

Finans Norges hørings svar på TEGs taksonomirapport fra juni 2019

Notatet gir en oppsummering av Finans Norges tilbakemeldinger gitt via EU-kommisjonens interaktive spørreskjema for tilbakemeldinger.

1. Climate change mitigation

General remarks¹:

The definition of sustainability should not be so narrow that the taxonomy cannot be used as a screening device for mainstream investments and thus excludes many of the activities needed to support the transition to a more sustainable economy.

The proposed criteria entail a risk of orienting capital flows towards activities that are already sustainable. While the aim of the taxonomy is not to explicitly promote a transition but rather to define sustainability, it could have transition-inducing or -discouraging implications on the market. Therefore, we believe that thresholds should be refined to a level that better reflects the nature of the shift towards greater sustainability, allowing for the recognition and definition of sustainable characteristics on a broader scale.

Buildings

The TEG refers to minimum top 15 % of the stock regarding eligibility and proposes a set of criteria until absolute thresholds are established. There exist different ways of calculation the EPC among countries as well as different ways of setting the scale in terms of the distribution of EPC ratings. The criteria regarding EPC rating is set to B or above. In Norway the proposed limit of minimum EPC B would imply that only approximately 7,1% (figure from 2017) of the residential buildings are eligible, i.e. well below the mentioned top 15 %.

As EPC rating C reflects the required technical standard for newbuilds today this level implies high standard, energy efficient buildings and should not be considered as below the desired level. Going forward, new technical standards etc. will affect which buildings that are eligible through raising the benchmark threshold of EPC rating C and above. By taking these factors into account we believe that EPC rating A, B and C should be within the threshold of what is considered a sustainable building acquisition.

Manufacture of Low carbon technologies

Fossil fuel companies have substantial financial strength and there is a large investment momentum in green technologies in this sector, including investments in sustainable transportation solutions. Many of these energy companies also have a clear strategy of converting to renewable energy activities over time. We believe that this momentum should be used to catalyse the sustainable development.

In this regard, there are some issues related to the exclusion of fossil related transport and buildings altogether, because this will also feed into the manufacturing of low carbon technologies (manufacturing of eligible low carbon transport vehicles, fleets and vessels and manufacturing of energy efficiency equipment for buildings). Manufacturing of (low carbon) transport vehicles, fleets and vessels and (energy efficient) buildings are often project financed by the transport or building company. If these projects are excluded from the taxonomy because the end activity are related to fossil fuels, the financing of these green technologies could be seriously hampered. Against this backdrop, we encourage TEG to make a new assessment on this complicated issue.

¹ Den generelle delen av hørings svaret blir kun formidlet via våre europeiske bransjeorganisasjoner.

A possible solution, if the exclusion of fossil fuel transportation is maintained, could be to require an evaluation of the alternative use of the vehicle/fleet/vessel/building. If the vehicle/fleet/vessel/building could only be used to transport/house fossil fuel related activity, it should be excluded. However, if the vehicle/fleet/vessel/building could also be used for other purposes, it should be able to be assessed against the screening criteria.

Transport (Inland freight water transport and Construction of water projects)

We believe there is an inconsistency between the inclusion of “Production of heat/cool from gas combustion” under “Electricity, gas, steam and air condition supply” and the exclusion of the transport of natural gas in this part of the screening report. It seems illogical that the use of the gas combustion for heating can be considered sustainable, while the transport of the natural gas itself cannot.

Agriculture

Modern agriculture has been responsible for considerable damage to biodiversity, primarily through land-use conversion which is expected to remain the largest driver of biodiversity loss beyond 2010 and at least to 2050, but also through overexploitation, intensification of agricultural production systems, excessive chemical and water use, nutrient loading, pollution and introduction of alien species.

This issue has been addressed to some extent in the TEG report. However, given the importance of this topic more guidance and stricter criteria on the “Do no significant harm” assessment would be expedient. For example, there should be more guidance on the assessment that activities should not result in a decrease in the diversity or abundance of species and habitats of conservation importance or concern. A discretionary assessment by the market participants on this topic risk leaving out important parts of the needed assessment. Also, the definition of “Do no significant harm” needs to be unambiguous so that the assessment of this criteria can be done objectively.

For livestock production we encourage TEG to make more guidance regarding sustainable livestock production, because a lack of animal welfare and inadequate control of animal diseases could have serious consequences for biodiversity.

2. Climate change adaptation

i.a.

3. Usability of the taxonomy

5. What practical tools or measures could be developed to facilitate the implementation of the taxonomy by financial actors?

- The principle of proportionality is vital to make sustainable finance work in practice, and it is thus important that the taxonomy is simple enough to be understood by those who are supposed to incorporate it in their decision making and does not limit the use in smaller companies who does not have access to highly specialized personnel. This is particularly important in the Norwegian market, where 95 per cent of the companies are SMEs. One possible solution could be to introduce a set of simple criteria for SMEs below a certain fixed threshold, which can easily be used by SMEs.
- There should be some clarification regarding the link between the taxonomy and other regulation (EU Green bonds, EU Green label etc.) with regards to the fact that the taxonomy will be subject to regular revision. Assume that one has a project which are financed by a 5-year EU Green Bond and that the taxonomy screening criteria are updated within this time frame so that the project/activity are no longer taxonomy eligible. It is not clear whether this EU Green bond would still be taxonomy eligible. Unclearity and uncertainty on this issue will most certainly dampen the willingness to issue EU Green bond, as the risk associated with this non-compliance will be substantial. We thus ask for clarification regarding this issue.
- There is a need for more guidance regarding the transition principle on page 22: Support transition from brown to green (*“expenditure or investments as part of a plan to achieve an activity threshold are recognized as eligible under the taxonomy”*). It is unclear how this principle should be interpreted in practice. Assume a bank have a customer whose activities do not currently meet the thresholds, but they are planning to make investments that will make them threshold-compliant in the future. It is unclear if this would be taxonomy eligible and how this should be proven. We ask for more clarity on this issue.

4. Future development of the taxonomy

1. What economic activities that can make a substantial contribution to the climate change mitigation objective should next be considered for the Taxonomy?

Shipping, aviation, fishing and aquaculture.