

EUROPEAN COMMISSION: MAKING THE FINANCIAL SECTOR IN THE EU GO GREEN URGENTLY DEMANDS A TAXONOMY OF HARMFUL ACTIVITIES

OPEN LETTER TO COMMISSIONER MCGUINNESS

Brussels, 19 January 2021

Dear Commissioner Mairead McGuinness,

We, the 52 undersigned organisations, write to urge you **to clearly embed in the upcoming EU Renewed Sustainable Finance Strategy a strong commitment to adopt as soon as possible a classification system (taxonomy) of economic activities that significantly harm environmental sustainability as a key tool to accelerate Europe's green transition by guiding and driving divestment from unsustainable projects.**

As you yourself underscored in your first speech as Commissioner: "Time is running out"¹. **Five years after the historic Paris Agreement on combating climate change, we can but witness how little has changed** with regard to the huge flows of capital to projects which aggravate climate change. We strongly believe **the Commission, in line with its specific responsibilities under the Paris Agreement, should act with urgency to more effectively direct financial flows away from unsustainable economic activities** in addition to encouraging support for climate-positive initiatives.

Today's approach is insufficient to achieve climate goals

We know that to avoid the severe impacts of global warming above 1.5°C, the world needs a 7.6% drop in greenhouse gas emissions yearly². The current EU strategy is to simply encourage environmentally friendly investments via a non-binding "green taxonomy". Thus, the EU has decided to dedicate 30% of its future expenditure towards achieving the goal of climate neutrality by 2050.³ But this is not sufficient, as European financial actors are still allocating massive amounts of loans and other investments to new fossil fuel projects, undoing the positive effects that would otherwise be achieved. **European banks alone have fed \$760 billion into the fossil fuel industry since 2016, with the annual amount increasing.**⁴ Under current incentives, **private finance is leading us to global warming well above 1.5°C.**

Although European and national supervisory authorities could use EU banking rules to impose transition strategies away from fossil fuel industries, helping banks phase out such future stranded assets, those authorities are currently too slow.⁵ The Commission could similarly decide to impose stricter capital requirements on financial institutions, to penalize the financing of polluting activities.⁶ However, **a refined tool is currently missing** for precisely defining what such harmful activities are.

¹ [Speech](#) by Commissioner McGuinness at the Launch of the Platform on Sustainable Finance, 15 October 2020.

² [Emission Gap Report 2019](#) and [Press Release of 26 November 2019](#), UN Environment Programme.

³ https://ec.europa.eu/clima/policies/budget/mainstreaming_en

⁴ [Banking on Climate Change - Fossil Fuel Finance Report 2020](#), Rainforest Action Network et al., 2020.

⁵ See: ECB, [ECB Report on Institutions' Climate-Related and Environmental Risk Disclosures](#), November 2020; ECB, [Guide on Climate-Related and Environmental Risks - Supervisory Expectations Relating to Risk Management and Disclosure](#), November 2020; and EBA, [EBA Discussion Paper: On Management and Supervision of ESG Risks for Credit Institutions and Investment Firms](#), 3 November 2020.

⁶ [Breaking the Climate Finance Doom Loop](#), July 2020, Finance Watch.

Extending the taxonomy as a tool against climate change

Financial authorities such as the European Central Bank (ECB) and the European Banking Authority (EBA) have called for the European Commission to propose a taxonomy of environmentally harmful activities.⁷ Indeed, the EU Taxonomy Regulation⁸, 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**. Moreover, 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 divestment from environmentally harmful activities.

We are aware that **powerful financial and fossil fuel sector interests** are lobbying against such a change of the EU taxonomy.⁹ We urge you, on the other hand, to take the interests of civil society into account and give priority to the creation of such a taxonomy.

The climate clock is ticking and the Commission must act now

We only have a few years left for the enormous task of transitioning big companies, most business practices, and the whole financial system. As the central banks and supervisors' Network for Greening the Financial System warns, if we do not **act fast enough**, the transition will be disorderly and the climate impact massive, including financial instability.¹⁰

The EU and its member countries, in signing the Paris Agreement, undertook in article 2.1c of the accord to align private financial flows in accordance with their climate commitments. It is now crucial for the Commission to acknowledge its own responsibilities in that regard.

With the upcoming EU Renewed Sustainable Finance Strategy, Commissioner McGuinness, you have the perfect opportunity to show your commitment to making the required shift take place by:

- switching the Commission approach from incentives to fiercely **discouraging the financing of climate changing activities**;
- **deciding on a taxonomy of significantly harmful activities** in addition to a strict green taxonomy;
- introducing **mandatory** applications for the financial sector beyond reporting;
- and introducing legislative proposals to **implement these changes in 2021**.¹¹

These are essential conditions for Europe to be able to finance a just transition for all, one in which the financing of climate changing activities is phased out and stopped.

We trust you will listen to the voice of the EU's citizens and create a sustainable economy that works for people, including the next generation.

⁷ See note 5.

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>

⁹ [In the Shadows - Who is opposing the EU taxonomy for polluting activities?](#), December 2020, Reclaim Finance and Change Finance.

¹⁰ [Climate Scenarios for Central Banks and Supervisors](#), June 2020, Network for Greening the Financial System.

¹¹ i.e. including legislative proposals in the Renewed Sustainable Finance Strategy and pro-actively applying all the provisions in Article 26.2 (a) and (b) of the Taxonomy Regulation

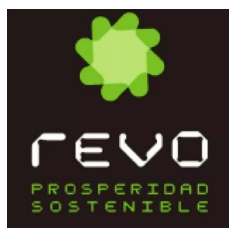
SIGNATORIES

52 civil society organisations



E3G





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SIGNATORIES LIST

1. 350.org
2. A Well-Fed World
3. ActionAid International
4. Alliance of Lithuanian Consumer Organisations
5. Amazon Watch
6. Asociación Elkarcredit de Solidaridad
7. Association For Promotion Sustainable Development
8. ASUFIN
9. ATTAC ESPAÑA
10. ATTAC-Togo
11. BankTrack
12. Both ENDS
13. Climatestrike Switzerland (Grève du Climat Suisse)
14. Consumentenbond
15. Corporate Europe Observatory
16. E3G - Third Generation Environmentalism
17. Estwatch
18. etika
19. Euroconsumers
20. Facing Finance e.V.
21. Fair Finance Guide Netherlands (Eerlijke Geldwijzer)
22. Fair Finance International
23. Fairfin
24. Food & Water Action Europe
25. Fossil Free Berlin
26. Fridays for Future Berlin
27. Fridays for Future Germany
28. Fund Our Future
29. Fundacja "Rozwój TAK - Odkrywki NIE"
30. Gas Free Pensions
31. Global Witness
32. Milieudefensie - Friends of the Earth Netherlands
33. MinervaLab
34. Oil Change International
35. Positive Money UK
36. Profundo
37. Rainforest Action Network
38. Reclaim Finance
39. Repórter Brasil
40. Réseau Action Climat France
41. Revo Prosperidad Sostenible
42. Secours Catholique Caritas France
43. Seeding Sovereignty
44. ShareAction
45. Sinergia Animal
46. SOMO
47. Spoločnosť ochrany spotrebiteľov (S.O.S.)
48. SÜDWIND-Institut
49. Talousdemokratia – Economic Democracy Finland
50. UCL Institute for Innovation and Public Purpose
51. Urgewald
52. ZERO - Associação Sistema Terrestre Sustentável