MINUTES

The president of the ECO section, Mr Stefano Palmieri, welcomed EESC members, speakers and external participants to the high-level conference.

He opened the event by saying that initiatives on sustainable finance at EU level also aim, in particular, at supporting the delivery on the objectives of the European Green Deal by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and just economy, as a complement to public money. But sustainable investment must not be reduced to the only aspect of green investment. It was equally important to look at the social element, and also at the governance element. He explained the passive approach of sustainable investment, where investors apply criteria when they chose their investment portfolio, as opposed to the active approach, where investors use voting rights and their role as owners of a company to exert pressure for a change of behaviour. He concluded with a concrete example of a Norwegian pension fund, who had sold part of its portfolio because of SRI concerns.

Mr Palmieri's speech is available on the conference website.

The president of the EESC, Ms Christa Schweng, started by informing the audience that she had met with the president of the European Parliament, Mr Sassoli, and with the president of the European Council, Mr Michel, who both emphasized the importance of sustainable finance. She said that according to the EESC, a sound system of financing sustainable growth, with a long-term approach, is the most important driver for restoring trust in the markets and connecting savings to sustainable investments. It will help to provide complementary sources of funding for SMEs and strengthen green and social infrastructure projects. The challenges should be addressed harmoniously, through a joint effort by all. We have to include in this process all actors in the financial sector: companies, citizens and authorities. Ms Schweng emphasised the need for a transition to an economy that is greener and more digital after the pandemic, and that sustainable finance would make an important contribution to that. The green transformation, together with digitalisation, would be the driving forces of the recovery plan for Europe. In the current context of economic downturn, it is essential to provide the best possible support to achieve recovery, and at the same time enabling innovation and investment in climate and environmental protection.

Ms Schweng's speech is available on the conference website.

Ms Cravo, PT presidency of the Council, stated that there was a strong commitment to sustainable finance in Portugal. She underlined the importance of proper disclosure of non-financial information by companies, following a standardised approach. Furthermore, a proper application of the rules that already existed was imperative. Research tools and procedures had to be developed in order to properly assess the risks related to climate change. She stated that the Covid-19 crisis had revealed the insufficient integration of sustainability factors, and that there were challenges for regulators: proportionality, flexibility, and greenwashing traps. Market uncertainty had to be reduced. She also underlined the need for building financial literacy, by targeting the general population, but also more specifically employees in the financial sector. The transition towards sustainable investment was important, and it had to be inclusive. A higher degree of granularity was necessary, there were "shades of green".

Mr Deckers, DG FISMA, underlined the importance of the new EU sustainability taxonomy that needed to be science based, usable, and support the transition. In the first place, the focus of the taxonomy was on reducing activities with a negative ecological impact. In order to be usable, it needed to be clear, in particular for companies. To criticism that the taxonomy was too tough, Mr Deckers replied that the Commission was going to recalibrate it, but without breaking the link with the science based targets and with green deal targets. To the criticism that it was too binary, he recognised that more work was needed, moving from the focus on avoiding negative impact towards promoting lower impact. By 2022 the corresponding delegated act would enter into force. Concerning the green bond standard, he said that it was going to be voluntary, and that the legislative proposal was expected for Q2 2021. As to the review of the Non-financial reporting directive (NFRD), that had been adopted in 2013 and first applied in 2018, he said that there was consensus that the directive was not delivering as it should as regards the quality of information. Furthermore, it was burdensome, as companies were bombarded with a lot of requests from all sides, which drives up the costs for reporting. Better quality of information was needed, including a better comparability. Whilst the topic was of an international relevance, Europe needed to take the lead here. He concluded by confirming that the revised sustainable finance strategy would be published by the Commission by mid-2021.

Mr Lehmann, Bruegel, explained that green finance had exploded, but some of the approaches were in reality not very ambitious. A considerable problem was "greenwashing", i.e. to sell an activity as ecological whilst it was in reality not. He recalled that the EU Green Deal would require substantial investment to be mobilized in the low carbon transition, and that public investment from Member States and EU sources was clearly insufficient, and private finance therefore had a key role to play. He explained the rationale for ‘labelled’ financial instruments, and potential related pitfalls. According to Mr Lehman, questions about the sustainability of labelled debt instruments were especially pertinent for Member States and EU bond funding. He concluded by stating that the reform of the EU non-financial reporting directive was important, as were internationally compatible measures. Either way the financial market would likely exert powerful discrimination of issuers and activities, and likely ease financing conditions for certain sectors.

Mr Lehman's presentation is available on the conference website.

Mr Narr, Ethos foundation, started out by explaining the activities of Ethos, a foundation with the aim to promote sustainable investment. Ethos manages investment funds, provides sustainability research, publishes voting recommendations for shareholders and enters into dialog with companies on sustainability issues (engagement). He called the "explosion" of ESG investment an exciting development, and welcomed the fact that many institutional investors had become "ESG aware". Most new ESG assets were however following the principle of ESG integration, which was not the same as being a green investor (one could end up with funds that hold oil, tobacco, etc.). Ethos was hoping that the review of the NFRD and the taxonomy would lead to improvement. He concluded by affirming that to be an active owner was an important part of responsible investment. It was therefore important to use shareholders' rights, and to be an active investor, by engaging with companies. He lamented that Covid-19 had led to virtual shareholder meetings, that ended up being "closed-door", so small shareholders were deprived of their right to ask questions.

Ms Bijelic, OECD, underlined the merits of promoting and implementing the OECD guidelines for multinational enterprises. These contained responsible business conduct issues, environmental aspects, but also looked at good governance and anti-corruption. The work of the OECD was done in close cooperation with stakeholder groups. The guidance given by the OECD was approved by the OECD Member States, giving it political authority. She pointed out that the EU taxonomy was making reference to the OECD guidelines, and coherence was important as regards the EU initiative. A social taxonomy was important for moving forward, and in this context there were a lot of discussions on social safeguards. The Non-financial reporting directive and its upcoming review will help. Overall, to bring sustainable finance forward, investors and practitioners had to internalise these issues. It was important to see how ratings and indices were aligning with sustainability issues. Ms Bilejic stated that SRI integration could help improve profitability of companies, and could drive economic growth and sustainability at the same time. Consumer education in financial aspects was important as a lot of the progress in sustainable investment was demand driven, and we had to promote sustainable investment of savings with a long term focus.

Ms Pietikäinen, MEP, agreed that the work in the field of sustainable finance had to be science based. The EU had to be ambitious and keep the level of ambition high. She underlined that currently not all of the concerned companies were able to cope with the EU taxonomy. Ms Pietikäinen added that there was no dichotomy green / brown-, there were, to the contrary, "50 shades of green". Solar power, for example, was green, but the solar panels and their production were not. Furthermore, we had to look at the full spectrum: not only climate, but also social and good governance aspects. Requirements had to be integrated into company law, however, not only through rules in disclosure regulations, but also in rules for credit ratings, and in banking rules. Due diligence had to be done properly, and affirmations in the field of sustainability had to be checked and needed to be true. This was a responsibility for the directors, but also for the boards of a company. She concluded by underlining that projects had to be economically viable and sustainable at the same time.

Mr Ballabriga, EBF, stated that for the EBF sustainable finance top priority. It meant a transformation of the banking sector, but also an opportunity for banks to connect societal and financial goals. He underlined the need for usability and for clarity and stability of the political and regulatory environment. A uniform definition of ESG risks had to be developed, combined with methods and tools that help to assess the impact of ESG on lending. The ultimate goal had to be a transition of the whole economy. In the field of public procurement, a change in the rules could also help, for example by linking the price to the achievement of SRI targets.

Mr Ballabriga's presentation is available on the conference website.

Mr Cilento, ETUC, said that the green market was growing a lot, and that we now had to continue with the social taxonomy, the concept of which is already being developed in the EU, so we can already build on methodology and indicators. According to the ETUC, those investors operating in the internal market of the EU that wish to be part of a "social portfolio" must ensure that the investments are aligned with social standards within European and national laws. The investment must be also aligned with the standards in the political objectives that we have in the European pillar of social rights, and thereby have a proactive role in achieving social objectives. The ETUC hopes that: 1) investment portfolios will be aligned with respect to human rights and international standards; 2) the taxonomy can be a boost for the respect of international laws; 3) investment will be mobilised for the objectives that are set out in the European Pillar of social rights. In this way Europe can be a front-runner for sustainability. Green and social cannot be treated separately, but they form an integral feature of the assets managed in a portfolio or investment package. He concluded by pushing for shareholder activism and interaction with companies.

Mr Van Hoorn, Eurosif, stated that in the context of the EU sustainability taxonomy there had been a lot of anxiety, but in reality this was exacerbated, as there is no obligation for investor or banks to fund taxonomy related activities. We had no evidence that taxonomy application would be a decisive factor on how investment decisions are taken, but of course there was the hope that it will increasingly influence these decisions. The taxonomy will become a used tool only if the usability is improved. He reminded that the taxonomy did not tell anything about the financial soundness of an investment, such an assessment had to be done in parallel. The framework was data intensive, and good data was a prerequisite for it to work. Solving climate change needed a lot of investment in the EU (EUR 29 trillion), but a lot of these investments were not profitable. So in order to get them done, we need to change subsidies, taxation, etc. Policy makers and regulators have to make their jobs to give the right incentives for the private sector actors. There was a critical role to play for the institutions, for example for the EIB. With blended finance and risk mitigations from public bodies things will get viable. He stated that social issues will need to be more included, for example labour rights. But he was sceptic as to how much investors would be willing to do so.

Mr Carlucci, Better Finance, underlined that the identification of sustainable investments must be based on facts and science, not on emotions and ideologies, and on the probability of having a positive impact on the environment, society and corporate governance. He called for addressing short-termism and barriers to shareholder engagement in corporate and investor governance. Professional equity investment intermediaries (asset managers, pension funds, life insurers) had to engage with investee companies for long-term sustainability, and barriers to the engagement of individual equity investors (who are mostly long term oriented) had to be lifted.

Mr Carlucci's presentation is available on the conference website.

Mr Trias Pintó, EESC/CCMI, stated that the current context of the COVID-19 pandemic makes it even more necessary to strengthen the alignment between the industrial policy strategies emanating from the European Green Deal and the recovery plan and it's financing. Following the agreement on the Taxonomy and Disclosure Regulations and the review of the Non-financial reporting Directive, the key is to have harmonised and facilitative implementation, so that all actors (including citizens) can play their part. Climate and environmental risks should be fully managed and integrated into financial institutions and the financial system as a whole, while ensuring that social and governance risks are duly taken into account (ASG criteria).

Mr Trias' presentation is available on the conference website.

The ECO section president concluded the event by recalling some of the key messages that the distinguished speakers had put forward. He stated that the EU was on the right path towards more sustainable finance, but that the path was still a long one, and a continued effort was necessary. The initiatives of the Commission announced for later this year would hopefully give a further boost. Mr Palmieri encouraged the Commission to take on board the policy orientations that had been brought up in the conference. By thanking all the speakers, he closed the event.

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