Press release

17-12-2019 - 11:15
20191217IPR69202

Climate change: new rules agreed to determine which investments are green

- EU taxonomy to provide investors with clarity on which activities are considered environmentally and socially sustainable
- Transparent credentials for financial products to divert financial flows to sustainable economic activities
- It will help achieve the goal of a climate-neutral EU

Parliament negotiators reached an agreement with Council on Monday on new criteria to determine whether an economic activity is environmentally sustainable.

The so-called "taxonomy regulation" stipulates that the following environmental objectives should be considered when evaluating how sustainable an economic activity is:

- climate change mitigation and adaptation;
- sustainable use and protection of water and marine resources;
- transition to a circular economy, including waste prevention and increasing the uptake of secondary raw materials;
- pollution prevention and control; and
- protection and restoration of biodiversity and ecosystems.

"The taxonomy for sustainable investment is probably the most important development for finance since accounting. It will be a game changer in the fight against climate change", said lead negotiator for the Environment Committee, Sirpa Pietikainen (EPP, FI). "I am satisfied that we reached a balanced agreement with Council, but this is only the beginning. Greening the financial sector is a first step to make investments flow in the right direction, so it serves the transition to a carbon neutral economy", she added.

"All financial products which claim to be sustainable will have to prove it following strict and ambitious EU criteria. The compromise also includes a clear mandate for the Commission to start working on defining environmentally harmful activities at a later stage. Phasing out those activities and investments is indeed as important to achieve climate-neutrality as supporting decarbonised activities", said Economic Affairs Committee rapporteur Bas Eickhout (Greens/EFA, NL).

How it works

An economic activity should contribute towards one or more of the above objectives and not significantly harm any of them, says the agreement. Its environmental sustainability should be measured using a unified classification system, as national labels based on different criteria make it difficult for investors to compare green investment, thus discouraging them from investing across borders.

The text does not preclude or blacklist any specific technologies or sectors from green activities, apart from solid fossil fuels, such as coal or lignite. Gas, and nuclear energy production are not explicitly excluded from the regulation, however. These activities can potentially be labelled as an enabling or transitional activity in full respect of the “do not significant harm” principle.

The new legislation should also protect investors from risks of ‘greenwashing’ as it makes it compulsory to provide a detailed description of how the investment meets the environmental objectives.

Transition and enabling activities

The taxonomy criteria should also ensure that transition activities necessary to become a climate-neutral economy, but which are themselves incompatible with climate neutrality, should have greenhouse gas emissions levels corresponding to the best performance in the sector or industry. Transition activities should neither hamper the development of low-carbon activities nor contribute to carbon intensive lock-in effects, says the text.

A similar rule will apply to activities that directly enable a sector to improve its environmental performance (such as manufacturing wind turbines for electricity production).

Next steps

The agreement reached by the EP negotiating team will have to be approved first by the two committees involved and by a plenary vote. The Commission will regularly update the technical screening criteria for the transition and enabling activities. By 31 December 2021, it should review the screening criteria and define criteria for when an activity has a significant negative impact on sustainability.

Background

The Taxonomy regulation should enable investors to identify environmentally sustainable economic activities that substantially contribute to climate change mitigation, based on scientific evidence, including evidence from existing life cycle assessments (production, use, end of life and recycling), environmental impacts and long-term risks.

Further information

Commission proposal
EP research: Sustainable finance – EU taxonomy, A framework to facilitate sustainable investment

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