SolarPower Europe

Recommendations to the Platform on Sustainable Finance

Solar Power Europe's key recommendations to the Platform on Sustainable Finance ahead of the approval of the first delegated act establishing the technical screening criteria for economic activities substantially contributing to climate change mitigation and adaptation objectives:

- Create a Green Finance Framework for equity that applies to renewable energy portfolios.
- Extend financial products to products linked to corporate strategy, as sustainability-linked bonds.
- Set investment methods to increase involvement and contribution of civil society.
- Set forth a clear framework as regards the assessment of economic activities which can emerge and are not yet covered by the taxonomy framework.
- Terminology across EU legislation should follow harmonized definitions, be applicable homogenously and, in doing so, avoid greenwashing.
- Improve expertise and transparency on data used in sustainable finance, set an EU Observatory.
- Mainstream sustainable conditionality at European level for the allocation of all EU resources.
- The Taxonomy Regulation, Delegated Act and Annex I and II on mitigation and adaptation should follow a consistent approach in terms of thresholds and review periods.

The EU Taxonomy for Sustainable Finance is a crucial instrument to ensure that investments are directed towards projects and economic activities that have a substantial positive impact on the climate and the environment, in line with the European Green Deal objectives. With over €500 billion of investments needed annually to achieve climate-neutrality by 2050, the sustainable finance Taxonomy can become a true accelerator for clean-energy projects, and enabler for achieving climate-neutrality by 2050.

The EU Taxonomy is central to Next Generation EU as it will define what investments can be accounted for Member States to reach the 37% green spending target.

The European Commission asked the Platform on Sustainable Finance to provide answers to the following six questions. In this light, SolarPower Europe provides the following recommendations to the Platform ahead of the approval of the first delegated act establishing the technical screening criteria for economic activities contributing to climate change mitigation and adaptation objectives.

1. Can the current EU taxonomy framework be used to provide greater support for attracting capital for the transition of companies towards "sustainable" activities, including in ways not yet proposed by the Commission and, if so, in which ways?

As specified in a) the assessment of the Technical Expert Group (TEG), b) the Taxonomy Regulation, and c) the recent proposals by the Commission as seen in the draft of the Delegated Act of the Taxonomy, **the EU taxonomy framework is relative to activities, not strictly to companies or sectors.**

Careful consideration should be given to providing financial products for companies contributing to EU environmental objectives, while preventing greenwashing to protect the legitimacy of the EU taxonomy framework.

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That said, the EU taxonomy framework can provide greater support for attracting capital for the transition of companies towards sustainable activities by:

• **Creating a Green Finance Framework for equity**, like the one for debt instruments in the ICMA Green Bond Principles for green bonds and loans, that applies to renewable energy portfolios. This Green Finance Framework for equity would make it easier for financial product providers to display that their products meet the Taxonomy criteria, making investments in solar more attractive.

• **Extending financial products to products linked to a corporate strategy.** The list of financial products specified in Article 2 of Regulation (EU) 2019/2088 is insufficient. According to Regulation (EU) 2019/2088, a financial product means: a) a portfolio managed in accordance with point (6) of this Article; b) an alternative investment fund (AIF); c) an Insurance-based Investment Product (IBIP); d) a pension product; e) a pension scheme; f) an undertaking for collective investment in transferable securities (UCITS); or g) a pan-European personal pension product (PEPP).

To finance the transition, the list can be extended to KPI-linked bonds or loans (also called Sustainability-linked bonds), which are linked to a corporate strategy, rather than specific projects. A corporate strategy can rely on targets for renewable electricity to reduce their GHG emissions and meet these targets with contracted renewable electricity or generated by self-own assets. Metrics that can be used to track the transition of a company are GHG reduction targets, Science-Based Targets, etc. Moreover, borrowers of loans and issuers of bonds should reference and benchmark their overall sustainability performance against the EU Taxonomy in their annual financial and/or non-financial reporting report. Considering the strength and likely impact of KPI-linked bonds it should be well-calibrated and provide sufficient safeguards to avoid lock-in effects.

• **Setting investment methods to increase involvement of civil society.** Public acceptance of renewable energy installations is key to increase the success of the energy transition since new renewable energy plants might be built closed to or within neighbourhoods. By setting an investment method with major involvement and contribution from civil society – without involvement from companies and large investment banks, it will help to rise the public acceptance of renewable energy installations. This investment method would need a deposit maximum limit that is not too high to ensure that not only few individuals can invest.

2. Can the EU taxonomy framework support finance for companies undertaking activities that do not yet meet, or may be unable to meet, the substantial contribution criteria? And how can this be done?

The EU taxonomy framework should support financing of activities that meet the requirements of the technical screening criteria, including the substantial contribution to climate change criteria and the do no significant harm ("DNSH") criteria. That said, it can be compatible with:

• **Providing finance for companies undertaking activities that lead to the retrofitting of current assets not meeting the criteria if, by doing so, they would meet the requirements of the technical screening criteria.** This financing should be conditional to reporting obligations. It is crucial that progress towards the transition is chartered and reported upon, for example, following and being consistent with the Task Force on Climate-related Financial Disclosures (TCFD) climate scenarios. It is also necessary to ensure that good governance is in place within companies seeking sustainable finance. Transparency and reporting are essential to ensure that sustainable financing can compensate for other drivers of financial investment such as risk, or fast payback period. Some renewable-based investments, for example, may have a longer ROI period than non-renewable-based investments and as such, good governance should consider this reality.

3. Can the current EU Taxonomy framework support finance for companies active in sectors that are not covered in the Taxonomy Regulation's Delegated Act?

The EU Taxonomy framework a) should be subject to periodic reviews, and b) the clean energy space is moving fast, and new activities and technologies will appear that meet the requirements for technical screening criteria.

For this reason, the EU Taxonomy framework should be:

• **Setting forth a clear framework (i.e., process, timing) as regards the assessment of economic activities which can emerge and are not yet covered to provide them with greater visibility**. In this context, a good practice is to follow the advice from the Technical Expert Group (TEG), which encourages companies to disclose when they undertake activities not yet covered in the Delegated Act, as opposed to activities covered but not meeting the technical screening criteria. Companies are invited to publish a statement explaining their inability to meet the technical screening criteria. A registered or supervised verifier shall confirm that the project/activity contributes substantially to at least one of six environmental objectives of the EU Taxonomy, while not significantly harming any of the other objectives, and comply with minimum safeguards.

4. How does the use of key terminology such as "sustainable", "green" and "harmful" compare across the taxonomy framework and other relevant sustainable finance frameworks and how can it be clarified and harmonised?

There is different terminology across EU legislation for the terms "sustainable", "green", "harmful" and even "DNSH". Moreover, in the absence of a Taxonomy, financial markets are applying their own in-house definitions of "green" to both corporates and sovereigns. The current situation is a patchwork in need of much clarification. We encourage the EU to stay in the driving seat and shape these standards for financial markets. For this reason:

• **Terminology across EU legislation should follow harmonized definitions, be applicable homogenously and, in doing so, avoid greenwashing.** The European Commission should avoid issuing guidance and/or legislation using equal terms with different interpretation, which increase misunderstanding and incorrect application of the concepts. Terminology in the taxonomy framework and relevant sustainable finance frameworks should also be harmonized with the terminology in EU labelling and certifications schemes. Therefore:

• "sustainable": should be applied to activities bringing "substantial contribution" to the objectives outlined in the taxonomy framework and meeting the DNSH criteria; if applicable to "mitigation of climate change" and compatible with climate neutrality by 2050.
• "harmful": should be harmonized across the relevant sustainable finance frameworks and guidance documents on the application of the DNDH principle. In the definition it should imply that it meets the DNSH criteria.
• "renewable": should refer to the definition of the Renewable Energy Directive.
• "green": if by the context it means renewable-based energy, then "green" should be referenced as "renewable" and follow the definition above, which excludes CCS and nuclear.
• "clean": should be avoided/removed because of its ambiguity. If referred to "clean" hydrogen, the EU Hydrogen Strategy clarifies it as "renewable" hydrogen.

5. What further avenues could be explored to enable financing the transition through development of the taxonomy framework and beyond?

• **Improving expertise and transparency surrounding the data used in sustainable finance.** The EU Taxonomy thresholds should become easier to apply with improved company reporting, either via the non-financial reporting Directive (NFRD), or through increasingly professional data providers making "taxonomy-aligned" estimates available. 26 major banks have expressed that not enough data was available to be able to tell whether lending activities would comply with the EU Taxonomy. Initiatives to mitigate this includes the new Data Council, launched by the Future of Sustainable Finance Alliance, which will gather environmental, social and governance (ESG) data from different financial actors, including rating agencies S&P Global and Moody's, and market experts.

• **Mainstreaming sustainable conditionality at EU level for the allocation of all EU resources**, including Recovery funds, State Aid, the Just Transition Fund, InvestEU guarantees and the Connecting Europe Facility.

• **Setting an EU Observatory**, as recommended by the EU High-Level Expert Group on sustainable finance. Since official information on the effectiveness of the EU's financial system to deliver sustainability objectives is incomplete and fragmented, when it could contribute to close investment gaps in a more effective way by:

• improving tracking of the EU's sustainable investment needs,
• tracking sustainable investments from public and private sources,
• informing evidence-based policymaking on sustainable finance,
• improving access to capital for the investment needs required to meet EU's energy and climate targets.

6. Can we clearly address the concerns that the taxonomy will be used to prevent financing of transitional activities, while at the same time ensuring that we are not facilitating "greenwashing"?

The EU Taxonomy should provide a credible and stable framework to attract capital for sustainable activities and reduce "greenwashing". For this reason, it is crucial to:

• **Adapt the Taxonomy to existing legislation in place**.

• **The Taxonomy Regulation, Delegated Act and Annex I and II on mitigation and adaptation should follow a consistent approach in terms of thresholds and review periods** indicating how thresholds must reduce over time in line with reaching a net zero emissions economy by 2050 and avoid carbon lock-in.

• **Uphold the current mitigation threshold for the power sector of 100gr CO_2e/kWh for life-cycle emissions** for the credibility and scientific basis of the taxonomy. This threshold prevents the lock-in of carbon-intensive assets and takes the economic lifetime of those assets into account, as per the definition of a transitional activity in Article 10(2) of the Taxonomy Regulation.

• **Above all, the EU Taxonomy framework should be easy to apply with simple benchmarks.**

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