Establish a red and a social taxonomy: stop unsustainable finance

The transition from a polluting fossil-based economy to a sustainable, inclusive and regenerative economy that operates well within planetary boundaries requires trillions of euros, dollars, pesos, yuan, and yen. Whether public or private, investments need to flow towards green activities that help this transition. This necessity is reflected in one of the three main objectives of the Paris Agreement: "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

Europe is leading the league of stimulating green investments. The European Commission has formulated a sustainable finance strategy as part of the Green Deal. This strategy is helping to define what is green, create more transparency through new sustainability reporting requirements for companies, banks, and investment funds and set a worldwide standard on sustainable finance.

An important foundation for the sustainable finance strategy is the European Taxonomy Regulation (EU Taxonomy). This new green language was created to stop greenwashing and create clarity on what is *green* for the financial sector. When an economic activity substantially contributes to an environmental objective under the EU Green Deal, not harming other objectives and ensuring social safeguards, is in compliance with the UN Sustainable Development Goals (SDGs) and human rights, only then can economic activity qualify as green. All criteria are supposed to be set along the latest scientific and sectoral insights, reviewed in a three- to five-year cycle to be aligned with that sustainable, inclusive and circular economy. A new language that paves the way for the financial sector to push for green must be a dream come true.

While the basis for the EU Taxonomy was science, amendments to the proposal have watered down the text to the point that its effectiveness is now being questioned by Member States, environmental organisations and even the financial sector. Gas activities that have clearly be shown not to contribute to climate-change mitigation are now part of the taxonomy. Nuclear activities produce nuclear waste that can significantly pollute soil and water, cause security risks and put a burden on future generations to safely process this waste. Yet, they are included in the Taxonomy Regulation. With the creation of a new green language, the definition of green seems to have been stretched so that everyone can be a part of it.

The focus of the EU Taxonomy is limited to classifying that which is green, not what is red or unsustainable. Unsustainable means that an activity does significant harm to an environmental objective, something we do not want. Thus, the sustainable finance strategy creates maximum transparency for the good, green parts in our economy, while the unsustainable activities remain opaque.

This provides an opportunity for plenty of green marketing, while unsustainable economic activities are ongoing and stopping us from living in balance with our planet. As the EU standards are considered by many to be the standard to follow and copy, not considering these activities implies that other countries will also fail to address activities that significantly harm environmental objectives in their respective taxonomies.

The European Green Party wants maximum transparency of the financial, private and public sector so that everyone can see just who is helping us towards a bright green future and who is keeping us in the polluting fossil dark ages.

Therefore, the EGP urges the European Commission and the Platform for Sustainable Finance to reform the current ESG (environmental, social, and corporate governance) classification system and its key performance indicators, such as the Green Asset Ratio, towards a stronger impact orientation, and to prioritise the creation of a red/unsustainable taxonomy. This should consist of all economic activities that significantly harm our environmental objectives and/or do significant social harm to our social objectives. This includes activities like, but not limited to:

- Nuclear power generation;
- Exploration and extraction of fossil fuel reserves;
- Energy production using any solid, liquid and gaseous fossil fuels;
- The primary production of plastic;
- The manufacturing of aluminium and steel that benchmark with 25% of the lowest-scoring factories in the EU;
- Air, road, or water transportation using (over 50%) blends of fossil fuels;

The EGP also calls on governments to stop subsidies, financial incentives, or other support from the public sector to these fossil-fuel-related activities, including investments in fossil-fuel infrastructure.

Also, the European Central Bank should bring its activities in line with the classification and stop supporting investments related to the red taxonomy.

Furthermore, the Commission set out to present a social taxonomy, introducing a classification of economic activities that significantly contribute to social goals in the EU and represent a common code for investors, businesses and regulators as regards what is sustainable from a social perspective and what is not.

The ongoing economic and social consequences of the pandemic, rising energy and food prices due to the Russian war of aggression against Ukraine, increased levels of debt in “developing countries”: The multiple global crises are putting the 2030 Sustainable Development Goals in grave danger. In order to get back on track, there is need to accelerate private sector contributions towards the achievement of the SDGs: We need to raise and direct new capital to address pressing social problems such as ending poverty or hunger and ensuring good health and well-being on a global scale.

The green taxonomy already takes social aspects into account. But it does not provide clear definitions to evaluate social investments and thus steer them toward socially responsible activities and enterprises. A social taxonomy providing a strong definition and measurement of social investment can prevent social washing and helps with the embedment of sustainability and the SDGs into decision-making practices. We want:

- to direct private resources towards socially responsible activities and companies where it can make the most difference to people and planet;

- a clear European Framework on what constitutes a social investment and what economic activities can provide a substantial contribution to social goals.

However, the EU plans to introduce a social taxonomy have been put on hold until at least the end of this parliamentary term, with a lack of political will and the absence of international standards to measure the social impacts cited as the main stumbling blocks.

The EGP urges the European Commission to implement the red taxonomy and the social taxonomy in the EU sustainable finance strategy, setting clear thresholds for the financial sector to engage in activities that significantly harm our environment.