

Financing the transition to a climate-neutral economy

Welcome speech by Alexandra Jour-Schroeder, delivered at a Technical Workshop organised by the European Commission and the Platform on Sustainable Finance on 22 April 2024

I am glad to be here today at this event organised together by the Commission and the Platform on Sustainable Finance. That so many showed up here today and also online demonstrates the importance of the topic: *Financing the transition to a climate-neutral economy*.

Let me also thank the members of the Platform and the observers, and especially the chairwoman Helena Viñes Fiestas, for all the excellent work that they have already done since the launch of the second mandate just over one year ago, especially the compendium of market practices and the report monitoring of capital flows and market trends. The output has been impressive, and the work continues on many other fronts. The strong partnership between the public and private sector has been the key driver of the success of the file and continues to be crucial to deliver on the objectives of the Taxonomy Regulation, and ultimately of the European Green Deal and the agreed EU climate targets for 2030 and 2050, as well as those proposed by the Commission for 2040. The Platform has played and will continue to play a fundamental role in enabling such cooperation by bringing together the best expertise on sustainability from the corporate and public sector, from industry as well as academia, civil society and the financial industry.

The challenges we are facing in connection with sustainability have been and will continue to be enormous. Climate change, resource scarcity, and environmental degradation need to be addressed in order to secure a liveable future for generations to come. In response, with the European Green Deal, the EU has set the goal of being climate neutral by 2050. To achieve this ambitious goal, the "transition" to a sustainable, resilient, and resource-efficient economy is a key focus in our overall policy agenda.

In the past six years, considerable progress has been made. The European Union has taken substantial steps and demonstrated leadership in achieving our sustainability goals, including at a global scale. As part of this, the Commission has been spearheading efforts to ensure that the EU is equipped with a solid sustainable finance framework, which creates the right conditions for private capital flows to finance a more sustainable economy while managing the risks that climate change and environmental degradation pose to the financial sector and our economy at large.

In 2018, the market asked for more transparency, clarity and harmonisation on what can be considered as sustainable investments. Essentially, they asked for a framework and tools to direct and attract finance towards economic activities needed for the transition. Now, six years later, we have developed all these elements and they are now at disposal to the market participants: comprehensive sustainability disclosures for companies and financial products, the EU Taxonomy, Green Bonds Standard, Climate Benchmarks etc... Last year, with our Recommendation on transition finance, we have clarified how the various elements of our framework can help companies and the financial market participants on their transition pathways, irrespective of their starting points. We hope that market participants will now make use of the toolkit as much as they can in order to bring a tangible impact on the ground and move the needle.

On our side, we now need to make sure that our framework is as effective as possible on the ground so that all actors involved can make full use of it. With this objective in mind, the Commission continues to work on the necessary steps to facilitate its uptake by markets. First, we continue to provide guidance on the interpretation and application of certain criteria and disclosures under the Taxonomy, along with user-friendly online tools to help operators navigate the framework. Second, with the advice of the Platform, we will continue supporting implementation measures and addressing remaining usability challenges.

Let me now move to the three key topics at the core of our and Platform's work, and that feature prominently on today's agenda.

Today's workshop will start with two panel discussions on the compendium of market practices. The Commission very much welcomed the report of the Platform, which showcases that the EU taxonomy is working – and so is the wider EU sustainable finance framework, which is being picked up by different market actors as an effective toolkit to navigate the transition to net zero. The first year of Taxonomy alignment reporting for non-financial companies already displays encouraging figures. Data already shows that companies' expenditures align to a significant degree with the EU Taxonomy, with initial figures close to 20% of Taxonomy aligned capital expenditures on average. This shows that the EU Taxonomy is being used by companies as a tool for business strategy, transition planning and reporting. In short, it is being used as a yardstick for showcasing corporate sustainability efforts, as it was designed to be.

I will not dwell on the details on the compendium, as you will hear more from the two panel discussions this morning. But let me only say that its findings confirm the encouraging signals from the market that the framework is working on the ground. Which is reassuring; we are on the right track.

Although the compendium confirms the robustness of the foundations of the sustainable finance framework, it also highlights some data and implementation challenges that companies face in their journey towards sustainability. Therefore, our focus is now on further efforts to improve the usability of our framework and support companies by providing more guidance, including on questions and concrete application of the EU Taxonomy. We are also working on solutions enabling SMEs to get better access to capital for their transitioning needs, while avoiding regulatory or administrative burdens.

Of course, these solutions will be facilitated by making progress with the Capital Markets Union that could enable mobilising the required volume of private investments for companies' transition across the EU. On this, some of you may have seen the recently published report from Enrico Letta, former Italian head of government, on the future of the Single Market. I cannot agree more with some of the statements included in this report:

- That further financial integration within the Single Market is critical for achieving a just, green and digital transition.
- That successfully navigating the transition is a strategic necessity as well as a boon for EU competitiveness, and by extension for citizens and workers.
- That we need to continue considering new ways to incentivise investments, such a targeted public private partnership to better calibrate risks and rewards in, for instance, large infrastructure projects.

As the name of the event today already tells you, transition finance is one of the top priorities on our radar. This is for the simple reason that more private capital must be mobilised to achieve the objective of the sustainable transformation. This means that we need to invest not just into what is already green but into activities and projects that make an impact on the way to get there. With the Recommendation on transition finance presented in summer last year, we wanted to help and guide companies at different starting points, on how they can use the EU's existing sustainable finance tools.

The ultimate objective is to facilitate transition finance, not only for companies that have strong sustainability records already, but also for those that are at different

starting points. Therefore, our framework is also designed to support transition finance.

Transition Finance entails many challenges for various reasons. In the real economy, the transition is often costly and does not happen overnight. There may be for instance a lack of availability of the required technologies, some of which may still need to be developed. As previously mentioned, financial companies as well as companies in the real economy can have different starting points for transitioning. These depend on various factors such as the industry or the geographical area in which the company operates. The opportunities and ability of companies to transition also vary depending on their size, financial and material resources, or the availability of infrastructure and technology. Therefore, the financing needs of companies can only be determined individually. Small and medium-sized enterprises (SMEs) also need to finance their transition. Due to their size and limited resources, this can be very challenging and costly.

Therefore, more guidance on targeted solutions for SMEs as well as on transition plans and the transition planning process is needed but also consistency and coherence across frameworks. To streamline and ease the task of transition planning for companies, while ensuring also international interoperability, we count on the close cooperation with the Platform and EFRAG and involvement of the European Supervisory Authorities. Supporting the transition of the real economy and the financial sector is therefore crucial. However, we should also be able to better monitor and report on the adequate flow of capital into sustainable economic activities and assess overall progress towards the green transition, for which a methodological framework and data are needed. Otherwise, we miss a crucial piece – how far we’ve progressed or where outcomes are not aligned with expectations and therefore where efforts will need to focus. To this end, we tasked the Platform on Sustainable Finance with developing a methodology to monitor financial flows into sustainable investments, examining trends, in particular between financial and non-financial companies, and conducting and publishing a first analysis based on this methodology and available data.

With its intermediate report, our expectations have been met. The Platform has developed a comprehensive monitoring framework with a rigorous common methodology, a data structure and a mapping of data sources and gaps.

We asked for this work to be centered around existing reporting and data sources as much as possible, while creating a dynamic framework that can incorporate new data and reflect developments in the EU's sustainable finance landscape.

The Platform's work in this area represents an important effort to measure and assess the effectiveness of the EU sustainable finance framework and tools. It also provides an opportunity to explore and build on early practices - documented in the Platform's recently published Compendium of Market Practices - that market participants are employing to transition their business models and investments to a net zero and more resilient model. With the methodology established in the intermediate report, we aim to measure the effective contribution of finance towards the objectives of the European Green Deal. This work also serves as an important bridge towards a comprehensive understanding of sustainable investment flows and sheds light on whether sustainable finance policy is being adequately integrated into the funding and investment strategies of financial firms. It is an excellent basis for further work and based on the findings of the Platform's final report, the Commission will assess how to further support the financial sector in the transition to a sustainable and climate-neutral economy.

As said in the beginning, our current focus is on further improving the framework and reducing burdens on companies as much as possible. We also consider ways how we can facilitate the disclosure and reporting under the sustainable finance framework. A key part of this is continued engagement and communication with stakeholders. Today's event is a step on this path. The transition to a sustainable economy is a joint task for all of us, so I want to thank you again for attending today, to engage with the Commission and the Platform. Wishing you interesting discussions.