Feedback on usability of the taxonomy

A Eurelectric response paper

February 2019

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2019/12.105/3

WG Financial Regulation

Contact:
Ronan HAAS, Advisor Gas to Power and Financial Regulation–
rhaas@eurelectric.org

Contribution ID: ce101d2d-e4da-45db-b5bf-384aa1c83c7a
Date: 22/02/2019 14:15:58

BANKING AND FINANCE

Feedback on the usability of the taxonomy

Fields marked with * are mandatory.

Introduction

Disclaimer:

This invitation for feedback is part of DG FISMA, DG ENV, DG CLIMA and DG ENER ongoing work to develop the taxonomy, for which the Commission has set up the TEG. The action plan on financing sustainable growth – action 1 – requests the group to develop the taxonomy on the basis of broad consultation of all relevant stakeholders. This feedback process is not an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

The proposed regulation (in Article 4 on use of the criteria for environmentally sustainable economic activities) envisages two specific uses of the taxonomy:

1. **Member States** when setting out "requirements on market actors in respect of financial products or corporate bonds that are marketed as 'environmentally sustainable'";
2. **Financial market participants** "when marketing financial products as environmentally sustainable investments, or as investments having similar

characteristics, will have to disclose how and to what extent the criteria have been used to determine the sustainability of the product."
To comply with the regulation, the information disclosed by financial market participants should enable investors to identify:

- "the percentage of holdings pertaining to companies carrying out environmentally sustainable economic activities"; and
- "the share of the investment funding environmentally sustainable economic activities as a percentage of all economic activities".

For financial market participants, these are disclosure requirements. The taxonomy is not a mandatory list of activities in which to invest. Funds targeting environmental objectives are not limited to investing in taxonomy-compliant activities. Moreover, the taxonomy can also be used on a voluntary basis by any financial institution. The taxonomy should also encourage companies to raise funds for projects that meet the criteria of the taxonomy.

Considering the above, and also the wider aims and objectives of the taxonomy (see taxonomy approach explained), potential users of the taxonomy are invited to respond to the feedback questions.

The deadline for providing feedback is 22 February 2019 cob.

More information:

- on this feedback process
- on the protection of personal data regime for this workshop registration form

1. Information about you

* Are you replying as:

- ○ a private individual
- ● an organisation or a company
- ○ a public authority or an international organisation

* Name of your organisation:

Eurelectric

Contact email address:

The information you provide here is for administrative purposes only and will not be published

rhaas@eurelectric.org

* Is your organisation included in the Transparency Register?
(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this feedback process. Why a transparency register?)

- (x) Yes
- ( ) No

* If so, please indicate your Register ID number:

4271427696-87

* Type of organisation:

- ( ) Academic institution
- ( ) Company, SME, micro-enterprise, sole trader
- ( ) Consultancy, law firm
- ( ) Consumer organisation
- (x) Industry association
- ( ) Media
- ( ) Non-governmental organisation
- ( ) Think tank
- ( ) Trade union
- ( ) Other

* Where are you based and/or where do you carry out your activity?

Belgium

* Field of activity (*if applicable*):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [ ] Banking
- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [ ] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [x] Other
- [ ] Not applicable

* Please specify your activity field(s) or sector(s):

Energy

* Sector (*if applicable*):

at least 1 choice(s)

- [ ] A Agriculture, forestry and fishing
- [ ] B Mining and quarrying
- [ ] C Manufacturing
- [x] D Electricity, gas, steam and air conditioning supply
- [ ] E Water supply; sewerage, waste management and remediation activities
- [ ] F Construction
- [ ] H Transportation and storage
- [ ] I Accommodation and food service activities
- [ ] J Information and communication
- [ ] K Financial and insurance activities
- [ ] L Real estate activities
- [ ] M Professional, scientific and technical activities
- [ ] N Administrative and support service activities
- [ ] O Public administration and defence; compulsory social security
- [ ] P Education
- [ ] Q Human health and social work activities
- [ ] Not applicable

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement)

- (•) Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- ( ) No, I do not want my response to be published

2. Questions

1. Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

Please refer to:

- example sheet: Energy production (geothermal)
- full list of 1st round climate mitigation activities, screening criteria and questions

- (•) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Please explain your answer to question 1:

2000 character(s) maximum

Sustainable finance (SF) should work to catalyse long-term innovation and enable immediate deployment of the best available solutions for decarbonisation, electrification and digitalisation of the economy. There are two elements that Eurelectric would like to highlight:

- SF should be coherent with other existing tools such as the current EU 'acquis' (e.g EU ETS or RED II). The European electricity sector has been reiterating its call for overall economic efficiency and environmental effectiveness of the EU ETS taking into account different starting points between the Member States. Thus, SF should provide certainty for investments in carbon-neutral assets and stimulate the industry to actively contribute to the achievement of the long-term targets (e.g. technologies acknowledge as sustainable in the ETS system must also be recognised in the taxonomy of the SF). Having different standards would contradict the principles of REFIT which aim to making EU law simpler and less costly. As an example, biomass based energy production is recognised according to RED II while biomass production is not (yet) identified among the current energy production technologies.

- we must strengthen financial stability and pricing in financial markets by improving the assessment and management of long-term material risks and intangible drivers of value creation – including those related to ESG factors. Additionally, perceived risks of long-term investment commitments should be reduced by ensuring regulatory stability. Retroactive regulatory changes are detrimental to the investment environment.

Eurelectric supports the idea of creating a level playing field for so-called 'green' financial products as there is an evident need to provide greater clarity to the market through a more coordinated EU approach. The European taxonomy will contribute to these goals and help to establish a common language for SF.

2. Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Please explain your answer to question 2:

2000 character(s) maximum

Europe needs a clear framework for long-term and cost effective investments in innovative transition-enabling and carbon-neutral technologies. Moreover, investment in the required networks will contribute to connect them and ensure the security of supply, which all involve a high level of capital intensity for electricity companies.
We believe that a technology-neutral approach to taxonomy should be adopted in order to achieve the carbon neutrality objective rather than an inclusion/exclusion list. Therefore, the taxonomy should consider as eligible all transition-enabling technologies and innovative business models since they contribute to the decarbonisation targets.

We believe that technical screening criteria are needed to determine whether or not an activity substantially contributes to one or more environmental objectives. These criteria must be consistently applied, in a coherent way, across all energy technologies. Criteria for the electricity sector should recognize as environmentally sustainable all the transition-enabling technologies, transformational ("greening") projects & infrastructures, and the retrofit of existing power plants as long as they significantly improve the environmental performance.
It is important that the transitional investments and the maintenance investments to the existing environmentally sustainable operations would be regarded as sustainable investments and included in the taxonomy.

The classification of current traditional economic activities in the energy sector regarding the proposed taxonomy is quite clear. However, synergies in new technologies (e.g Power to X technologies) or processes (e.g. multi-fuel power plants partly low-carbon, with a possible use of peat) will have to be also classified and carefully assessed.

3. For financial market participants: will the proposed structure and format of the Taxonomy enable you to comply with potential future disclosure obligations?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

What changes would you propose?

2000 character(s) maximum

A clear, simple and comprehensive taxonomy might support market participants to comply with potential future disclosure obligations. Nevertheless, a European taxonomy will introduce some challenges. For instance, one of them will be the classification of investments related to industrial synergies (e.g Power to X technologies) as the processes are not separate but closely linked to each other. It should be safeguarded that financial classification would support and not endanger this kind of industrial development.

4. Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?

- (x) Yes
- ( ) No

- ○ Don’t know / no opinion / not relevant

5. Would the use of the taxonomy require any additional resources (for example in human resources or information technology)?

- ◉ Yes
- ○ No
- ○ Don’t know / no opinion / not relevant

Please specify what additional resources and if possible, give an indication of the expected costs (e.g. as a % of turnover or operating costs):

2000 character(s) maximum

The administrative costs of financial and non-financial reporting obligations of companies should not increase to an inappropriate level. In particular, reporting obligation should not cover the totality of social and environmental impacts, but only impacts directly related to corporate key figures and adjusted to the technology in question. Thus, already acknowledge technologies may give rise to less reporting than for new – not yet generally acknowledged – renewable technologies.

In order to standardize the classification, it would be efficient to have a common system/tool for reporting and validation.

This includes that activities already acknowledge as sustainable in the EU ETS system must also be recognised in the taxonomy of the sustainable finance. Any differences will most likely imply extra use of resources. Further, the operating costs will depend, for instance, on an appropriate level of reporting requirements. Thus, renewable technologies with a ‘proven record’ of being sustainable should not be subject to the same level of reporting as new – not yet generally acknowledge – technologies.

It is also worth noting that as any other monitoring or assessment obligation, costs depend on practical assessment requirements.

6. Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement:

2000 character(s) maximum

- The taxonomy criteria should be in line with the existing procurement guidelines in financial market and it would be beneficial and efficient to use similar existing national requirements.

- The taxonomy should also consider the different size of investments as the small-scale investments don't have the same capability to make as detailed investigations as the larger actors. For example large-scale RES projects (over 100 MW) serve as a basis to achieve large-scale decarbonisation and they contribute to the achievement of climate goals in a most cost-efficient way through higher levels of emissions reduction and through significantly lower per unit emissions reduction cost measured in EUR/tCO2 compared to small projects.

- The taxonomy approach should take into account and not complicate the centralized financing in groups.

- Looking at the energy production activity, the NACE-type classification may appear inadequate or insufficient because it only covers existing technologies. The long-term strategy for 2050 released by the European Commission in 2018 is referring to a wide range of technologies which are not mature yet but can contribute to the decarbonisation effort (e.g by increasing energy efficiency). However, these upcoming technologies are not covered by the NACE classification (which is more relevant for fiscal purposes than industrial ones)

- The overall objective of the taxonomy should be used as a reference for investors. Due to the rapid changes in all the activities covered by the taxonomy and especially the power sector, it is highly important to have a regular review of the Regulation with an open dialogue with all stakeholders in order to be as close as possible of sectoral and technologies breakthrough. Therefore, Eurelectric welcome the creation of a Platform on Sustainable Finance. Importantly, such platform should also reflect industry insight and competences, i.e. let industry knowledge feed into this process.

Useful links

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Feedback process details (https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops_en.pdf#usability)

Specific privacy statement (https://ec.europa.eu/info/files/sustainable-finance-taxonomy-feedback-and-workshops-privacy-statement_en)

Contact

ec-teg-sf@ec.europa.eu

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: 4271427696-87