EUROSIF RESPONDS TO THE PUBLIC CONSULTATIONS ON A SOCIAL TAXONOMY AND AN EXTENDED ENVIRONMENTAL TAXONOMY

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Eurosif

Eurosif supports a Social and a Significant Harm Taxonomy but expresses reservations on the Intermediate Performance and the No Significant Impact categories, as usability of the Taxonomy remains a priority for sustainable investors. Policies to price negative externalities and de-risk investments in sustainable investments will still be necessary to re-orient capital towards green and socially sustainable activities on a large scale. A science based green Taxonomy should remain the top priority.

EUROSIF SUPPORTS A SOCIAL TAXONOMY AND A SIGNIFICANT HARM TAXONOMY

Eurosif welcomes the opportunity to assist the Platform on Sustainable Finance in its work on the possible extension of the EU Taxonomy to explicitly include significantly harmful activities and social objectives. We furthermore wish to thank the Platform for the extensive work done to date, as clearly reflected in both reports.

As a general point, we fully appreciate both the Social Taxonomy and Significant Harm Taxonomy **could easily become politically very sensitive topics**. Therefore, it will be vital for the Platform and the European Commission to be very clear in their communication about these tools, their functioning, that they are not a covert harmonisation of social policies or energy policies and **be realistic about the ability of these tool to re-orient capital towards sustainable investments**.

As the latest IPCC report[1] published on the 9th of August 2021 clearly demonstrates, while there is still a pathway to maintain global warming within a 1,5c increase until 2050, current trends and policy commitments are still falling short of what is needed to achieve that objective. Moreover, the COVID pandemic and resulting lockdowns have exacerbated certain social disparities, increasing the need to address these through effective policies.

Supportive of Significant Harm. Reservations on Intermediate Performance and No Significant Impact

Eurosif believes that a Significant Harm Taxonomy could help **bring more transparency** to financial markets by allowing investors to understand and report how their portfolios are exposed to economic activities not reconcilable with the objective of carbon neutrality by 2050. This could allow investors both to protect their portfolios from activities subject to significant transition risks as well as assist in targeted and granular engagement with the companies undertaking these activities on their plans to transition.

We harbour **doubts about the need to develop an Intermediate Performance** category as this is likely to cover a very large set of activities with probably very diverse sustainability performance, ranging from very near Substantial Contribution (SC) and close to doing Significant Harm (SH). Such a **broad category** could cause more confusion **and increased risks of perceived 'greenwashing**'. Mitigating this risk would require more granular sub-categories that probably need frequent updating, which would make the Taxonomy excessively complex. **The more complex the Taxonomy becomes, the less usable it becomes for investors**.

This is also why we have reservations about the added value of introducing the **No Significant Impact (NSI) category** which will cover sectors whose transition is **not material to reaching the climate objectives**. The lack of NSI criteria has not precluded investors from investing in these sectors. However, companies and investors will have to incur further costs for reporting against the NSI categories. Therefore, we would argue that it is less relevant.

Social Taxonomy: very important, but needs to be well coordinated with other EU policy initiatives

We are very supportive of the need for a Social Taxonomy as a means of **bringing more transparency and understanding** to investors on the social impact and performance of their investments. Traditionally, social factors have been more complex and challenging to analyse than environmental issues.

We are particularly **supportive of the 'vertical' dimension** replicating the Green Taxonomy by identifying economic activities making a Substantial Contribution to social objectives over which there is broad consensus, such as access to affordable housing, education, and healthcare, while acknowledging the complexity around developing such a

[1] "Climate Change 2021: The Physical Science Basis", Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, 9 August 2021: https://bit.ly/3n1x9gM

list. Here we would also emphasise the need to **recognise that EU Member States may see different roles for private investors** in financing economic activities in these sectors.

On the **'horizontal' dimension** and developing SC and DNSH criteria for all sectors, we are conceptually supportive of the approach proposed by the Platform. We are however realistic about the possibility of seeking to reach a consensus on the social impact of all economic activities. For many sectors, assessing the social impact will involve establishing a hierarchy of sometimes conflicting social dimensions which may inevitably involve some subjectivity. **For some sectors, there may be no universally acceptable answer** that can be easily translated in a Substantial Contribution and DNSH criteria. However, the social Taxonomy will certainly provide investors with a robust framework to understand these conflicting challenges. Therefore, we would also urge **caution about developing a list of sectors automatically 'excluded'** from making a substantial social contribution.

Finally, it is essential that the platform **coordinates its work with other contemplated EU initiatives** in corporate governance and supply-chain due diligence, as well as with the upcoming work of the EFRAG Task Force on a Sustainability Reporting Standard and the revision of the SFDR Social Principle Adverse Impact indicators, to ensure companies and investors have integrated reporting requirements. A misalignment would make the Taxonomy more complex and subject to more criticism.

Reorienting capital on a large scale will require pricing negative externalities

We want to emphasise that **both the Significant Harm Taxonomy and the Social Taxonomy**, while bringing much needed transparency, will certainly **not be enough to achieve the stated climate, environmental or social objectives**.

Mobilising sufficient private finance to fund investments required to meet the 2050 climate objectives or the SDGs will necessitate both policies that **price negative environmental and social externalities** as well as public policy **de-risking some of these investments** such as through blended finance program and public-private partnerships.

In that sense, the proposed social taxonomy should not be seen as an alternative to **robust social, labour, education and health policies and funding by governments which will remain a key driver** in meeting the social objectives.

Equally, we are under no illusion that transparency through a Significant Harm Taxonomy will sufficiently rapidly and drastically re-orient international capital flows away from fossil fuel investments towards renewable energy investments to meet the climate objectives. This will **require making sustainable investments financially more attractive, while making existing carbon intensive investments less attractive**. As Eurosif mentioned earlier, the key challenge remains that over 50% of investments in Europe required to reach carbon neutrality by 2050 remains unprofitable.[2]

[2] "How the European Union could achieve net-zero emissions at net-zero cost", McKinsey, 3 December 2021: https://mck.co/37H4nZZ

Science-based green Taxonomy remains the top priority

While we are discussing the possible extensions of the Taxonomy, the completion of a science-based Taxonomy on the climate objectives, as well as on the other environmental objectives, remains a priority.

We remain convinced of the policy rationale for the environmental Taxonomy. Making a projection of which economic activities are compatible with carbon neutrality in several decades is a complex task, and therefore a robust science-based list can be a very helpful tool in this endeavour. This will also be the case for the other environmental objectives of the Taxonomy which may be less widely understood than the well-documented and covered challenges around climate change.

The scientific credibility of the climate Taxonomy has major implications for the credibility of the Significant Harm and Social Taxonomy. **An environmental Taxonomy departing too much from science risks also undermining the credibility of any extension** to social objectives and significantly harmful objectives. Eurosif remains therefore concerned about envisaged plans to consider certain economic activities as 'sustainable' i.e., aligned with the goal of carbon neutrality while science tells us they are evidently not.

Unproven binary impact of Taxonomy should not be exaggerated

Finally, we noted that a rationale raised by the Platform for extending the environmental Taxonomy with a Significant Harm, Intermediate Performance and No Significant Impact dimension is the alleged negative impacts of the environmental Taxonomy in its current form due to its excessively binary nature.

As Eurosif has publicly stated before[3] we have not seen evidence that investors in the future will solely invest in Taxonomy-aligned activities. If certain industries see a gradual increase in their costs of financing, it is likely to be caused by many other factors than their inability to meet their sectoral Substantial Contribution criteria as outlined in the Taxonomy.

Therefore, we would urge the Platform **not to lend too much importance to an unproven narrative** which strengthens the justification by certain economic interests to diminish the ambition of the environmental Taxonomy.

[3] "The EU Taxonomy: fostering an honest debate", Eurosif, 1 March 2021: https://bit.ly/3jGdWPD

About Eurosif

Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs). SIF members include institutional investors, asset managers, index providers and ESG research and analysis firms totalling over €20 trillion of assets under management, as well as other stakeholders such as NGOs, trade unions, think-tanks and philanthropic foundations. Eurosif is also a founding member of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world.
Our Mission is to promote sustainable development through financial markets by supporting the financing through private and public capital of investments that make a measurable contribution to the sustainable development goals set by the United Nations, the European Union and other European countries.

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ABOUT EUROSIF

Eurosif is the leading European association for the promotion and advancement of sustainable and responsible investment making a measurable impact in meeting long-term sustainability goals of the EU and the UN.

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