Ms. Mairead McGuinness
European Commissioner for
Financial Services, Financial Stability
and Capital Markets Union
European Commission
Rue de la Loi 200
B – 1049 Brussels

Dear Commissioner McGuinness,

In response to the *Commission request to the EU Platform on sustainable finance to provide advice on finance transition* this alliance of civil society stakeholders present their advice and responses to the outlined six questions to the European Commission. We greatly appreciate the important precedent for cooperation and interaction with stakeholders, also those outside the Sustainable Finance Platform (SPF), set by the European Commission in the ongoing work, lastly through Webinar Series completed on the 24th and 26th of February. Building on the European Commission's stated dedication to cooperation with stakeholders and experts to ensure a scientifically based Sustainable Finance Taxonomy enabling a much-needed shift in capital toward sustainable economic activities, we trust our comments and expert advice will be taken into consideration in the finalization of the Delegated Acts and wider Sustainable Finance Framework.

Recommendation 1: *The European Commission should seek to mend current information gaps and misconceptions on lacking opportunities for transition finance within the Sustainable Finance Taxonomy*

Recommendation 2: *The European Commission must recognize the importance of predictability and clearly set sunset clauses and/or trajectories for future development of criteria. Ensuring predictability will in and off itself attract additional capital*

Recommendation 3: *The European Commission must prevent increased opportunities for greenwashing through the introduction of narrative reporting of lofty future plans for transition not based in actual performance*

Recommendation 4: *The European Commission must clearly ensure the scientific basis of the Taxonomy, and move away from efforts to reinject subjectivity and normative assessments into the Taxonomy – endangering the project as a whole*

Recommendation 5: *The European Commission must ensure an efficient and science-based process to identify additional sectors and their contribution to sustainability in line with the Sustainable Finance Taxonomy*

Recommendation 6: *The European Commission must ensure consistent and harmonized usage of terms outlined in the Taxonomy, reducing confusion and unpredictability in differentiating usage of the terms across EU legislation*

Question 1: *Can the current EU Taxonomy framework be used to provide greater support for attracting capital for the transition of companies towards «sustainable» activities, including in ways not yet proposed by the Commission and if so in which ways?*

Question 5: *What further avenues could be explored to enable financing the transition through development of the taxonomy framework and beyond?*

Question 6: *Can we clearly address the concerns that the taxonomy will be used to prevent financing of transitional activities, while at the same time ensuring that we are not facilitating "greenwashing"?*

Questions 1, 5 and 6 address the same concern – and imply that the Taxonomy does not allow ample room for transition finance. This is not the case. The Taxonomy, as a classification tool, does not set any requirements for investor behavior and thus introduces no prevention of "financing of transitional activities". Additionally, the Taxonomy will greatly contribute to attracting capital towards the green transition by establishing a clear common language on what is deemed sustainable. As already established by the European Commission: "There is a need to give reassurance that the Taxonomy will not block access to finance for enterprises and sectors in transition towards our climate targets". Question 1 together with questions 2, 5 and 6, rather contributes to feed into the misconceptions at play, as opposed to fulfilling the stated aim of alleviating them and mending the current information gap.

Furthermore, the TEG recommendations, by suggesting the thresholds will require updating over time are already creating a transitionary period and predictable process. However, the notion of the transition in the taxonomy should take as the starting point the most advanced technologies we have available at the present moments, keeping a sharp focus on the scarcity of our carbon budget and the need to therefore drastically cut emissions, going straight to zero (or as close to zero as possible) emissions.

For the Taxonomy to reach its full potential, predictability is key. Investor risks associated with sustainable investments must be addressed and reduced with a clear science-based Taxonomy and criteria. By setting sunset clauses, and a clear trajectory for development and revision of criteria, uncertainty of lost investments due to unpredictability in what is deemed sustainable in the future will be removed. This is not the case in the currently proposed Delegated Acts for climate change mitigation and adaptation. The Substantial Contribution (SC) criteria of 100g CO_2/kWh has no set predictable trajectory for revision, although the Technical Expert Group's (TEG) initial recommendation set a clear trajectory to net-zero by 2050. Similarly the Do-No-Significant-Harm (DNSH) criteria of 270g CO_2/kWh is not clearly set out in reference to a benchmark or performance standard, and as evident under question 4 the usage of the principle differ across EU legislation. The Taxonomy's long-term relevance and ability to be in line with performance improvements in the market is not ensured through the current proposal.

Alignment with the Taxonomy is and should remain based on performance. Introducing narrative reporting or "transition stories" as potentially eligible for Taxonomy alignment introduces not only subjectivity into the Taxonomy framework, it would be a feeding-ground for greenwashing. The very market failures and lack of harmonization sought to be addressed by the European Commission through the introduction of the Taxonomy would be reintroduced if "transition stories" are made eligible as opposed to actual performance. Taxonomy alignment is earned based on performance, a classification tool for sustainable investments based in science. It should remain a clear benchmark and not be watered down or amended as a result of political concerns. The Taxonomy is not normative, and only through a clear benchmark for environmental performance can we communicate the European Union's commitment to the transition and incentivize capital to this end. This point is addressed further under question 2. Likewise, introduction of estimates or proxies in the place of actual performance will severely damage the Taxonomy, its credibility and market uptake.

***Question 2:** Can the EU Taxonomy framework support finance for companies undertaking activities that do not yet meet, or may be unable to meet, the substantial contribution criteria? And how can this be done?*

The phrasing of this question again contribute to support rather than alleviate the notion that the Taxonomy limit transition finance – as previously stated the very opposite is the case. The Taxonomy already set clear provisions for "transitional activities" and under what circumstances and criteria they can be viewed as sustainable – based in science. The dynamic nature of the Taxonomy as well as future plans to expand sectors and activities covered will ensure long-term relevance of the Taxonomy – but as previously stated this will only result in increased capital towards the transition if predictability and a clear dedication to a science-based taxonomy is ensured.

There is no evidence to support claims that the Taxonomy will reduce certain companies' or industries' access to finance in the short-term. As outlined by Eurosif the short-term implication of the Taxonomy are limited. Stating that the transparency generated by the Taxonomy "will gradually inform investors' and companies investment decisions, allocating capital to investments aligned with the carbon neutrality objectives. It will also help companies and investors understand their exposure to potential 'stranded assets'". For the Taxonomy to send the correct long-term investment signal to companies and investors, it must be a scientifically based classification tool for sustainable performance.

Building on recommendation 1, the European Commission must clearly address and debunk myths and misconceptions related to Taxonomy and transition finance. The Taxonomy already provide support to finance for sectors and companies not currently, or will likely ever be, able to reach the sustainability contribution criteria. All green/sustainable investments (Capex) are eligible. The European Commission must make clear, acknowledge and communicate what transition finance is and what it is not. Project and asset-based funding such as green bonds, loans, leasing etc, are available to all who want to transition. There is no restriction through the Taxonomy to transition finance. This is also the case for sectors non-compliant with the Taxonomy (solid fossil fuels) transitioning, i.e. coal based power companies diversifying into wind or solar. Under no circumstances should it be considered to create additional categories within the Taxonomy for investments not in line with scientific metrics of sustainable performance – this is a feeding ground for greenwashing and will exacerbate the very issues the Taxonomy was created to alleviate.

While narrative reporting on future potential alignment with Taxonomy plays an important role in communicating transition plans to investors to attract capital, signifying the importance of a clear benchmark set through a science-based Taxonomy on the transition path, plans for the future alignment do not justify alignment with Taxonomy in and off themselves. Only investments clearly in line with the

Taxonomy criteria does, this is particular due to the lack of enforceability or retroactive checks included under the Taxonomy framework. If future plans not based in actual investments leading to performance aligned with the Taxonomy were to be eligible under the Taxonomy, it would jeopardize its credibility. For the Taxonomy to fulfill its mandate and have the intended effect it must be allowed to create a level playing field for sustainable investments, addressing current market failures not providing much needed information on sustainability alignment leading to investor demand not being met. Allowing for plans for future alignment with Taxonomy to be eligible, would reinject subjectivity into the Taxonomy – working against the much-needed objective scientific sustainability classification tool that the green transition depend on. As but one example, shifts from coal to gas under the pretense of relative improved performance and future potential use of for example hydrogen in infrastructure (so-called "hydrogen ready") could be allowed under the Taxonomy without reference to substantial contribution criteria. This is already in part possible through section 4.14 "Transmission and distribution networks for renewable and low-carbon gases" – and as outlined[1] in the past by several of the signatories to this letter we must only allow "hydrogen dedicated" investments as opposed to "hydrogen ready" investment as eligible under the Taxonomy. Such lofty plans does not ensure sustainable economic activity actually taking place, and it is these kind of measures that would in fact introduce opportunities for greenwashing into the Taxonomy.

Question 3: Can the current EU Taxonomy framework support finance for companies active in sectors that are not covered in the Taxonomy Regulation's delegated acts?

No. The credibility of the Taxonomy lies firmly in the scientifically robust, reviewed and agreed-upon criteria for each sector. Regular review of the delegated act will ensure that all relevant activities and sectors are covered.

Question 4: How does the use of key terminology such as "sustainable", "green" and "harmful" compare across the taxonomy framework and other relevant sustainable finance frameworks and how can it be clarified and harmonized?

The terminology used in the Taxonomy framework must overall be science-based and consistent. Consistency is only ensured when a harmonized approach and understanding of these terms is based in science within the Taxonomy framework as well as beyond. The introduction of different understandings of the Do-No-Significant-Harm (DNSH) principle, as evident from the Technical Guidelines presented in connection with the Recovery and Resilience Facility (RRF), is one example of misplaced efforts introducing confusion and watering down criteria. For the Taxonomy to be the clear science-based benchmark the transition depends on, The European Commission must show its clear dedication to using it as intended.

Similarly, "sustainable" cannot be allowed to also include narrative reporting on potential future alignment with the Taxonomy, only based in actual performance as set out by the Taxonomy criteria. It must be clearly communicated that the understanding of a substantial contribution to "sustainability" in

[1] https://network.bellona.org/content/uploads/sites/3/2020/12/BellonaEuropa_Taxonomy-DA-Mitigation-and-Adaptation-Consultation.pdf

the Taxonomy framework reflects the reduction or removal of a negative impact, the direct enabling such reduction or removal, or environmentally positive interventions.

Likewise, the misconception that the Taxonomy's list of criteria identifies so-called "brown" activities as it currently stands must be addressed. The Taxonomy only identifies the criteria under which economic activities contributes to sustainability. While non-alignment with the Taxonomy certainly mean that an activity does not contribute to reducing negative impacts, non-alignment does not equal harmful or contributing to increasing negative impacts. Also, the do no significant harm criteria are inappropriate to characterize brown activities. They have been developed to identify significant harm and should not be used as such.

A further analysis, followed by guidelines on usage and interpretations, should also be further developed to reduce room for "criteria shopping" whenever the same activity is considered for substantial contribution under several environmental objectives. We must ensure that the reported alignment with the Taxonomy reflect actual best environmental performance as opposed to creative or opportunistic accounting.

In addition to the terms mentioned in question 4, a clarification is needed when speaking of transitional activities on the one hand and transitional challenges related to usage and reporting on the other. The European Commission's clear dedication to the Taxonomy's usability is commendable, and efforts such as the recent webinar series is a good example of concrete action to alleviate misconceptions. However, this must be further clarified by the European Commission.

Sincerely