AEIP Position on the EU Taxonomy

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European Association of Paritarian Institutions - AEIP

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Key messages

The European Association of Paritarian Institutions - AEIP and its members are committed to contributing to the targets of building a climate neutral economy by 2050. As stated in the March 2019 AEIP position on EU Taxonomy and disclosures related to sustainable finance: "*AEIP supports the development of a taxonomy for sustainable activities. We consider it a necessary element for sustainable finance. It will ensure a better and more aligned framework for the integration of well-thought criteria for the environmental sustainability of investments. A properly designed taxonomy could allow for better information, comparability and transparency regarding to sustainable investments. As a result, it has the potential to lead to increased awareness, assuring commitment, self-organization and better decisions from the side of institutional investors and investees, but also from the side of the companies and sectors we invest in*".[1]

In order to do so, common and reliable definitions and measuring points throughout the economy are essential. Reliable and science-based definitions and pathways are a cornerstone of building trust between politicians, companies, financial institutions and clients.

For this reason, AEIP has been actively supporting the development of international and European reporting standards on sustainability, in particular the development of the EU Taxonomy. Common, science-based definitions enable financial flows towards economic activities that align with the global and European climate ambitions as long as these definitions are reliable. We therefore believe the role and advice of the Platform on Sustainable Finance is pivotal.

The EU Taxonomy provides such definitions and thresholds, which are based on scientific trajectories in the transition to a carbon neutral economy by 2050. The scientific basis leads to high credibility and will help institutional investors to mobilize their capital and explain which investments significantly contribute to a carbon neutral economy. In addition, it is important that such a scientific-led process is supported and accompanied by open stakeholder consultations Definitions of the EU Taxonomy should be kept 'clean' in order to mobilize the private capital needed for the transition while maintaining trust between investors and their clients, and between pension funds and their participants.

The need for common definitions

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

[1] AEIP Position Paper of 4 March 2019 on 'EC proposals for an EU Taxonomy & Disclosures relating to Sustainable Finance'. Please see link here: https://aeip.net/2019/03/06/aeip-publishes-its-position-on-sustainable-finance/

Misunderstandings and negative spill-overs for green labels

The EU Taxonomy Regulation, which entered into force on 12 July 2020, consists of a classification methodology in order to measure the 'green' part of a company's activities or a financial product. In that respect, the Taxonomy determines whether an economic activity is sustainable on the basis of six environmental objectives. In particular, three cumulative criteria must be met for activities to be regarded as sustainable:

1. Contribute substantially to at least one of the 6 environmental objectives
2. Not cause significant harm to the other 5 objectives
3. Respect minimum social guarantees

As the EU Taxonomy specifies, economic activities can be classified into two main categories: those that are already sustainable and those that are not sustainable but allow other activities to contribute substantially to one or more environmental objectives. In addition, and within the framework of the 'climate impact mitigation' objective, there is a third category for 'transition' activities: the carbon impact is significant but these activities do not have technologically and economically viable low carbon alternatives. Such activities must implement current environmental best practices.

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

1. Financial institutions remain free to invest in all economic activities;
2. The EU Taxonomy sets out which investments can be called environmentally sustainable;
3. There is no obligation for financial institutions to invest in any environmentally sustainable economic activity under the EU Taxonomy. Hence, the taxonomy is not a mandatory list to invest in and does not impose a minimum green share threshold to be reached.

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

An improved approach?

Concerns on the financing of energy projects should be addressed in a way that fosters private and institutional investments. The key to mobilizing private capital is to create common, science-based and reliable definitions to classify sustainable investments. We acknowledge the 'binary nature' of the current EU Taxonomy as the current set-up leads to either including or excluding certain economic activities as environmentally sustainable. As also highlighted by the European Commission[2], activities not included in

[2] See in more detail: "Questions and Answers: Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice", 21 April 2022. Link here: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_1805

the taxonomy are not necessarily unsustainable, however the current set-up might lead to the wrong impression that what is not green is not good.

In this context, we do note that Article 26.2(a) of the EU Taxonomy Regulation requires the European Commission to publish, by the end of December 2021, a report describing the provisions necessary to extend the scope of the EU Taxonomy Regulation, in order to also cover economic activities that do not have a significant impact (NSI) on environmental sustainability, along with economic activities that significantly harm (SH) environmental sustainability. The EU Platform on Sustainable Finance has already advised the European Commission on this matter. In July 2021, a 'Public Consultation Report on Taxonomy extension options linked to environmental objectives' was published.[3] This report considers two additional levels of economic activities in addition to the existing EU Taxonomy eligible economic activities. It suggests including (red) economic activities that significant harm these objectives, and preferably should be discontinued and (amber) 'intermediate' economic activities that do no significant harm, and may contribute somewhat, but not significantly, to the EU Taxonomy environmental objectives.

Keep the EU Taxonomy clean

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

[3] Please see link here:
https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf

AEIP Disclaimer

AEIP represents the European Paritarian Institutions of Social Protection in Brussels since 1997. The Association gathers 27 leading large and medium-sized Social Protection Management Organizations which equally represent the employees and the employers through a joint governance scheme; plus 39 affiliates from 22 countries

AEIP represents its members' values and interests at the level of both European and International Institutions. In particular, AEIP - through its working groups - deal with EU coordinated pension schemes, pension funds, healthcare schemes, unemployment schemes, provident schemes and paid holiday schemes.

Owing to the quality of its members and to the delegation of powers conferred to its Board, AEIP aims at becoming the leading body for the promotion of balanced paritarian social protection systems in Europe. AEIP promotes and develops programs and orientations aiming at the sustainability of paritarian social protection systems at local level taking into account the national specificities aiming at ensuring social cohesion in Europe.

Based thereon, AEIP prepares recommendations, proposes local programs and influences European decisions to safeguard and promote the interests of its members. AEIP thinks ahead and anticipate modern paritarian social protection systems that take into account changing economic and societal pattern. It furthermore seeks to find a new balance between and across generations.