policy, we propose to phase out energy projects that rely solely on fossil fuels by the end of 2020. This change ensures that we are aligned with the Paris agreement and enhances our contribution to the creation of a carbon-neutral European economy.

It's not easy to move towards a more sustainable, low-carbon economy. This is a huge challenge. It will have to be managed well so that it doesn't hurt society and that nobody is left behind. We will need new mechanisms that ensure a fair transition, especially for vulnerable groups. The EU Bank has always supported economic and social cohesion, so it is clear that we will support a fair transition for society.

We have no choice but to create a greener future and make our climate sustainable, but this transition also can help Europe in many ways. This is a huge opportunity to modernize our cities, reduce Europe's energy dependency, grow the economy and create jobs.

Launched as a transformative contribution to the global fight against climate change, the Land Degradation Neutrality Fund seeks to support the sustainable management of 500 000 hectares of land, to reduce CO^2 emissions by 35 million tons, and to create jobs or improve livelihoods for over 100,000 people through its investments, with a focus on Africa, Asia and Latin America. It aims to reach USD 300 million investment in sustainable land management and land restoration projects worldwide to achieve the Sustainable Development Goals' land degradation neutrality by 2030.

The EIB is a founding investor in this fund, which is managed by Mirova and set up in partnership with the United Nations Convention to Combat Desertification.

The Urapi initiative helps mid-size cooperatives restore degraded land and set up programmes that protect the land and forests while making it more productive. Cafe Selva Norte is a good example of a project implemented by Urapi. Cafe Selva Norte is a $12 million project in Peru that aims to protect over 20,000 hectares of land. This project is recovering degraded land and implementing productive programmes that mix timber species and coffee plants. This project involves mid-size coffee cooperatives that are growing organic and fair trade beans and have been working with Ecotierra, a developer of agroforestry projects.

Land Degradation Neutrality Fund

Sustainable Finance and the insurance sector: how Generali is integrating sustainability in its strategy.

Philippe DONNET
Generali Group CEO

Generali is a major player in the global insurance industry – a strategic and highly important sector for the growth, development and welfare of modern societies. It is a sector that is called upon to manage and tackle global challenges on a daily basis and to deal with significant current issues such as climate change, changes to global demographic structures, and cybersecurity. Within this context, we believe that sustainability must be integrated into our business in practical terms, enabling us to create long-term value while, at the same time, preserving the environment and acting for the common good. This is all the more evident for multinationals with a worldwide presence, such as Generali, since their impact and influence go beyond the perimeter of their stock capitalisation and short-term financial performance.

This long-term vision has led our Group to publicly adhere to voluntary agreements and initiatives such as the Global Compact (2007), the Principles for Responsible Investment (2011), the Principles for Sustainable Insurance (2014) and the Paris Pledge for Action (2015) and to support the Sustainable Development Goals (2015).

Generali's purpose - "Enable people to shape a safer future by caring for their lives and dreams" refers to this vision. Our role is about creating long-lasting value focusing on relevant megatrends that will shape the business and society, keeping into perspective the long-term impact on all our stakeholders: not only shareholders and clients, but also employees, distributors, suppliers, local communities, the environment, future generations and society at large.

Finance is an effective tool we can use to pursue our sustainability targets. With more than 500 billion euros of assets under management, we are one of the biggest institutional investors in the world and our financial standing is a powerful lever that has a significant impact on the real economy. By choosing which asset classes to invest in, we can on one hand actively endorse virtuous sectors (e.g. the green economy), and on the other hand promote those industrial areas that drive economic growth and a wider distribution of the benefits of globalisation (i.e. infrastructure, real estate investments, etc.). Moreover, investing in Government Bonds means supporting State Budgets, contributing to the development and stability of welfare. For a number of years, we have been implementing the Responsible Investment Guideline, which filters our investments according to Sustainability criteria, also called 'Environmental, Social and Governance' (ESG) criteria: corruption, human rights violations, environmental damage, coal, specific weapons (cluster bombs, anti-personnel mines, nuclear weapons). This activity generates Restricted Lists and Watched Lists of issuers under review and it applies today to 289 billion euros. As part of our investment approach, we invest 33 billion euros in 'best in class' companies, selected according to positive criteria such as good governance, policy on diversity and inclusion, environmental protection: the so-called Socially Responsible Investing (SRI). The recent acquisition of Sycomore, leading player in ESG/SRI investments in France, further shows our commitment to investment strategies driven by ESG criteria.

The challenge of climate change is a particularly pressing issue, in relation to which our Group is engaged in a series of initiatives some of which have been also be integrated in our new three-year strategy, Generali 2021. The path we are following is clear: our goal is to increase our commitment towards sustainable and green sectors and divest from coal-related activities, taking concrete steps both in terms of investments and insurance.

As far as the green and sustainable sectors are concerned, the Group is steadily increasing its efforts, with a target of 4,5 billion euros worth of investments, between infrastructure and green bonds, to be reached by 2021. In terms of underwriting, we will further consolidate our already strong presence in the renewable energy sector, aiming for a 7-9% increase of premiums linked to insurance products with socio-environmental value.

Generali also intends to cease all coal-related activities. Aside from excluding any new investments in businesses associated with the coal sector, we are divesting our current portfolio's 2 billion euros worth of carbon-related assets. In terms of insurance, we have pledged not to increase the already minimal exposure to the coal sector, and we have also decided not to insure any new construction projects (power plants and coal mines) - be they from new or existing customers - as well as to divest from all Polish coal mines. In the Regions that are strongly coal-dependent, we are collaborating with coal counterparties to support transition to a low carbon economy by applying the principles of Just Transition promoted by The Grantham Research Institute in collaboration with the London School of Economics and Harvard University and in partnership with the UN-Principles for Responsible Investments (UN-PRI). This approach integrates the social impact of our decisions on local workers and on energy supply to communities into our Climate Strategy.

The latest initiative involves the issue of the first Generali green bond – and the first for an insurance company in Europe – on 16 September, and at the same time the publication of a Green Bond Framework, which clearly defines the investment processes and areas for assets under management. Specifically, six categories of investable assets have been defined (green buildings, renewable energy, energy efficiency, clean transportation, sustainable water management, recycling, and re-use & waste management) and a selection and monitoring procedure assigned to a cross-functional committee within the Company (Generali's Green Bond Committee).

In this context and in order to mainstream sustainability considerations, we believe that a certain level of regulation is necessary. We also fundamentally support the European Commission's Action Plan on financing sustainable growth and have been actively engaged in discussions with stakeholders on this issue. A meaningful yet practical framework to further the mainstreaming of sustainable finance is required in order to fulfil the sustainability objectives following the Paris Agreement. Such a framework, which should be based on reliable data and ensure legal certainty, would provide the unique opportunity for Europe to develop a global benchmark for sustainable finance. It is nevertheless indispensable to assess companies holistically and to focus on a forward-looking perspective in the analysis.

Finance was an extraordinary invention of the mercantile economies of the past, and it has contributed significantly to defining the society we know today. We believe that managing it and directing it towards the common good is one of the great challenges of the start of the twenty-first century, a challenge that we cannot afford to lose and at the same time representing a vital opportunity for development and prosperity for all.

Generali Tower in CityLife, Milan. Designed by the architect Zaha Hadid, the Group headquarter is characterized by a high level of energy efficiency.

Sustainable investment should no longer be the exception, but the norm

Bas EICKHOUT

MEP (Group of the Greens/European Free Alliance), Vice-President ENVI Committee

Investments of today will determine how sustainable our economy will be in thirty years from now. Private investment into sustainable rather than harmful economic activities, is gaining traction. The European Commission was right to make proposals for the EU to lead the way in sustainable finance by proposing harmonised European definitions for investors to provide certainty about what can be considered sustainable investments. But for the EU to live up to the promise made in the Paris climate agreement to align financial flows with a 1.5 degree world, more ambition is needed. Whether the EU will live up to this promise depends on the ambition of the new Commission and the willingness of the Parliament and Member States to put words into action. At least four challenges are waiting for action from the incoming European Commission.

First, a framework that defines future policy action on a sustainable finance agenda should not limit itself to investors already interested in doing something positive for people and planet. Instead, EU action should contribute to making all finance more sustainable and shift the trillions of investments from unsustainable to sustainable economic activities. This is why we proposed to use the taxonomy not just for those financial market products with a specific environmental objective, but for a much wider range of financial products including ordinary shares and bonds sold to investors and also to bank accounts.

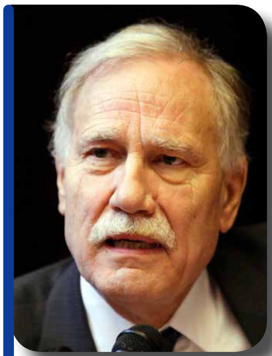
Second, we need to combat greenwashing more forcefully. Self-regulation and measures such as voluntary green bond standards are insufficient to ensure that green public and private finance really is sustainable. An EU definition of sustainable finance must make clear that there is no such thing is clean coal, sustainable nuclear energy, or green gas infrastructure. This is why it is important that Parliament explicitly excludes fossil fuels, fossil infrastructure and nuclear energy investments from being considered 'sustainable investment'. Investors must also understand that environmentally sustainable investment requires respect of robust human rights standards. Only financial market participants who can proof their financial products are in line with the EU definitions should be allowed to sell products as "sustainable", "green" or "ethical".

Third, the EU should not only define what are sustainable investments, but also create clarity about the most environmentally harmful investments. This will send a strong signal to public and private investors and banks that investing in or lending to economic activities like coal, shale gas, factory farming is both risky and unsustainable. Also, it will provide transparency on the amounts of unsustainable investments out there, which in turn is instrumental for shareholder pressure to put pressure on companies to transform unsustainable activities into sustainable ones. Measuring "brown" activities should not be limited to capital markets, but also include the banking sector which is still financing the bulk of the European economy. The Central Banks and Supervisors Network for greening the financial system (ngfs) has also called for a clear clarification between green, non-green, brown and non-brown assets in order to understand their risks. The European supervisors should be required to integrated climate change into their stress testing methodologies to deal in an orderly fashion with the financial risks related to stranded assets.

Finally, measuring the sustainability of financial assets and loans will remain challenging without more detailed reporting by the corporate sector. An ambitious revision of the corporate reporting framework is long overdue. There are already good initiatives such as the Platform for Carbon Accounting Financials, to assess and disclose greenhouse gas emissions of loans and investments. There is no excuse to start measuring and estimating sustainability impact now, but the EU should help the financial sector in getting access to comparable information by corporates on key sustainability indicators by updating the reporting rules.

So far there has been a lot of political support for EU action to promote sustainable investment. Both companies and politicians love measures that help them to look greener and can be presented as win-win for all stakeholders. But a sustainable finance agenda that really achieves its objective of speeding up the urgent green transformation of the real economy will also hurt certain vested interests. If the Von Der Leyen Commission is serious about its sustainability ambitious, it should grasp the nettle of this more difficult part of the sustainable finance agenda.

Green finance: time for an institutionnal spark



Dominique RIQUET

MEP (Renew Europe, France) Chairman of the Intergroup on long-term and sustainable investment, Member of the TRAN Committee

Simona BONAFE

MEP (S&D, Italy) Vice-Chair of the Intergroup on long-term and sustainable investment, Member of the ENVI Committee

Adina-Iona VALEAN

MEP (EPP, Romania), Vice-Chair of the Intergroup on long-term and sustainable investment, Chair of the ITRE Committee

The new EU institutional cycle is only a few months old, and sustainable finance is already the talk of the town. The reasons for this sudden craze are easily identifiable: popular and corporate will to act for the planet through investment, political availability and economic flexibility. Numbers are evocative of the extent of the interest for green finance, as at least $30.7 trillion of funds is held in sustainable or green investments, up 34% from 2016. This represents a third of the tracked assets under management.[1]

However, what exactly accounts as "*sustainable*" or "*green*" investment? Does investing in solar panels, electric scooters, nuclear power plants or R&D for "greener" mining qualify all the same? We would tend to answer negatively, and this calls for precise legal definitions, which is the intent of the taxonomy regulation, on which the Parliament looks forward to enter as soon as possible into negotiations with the Council and the Commission. Besides, understanding the drivers of the trend is necessary to embrace its features. It is indeed unusual that investors turn to riskier and often less profitable financial products. In this regard some might cynically point out corporate greenwashing intentions, but the deeper reason for a transformation of investors' behaviour lies above all in economic sustainability and thus, in a longer-term investment's approach. William Nordhaus, economic sciences Nobel Prize in 2018, established in this respect that unbridled continuation of growth would make everybody worse-off because of the impact of climate change on the economy. All in all, the theme of long-term investment can no longer be apprehended without its ecologic appendix.

The importance of green finance established, our reflexion should focus on the role of public powers in its development. Shutting down proven greenwashing attempts seems to be the first step, as the whole trend's credibility is at stake. Such a goal can be achieved by public powers through regulation and privately through labelling. The trickier part lies in the incentive role the legislator may play. Fiscal solutions are available at the national level, as well as State aid or public procurement. To achieve the EU's 2030 targets agreed in Paris, including a 40% cut in greenhouse gas emissions, we have to fill an investment gap estimated at 180 billion EUR per year. The bulk of this gap is to be filled by the private sector but the spark of this dynamic should be public. The Juncker plan is a good example of how to conceptualize the role of public funding in this regard. This necessary initiative- that we supported from the beginning- was created at a time where the Eurozone was just starting to recover from the crisis, and the criteria to benefit from it were essentially of growth-linked nature. InvestEU, its successor, will resolutely be greener, by dedicating a well-defined share of resources to sustainable investments and by conditioning the attribution of funds to the evaluation of sustainability aspects of projects.

In parallel with these operational actions, a strategic framework has to be set at the European level so the transition is not costly in terms of jobs. The ecologic transition is indeed, first and foremost, an economic transition. For it not to be a burden but an opportunity, the EU must be bold in its legislation to push the financing of sustainable projects while ensuring legal predictability for businesses. It has to be reminded that the sustainability of an investment goes beyond its environmental impact and has to be evaluated against the three ESG factors, thus including social and governance.

As often, our efforts to build an effective European framework for sustainable finance need to take into account the global perspective and functioning of financial markets.

Non-governmental initiatives, as the Intergroup on long-term and sustainable investment, already focusing on bringing together lawmakers, businesses, civil society and financial market actors, constitute an indispensable lever to develop the multidimensional approach needed to move forward on this path. Stay tuned: sustainable finance will, without a doubt, be one of the major items of the new institutional cycle.

1 Data: Global Sustainable Investment Alliance

Promoting synergies between public and private networks in green finance

Pierre HEILBRONN

Vice President – Policy and Partnerships – European Bank for Reconstruction and Development

The world is running out of time to act on climate change. At the current rate of national commitments, a warming of 3-4°C will bring about major and irreversible climatic changes which will severely impact human welfare. The Paris Agreement has committed the world to limit global warming to well below 2°C and keep as close as possible to 1.5°C above preindustrial levels. To achieve these goals, global greenhouse gas emissions (GHG) need to reach "net zero" around mid-century, necessitating urgent action.

Financial regulators are also sounding the warning bell of the unsustainability of business as usual. The Task Force on Climate-related Financial Disclosures and Network for Greening the Financial System have shown that climate-related risks could lead to declining profitability and impact overall financial stability. Enhanced disclosure of these climate-related risks will allow financial markets to better internalize them more explicitly in companies' valuation and shape where investors put their capital. To borrow the words of Bruno Le Maire at the 2017 One Planet Summit: "Finance will have to be green, or there will be no finance at all".

As economics shift in favour of climate action, new investment opportunities are emerging. The Stern Review on the Economics of Climate Change authoritatively showed that the economic costs of climate change were far greater than the costs of preventing it through reduced GHG emissions. A host of new evidence also show that rather than economic development and climate action being a trade-off, tackling both together can be mutually reinforcing. For example, falling costs of renewables combined with emerging technologies for energy storage is an example of how a sector can transform quickly when the economics tip in favour of low-carbon options.

However, neither sole focus on financial regulation and nor shifting economic incentives are likely to be sufficient alone. An enhanced collective action – both between countries and between the public and private sector are crucial to tackle this agenda. The European Bank for Reconstruction and Development (EBRD) works in nearly 40 countries and leveraging synergies between the public and private sector is fundamental to our core mission. EBRD focuses on four key to tackle the climate challenge.

First, countries need to increase their emissions reduction targets towards achievement of "net zero" GHG emissions. This is to send a clear signal for private investors on the direction of travel. The Paris Agreement is built on the premise of national commitments to be reviewed periodically and ratcheted up through time, providing a framework for all countries to contribute to climate action regardless of level of development. This, in turn, leads to commitments backed by legal force. We have seen commitments to achieve net zero emissions combined with formal instruments from California, Denmark, European Union, New Zealand, Norway, Sweden, and the United Kingdom – and others have similar ambitions including Ethiopia and Costa Rica. EBRD is supporting the Government of Ukraine to develop its Nationally Determined Contribution.

Second, commitments need to be backed up with implementable policies. Developing a clear carbon price is crucial though not sufficient in itself. In most of our countries of operations carbon is generally not priced at adequate levels to shift financial flows and pervasive fossil fuel subsidies are shifting the playing field towards fossil fuels. We also know that a stable regulatory environment is critical to attract private finance. For example, in Egypt we developed a bankable regulatory and contractual framework for renewable energy investment. This led to the financing of the Benban complex, the largest solar plant complex in Africa, involving 16 private sector companies for a project value of over USD $1.1 billion.

Third, more attention should be placed on achieving net zero emissions in "hard to abate" sectors. The work of the Energy Transitions Commission, which EBRD contributed to, has shown that GHG emissions need to be reduced and then eliminate from aviation, cement, heavy road transport, plastics, shipping and steel sectors. Reducing emissions in these sectors will rely on improving energy efficiency, reducing demand for carbon-intensive products (e.g. through circular economy), or deploying new technological approaches such as electrification, carbon capture or the widespread use of hydrogen. The good news is that technologies to do the job are either commercially viable or under development and bringing them to scale will require industries to work together with policymakers. EBRD support in this area ranges from developing a low-carbon roadmap for the cement sector to improving the energy efficiency of the steel sector across Poland, Slovenia, Turkey and Ukraine.

Fourth, given the scale and speed of the transformation, we must support those who will experience adverse consequences. The need for "Just Transition" – to ensure that climate action is also socially inclusive - was stated in the text of the Paris Agreement. Managing socio-economic consequences of declining industries and better designing climate policy to overcome undesired distributional impacts (such as increasing fuel poverty following spikes in electricity tariffs) is likely to increase the political acceptability of decarbonisation. As an example, European Union has recognised the need to support coal regions as a priority and have established a "Platform for Coal Regions in Transition" to facilitate economic diversification and reskilling of workers. At EBRD, we support our countries of operation in combining policies and private investment to support the "Just Transition" agenda in

In conclusion, it is through coordinated action and by leveraging synergies between public and private networks can we effectively tackle the climate challenge.

Enlarging the impact of sustainable finance to support the climate change efforts

Jean-Pierre SBRAIRE
Chief Financial Officer, TOTAL

The European Commission is expected to complete its regulation proposal regarding the financing of environmentally sustainable economic activities. It is essential that the energy sector, which holds a key role in transitioning to a more sustainable global energy mix, remains able to finance its activities. The transition to a low-carbon economy will not succeed if the energy industry is financially restrained from contributing to the joint effort.

Natural gas, a key component in the energy transition mix

Total is an energy major committed to supplying to as many people as possible, a more affordable, more available and cleaner energy. The energy transition leads to a growing role for both natural gas (in particular LNG) and electricity (mainly from renewables) in the energy mix.

Yet, around 60% of the energy consumption currently relies on petroleum and gas products and there is no doubt that the economy will continue to depend on affordable petroleum and gas energy products during the transition phase in the coming decades. Total strongly believes that natural gas, which is expected to become the second largest fuel by 2030, will be at the core of a successful energy transition. On the one hand, electricity produced from natural gas cuts CO2 emissions by half compared to electricity produced from coal. On the other hand gas ensures permanent availability by compensating for the intermittence of renewable energy power generation.

Total developed an ambitious investment program in low-carbon electricity and will invest $1.5 -$2 billion per year in the coming years in this business or 10% of overall capital investment.

This strategy for electricity and natural gas contributes to the Group's ambition to reduce the carbon intensity of the energy products used by our customers by 15% between 2015 and 2030.

How a large-scale energy transition to a low-carbon economy will be financed is paramount. Supporting and financing transition energy investments, including investments in renewables and natural gas, is key.

Various financial instruments have recently emerged helping sustainable finance meet its goals

Green financial instruments such as Green bonds as defined by the ICMA principles represent the cornerstone of sustainable finance today. Such instruments with highly restricted use of proceeds do not, in our view, support a holistic approach to the energy transition. Though progressing, the amount of issuance proceeds allocated to climate change mitigation projects have remained marginal compared to the global volumes of bond issuance in 2018. Moreover, the energy industry, including majors, are likely to face criticism for "greenwashing" as they raise bonds under this format. As the debate on these instruments went on, different labels appeared in the market (Climate, Blue, Social, Sustainable bonds, etc.), but they all remained too restrictive as they apply the same concept.

We believe green financing needs to fit into a wider solution integrating other energy sources than renewables to the extent that they efficiently contribute to cutting GHG emissions. Innovative instruments have emerged in the last few months, paving the way for wider-encompassing forms of sustainable financing. Recent "Transition" bonds were welcomed by the climate-focused investor community as relevant tools to support (large) companies in their energy transition strategies (and not only to finance a defined subset of projects / energy sources), all the while leaving issuers with the flexibility as to where to best invest proceeds to achieve their transition.

Such a push to enlarge the impact of sustainable finance will benefit both systemic players already engaged in the energy transition, such as Total, and climate-focused investors and financial institutions with broader investment opportunities to support the climate change effort.

Climate change targets will not be reached if regulation precludes the energy industry from financing its transition

The EU is committed to being a leader in the global climate change initiative. It is setting up a framework to enable sustainable finance to fulfil its crucial role in the energy transition. The EU Commission intends to entice public and private investments to serve this goal. However more clarity is needed to ensure that the private energy sector will be able to participate in this immense task.

Total is arguing strongly in favour of inclusive standards for the financing of sustainable development in order to ensure that this pivotal industry is able to play its role and contribute to the objective. The taxonomy and benchmark references that the EU will enforce should not be static but should, to the contrary, allow the financing of decarbonisation investments and help the industry implement and achieve a virtuous trajectory. Responsible energy companies are part of the solution and are willing to act. Full access to public and private financing is also key to enhance global competitiveness of the European energy industry. It is by leveraging all expertise and investment capabilities between energy participants and financial markets that we will be able to successfully address the climate change challenge.

Towards a sustainable economic order

Paul TANG

MEP (S&D Group), Member of the ECON Committee

The wave of liberalization that reached mainland Europe from America in the last quarter of the 20th century turned European industry upside down. Businesses formerly characterized by a strong grounding in local communities and a focus on employee wellbeing became hostage to profit-driven shareholders and bonus-seeking executives. Instead of working for a wide range of stakeholders, many European corporations started serving shareholders through a narrow focus on short-term revenue maximisation, neglecting the needs of broader society. In other words, short-termism took over.

Exactly this short-termism is what, according to the EU High-Level Expert Group on Sustainable Finance, stands in the way of a sustainable financial system in Europe. Sustainability -- in economic, social and environmental terms -- requires action with a long-term orientation. One cannot have the necessary investments in skills, cooperation, infrastructure or renewable energy when short-term considerations dominate investment decisions. To move towards a truly sustainable European economy, a long-term perspective is key. As such, the Expert Group challenged the EU "to confront short-termism in financial markets".

At first sight, fighting short-termism might seem like a herculean task. How can one change the mind-set of all those operating in an entire industry? How can one alter what people see as their self-interest? However, with a three-track strategy policymakers have the power to transform Europe's financial sector into a motor for sustainable growth. First, we need to increase the transparency of the ecological and social impact of financial products so as to enable investors to act in accordance with their values. Whereas the Disclosure Regulation calls for openness concerning the impact of a broad range of financial products on social, environmental and governance aspects, the Taxonomy Regulation specifically labels investments that are sound from an environmental point of view. For the S&D group in the European Parliament, I seek to include societal and governmental considerations in the scope of this Taxonomy Regulation. Only then can we truly talk of sustainable investment products that serve the long-term interests of society as a whole. However, even with these regulations, sustainable investments might remain a niche. This indicates the importance of expanding our focus to the prevention of clearly unethical investments. We should not only promote as "green" the small percentage of products that are truly sustainable, but also label as "brown" products that pose a threat to our environment and society.

Still, public pressure alone is not enough to ensure that companies internalise the long-term horizon, bringing me to the second track of EU work. The Disclosure Regulation attempts to go beyond pure transparency through the creation of standardised due diligence procedures for long-term risks. It calls for the identification, prevention and mitigation of risks for our society by financial institutes. This pushes investors and firms to focus on people and planet, as opposed to pure profit. Certainly more stringent due diligence requirements are key to move further towards stakeholderism, but important first steps have been made.

Yet, as long as corporate profits are not directly affected by unsustainable business models, investors won't have the necessary incentives to alter their investment strategies. To bring the interests of companies in line with those of society, governments should use carrots and sticks. Socially and environmentally sound operations could be rewarded by, for example, preferential treatment in public procurement processes or through targeted fiscal incentives. At the same time, polluting companies or those with bad working practices should face the costs they impose upon society. It is unacceptable that companies can freely unload their pollutants, from CO2 to NOx, into the atmosphere, forcing citizens to pay for healthcare costs and the necessary investments to mitigate climate change. To ensure that polluters pay, we need to introduce a proper CO2-tax and an EU Emission Trading System where the price of emissions reflect the damage done to society. Similarly, governments should be forceful in taking on socially unacceptable business models, closing legal loopholes that allow companies such as Uber or Deliveroo to turn into billion dollar enterprises by paying employees below minimum wage. If in the real economy sustainable businesses thrive while unsustainable ones falter, the financial sector will suddenly be quite able to transform itself.

Interestingly, US-based companies are already acknowledging the renewed importance of serving a wide range of stakeholders. Last August, 181 CEOs, including those of Amazon, Walmart, JPMorgan Chase and Apple, have called on their peers to incorporate in their business models the interests of customers, the environment, employees, suppliers and the community at large. Decades after Europe's stakeholder business model was overtaken by the American focus on shareholders, a European view of the economic order is taking hold in the US, leading to renewed efforts to create a responsible capitalist society.

Without the necessary changes, there is nothing to guarantee that the laudable words of CEOs are turned into action. As long as CEOs continue to be rewarded and punished for short-term profits by shareholders, they will continue to face pressure to damage our society and environment for narrow-minded gains. That is why the mix of transparency, due diligence and incentive shifting remains key to create a stable, efficient and sustainable economy. Now that businesses show they are ready to take up their responsibility, it is up to governments to deliver and push for a fundamental change towards a sustainable economic order.

Fight against climate change depends on cooperation and innovative thinking

Wim MIJS

Chief Executive Officer of the European Banking Federation

The effectiveness of global actions to fight global warming requires an unprecedented level of cooperation between public and private institutions. The banking sector is engaged. The ultimate success hinges on the willingness of all stakeholders to work together.

The European Union is successfully establishing itself as a global leader of the transformation towards a more sustainable and carbon-neutral economy. Steps taken by the European institutions are unprecedented to any other legislator in the world. When it comes to handling climate change and the greening of the financial system, the responsibility that EU legislators - and we all - face are enormous. The correlation of risks, mitigation strategies and actions with their corresponding impacts on economy and society are not yet fully understood. Balancing the need for urgent action and a desire for an orderly transition, while facing a lack of data to underpin the policy measures is not an envious task.

At the same time environmental challenges present opportunities to developing new thinking, with new business strategies that can help accelerating the shift towards more responsible behaviour and a more sustainable future. But the transformation will come at a significant cost. Private capital will be key in meeting the Paris Agreement and the Sustainable Development Goals. In a bank-financed economy like the one we have in Europe – with banks financing more than two-thirds of the economy - these objectives are unlikely to be met if our industry is not part of the journey.

Banks play a critical role as investors, capital providers and intermediaries. They make important decisions on where to allocate capital. Yet it is their long-standing relationship with clients that is key. The growth of sustainable activities must take place throughout all economic sectors, especially manufacturing and services. Most companies are however at different stages in their transition towards low-carbon and sustainable activities. Banks, as partners, can provide advice and funding to achieve this transformation. For example, green and sustainability-linked loans, a growing market that now exceeds 100 billion U.S. dollars, can offer discounts on interest rates on the condition that clients meet certain ESG criteria or increase their sustainability performance. Banks can also pressure companies on ESG data provision and disclosure. As it turns out, a company that is aware of its ESG impact is more likely to have a better and stable performance. It is simply a matter of a more considered management decisions.

Think Big! Think Global!

While European banks compete for market positions as sustainability leaders, more needs to be done. We need to think both big and global. The nature of the financing is global and so must be the response. We need a global language to identify sustainable activities, facilitate cross-border investments and develop financial solutions on a global level playing field. We need to ensure the impact of actions undertaken in certain parts of the world is not undermined by financial decisions elsewhere on the planet. While Europe cannot control individual actions, it can use its influence wisely, including in trade negotiations, not to undermine its own credibility.

Initiatives such as the Principles for Responsible Banking, developed by the UNEP Finance Initiative in cooperation with 30 leading banks around the globe - nine of which are European - help accelerate banking industry's contribution to achieving the Sustainable Development Goals and the Paris Agreement. As a compass for the sustainable banking future, the Principles are a solid starting point for any bank that aspires to connect financial goals with social objectives. The Principles also promote a sound risk management and transparency, core fundamentals of banking responsibly. As European Banking Federation we were among the first endorsers of the Principles. We have committed ourselves to promote the adoption of the Principles among European banks. The principles are now signed by 130 banks with USD 47 trillion in assets which represents over a third of the global banking industry. More than half of these banks are from Europe.

Taxonomy opens the door to scaling up

As EBF we have also put forward an 'implementation proposal' for the usability of the EU taxonomy, the classification system for sustainable finance. It is important for any investor to know what percentage of the funding of a company goes to sustainable products. While manual screening and selection is mostly used in niche markets, automated data are key for mainstream investors. If investors know what percentage of the funding of company goes to sustainable product, then green and social bonds as such will likely become an outdated instrument in a decade. The current amounts and numbers of sustainable transactions will not change materially as long as sustainable finance remains a very 'manual' process.

Despite some progress, we are still discussing the need to substantially scale up sustainable activities, develop new instruments, increase the number of 'bankable' projects and mobilize private financial flows to sustainable activities also via capital markets. While a lack of data as well as an insufficient pipeline makes it difficult for markets to scale up, both the legislative and non-legislative frameworks need to be reviewed to **encourage** the shift towards a sustainable economy. Support for green securitisation, green financial instruments, and public intervention through policy and fiscal measures can substantially contribute to mainstreaming sustainable activities and their financing. Also, to facilitate the efforts of the financial sector to steer the funding towards sustainable activities, the EU should open up its databases that collect environmental reporting data and make those re-usable for finance providers.

Finally, the impact of financial education should not be underestimated. It can be a powerful tool to mainstream sustainability, empowering consumers and nudging them to embrace change. For financial professionals it can lead to a better understanding of new financial risks.

Albert Einstein once said we require a substantially new manner of thinking if mankind is to survive. His words take on fresh relevance today. The potential role of financial services and banking in the fight against global warming is clear. Our sector is increasingly committed, but more needs to be done. A mindset that is open to profound change is required, not only in the financial sector, but also in the public sector. Let's forget our differences and work together .

Taxonomy: A green tool for companies to grow

EuropeanIssuers

Florence BINDELLE
Secretary General, EuropeanIssuers

Frederico DE SANTOS MARTINS
Policy Adviser, EuropeanIssuers

The publication of the action plan for sustainable finance is a landmark in EU policy regarding ESG issues, climate change mitigation and adaptation. The action plan was accompanied by several legislative proposals with the goal of ensuring that financial products are used to promote sustainable activities and be the engine which drives the EU's transition to a greener economy. The most important legislative proposal to look at is the proposal for a regulation on the establishment of a framework to facilitate sustainable investment (or, taxonomy proposal). The taxonomy proposal provides the foundation for sustainable investments in the EU and determines the parameters for which activities are eligible to receive "green" investments.

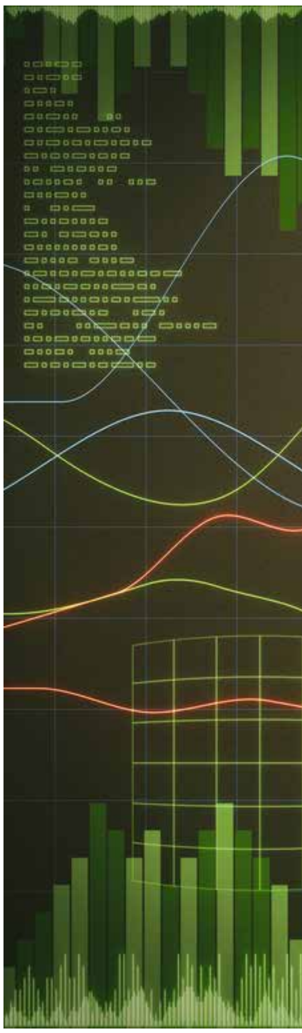
EuropeanIssuers believes that the challenge for the taxonomy is not to make finance greener but to bring about a greener economy. Therefore, it should be designed to be used as a tool to help companies grow and create jobs whilst facilitating the transition to a sustainable economy.

In order to shape the taxonomy into an effective tool, the regulation needs to address several key issues. The first is a clarification of the term "environmentally sustainable activities". It is of the utmost importance that the definition for this term does not exclude economic activities *per se* but allows for an analysis of best practices in terms of environmental performance for each activity. This assessment should go further than the activity level and measure real performance indicators and benchmarks at the company or even installation level, as was done in the EU Emissions Trading Scheme Directive (ETS Directive). It is also important that the level of granularity in the technical screening criteria is better defined so that a company using environmentally sustainable technologies does not get penalised for being engaged in an activity that is not considered to be sustainable. This give companies room to find innovative solutions and integrate new technologies to improve the sustainability of certain activities.

Another issue is the integration of a forward-looking approach to activities. The major objective of sustainable finance is to enhance a transformation from "brown" to "green" activities in a continuous way. While using finance to further enhance "green" activities is an interesting concept, we believe that it is more effective to target less sustainable. If companies develop plans to turn so-called "brown" activities into "green" ones, then these activities should be eligible to raise capital through sustainable finance. When EuropeanIssuers thinks about what transitioning to a green economy looks like, this is what we mean. It is imperative that the focus be on making the unsustainable sustainable.

It is critical for the green transition to involve non-financial companies in the dialogue with other stakeholders. This should be done by strengthening the participation of these companies on the sustainable finance platform. By including non-financial companies on the platform, it ensures for a balanced stakeholder group. Furthermore, it means that environmentally sustainable solutions can be conceived and/or handled by companies in order to create a positive dynamic for the European economy.

Alongside these key issues, there are other aspects that need to be taken into consideration when making the taxonomy effective. The taxonomy should help companies grow and transition in a sustainable manner, but this should not come at the cost of large



administrative burdens. The taxonomy could be quite expensive for companies if too many obligations are included. Currently, the EU is in a race against the clock to meet the 2050 goal of net-zero emissions. EuropeanIssuers firmly believes that this goal can be achieved if the EU acts decisively and focusses on environmental factors. Due to the urgency of the matter, the taxonomy should not seek to tackle the social impact of investments. While EuropeanIssuers supports minimum social safeguards, it would be premature to include social criteria immediately in the taxonomy; this will require an in-depth analysis and the identification of appropriate indicators which will need time to be properly addressed.

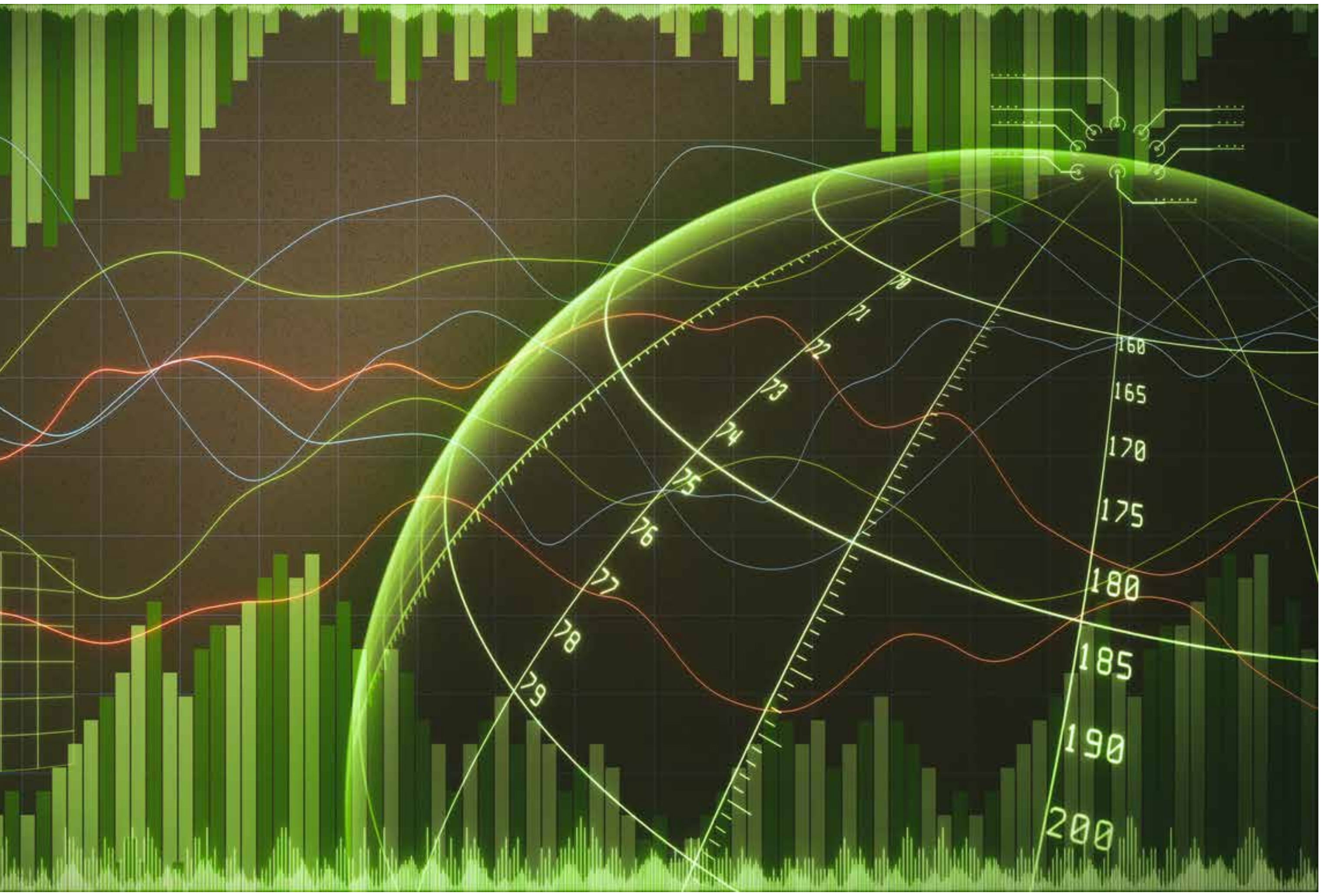
Other aspects of the taxonomy which would create unnecessary administrative burdens for companies include the requirement for third party verification of compliance with the regulation. Also, including the provisions regarding companies' due diligence along the supply chain would be a step too far as well. There are best practices when it comes to reporting on these matters, and the non-binding guidelines on climate-related report already provide guidance for companies to follow. Obliging companies to comply by including these provisions in the regulation would create an obstacle that companies would have to spend time overcoming rather than directing resources to sustainable activities and growth.

By making sure that these aspects of the taxonomy have been addressed, we will begin to see significant progress in the transition to a more sustainable economy while still promoting a healthy level of growth for companies across the EU. It is important to remember that the taxonomy is aimed primarily at financing this transition, therefore the scope of the regulation should only be applied to financial products labelled or marketed as sustainable and to financial market participants offering these products. Going beyond this scope could be counterproductive and not foster implementation of transition strategies. EuropeanIssuers sees the potential benefits the taxonomy would give to issuers, and we believe that it will be a critical tool in the construction of a robust, sustainable EU economy.

EuropeanIssuers is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU Institutions. Our members include both national associations and companies from all sectors in 15 European countries, covering markets worth € 7.6 trillion market capitalisation with approximately 8000 companies.

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer-term. We seek capital markets that serve the interests of their end users, including issuers.

For more information, please visit www.europeanissuers.eu



Decarbonising Finance or Decarbonising the Real Economy?

Helman le Pas de Sécheval
General Counsel, VEOLIA

In May 2018, the European Commission launched a series of legislative proposals aiming at greening the European economy by shifting capital investment towards climate and environment-friendly activities.

Although **Veolia welcomes these regulatory initiatives that will enhance clarity and transparency** over the actual sustainability of portfolios' underlying assets, I believe **the heart of the problem will unfortunately remain unchanged**. Of course, money is the sinews of war. However, speaking as a former CFO myself, I am afraid greening financial assets does not mean greening the real economy...

There is a Chinese proverb that says: *"When the sage points at the moon, the fool looks at his finger."* I fear that these proposals will not tackle the issue at source. Financial assets considered as unsustainable (e.g. coal, mining, nuclear, etc.) will simply be managed by other investment funds that couldn't care less about the environment. This will create a parallel "brown" hidden economy instead of incentivising these businesses to make investments in order to reduce their overall carbon footprint. Moreover, let's not forget that a large majority of companies are not publicly listed on the stock market which means most of European companies get financed through alternative investments like private equity.

Fostering harmonised standards

While a plethora of voluntary green financial schemes have emerged over the last few years, the lack of harmonised standards of these initiatives has triggered rightful concerns on their actual positive impacts. The three interlinked texts proposed by the Commission can contribute to change that, by providing greater assurance to both individual and institutional investors so that they do not fall in the fool's trap of greenwashing.

These proposals will also incentivise listed companies to make strategic decisions in line with sustainable growth as they will have to disclose precisely in their annual reports the shift that they are undertaking to meet the targets.

Classifying fifty shades of green

The establishment of a classification of economic activities that can make a real contribution to climate change mitigation or adaptation – the so-called taxonomy – will encourage businesses to move towards greater sustainability. The taxonomy proposed by the Technical Expert Group is quite comprehensive and covers all the different shades of green.

These proposals will boost the demand for state-of-the-art circular economy solutions, which is great for companies like Veolia, the global leader in optimised resource management. Our clients will indeed be keener on investing in energy efficiency solutions, recovering their waste and improving their water usage with the right financial incentives in place. **To achieve its objectives, the action plan on sustainable finance should however be result-oriented.**

Facilitating the reporting process

The greatest challenge for a global multi-activity company like Veolia is to minimise the administrative burden associated with non-financial corporate reporting conducted on a large number of sites – Veolia operates over 8,000 sites across the world. The EU should not impose reporting for the sake of reporting, but in the aim of **encouraging companies to take concrete action**. Considerable expertise and resources will be needed to collect adequate information from the local level. Therefore, the implementation of the action plan should strive to limit the costs of data collection and communication as much as possible and follow the subsidiarity principle when needed.

Optimising water use and reuse

Climate change, population growth, and economic development have a direct impact on water availability. In times of growing water scarcity, freshwater is too precious to be used only once. Reusing treated wastewater can therefore be a valuable option for various water uses in areas where water is limited. After adequate treatment, waste water can be reused for agricultural irrigation, cooling systems, boilers, process water, cleaning or aquifer recharge.

Yet, despite its positive impacts on climate change adaptation, circular economy and water preservation (three of the six overarching environmental objectives of the action plan for sustainable finance), **water recycling is an overlooked solution in the European regulatory landscape**. Introducing it in the taxonomy would therefore send a positive signal.

Implementing the waste hierarchy

While the EU should, above all, incentivise reducing waste generation, standards should be harmonised at EU level to stimulate eco-conception and the material recovery of waste, as well as the financing of energy plants for waste that cannot be recycled. Indeed, local energy loops contribute both to circular economy and energy independence. Converting waste into power and simultaneously heat or steam is energy and cost-effective. It is also a better solution to match our energy needs than extracting, transporting and transforming fossil fuels from politically unstable regions. In this regard, waste-to-energy plants should be included in the scope of the taxonomy.

In general, activities that aim at decarbonising assets that would otherwise pollute more should be incentivised, such as the greening of district heating that used to be fuelled with fossil fuels (see example of Pécs).

Boosting water and (indoor) air quality

According to the Commission's plans, pollution reduction should be specifically addressed in the taxonomy in the years to come. Through its time-tested expertise in water management, Veolia is able to inform on the highest achievable standards in water quality – starting with the treatment of heavy pollutants at source.

In parallel, the taxonomy can help reduce the deadly effects of air pollution, by encouraging energy efficiency measures as well as modelisation and control of airborne pollutants. In particular, considering that Europeans spend on average 80% of their time in confined spaces, **indoor air quality should be taken into account in the legislative work to come**, all the more as it has not yet been subject to any self-standing EU legislation.

Shaping green finance collectively

A refined financial system channelling investments into sustainable activities will provide impetus to mitigate climate change, adapt to its consequences, reduce pressure on ecosystems, tackle pollution, preserve water resources and minimise waste. The task of the future Platform for Sustainable Finance – which should take over the Technical Experts Group's work by addressing these four last environmental objectives – thus promises to be both immense and essential.

Participation of all relevant stakeholders, including industries, will be necessary to **make sure that no sustainable activity is left in a blind spot**. Companies like Veolia that provide environmental services will remain fully invested in this process.

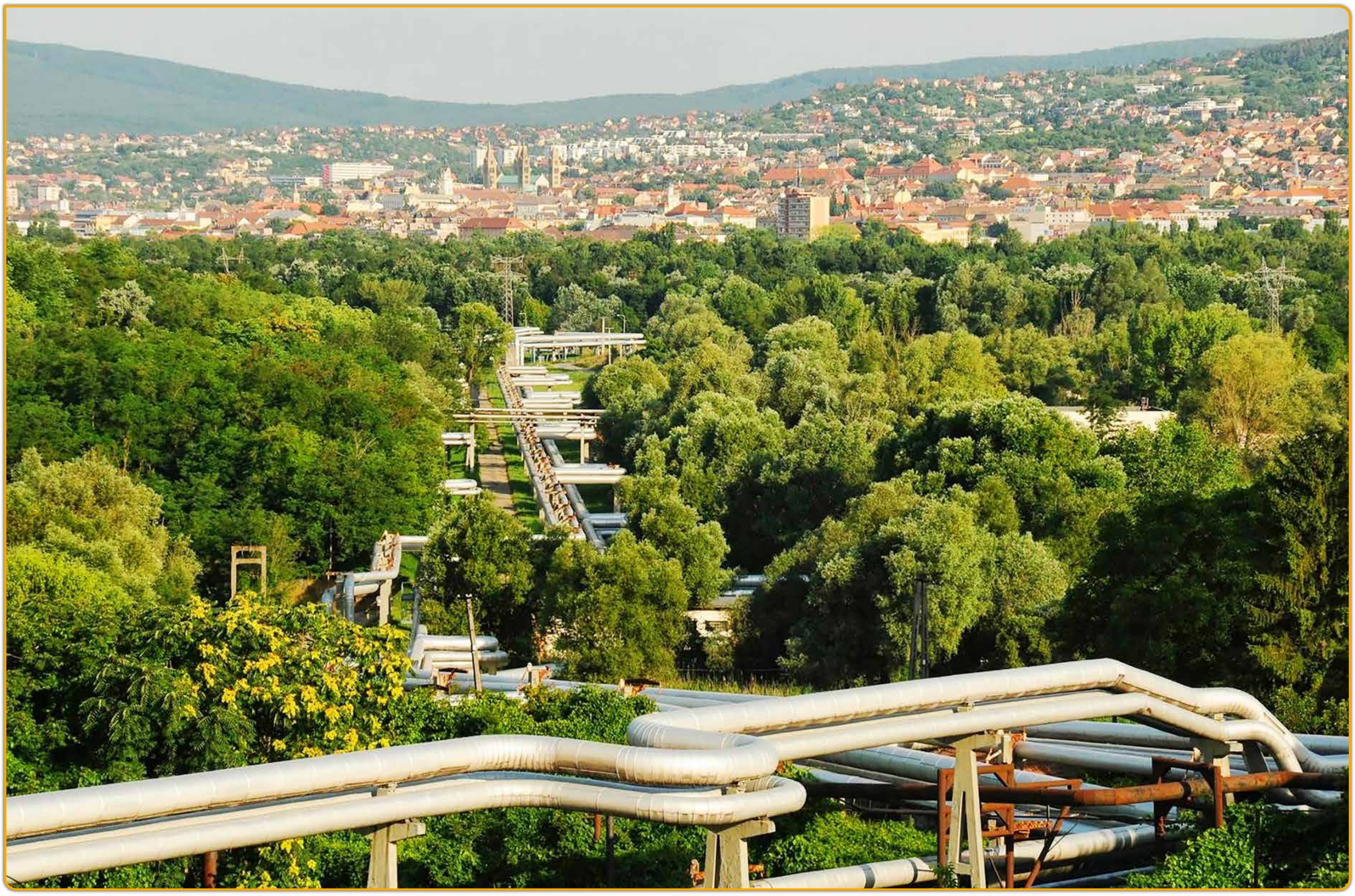
Veolia's "Raison d'être"

Veolia's purpose is to contribute to human progress by firmly committing to the UN Sustainable Development Goals to achieve a better and more sustainable future for all. It is with this aim in mind that Veolia sets itself the task of *"Resourcing the world"* through its environmental services business. At Veolia, we are convinced that continuing human development is only possible if economic, social and environmental issues are addressed as an indivisible whole.

Improvement of our environmental footprint and that of our customers is central to our business and its economic model. Our company's objective is to bring benefits to all our stakeholders including customers, suppliers, employees, and shareholders.

Veolia already reports annually on its multi- dimensional performance through a dashboard with relevant indicators on the sustainability of its model. These indicators are used to assess not only economic and financial performance, but also environmental and social performance as well as customer satisfaction, ethics and compliance.

Veolia operates the largest 100% biomass cogeneration heat network in Europe. It consists of two electricity production units in Pécs (Hungary): a 35 MW power plant fuelled by straw, corn and sunflower waste from surrounding farms and a 50 MW power plant fuelled by wood waste. The plant used to be fuelled by imported gas. Pécs is one of the only cities in Europe making use of 100% local, renewable resources for its heating needs.



Finance cannot be sustainable if it's only about finance

Olivier BOUTELLIS-TAFT
CEO of Accountancy Europe

The planet is in crisis: ecosystems are massively and rapidly being destroyed, climate change is in overdrive, geopolitics is skidding, and, in many countries, societies are starting to fall apart. In scientific study after study there is evidence of our impending doom. This is not exaggeration for effect: there is now indisputable scientific evidence that continuing on a path of endless growth is suicide.

While some ignore or refute the urgent need to transform toward sustainability, the EU is working out how to move to a circular economy. This demands that businesses change how they measure success and integrate sustainability into every level of decision-making. The European Commission calls on businesses to meet the UN's Sustainable Development Goals (SDGs) and the Paris Climate Agreement. The next questions, and obviously the most important ones, are how to meet them and what amount of change does this imply. With its Non-Financial Reporting Directive (2014/95/EU), circular economy strategy and Sustainable Finance Action Plan, the EU has shown bold leadership. It should be encouraged to continue doing so, especially on a troubled and uncertain global stage.

How non-financial reporting helps the shift to a sustainable economy

Measuring environmental, social and governance (ESG) impacts is the first step to correct market failures that perpetuate short-term thinking. Reporting on these non-financial matters helps businesses gather a more accurate understanding of their activities. It helps stakeholders, as well as providers of capital, assess businesses' performance. Such holistic transparency will help markets better identify long-term risks and make sustainable choices.

Investors need high-quality, comparable non-financial reporting to fully assess the risks and opportunities of their investments. They also need assurance on the reliability of the information which also contributes to limiting the possibility of greenwashing.

Good business decisions start with reliable information. The accountancy profession has leveraged its expertise in the field of non-financial reporting and has long-standing experience on how to help companies make the right changes to reduce their environmental footprint – and costs. As businesses change their benchmarks for success, accountants contribute by: measuring impacts, disclosing information, and providing trust.

Building on the good work that has already started

Companies are increasingly reporting on ESG matters, but the relevance, quality and comparability of the reported information needs to be improved to meet stakeholder expectations. There are many initiatives in the field of ESG reporting, which is significantly less mature than financial reporting. Consequently, the Non-Financial Reporting Directive lets companies opt for the reporting framework or standard of their choice. However, a consistent and consolidated framework is now necessary to improve corporate reporting. It would also help create a level playing field for market participants. Furthermore, the success of the European Commission's sustainable finance initiative will depend heavily on the quality of data and information provided by companies.

Accountancy Europe started the debate on the future of corporate reporting in 2015. Since then, we have led the thinking on corporate reporting. We have highlighted the need for innovation and for leveraging technology; we called for the set-up of an EU Corporate Reporting Lab; we outlined that corporate information was of interest to a wider variety of stakeholders and not only shareholders; and we introduced the Core & More concept to support relevance and simplicity in corporate reporting. We are striving to achieve better non-financial reporting and support integrated reporting. Shareholders and stakeholders are realising that financial reporting is enlightened by non-financial reporting and that only the integration of the two makes sense. We are pleased to see that the EU's corporate reporting agenda is following the same lines.

We further tackle how to put sustainability at the centre of business in our recent Cogito paper 10 ideas to make corporate governance a driver of a sustainable economy.

Reporting is not enough – we need decisive business and policy action

Non-financial reporting is not about complying with legal requirements; it is about changing behaviour and building a sustainable future. However, reporting is not a magic bullet and cannot replace public policy action, especially in today's situation of high emergency.

The European Commission's President-elect Ursula von der Leyen rightly notes the central importance of environmental and social concerns. Her approach has raised expectations at a time where there is growing awareness that urgent action is vital. As she is deliberating the Commissioners' portfolios, the European Parliament has set the standards high on approving the new cabinet of Commissioners. Environmental and social action must indeed feature at the centre of the whole EU agenda and not only on the agenda of the next Commissioner for the Environment. As always, pressure in support of slow incremental change, at best, or of the status quo, at worst, will come from all corners, industry or the Member States. The Institutions will have to show bold leadership and stay the course.

ESG considerations are not just about doing good and making the planet a better place, they are about staying in business and still having a planet to live on. It is time to get our priorities right: once the planet is exhausted, there will be no ground for business, investors or politicians.

The necessity of common sustainable standards for all stakeholders

Sirpa PIETIKÄINEN
MEP (EPP Group), Member of the ECON Committee

In the next decade, $1,8 trillion will be needed globally for financing sustainable transition, according to the latest report from the Global Commission on Adaptation. What is often forgotten is the fact that a transition to low-carbon and circular growth model is also an economic opportunity. The return on investment in carbon neutral and circular technologies and infrastructure is estimated to be multifold, over $7 trillion by 2030.

Overall, the Global Commission on the Economy and Climate has estimated that climate action in broad stands a chance to deliver over $26 trillion in economic benefits and generate more than 65 million new jobs by 2030.

With such prospects for a return on investment, the business case for sustainability is there. While investor demand for sustainable projects is increasing, there is a need to further strengthen the supply of such projects. Currently, reliable, comparable and standardised data on the risks and impact on the environment and society of projects and economic activities is lacking. Hence, investors are employing a myriad of criteria and models to assess the sustainability of a given financial product or portfolios. As a result, there is a lack of transparency regarding data reporting, collection and methodologies to calculate impact.

At the same time, it is becoming clear that sustainability risks have a financial value. By 2100, expected financial losses could amount to over US$4 trillion in present value terms, a study conducted by Economist Intelligence Unit has estimated. A 6°C scenario could put US$13.8 trillion at risk, threatening 10% of global assets under management, and therefore posing a risk to the financial system as a whole.

What is needed is the development of robust reporting and accounting standards that equips different stakeholders from corporates planning investments in the real economy to financial intermediaries making investment decisions or managing assets on behalf of asset owners, to end investors, public authorities and the civil society, with tools to make informed decisions regarding where money is spent. By correcting the current incentives of market actors we can shift financial flows from environmentally harmful activities to activities that support the needed transition.

Sustainability standards can and should be built on harmonised, uniform indicators, similar to KPIs, measuring key aspects of sustainability. While the relevance of each indicator varies from one industry and sector to another, the core environmental calculation system should consist of measuring key aspects of production, consumption and resource efficiency: use of resources, water consumption, direct and indirect land use, emissions including CO_2 emissions, production and treatment of waste, and the impact of biodiversity. Each economic activity can be assessed against these indicators to derive their impact on environment.

Such environmental accounting already exists and is used by various institutions, including the OECD, the Eurostat and the European Environmental Agency, the World Bank and alike. The key is to translate the environmental language to financial and vice versa to build a common, unified metrics.

The forthcoming EU taxonomy will set criteria for determining the sustainability of an economic activity and hence of a financial product. Before establishing such taxonomy and in future, labels, it is quintessential that harmonized indicators are taken as the foundation of the new standards, criteria and thresholds in order to ensure objective, transparency-based metrics that enable distinguishing not only green but also the nuances of green and a possible negative environmental impact.

Through the work of the Technical Expert Group and the future Expert Platform we have an opportunity to set the foundations right from the beginning. Transparency of information on impact will help investors integrate the information in their models and correctly assess risks, while avoiding possible bubbles in green assets. The Regulation on disclosure obligations for financial institutions and intermediaries agreed last spring among co-legislators already takes these indicators as basis of the new disclosure due diligence rules.

In addition to data, investors need accounting models to make sensible use of the reported information, to calculate financial ratios, such as profitability, return on capital and debt-equity ratio. Ultimately, it comes down to developing integrated accounting standards, ideally within the framework of the IFRS paving the way for industry-specific benchmarks.

A key missing link in the sustainable finance agenda is the revision of integrated reporting and accounting rules. Correcting the incentives of the financial sector with obligations to duly consider risks and impact in their investment decisions and to disclose this information to end-investors need to be matched by integrating sustainability indicators within corporate reporting rules.

While the recent update of the Guidelines on Non-Financial Reporting Directive is welcome to the extent that the concept of material impact on sustainability is introduced as demanded by European Parliament, it falls short of integrating financial and environmental factors. It is high time to abandon the thinking that financial and environmental reporting were separate. The long-due revision of the Accounting Directive is the right place to address this.

A key next challenge for the new Commission is to take seriously the task of developing harmonised indicators, sustainability accounting standards and integrated corporate reporting. A new standard should be to take sustainability coherently within the core of all EU legislation and spending, and the sustainability indicators as part of future revisions of financial regulation.

The EU and the financial community stand a unique chance to lead the way in setting sustainability standards globally. The end goal should be to overcome the separation of sustainable and financial and to bring sustainable finance into the mainstream. The future of finance is sustainable.

Borealis' drive to address global challenges responsibly

Mark TONKENS
Borealis CFO

Borealis is a leading provider in the fields of polyolefin and base chemicals, delivering plastics solutions that address global challenges in the areas of climate, energy, food, health, water and sanitation and waste management. Through our dedication to responsibility and a strong collaboration throughout the value chain, Borealis is committed to foster true sustainability throughout the business. Borealis takes responsible and fact-based decisions by applying the principles of the so-called 3Ps, which encompass People, the Planet and Profit. This has enabled Borealis to include sustainability aspects in major policies and decision-making processes. For example, contribution to sustainability is one factor considered when the Group evaluates its innovation portfolio and investment projects. Having received a fourth Gold Corporate Social Responsibility Rating in 2019 by EcoVadis, an international provider of business sustainability ratings, Borealis is proud to be among the top one percent of all suppliers assessed in the category of chemicals and fertilizers.

Borealis' views on a unified EU classification system ('taxonomy')

It is essential to keep the perspective of sustainability as a holistic concept, keeping the balance between people, planet and profit. Furthermore, when setting criteria, it should not be overseen that the whole life cycle of manufactured products should be taken into account to ensure the promotion of the most sustainable option.

Developing 'taxonomy' for the EU is an opportunity to establish an approach that can be adopted globally. Considering this, the "Taxonomy Proposal" should be designed to set clear criteria in financial products to reach sustainability goals.

Creating value through innovation

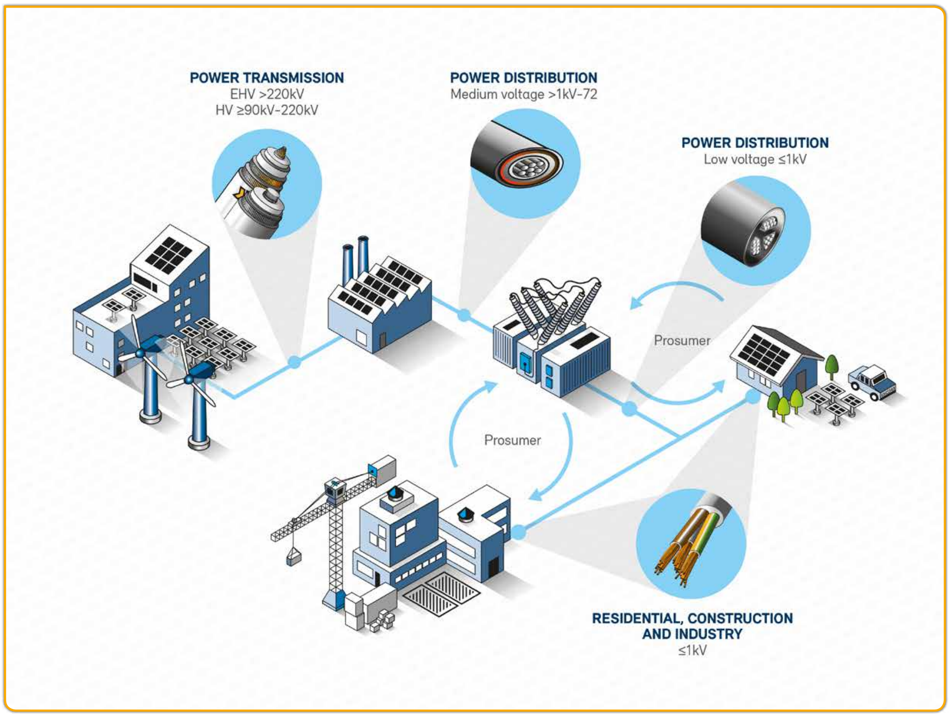
117 patents registered in 2018 shows how Borealis leads through innovation, partnering with educational and research institutions to encourage young minds to think critically and discover science. Supported by the principle of creating value through innovation, throughout the years Borealis has developed many products and solutions that have a positive impact on society.

The development of innovative products in the energy industry are a prime example of such a positive impact. The entire energy network relies on plastic materials, from power cable insulation to pipeline coating and natural gas supply. Borealis' advanced energy solutions play a key role in securing access to energy, by making power grids more robust, reliable and efficient and by allowing the transportation of renewable energy over long distances. Borealis' solar products improve the operational reliability of photovoltaic (PV) modules, reduce processing complexity, and extend the lifetime of PV panels. Business collaborates with social responsibility to ensure access to energy in areas that are in need of a secure energy supply. Innovation in the energy sector has also led to the development of products that respond to customer worries, such as an ADCA free cable solution.

One of Borealis' sustainability focus areas is the impact on the environment. For us energy and climate go hand in hand and we work tirelessly to ensure the reduction of emissions and energy consumption in the production sites and throughout the lifespan of our products. Although plastics are energy intensive in their production process, energy is saved during their use and recovery.

The circular economy

Focus on circularity enabled Borealis to take big leaps in understanding and uniquely connect itself in various points along the value chain. The circular economy is one of the pillars of Borealis' sustainability strategy, and various actions have been taken to ensure that it becomes reality. 2 acquisitions took place to advance our strategy:



Borealis solutions used in energy transmission © Borealis

- MTM Plastics in 2016 - a German plastics recycler, technology leader in difficult to recycle mixed post-consumer waste.
- Ecoplast in 2018 – an Austrian high quality post-consumer flexible packaging recycler.
- In both plants, further investments were made in the past couple of years to increase capacity and improving the quality of recycled plastic

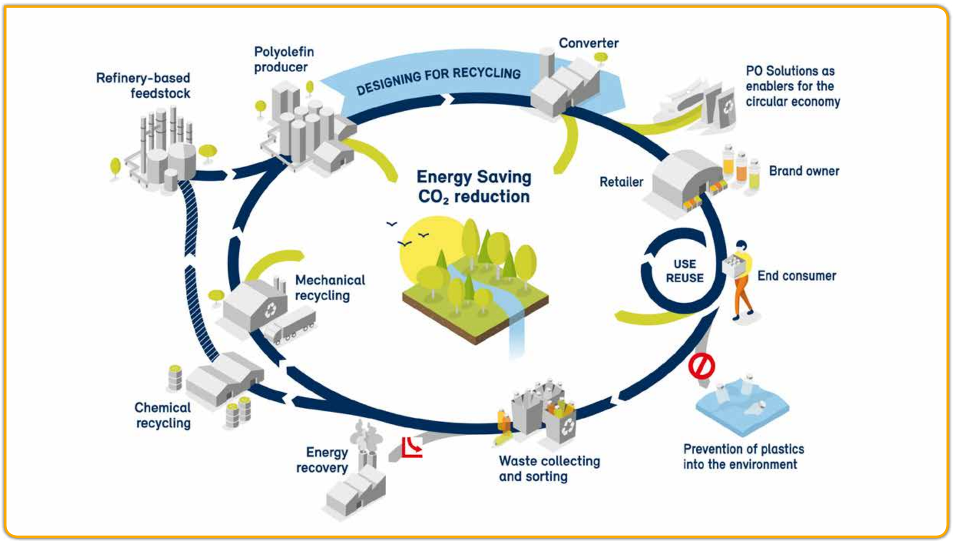
Investments addressing climate change

Borealis invests in several projects that aim to increase energy efficiency in operations and decrease CO2, including working on a long-term renewable energy strategy to expand the current renewable portfolio. Four wind turbines already supply the plant at Kallo, Belgium. In October 2018, Borealis announced an open-innovation project with QPinch, a start-up which has developed a technology that uses a chemical process to recover industrial waste heat. Together, the first commercial-scale heat recovery unit to employ this revolutionary technology will be built at an existing Borealis plant in Antwerp, Belgium.

Looking to the future, an R&D agreement has been signed with several other petrochemical companies to form the Cracker of the Future Consortium. This is a cooperation to jointly investigate how naphtha or gas steam crackers could be operated using renewable electricity instead of fossil fuels, to produce base chemicals while also significantly reducing carbon emissions.

All of these activities are complemented by the implementation of the international energy management standard ISO 50001, which will enable Borealis to cut over 360,000 metric tons of CO2 emissions annually.

Connecting the value chain for a circular economy © Borealis



"The drive towards circular economy is as a top priority for Borealis. Continuous innovation and investment in this field is a key step to attain our circular economy solution targets."
Mark Tonkens, Borealis CFO

Ecoplast recycling facility in Wildon, Austria © Borealis

Waking the giant – using procurement to finance sustainable development

Paula LAND

Officer Sustainable Economy and Procurement, ICLEI Local Governments for Sustainability

Mark HIDSON

Global Director ICLEI's Sustainable Procurement Centre

In 2017, the City of Lorient (France), a member of the local French RESECO network, tendered the electricity supply to cover an estimated 914 MWh per year. Nothing out of the ordinary, but this tender was different. It required the supplier to provide renewable electricity with "high environmental value". Which means the tender asked bidders to demonstrate that they will invest in new renewable energy generating capacity, which would otherwise not have been developed. Through electricity procurement, the City practically financed the construction of new renewable energy capacity.

Can we afford Sustainable Development?

In the face of repeated warnings from the scientific community about the risks of a climate and resource crisis, it has become clear that we need more than incremental change. We need transformation, a radical and fast transition to an economy which respects and operates within environmental boundaries, while also meeting the material needs of a growing global population.

If countries stay on track with their commitments to the Paris Agreement, most investment in carbon intense infrastructure and projects becomes obsolete. Governments can forgo this risk by investing public funds in sustainable products, services, and infrastructure that work in a low- to zero-carbon future, just like the City of Lorient has done.

One of the most direct ways which governments can incentivise the transition to a sustainable economy and society, is by supporting sustainable business models through its own spending. Public procurement – or the acquisition of goods and services by government or public sector organisations – provides a direct means for governments to engage in the market and accounts for on average 12% of the GDP of OECD countries.

Put to good use, spending power can allow democratic institutions to achieve the societal goals that they stand for: prosperity, sustainability, innovation and good jobs for all members of society. This process is commonly referred to as sustainable public procurement (SPP).

Create a level playing field and build up markets

Supportive framework conditions for encouraging innovation and sustainable products and services do not go far enough, which hinders the market introduction of innovative and sustainable products and services. The current incentives and regulations still favour standard products and solutions and therefore innovative and sustainable products and services are generally not an economically viable option.

Public buyers can act as launching customers and create a demand pull that will impact the entire supply chain. Over the 20+ years of sustainable public procurement work at ICLEI – Local Governments for Sustainability, we have witnessed time and again that sustainable procurement has a ripple effect and can become a win-win situation – it supports the creation of new jobs and markets and allows SMEs with innovative and sustainable solutions to grow. Governments buying sustainable products and services send a strong signal to the market, indicating that sustainable business models are in fact sustainable and worthy of investment.

Collaborate to form a critical mass

New sustainable technological solutions often still come with higher upfront costs, but sometimes they are simply not available, or market ready. In the current situation, it seems that the discussion is often supply-side driven. In other words, innovative and sustainable products and services are seeking a problem they can solve, rather than being designed to solve a problem that is specified by cities.

By working together, cities, central purchasing bodies, and other major public procurers can maximise their market power to create the demand-side pull that is needed. ICLEI is involved in several projects at European level, which support procurement officers and policy-makers in doing so. The Innovation Procurement Brokers strengthens the links between public buyers and SMEs and start-ups based on the public authorities' procurement needs. This approach, brokering between SMEs and public authorities, helps to overcome above mentioned barriers and is a win for both sides.

The Big Buyers Initiative is a European Commission platform for promoting collaboration between big public buyers in implementing strategic public procurement. Working together and developing a public procurement strategy, these big buyers can gear the market more effectively towards innovative solutions to their procurement needs.

Support sustainability at all levels

Procuring sustainable solutions is still associated with higher effort, despite the long-term gains for local communities on all fronts: economic, environmental, and social. It is vital that policymakers assess current policies and regulations to incentivise the procurement of sustainable solutions, which will make SPP more accessible and easy to implement. The 2014 Procurement Directives, European Directives, which include the application of social and green criteria in public procurement, are a step in this direction. They lay the legal groundwork for public buyers to apply sustainability and innovation criteria in tender processes.

There are many policy instruments for change, other than procurement, that urgently need to be streamlined toward sustainable outcomes. These include tax and subsidy policies, which often still favour a make-take-dispose model of consumption. As an example, in a recent policy paper, members of the RREUSE network – a European umbrella organisation for national and regional networks of social enterprises with reuse, repair and recycling activities – have called on policy makers to make repair services VAT exempt. In line with the European Commission's Circular Economy Action Plan, which encourages the use of economic instruments to help ensure the extension of a products lifespan, reducing VAT for repair and reuse services would lower the price of a more sustainable option, make it accessible for a majority of public and private consumers, all while creating new jobs.

Financing mechanisms of the European Commission also have an impact on how products and services are purchased. Funds such as the InvestEU Fund, which is targeted at mobilising public and private investment using an EU budget guarantee, need to prioritise sustainable, future-proof projects and should embrace meaningful sustainability benchmarks when doing so.

Other organisations have shown that this is possible. The Intesa Sanpaolo Group, a leading Italian banking group, has recently announced the launch of a five billion Euro credit facility to support businesses adopting circular business models. The selection criteria for access to the credit facility were developed in cooperation with the Ellen MacArthur Foundation, a leading think tank in the field of Circular Economy. A wide adoption of sustainability focused credit facilities like this one can create an investment landscape favourable to products and services that operate within the boundaries of our planet.

© ICLEI Europe
The 15th Procura+ Seminar 2018 hosted by the City of Oslo and ICLEI.

Procurement has the power to radically reshape markets and break with past patterns. It needs governments at all levels that make clear and ambitious commitments to use sustainable public procurement to make their societies resource efficient, low carbon and socially responsible. For a future-proof Europe, every public authority will need to do their bit in working towards a sustainable economy and society, and sustainable procurement is a vital part of this transition.

For over 20 years, ICLEI has supported public authorities in using their procurement power to achieve sustainable outcomes. The RESECO network, mentioned in the example above, is a participant of ICLEI's Procura+ network, which connects public authorities to learn about and act on sustainable public procurement. Learn more about the Procura+ network and ICLEI's work in advancing sustainable public procurement on the Sustainable Procurement Platform.

© Gerard Verschooten
Caption: EcoProcura Conference 2018, Nijmegen (the Netherlands)

Green finance to accelerate the circular economy in Europe

Jean HORNAIN

General Director of Citeo

"Citeo's ambition is to build a more sustainable world, thanks to the circular economy. Our mission is to find solutions for companies to exercise their Extended Producer Responsabilities and reduce the environmental impact of their packaging and paper. To achieve this, we are working together with all stakeholders, local authorities, recycling operators, industries, associations and citizens – on both the French and European scales".

Citeo was set up in 2017 as the result of the merger of two organisations, one responsible for the Extended Producer Responsibility scheme for household packaging (Eco-Emballages, created in 1992) and the other in charge of graphic papers (Eco-folio, created in 2007).

28,000 companies have assigned Citeo the task of identifying solutions to reduce and design for recycling their packaging and papers, as well as efficiently organising their collection, sorting and recycling. Our aim is to help our clients reach the target of 100% of packaging and papers reusable or recyclable by 2025; and to have all French consumers sort their packaging and papers on a daily basis. Consumer good companies are accelerating their move on environmental issues - especially on the use of plastic - as a core element of their strategy. To accompany this movement and totally shift our economy towards environmental sustainability, the same transformation and acceleration is necessary for international banking and financing.

Last September, one day ahead of the UN Climate Action Summit in New-York, 130 banks from 49 countries, holding more than 47 trillion dollars in assets launched **'The Principles for Responsible Banking'**. Backed by the United Nations, one-third of the global banking sector commits to "strategically align [their] business with the goals of the Paris Agreement on Climate Change and the U.N. Sustainable Development Goals" in addition to "massively scale up their contribution to the achievement of both." This commitment shows an attempt from businesses to initiate the ultimate shift towards sustainable development and circular economy on a global scale.

At the European level, effective incentives for low carbon investment can be generated by creating a solid and credible long-term vision for decarbonisation and an appropriate investment framework. This framework should recognise the complementarity between climate change and circular economy policies and must integrate a set of policies and financial instruments to close the loop of circular economy. Such a framework also needs to be based on a long-term vision and overall policy objectives, pursuing a sustainable and equitable low-carbon economy. Better integrated, harmonised and synergetic climate and energy policies need to be designed to implement such a framework, which will provide the required long-term investment signals. Circular economy policies need to be better integrated with education, R&D, innovation and industrial policies, through a cross-sectoral vision of materials' circularity. Enhanced sustainable financial solutions for low-carbon investment should be streamlined, reinforced and upscaled, both in the area of public funding and private finance, valuing public-private partnerships and blending.

Supporting sustainable finance to move forward for the circular economy

Sustainability is broadly recognised as the model for Europe's future development, and finance is an essential leverage for achieving the ambitious goals of economic prosperity, social inclusion and environmental regeneration.

The Commission's Action Plan on **Sustainable Finance** aims at enabling inclusive growth, by funding the society's long-term needs for innovation and infrastructure and accelerating the shift to a resource efficient and low-carbon economy. European efforts in this direction are supported by a series of existing international frameworks and practices, which allow companies to efficiently contribute to limit climate change and to choose appropriate financial tools to support their sustainable model.

The Commission has presented a proposal for a Regulation for **"Creating a common language for sustainable finance"** to define what is sustainable and identify areas in which sustainable investments can have the most impact. This regulation applies to financial market participants offering financial products defined as eco-sustainable investments or those with similar characteristics in the EU.

The sustainable finance framework, currently being developed by the European Commission following the adoption of an ambitious action plan, will have to incentivise sustainable economic activities, without penalising those that do not fall within the aforementioned classification. Therefore, in identifying the criteria for sustainable finance, it is necessary to:

- maintain a holistic approach, by considering socio-economic elements and a gradual approach to **guarantee an adequate low carbon transition;**
- promote zero-carbon and low-carbon technologies while considering the entire value chain and emissions reduction schemes **based on life cycle assessment** (LCA) for products and packaging;
- enhance the commitment to the **Circular Economy by promoting the internal secondary raw materials market;**
- **promote the inclusion of environmental, social and corporate governance** factors in investment decisions of institutional and private investors as well as within the credit assessment of rating agencies;
- include a green finance approach for firms within a specific status of "company with mission" - new forms of

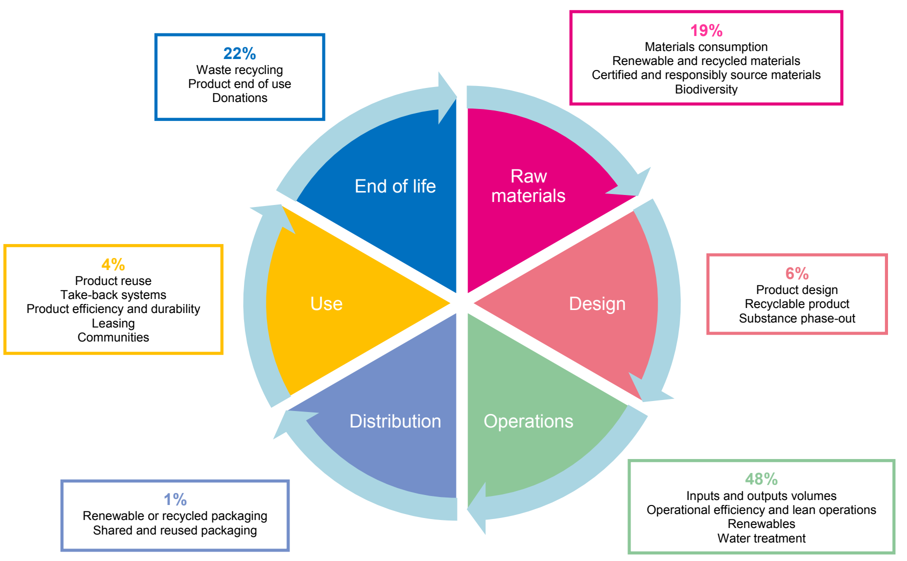
commercial (for-profit) companies that define themselves statutorily, in addition to the profit-making purpose, a social or environmental purpose; as it is the case for Extender Producer Responsibility organisation for household packaging and graphic papers, **Citeo is leading the way for the adoption of this new form with a specific environmental and social purpose;**

- **promote circular metrics for circular approaches of companies, especially for packaging** - that represented only 1% of circularity metric used by companies for 2017-2018 (source: World Business Council for Sustainable Development, 2018).

Furthermore, the current negotiations on the Multi Financial Framework (MFF) with the proposal regarding a national contribution based on the quantity of non-recycled plastic packaging waste generated in each Member State could be an economic incentive to decrease the use of non-recyclable plastics. However, such a contribution will not be exclusively linked to any expenditures or investment in existing national plastic waste management systems. In this perspective, the **EU needs to support new recycling schemes and facilities for plastics waste while promoting new alternatives to plastics**. Last July, EIB and EU's top five banks have jointly committed 10 billion euros over the next five years to financing circular economy; such funds opened new possibilities for integrating environmental issues and circular economy into public procurement. However, public purchasers still lack simplified operational tools to effectively integrate circular economy aspects into their demands.

Therefore, the development of **harmonised tools at the European level, in terms of both circular economy criteria and life cycle analysis** is highly desirable (such as minimising waste, reusing waste within the organisation, improving design for maintenance, repair or reuse, selling scrap materials to other organisations). In addition, it is necessary to introduce binding targets to achieve circular models in the coming years.

Overview of circularity metrics used by companies, 2017-2018



Source: World Business Council for Sustainable Development, 2018

Implementing a coherent taxonomy & Multi-Financial Framework with a coherent institutional architecture to close the loop of circular economy

The future taxonomy will have to incentivise sustainable economic activities, without penalising others. A strong industrial base is a prerequisite for achieving a circular economy and decarbonisation of the EU, as drivers for innovation and growth. Vulnerable industries must be protected by a **WTO-compatible carbon border mechanism** to ensure they can compete on equal terms while **promoting the circularity of materials and the competitivity between virgin and recycled material within the internal market**.

must be targeted for the circularity of plastics by facilitating circular strategies in all lifecycle phases of this material, linked with the green deal that Frans Timmermans will manage as Vice-President of the European commission.

Circular public procurement – a complementary tool to accelerate the transition to a circular economy

Public procurement makes up for a significant part of the European economy, accounting for 16% of GDP (1,800 billion euros). This economic weight must be used to develop innovations to foster the circular economy and to push economic stakeholders to change their model. The European Directive 2014/24/EU of February 26, 2014 has already

Citeo's recommendations for the next European Commission regarding green funds and taxonomy framework to close the loop of circular economy:

- *Adopting a dynamic and phased approach to measure the impact of economic activities, to stimulate circular investments and to transition from a linear to a fully circular economy;*
- *Prioritising sectors that are expected to have the highest impact on the transition toward circular economy;*
- *Establishing an EU-wide classification system to help investors identify which economic activities can be considered environmentally sustainable;*
- *Measuring the impact of investments on circular economy activities at the EU level;*
- *Promoting the circularity of materials in all lifecycle phases at the European scale, with specific funds programmes from the EIB;*
- *Promoting the competitivity between virgin and recycled material within the internal market;*
- *Supporting new recycling schemes and facilities for plastics waste while promoting new alternatives to plastics.*

Improving access to finance for circular economy projects

Janneke VAN VEEN
Policy officer,team Eco-innovation on Circular Economy, European Commission DG Research & Innovation

Pavel MISIGA
Head of Unit / Circular Economy & Biobased Systems, Directorate-General for Research and Innovation, European Commission.

The EU sees the circular economy as an opportunity for resource-poor Europe to secure access to vital resources, maintain global competitiveness and ensure a high quality environment for Europe and the world. Applying circular economy approaches can cut EU industrial emissions, reduce the production of and exposure to hazardous substances and contribute to climate change mitigation.

The transition to a circular economy requires a radical change in the way we produce and consume. Currently, we live in a linear economy in which we take resources to make products. At the end of life of products, we dispose of them, turning them into waste beyond recovery. It is a highly unsustainable way of life. This is in stark contrast with the circular economy, where products are designed for durability, upgradeability, reparability and reusability, with a view to reusing the materials from which they are made after they reach the end of their life. In the use phase, products are managed with a view to maximising their utilisation capacity and extending their useful life, thus maintaining their value for as long as possible.

With the growing number of middle class consumers worldwide, scarcity will become a fact of life. Our present way of life is unsustainable and risky. It will lead to economic instability, and far worse, will destroy our environment.

Moving from a linear economy to a circular economy in the EU is at an early stage. The activities of economic operators are influenced by the systems that have been developed and optimised for the prevailing linear production and consumption systems. Regulations, markets, investment tools and practices, including financial risk assessment, are built on linear models. This poses a problem for the emerging circular models, which have to contend with the challenge of accessing finance. As circular economy projects often apply new innovative technologies or introduce new business models, they are seen as risky and often not bankable. Financial institutions do not yet have the tools to assess the risks related to the innovative and sustainable ways of doing business.

The current proposal for a regulation on the establishment of a framework to facilitate sustainable investment (2018/0178(COD)) aims to set out uniform criteria for determining whether an economic activity is environmentally sustainable. A transition to a circular economy, waste prevention and recycling is one of the environmental objectives. Over the following months, a taxonomy for the circular economy will be developed in order to help determine to which degree an economic activity is environmentally sustainable in the decisions of investment. To ensure that this work is off to a flying start, the Expert Group on Circular Economy Finance, set up by the European Commission is already setting the basis for a circular economy taxonomy, reflecting on and using the work done by a variety of actors on circular economy taxonomy.

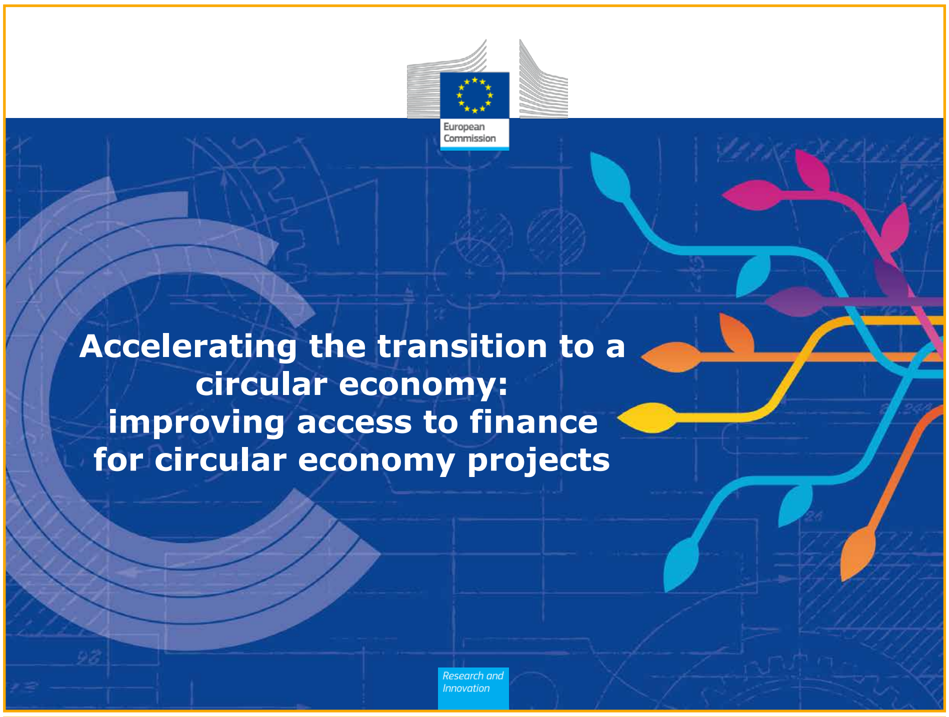
However, developing a taxonomy is not enough to ensure that more investments will be done in sustainable projects. The Expert Group on Circular Economy Finance also looks into improving capacity building of project promotors, such as SMEs. Project promoters play an important role in creating circular business. They need to succeed in correctly identifying, conceptualising and developing circular business models and projects that are both sound and bankable, and congruent with a long-term development vision and strategy for the transition to a circular economy. Awareness raising both at the level of internal organisations and external stakeholders (including the value chain network) is crucial in this context. Project promotors need to be able to advise and improve the economic viability and bankability of projects; and visualise collaborative arrangements within the supply chain.

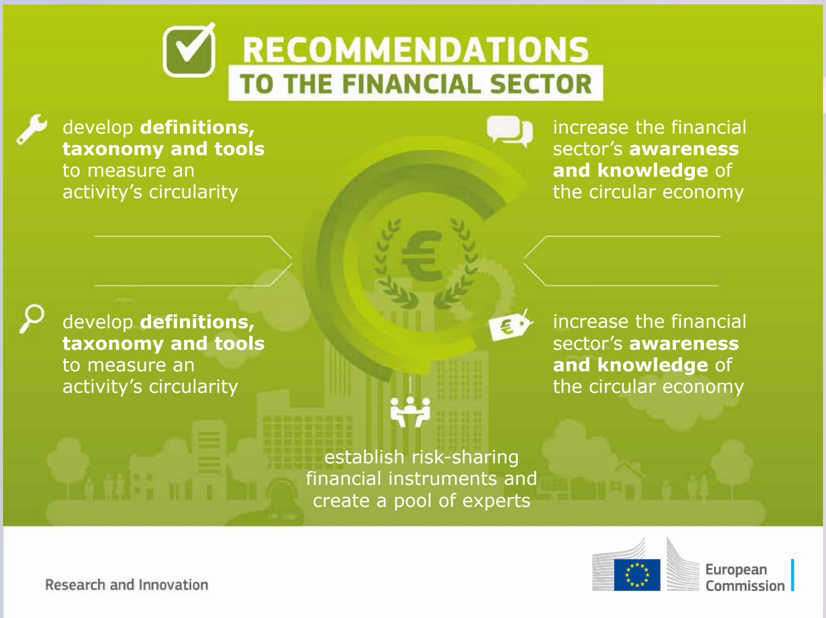
Last but not least, public authorities can provide incentives to promote circular economy models via, for example, public procurement, subsidies, taxation and funding. They have the legitimacy and means to reward positive externalities. The Expert Group on Circular Economy Finance is looking into promoting and clarifying the enabling role of public authorities.

There are many more elements essential to bring about change and several elements of the system need to change simultaneously. It is about creating a level playing field that will enable circular businesses to have a better chance of competing and succeeding in the market. It is about value-chain collaboration, as resources and materials need to stay in a constant loop. Product longevity in business models should be rewarded and the cost of negative externalities and the benefits of positive externalities need to be internalised in the costs in order to allow circular companies to compete more fairly. Better participation and change of behaviour by the end-users is a crucial part in the value chain to make products circular as it is typically in this part of the value chain where products turn into waste. Financiers need to be knowledgeable about circular models in order to correctly value the business model and its longer term economic potential. Market demand pull is part of the success of new business models as it works as a magnet for new entrants and/or current businesses to change their operational and commercial models. Governments at all levels, businesses, innovators, investors and consumers all have to play their distinct roles and contribute to the process.

European Commission, DG Research and Innovation, Accelerating the transition to a circular economy, improving access to finance for circular economy projects, March 2018

2018/0178 (COD) Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment

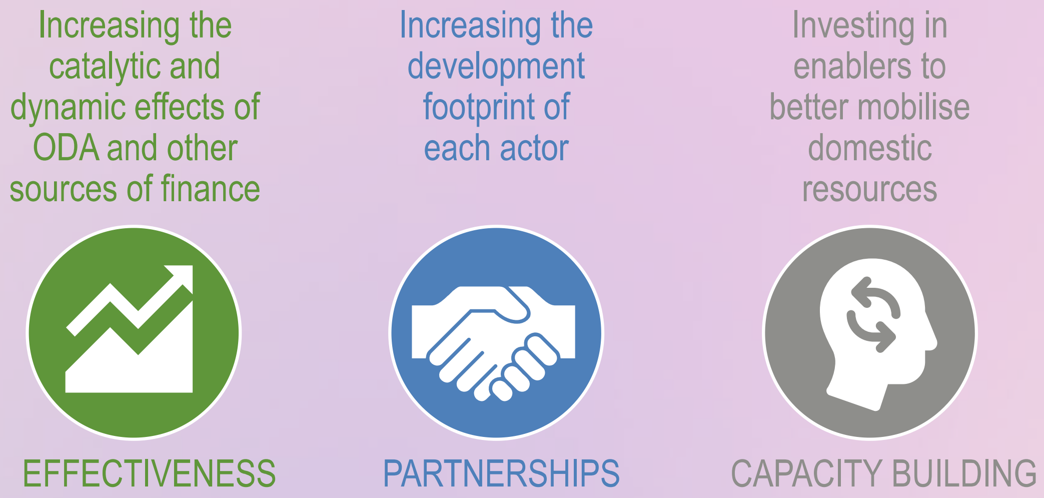



RECOMMENDATIONS
TO THE FINANCIAL SECTOR
develop definitions, taxonomy and tools to measure an activity's circularity
increase the financial sector's awareness and knowledge of the circular economy
develop definitions, taxonomy and tools to measure an activity's circularity
increase the financial sector's awareness and knowledge of the circular economy
establish risk-sharing financial instruments and create a pool of experts
Research and Innovation
European Commission


RECOMMENDATIONS
TO PROJECT PROMOTERS
identify circular sources of revenues in an organisation and update its strategy
disclose environmental and social benefits through credible, standardised methods
take part in collaborative communities of practice to identify opportunities and business partnerships
increase the capacity of organisations to conceive and implement circular economy projects through training staff
Research and Innovation
European Commission


RECOMMENDATIONS
TO POLICYMAKERS
ensure that linear risks are sufficiently evaluated and disclosed
create favourable framework conditions for circular economy projects through policy actions
develop definitions, taxonomy, and benchmarks to measure environmental performance
make public authorities act as facilitators for the circular economy
establish technical and financial advisory services to support the development of business models
prioritise financing circular economy investments and businesses through EU financial instruments
Research and Innovation
European Commission

Three opportunities to maximise the impact of finance on sustainable development

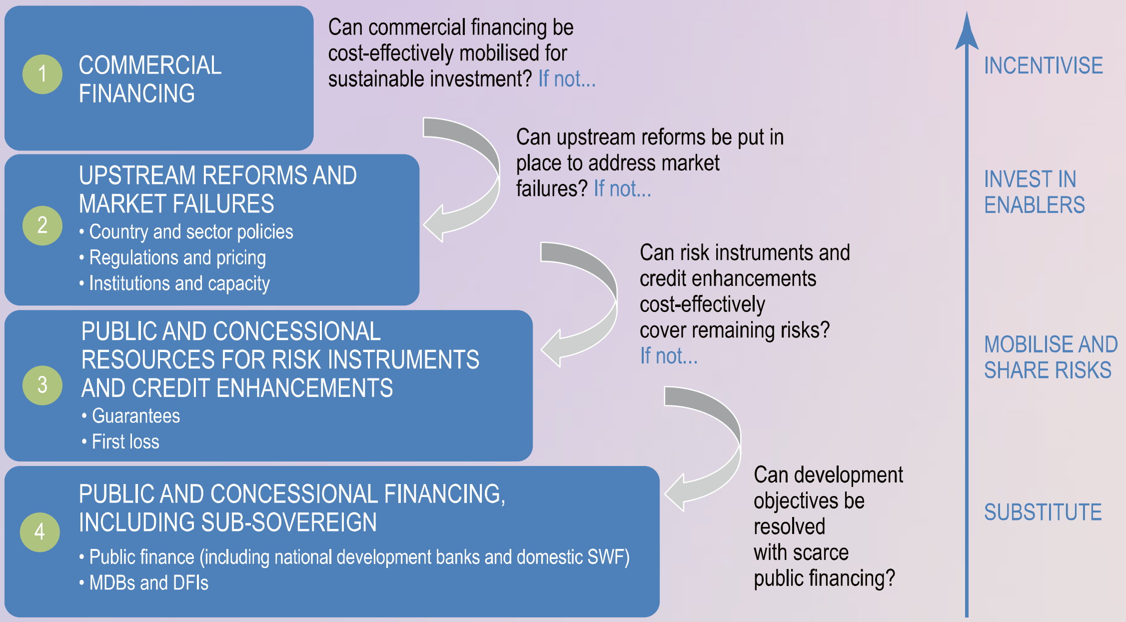


Source: Author

Seizing opportunities to increase the sustainable development footprint of FSD actors

Public and private sources of financing need to be better articulated for sustainable development. The cascade approach is one way to do this (Figure 0.10). In the two extreme situations (scenarios 1 and 4), the private and/or public sectors entirely fill demand for FSD. In between, public resources are used to create markets and move to another equilibrium through capacity building (scenario 2) or risk sharing (scenario 3).

Figure 0.10. The cascade approach to articulating various sources of finance for sustainable development



Source: Based on (World Bank Group, 2018[17]), *Approach Paper 'Creating Markets for Sustainable Growth and Development" 2018*, https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ap-creating-markets.pdf.

The EU Chemicals Industry: a key sector for a sustainable Europe

Marco MENSINK

Director General of the European Chemical Industry Council (Cefic)

The EU chemical industry's ambition is to lead the transition for our industry globally by offering sustainable European solutions to global challenges, such as climate change, energy security and responsible use of natural resources.

Through innovative products and breakthrough technologies, the chemical industry is contributing in the United Nations 2030 Sustainable Development Goals' Agenda, the Paris Agreement on climate change and major EU policy objectives such as the Circular Economy and Clean Energy Package.

As one of the largest and most diversified industries in the world, we supply virtually all sectors of the economy. Our unique position makes us a key player in helping other sectors become more energy- and resource-efficient.

According to our estimates, the next 10 years will be crucial for scaling up cost effective low-carbon and circular economy technologies. This is why it is crucial to define properly which economic activities can be considered environmentally sustainable and this debate will have a considerable impact on investments into low-carbon and circular economy technologies.

To define an activity as environmentally sustainable it is important to know how industrial value chains work. Having this understanding will help ensure that the production of the building blocks of environmentally beneficial products and activities also fall under "sustainable investments".

The chemical supply chain is a perfect example to illustrate this idea.

Chemical substances are used in a wide range of low-carbon solutions and technologies. Take, for example, insulations panels and coatings which reduce energy consumption in buildings. Innovative composite materials which make cars and planes lighter and more fuel efficient. Electric batteries which extends the range of an electric vehicle without needing to recharge. Chemicals are also essential for the EU's circular economy. We have already developed processes that can convert various types of waste into fuel or new chemicals. Some chemical companies also found a way to capture CO_2 to use it as feedstock for their production processes. This is just a small sample of the technologies that we are working on and we continue our quest for more sustainable solutions through our ambitious research and development programmes.

The contribution of the chemical industry has also been recognized by the recent Technical Expert Group on Taxonomy report, where four segments (inorganic, organic, fertilizer-nitrogen compounds, plastics) have been listed among the 67 activities that can make a substantial contribution to climate change mitigation.

In addition to environmental considerations, we believe that it is equally important to consider social and economic aspects of any activity in the context of the Taxonomy Proposal. This includes adequate and safe working conditions, decent wages, fair and long-term job contracts, cooperation with trade unions, life-long learning, new jobs creation and investments in research and innovation.

Finally, it is important to recognize the sustainable transition is a dynamic journey, and as such, will develop over time. In this regard, Cefic suggests introducing additional, more gradual, thresholds and metrics that can accommodate such a transition to ensure all viable technologies and innovations with the sustainability potential are being considered and included in the Taxonomy.

ESG Insights Can Help Drive Sustainable Growth

David Henry DOYLE

Head of Government Affairs & Public Policy, EMEA, S&P Global

Convictions Matter. At S&P Global, our purpose is to harness the power of essential data and insights so that people can make decisions with conviction. We do this through our credit ratings, benchmarks, data, and analytics. Providing essential data demands that we go beyond the balance sheet to examine how non-financial factors and climate risk affect both future performance and the environment.

To facilitate long term, sustainable growth, we believe it is imperative for financial markets to analyse the environmental, social, and governance (ESG) performance of companies and examine how activity in the markets affects the future of the world in which we live.

S&P Global supports the EU's Action Plan in this space. We believe in leading this debate as a member of the Taskforce on Climate-related Financial Disclosure, the EU's High Level Expert Group on Sustainable Finance, and as the Chair of the American Chamber of Commerce to the EU's Sustainable Finance Taskforce.

Overlaying and integrating meaningful ESG insights to complement traditional market data can help investors uncover the opportunities and risks associated with climate change. As market participants and investors increasingly adopt an ESG and climate risk lens the information they need to drive their decisions must also evolve. Financial information providers are helping to power this necessary paradigm shift towards a more sustainable economy.

For over 150 years, our analysts have measured the markets and the effect of people's decisions and actions. In this time, we have witnessed spectacular change. We have seen societies, economies, and ecosystems grapple with the challenges of managing the social, economic, and environmental impact of human endeavour.

Of course, our role goes beyond acting as witnesses to these changes. Our products aim to capture both the risks and opportunities that societies face so that they can be understood and addressed. Increasingly, our portfolio of products includes an ESG lens, adding layers of insight to help our customers create resilient strategies to maximize financial performance, build a sustainable future, and meet the expectations of an evolving market.

How exactly are we doing this?

Around the world, our ratings, indices, and data help companies, governments, and individuals make decisions with conviction. From comprehensive company-level ESG metrics to vital data and market benchmarks, we are building and delivering the analytical tools, standards, and data to meet new global demands.

From the credit perspective, ESG risks, where material and visible, can affect the capacity of an entity to meet its financial commitments in many ways. We incorporate ESG factors into our rating methodology, enabling our analysts to factor potential consequences—both qualitative and financial—into their credit analysis. We have also taken steps to make it clear how we incorporate ESG into our credit ratings by ensuring that when ESG factors have an impact on credit quality we explain why and how.

Tackling the challenge also requires innovation. We are developing new data sets and tools that enable investors to manage the transition. Our major focus areas on sustainability currently include explaining and increasing the integration of relevant ESG information in our established products across our divisions as well as developing new tools and services to help investors to make informed decisions.

This year S&P Global Ratings launched its new ESG Evaluation. This is a cross-sector, relative analysis of an entity's capacity to operate successfully in the future and is grounded in how ESG factors could affect stakeholders and potentially lead to a material direct or indirect financial impact on the entity. A separate Green Evaluation provides investors with a comprehensive picture of a security's green contribution as well as the transaction's governance and transparency.

S&P Dow Jones Indices has been a pioneer in ESG indexing for nearly 20 years, starting with the 1999 launch of the Dow Jones Sustainability World Index, the first global sustainability benchmark. We have more than 50 headline ESG indices, spanning asset classes and themes to meet a wide variety of risk/return and ESG objectives.

More recently we have begun to publish carbon metrics on the majority of our equity indices as standard. Our latest innovation was the launch of a suite of ESG indices that provide performance profiles in line with global headline indices, including the S&P 500. These allow investors to balance their values with return profiles consistent with mainstream benchmarks.

S&P's in-house ESG data provider, Trucost, has also developed a number of cutting edge solutions to help investors uncover previously hidden ESG insights. One example of this is Trucost's Transition Pathway Assessment, which enables investors to track their portfolios against the goal of limiting global warming to 2°C above pre-industrial levels. This allows companies and investors to better align their decisions to a transition strategy.

We know markets can have a transformative effect on society and can build a better world. We are committed to continuing to innovate and expand our ESG capabilities in this rapidly evolving space well into the future. Our conviction on ESG is this: we believe in it, we practice its principles, and we are continuously evolving our products to include it. For us, this is a matter of conviction.

Why we need a shaded taxonomy from green to brown and in between

Orith AZOULAY
Global Head of Green & Sustainable Finance – Natixis

"Favouring or penalizing specific assets on the basis of environmental criteria was so far not possible ***as objective criteria had not been defined. [...] As soon as such a taxonomy is agreed, the ECB will need to assess whether and how it can apply it to its Assets Purchasing Programs (APP)****."*

Ms. Christine Lagarde's assertion during her hearing by the European Parliament for nomination at the European Central Bank[1] hints on the extent to which the EU Taxonomy of sustainable economic activities might have tremendous effects on capital markets.

The proposed criteria for 67 economic activities by the Technical Expert Group on Sustainable Finance (TEG) offered a priceless tool, unprecedented by its granularity. This classification – and subsequent metrics and thresholds – is already a reference used in our daily banking activities.

The TEG not only proposed criteria for pure green activities, but also for those that "*contribute to a transition to a net-zero emissions economy in 2050 but are not currently close to a net-zero carbon emission level*". Cement or steel industries are for instance in the scope. Overall, thresholds proposed are science-based and extrapolated either from the 2050 climate neutrality goal or from the top 10% performers' level of the EU-ETS Benchmark. As a result, they are naturally stringent, providing a common language on what is *unambiguously* green ("dark green"). Nevertheless, setting the bar so high – and it was needed – without providing intermediary levels may have unintended consequences. The Taxonomy excludes *de facto* the bulk of companies and existing facilities within high emitting sectors. It is a challenge because this is where the lion's share of GHG emissions abatement potential lies. It is crucial to engage all sectors and players on decarbonisation, regardless of their initial position, by chartering transition pathways. Not being "dark green" does not necessarily mean being brown. Meanwhile, when looking thoroughly at some green activities – biomass, biofuels or hydro dams – life cycle analysis calls for shades of green. Moreover, we believe that a brown taxonomy is also necessary and that we cannot wait until December 2021. By that time, the Commission is expected to conduct "*an impact assessment on revising the taxonomy regulation to define criteria for when and how an economic activity has a significant negative impact on sustainability*"[2]. Transition requires shades; it is neither binary nor linear. Managing transitional risks requires to gradually and orderly exit from highly emissive activities. It also urges "hard-to-abate" irreplaceable industries deep decarbonization through game-changing efficiency gains (e.g. new processes, equipments and feedstock) but also shifting business models through diversification and at last offsetting initiatives (e.g. afforestation). A shaded brown taxonomy would enable the signals to decarbonize our economy at the lowest economic and social cost, to shift financing portfolios and to avoid the pile-up of stranded assets.

Shades would allow many uses, for instance risk-weighted adjustments or differentiated collateral requirements from central banks. Among bold advocates of a brown taxonomy are the Network for Greening the Financial System (NGFS) or the European Insurance and Occupational Pensions Authority (EIOPA). In France, the ACPR stated[3] that "*Regulators must quickly agree on a robust, clear, detailed and consensual taxonomy of "green" and "brown" assets*" and that "*if the relative performance of "green" and "non-green" assets, as defined by a commonly agreed taxonomy, implied an intrinsic risk difference, the prudential framework could be adjusted.*"

As the European Parliament is greening with society, we can hope for the previously dismissed regulation to extend the Taxonomy to non-green activities to be reconsidered. It is not only about defining activities that are highly emissions intensive or detrimental to the environment but also defining all the shades in between.

The experience of developing a capital allocation tool relying upon a shaded taxonomy

To gradually align its balance sheet with the **Paris Agreement**, Natixis has designed an internal mechanism that links analytical capital allocation to the degree of sustainability of each financing. This Green Weighting Factor (GWF) applies to all business lines of the corporate investment bank worldwide. It aims to incentivize the origination of financings supporting **transition towards a low-carbon economy** and penalize financings, which incur climate and environmental risks. It classifies each financing on a **7-level color scale** depending on the degree of impact of each financing on the environment and climate, ranging **from dark brown to dark green** according to a proprietary methodology.

As an example, under GWF methodology, gas-fired power generation final scores **range from medium brown to medium green** depending on technologies' GHG intensity, whether it supports renewable integration by compensating their intermittency, or whether it is equipped with carbon capture sequestration technologies. Our experience with the GWF reveals **that a shaded taxonomy from brown to green is of the utmost importance to transition balance sheets**. Intermediary levels help to determine where it is necessary to invest in, adjust, transform or divest from. The brown gives us "the stick", and the shades enable some "carrots" within brown sectors, where differentiation between companies and technologies is crucial.

1 European Parliament – Committee on Economic and Monetary Affairs (29.8.2019)

2 European Parliament Legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment.

3 ACPR (2019) "French banking groups facing climate-change related risks"

Engaging investors to realise sustainable finance goals

Carey EVANS
Director, Public Policy, BlackRock

The EU has set out ambitious goals of growing the allocation of capital towards sustainable investment.

Asset managers play an important role in facilitating the investment objectives of a wide range of end-investors, from retail savers to larger institutional investors such as insurance companies or pension funds. It is these end-investors who hold the key: it is they who make ultimate capital allocation decisions and whose decisions will determine the extent to which and how, their capital supports the EU's sustainable investment aims. Creating a framework that encourages more investors to engage with sustainable finance, and more broadly in capital markets, will be critical to realising the EU's aims.

Every investor is unique; with different needs, constraints and objectives. These characteristics lead investors to different risk tolerances, investment horizons and asset allocations with varying exposures to a range of asset classes and geographical focus. Defining an overarching approach to sustainability that is, or can be, entirely uniform across different investors and their diverse range of investments is a complex task.

We do see notably increasing appetite amongst many European investors – both retail and institutional – to better understand sustainability through the lens of their long-term investment objectives, and correspondingly for many, to grow their allocation to sustainable investment strategies. European investors are already very much leading the conversation globally. This momentum should be fostered and built upon.

The various legislative and regulatory initiatives of the Sustainable Finance Action Plan will be important in further accelerating this demand. But they will not be enough to realise the ambitious aims of the Action Plan.

In parallel to initiatives around sustainable investment, Europe must undertake a concerted effort to enable and encourage greater uptake of investment, full stop.

Since the articulation of the Capital Markets Union (CMU) initiative, most European savers' preference for cash savings over investment has remained largely unchanged. The regulatory framework around how (in particular) retail investors engage with investment advisors, service providers and products is badly in need of an update to stay in line with end-investors' needs.

A new approach will need to bring coherence to the existing framework, which is in many ways an accumulation of a siloed set of rules which – despite each serving a narrow 'investor protection' aim – don't fit well together. It will need to achieve a balance that also results in greater 'investor inclusion'.

Sustainability will play an important role in building investment solutions that appeal to new generations of savers and helping to bring a greater sense of purpose to current savers. But the framework that gives them access to savings solutions must equally be able to support the expectations of investor take-up.

Beyond this, getting the new policy framework around sustainable finance 'right' should be a key focus in the coming months. Newly-agreed rules creating investor disclosure obligations and adding new expectations of financial advisors when it comes to sustainability need to be implemented and applied in a way that enhances end-investor experience, not further complicates it.

We believe that to provide a solid policy foundation for the growth of the market, the desired result should be an enhanced suite of investment approaches and products to meet a wide range of investor demand.

Today, investors choose a variety of ways to express their sustainability preferences in their investment strategy: from simply excluding particular companies or sectors, to strategies that give extra consideration to various ESG factors, theme-oriented investment approaches concentrated on particular sectors or investments that seek to make a measurable impact on a particular sustainability objective.

Far from being a hinderance to growing the market, a panoply of choice when it comes to sustainable investment is a good thing. It increases the chance that there will be a solution that can match the needs of a particular investor. Approaches that would seek to define a single, universal definition of sustainability at the investment level could result in less choice, and as a result, less growth and innovation in the market moving forward.

Addressing the potential that market participants may 'greenwash' sustainable products is an important aim of the various policy measures – one that is crucial to ensure investor confidence moving forward. This can be done in a way that preserves a wide variety of possible interpretation.

The proposed taxonomy framework is likely to create demand for new investment possibilities linked to funding identified activities, but for many existing investment products, it is unlikely to be a framework that makes it easier to explain a range of sustainable investment strategies to investors. The recently-agreed Disclosure Regulation is likely to present a better base to ensure investors have the right information to make more informed sustainable investment choices and diminish the threat of greenwashing by letting them choose products that align to their sustainability preferences.

Measures that establish an attractive set of sustainable investment solutions that can appeal to a wide range of investors, set against a broader framework of enhanced investor inclusion and access is the formula to realise the EU's ambitious goals around growing Europe's existing leadership in sustainable finance.

Future proofing finance for Circular Economy and Climate

Jan RAES

Works as a sustainability advisor at ABN AMRO bank, headquartered in Amsterdam in the Netherlands.

Interview by Laurent Ulmann

Q: Why are innovation and sustainability important to you?

A: Just before his death, my favorite author made an apology to future generations: " Dear future generations: Please accept our apologies. We were rolling drunk on petroleum." As a professional, I do not wish to make such an apology to future generations at the end of my life.

Q: What is the purpose of ABN AMRO bank and how does your job relate to this purpose?

A: The purpose of ABN AMRO Bank is: "Banking for better, for generations to come." I support our purpose through my activities as a sustainability advisor. At ABN AMRO we work on three sustainability themes: climate, circular economy and social impact.

Q: Why are climate, circular economy and social impact most important to your financial institution's sustainability strategy?

A: A changing climate is a global concern, because of the physical and financial effects it has on our lives. A circular economy lowers resource consumption, which in turn can contribute to slowing down climate change and resource depletion.

Q: Where does social impact come in?

A: Banking is about people. With half a million commercial clients, more than 5 million retail banking customers, we impact the lives of many people on a daily basis. The link to a positive impact on humans, is crucial. So if the activities of customers of the bank or the bank itself have a negative social impact, this will need to be addressed to turn it into a positive or neutral impact.

Q: What is ABN AMRO's circular economy ambition?

A: Besides ambitions on sustainable investing, energy transition, sustainable real estate and housing (mission 2030), ABN AMRO launched a circular economy ambition to achieve by 2020, composed of three parts:

- 1 billion euros finance for circular economy deals
- 100 deals
- And as a result 1 million tonnes CO_2 savings potential[1]

Q: Is this easy to achieve?

A: This is an audacious ambition for any bank, because the global economy is largely linear. Our economies extract resources, use them, and then dispose of them. Take, make, waste. Waste is a worldwide phenomenon and it is hard for banks to be more circular than the economy itself. The goal is to use less material resources, resulting in less waste, less greenhouse gas emissions and less polluted water.

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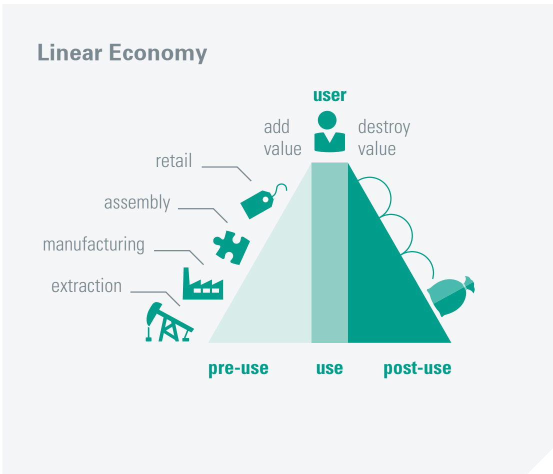
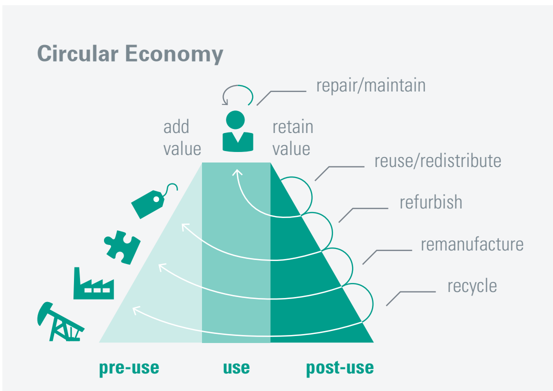
1 Co_2 savings potential calculated on a 5 year horizon.





Source: Based on Circle Economy, SFL, Nuovalente, TU Delft, Het Groene Brein (2016). Master circular business with the value hill

Q: In 2018, ABN AMRO launched the Circular Economy Finance Guidelines[2], what happened after?

A: The Circular Economy Finance Guidelines were co-authored by ABN AMRO, Rabobank and ING Bank. The guidelines inspired international banks and legislators around the world by describing circular business models. The guidelines help financial institutions to recognize circular economy as a bankable and investable category. As a next step we calculated the impacts of a circular business model compared to a linear business model.

Q: Can you tell us how companies can compare linear and circular business activity?

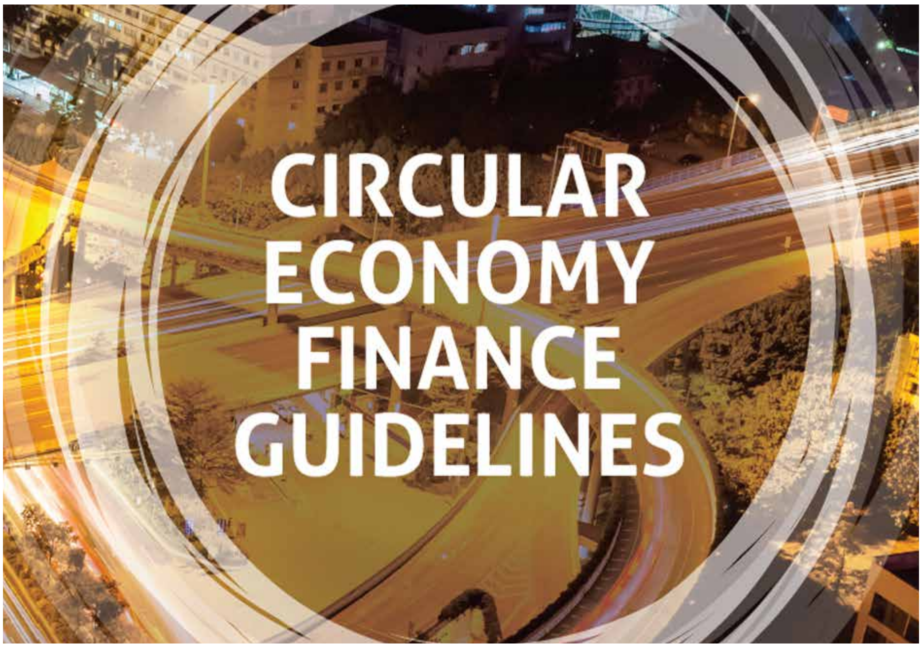
A: There are 7 steps to calculate the impacts of circular deals versus the impact of linear deals.

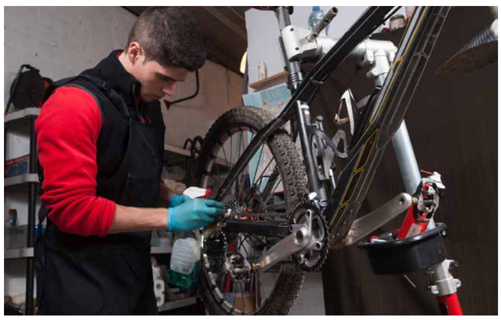
1. The first step is to identify the circular business model, based on the categories in the Circular Economy Finance Guidelines.
2. The second step is to identify what circular activity the money is really spent on. Circular deals can be real estate transformation, mobility sharing solutions, recovery of building materials, reusable packaging materials, product re-design, etc.
3. The third step is to determine a measurement unit to express the difference between linear and circular. Tonnes or cubic meters of material or inputs recovered, etc.
4. The fourth step is that the linear base case is defined. The linear case of a building will be built with new stone, new glass, new wood, new metals, new concrete. These are referred to as "virgin" materials. For the circular case, we speak about circular inputs or material recovery.
5. The fifth step is to collect data on the linear and circular base cases. The Life Cycle Assessment or LCA method delivers the most scientific data, but is also the most time consuming solution. A faster alternative is to gather proxy data, where LCA data is lacking.
6. The sixth step is to calculate the quantitative difference between the circular and linear base case. For example a circular building contains 400 tonnes of reused materials, compared to the linear building that contains 0 tonnes.
7. The seventh step calculates the avoided Greenhouse gas emissions by applying a carbon emission factor. In our example the carbon emissions avoided on 400 tonnes of reused building materials need to be corrected for emissions from handling and storage of circular inputs.

Q: What does the future hold for circular economy impact measurement?

A: ABN AMRO will publish a more elaborate report on linear versus circular deals. The results can feed into the integrated P&L of ABN AMRO for value creation calculations of natural, manufactured and human capital. Where carbon accounting is receiving most of the attention now, other non financial accounting metrics on circular economy and especially the link to biodiversity and human lives hold the future.

2 https://www.abnamro.com/nl/images/Documents/040_Duurzaamheid/Publications/ABN_AMRO_Circular_Economy_Finance_Guidelines_2018.pdf





FINANCE CAN MAKE THE DIFFERENCE

The EU has committed to three ambitious climate and energy targets by 2030:

40% — Minimum **40%** cut in greenhouse gas emissions compared to 1990 levels

32% — At least a **32%** share of renewables in final energy consumption

32.5% — At least **32.5%** energy savings compared with the business-as-usual scenario

To make the EU climate-neutral by 2050, Europe needs between **€175** to **€290** billion in additional yearly investment in the next decades.

WHY DO WE NEED TO ACT TOGETHER?

Transitioning to a climate-neutral economy requires global solutions. It is therefore time to align these various initiatives across jurisdictions to:

- scale up sustainable finance to plug the current investment gap
- ensure compatible markets for sustainable financial assets across borders and avoid fragmentation
- achieve economies of scale by exploring synergies

BENEFITS FOR INVESTORS

greater choice of projects and green finance products to satisfy the fast growing demand

BENEFITS FOR BUSINESSES

new sources of funding through global capital markets and the financial sector worldwide

EU SUSTAINABILITY POLICIES

CLIMATE AND ENERGY

- 2030 Climate and Energy Framework
- Energy Union Package
- EU Strategy on Adaptation to Climate Change

ENVIRONMENT

- Natural Capital Management
  - Air
  - Water
  - Land
  - Biodiversity
- Circular Economy

INVESTMENT AND GROWTH

- Investment Plan for Europe (Fund for Strategic Investment (EFSI); InvestEU; EU cohesion policy funds)
- External investment plan
- Horizon 2020

SUSTAINABLE FINANCE

- Sustainable Finance within the Capital Markets Union

- Long-term strategy to reach carbon neutrality by 2050
- EU Environmental Action Plan

WHAT IS THE EU DOING?

The EU is acting: 3 pieces of legislation presented in May 2018 will incentivise and channel private sector investment into green and sustainable development. This follows a 10-point Action Plan for sustainable finance.

1 A UNIFIED EU GREEN CLASSIFICATION SYSTEM – 'TAXONOMY'

to determine if an economic activity is environmentally sustainable based on harmonised EU criteria. The European Parliament adopted its report in March 2019. In June 2019, the Technical Expert Group on Sustainable Finance published the first classification system – or taxonomy – for environmentally-sustainable economic activities. This aims to provide guidance for policy makers, industry and investors on how best to support and invest in economic activities that contribute to achieving a climate neutral economy.

To qualify as green, an investment would need to contribute to at least one of these **six objectives**:

CLIMATE CHANGE MITIGATION	CLIMATE CHANGE ADAPTATION	SUSTAINABLE USE OF WATER AND MARINE RESOURCES
CIRCULAR ECONOMY	POLLUTION PREVENTION	HEALTHY ECOSYSTEM

2 SUSTAINABILITY-RELATED DISCLOSURES

Enhanced disclosures by manufacturers and distributors of financial products to end-investors. Financial market participants will have to disclose to their clients the impact of sustainability on financial returns and the impact of their investment decision on sustainability. The European Parliament and the Council reached a political agreement in March 2019.

3 CLIMATE BENCHMARKS AND BENCHMARKS' ESG DISCLOSURES

Two new categories of climate benchmarks to orient the choice of investors who wish to adopt a climate-conscious investment strategy. Political agreement reached by European Parliament and Council in February 2019. The TEG published an interim report on climate benchmarks and benchmark's environmental, social and governance (ESG) disclosures, and launched call for feedback in June 2019.

OTHER INITIATIVES

STRENGHTENING INTERNATIONAL COOPERATION

On-going discussions with third countries to scale up sustainable finance globally.

EU STANDARDS AND LABELS

Creating EU standards and labels for green financial products. The Technical Expert Group on Sustainable finance published a report on an EU Green Bond Standard in June 2019. The European Commission is currently developing EU Ecolabel criteria for financial products.

PREFERENCES ON SUSTAINABILITY

Requiring financial firms to take into account their clients' preferences on sustainability when giving investment advice or managing their assets.

ENHANCED TRANSPARENCY IN CORPORATE REPORTING

In June 2019 the European Commission adopted new guidelines for companies on how to report climate-related information, consistent with the Non-Financial Reporting Directive and integrating the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosure.

INTEGRATING SUSTAINABILITY

The European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority have already delivered their advice to the Commission on sustainability risk integration in financial decision-making, and on the need for a change in banks and insurers' prudential treatment of assets with a favourable environmental and social impact (in addition to sustainability-related actions on their own initiative).

ENABLE PEOPLE TO SHAPE A SAFER FUTURE BY CARING FOR THEIR LIVES AND DREAMS.

GENERALI