

Statement for the consultation on taxonomy extension options linked to environmental objectives

ShareAction welcomes the draft report on the extended taxonomy to support economic transition, by the subgroup of the EU Platform for Sustainable Finance and appreciates the opportunity to submit our views.

“Code red for humanity” is how UN Secretary-General António Guterres described the conclusions by the Intergovernmental Panel on Climate Change (IPCC) about the state of the Earth’s climate.¹ He goes on to say that “The alarm bells are deafening, and the evidence is irrefutable: greenhouse gas emissions from fossil fuel burning and deforestation are choking our planet and putting billions of people at immediate risk,”. Earlier this year, the International Energy Agency (IEA) highlighted that if we want to meet the goals of the Paris Agreement, investments in new fossil fuels must stop immediately and the share of fossil fuels in energy supply has to fall drastically.² The role for the financial industry is clear, they need to phase out the financing of the most polluting economic activities. The lack of definition of those climate and environment harming activities, prevents investors from having coherent and Paris Agreement aligned divestment strategies that follow a science-based approach. This is why we strongly support the extension of the EU Taxonomy to go ‘beyond green’ and to include ‘significantly harmful’ (SH) activities.

ShareAction was one of the 52 co signatories of an Open Letter ‘Making the financial sector in the EU go green urgently demands a taxonomy of harmful activities’³, calling on the Commission to extend the Taxonomy to include clear definitions of environmentally harmful activities.

The open letter states: “the EU Taxonomy Regulation, while an ambitious framework, does not yet include activities incompatible with climate goals to specify that they should be transitioned away from and at what pace. Without such a taxonomy clearly identifying what environmentally harmful loans and investments are to be phased out, it will be very difficult to design key tools to accelerate the green transition”. We also explain in this letter that without a proper EU classification of what is environmentally unsustainable, small and institutional investors will have no common and easily accessible framework to use to pressure banks and asset managers to design clear policies for phasing out financing of environmentally harmful activities.

Our main recommendations in response to the consultation are:

- It is vitally important to recognise the significant harm performance level, with mandatory reporting for these activities essential to ensure urgent and effective adoption of a harmful taxonomy. This may help to address the price gap currently present between harmful and green investments, only the latter of which is subject to admin costs to verify its green credentials.
- We recognise the need to value as green the decommissioning of significantly harmful activities, as this behaviour must be incentivised to encourage actors to reduce, rather than relocate (e.g. through asset sales), harm to environmental objectives
- We urgently highlight the risks in distinguishing the two types of SH activities. It is a key weak point for regressive lobbying, that the Platform has already been subject to by, e.g., the gas industry. Power generation from all fossil fuels should be included in always significantly harmful.

¹ United Nations, August 2021, <https://unric.org/en/guterres-the-ipcc-report-is-a-code-red-for-humanity/>

² International Energy Agency (IEA) (2021) *Net Zero by 2050 - A Roadmap for the Global Energy Sector*, pg. 222]

³ https://www.changefinance.org/wp-content/uploads/2021/01/Open-Letter_Taxonomy-of-harmful-activities.pdf

- Review of the TSC to confirm SH criteria will be subject to significant lobbying, which the Commission must resist if the taxonomy is to truly support environmental objectives. Quantitative TSC that tighten towards zero must do so in line with timeframes in science-based pathways for each environmental objective e.g. for climate mitigation, 1.5C pathways with low-or-no overshoot. For example, 'substantial contribution' emissions criteria for power generation should move to zero by 2035, or before, after which anything below this is 'significantly harmful'.
- It is logical to name the intermediate performance level and intermediate transition, to help investors identify differences in company performance as well as improvements over time. However, we emphasize that:
 - o intermediate performance goes beyond 'do no harm', and can encompass significant environmental impact, often negative. The specific level within intermediate performance should be reported on wherever possible to help assess this
 - o intermediate performance should be a temporary step towards being substantial contribution, as should intermediate transition
 - o as above, continuous improvement towards substantial contribution must be recognised, required and prioritised to avoid slowing down the transition
 - o Safeguards to incentivise continued improvement to fully green activities include timebound transition plans at the entity- and activity-level, with minimum standards including alignment with science-based pathways for each environmental objective
- A 'no significant environmental impact' taxonomy could be relevant for activities that cannot be considered harmful nor intermediate nor green. Priority should be given to develop the significantly harmful taxonomy.