BRIEFING PAPER

JUNE 2020

WWF recommendations on the Solvency Support Instrument

The Commission's legislative proposal establishing the Solvency Support Instrument needs to be improved on three major complementary issues:

- Companies should be required to put in place a green transition plan in order to receive support;
- There is no climate and environment target;
- The 'do no harm' approach is not clear and robust enough.

This briefing provides concrete recommendations to address these shortcomings.

The present briefing provides WWF analysis and recommendations on the Commission's legislative proposal creating the Solvency Support Instrument[1], that amends and prolongs the regulation on the European Fund for Strategic Investments (EFSI), the precedessor of InvestEU.

As mandated by the European Council, the Commission published a package for the MFF 2021-2027 and Next generation EU. It has repeatedly stated, at the highest level, that the European Green Deal will be the 'motor of Europe's recovery' and that the recovery should drive the green and digital transformation of the economy. We were also encouraged by the many appeals for green recovery that have blossomed across Europe, e.g. by 19 EU governments, Members of the European Parliament, the Club of Rome, scientists, NGOs, 200 representatives from business and politics, energy companies, and many more.

WWF, as part of the Green 10, issued a letter to the Commission early May 2020, calling it to notably integrate the following demands in this package:

- The Commission should propose a 50% climate and environment spending target for the MFF 2021-2027, InvestEU and the EU recovery fund;
- The 'do no harm' requirement should apply to the whole package and lead in particular to the exclusion of new projects of fossil fuel production, processing, transport, distribution, storage or combustion;
- The EU taxonomy is very relevant to improve climate and environmental spending, and should be applied for its target setting and tracking for programmes in the EU.

The present briefing highlights three priorities for the recommendations on the Commission's legislative proposal creating the Solvency Support Instrument:

- **Priority: Require companies to put in place a green transition plan in order to receive support**
- **'Doing good' : set up a climate (and environment) target and tracking;**
- **Ensuring a 'do no harm' approach.**

[1] COM(2020) 404 final.

1. Priority: Requiring companies to put in place a credible green transition plan to receive support

The legislative proposal states, in Annex II section 6 (d) to the EFSI regulation (investment guidelines):
"*Companies with a certain level of exposure to a pre-defined list of environmentally harmful activities, in particular the sectors covered by the EU Emissions Trading System (EU ETS), shall be encouraged to put in place, in the future, green transition plans.*"

This proposal suffers three flaws:

1. Require not encourage companies receiving support to put in place green transition plans

The targeted companies (large high-carbon companies) are only encouraged to put in place green transition plans. This is unacceptably weak and not consistent with the new context of the European Green Deal and the forthcoming more ambitious EU 2030 climate targets.

Such transition plans should not be a 'nice to have' but become a must, in order for companies to receive public support.

This requirement to companies in the Solvency Support Instrument should not lag behind market's best practice. There are already robust market precedents creating a strong basis to go for a mandatory approach in the Solvency Support Instrument:

- **Non-financial companies: the Science-Based Target initiative** is accompanying companies to set voluntary climate science-based targets. The SBTi coalition is led by WRI, CDP, WWF and the UN Global Compact. As of Febuary 2020 almost **800 companies** have committed globally, in more than 50 countries in all regions and in around 50 different sectors – and this growing very fast. This represented 752 million tons CO2 in October 2019. Each company sets its tailored science-based target (using forward-looking climate scenario analysis), that is validated by an independent scientific committee, and must be met in a five to fifteen-year timeframe (which is an adequate timeframe for action). Annual reporting of progress against targets is required to track performance.
- **Private investors: the UN Net-Zero Asset Owner Alliance**[2] was launched in October 2019, led by UNEP-Finance Initiative and UN PRI, and has already grownto 19 institutional investors representing around US$ 4 trillion in assets (like Allianz, Axa, Aviva). Members are committing full portfolio alignment with a 1.5°C scenario, and also commit to set their first targets by end 2020;
- **Private banks: as part of the Principles for Responsible Banking** launched in October 2019, 37 private banks representing $10 trillion of AuM committed to align their portfolio with a 2°C pathway. It is also led by UNEP-Finance Initiative.

In addition, leading investors and banks are starting to require that companies commit to align their business model with the Paris Agreement, through internal climate policies, shareholder engagement or new financial indices:

- In September 2017, **ClimateAction100+, the largest ever global investor coalition for corporate climate engagement** with above 300 investors to date totalling USD $30 trillion in AuM, launched a five-year initiative targeting the 160 largest high-carbon companies globally. It is engaging systematically with these companies so that they notably "*take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2-degrees Celsius above pre-industrial levels*"[3].

[2] https://www.unepfi.org/net-zero-alliance/.
[3] http://www.climateaction100.org/.

- **Royal Bank of Scotland** recently published a climate policy committing to progressively end lending and underwriting to activities in the coal, oil and gas sectors, "*if they do not have credible transition plans in line with the Paris Agreement in place by end of 2021*"[4];
- UK investor the Church of England Pension Board and the London Stock Exchange recently launched a climate index together to monitor climate change progress and announced: "*The message is clear to all publicly listed companies: put in place targets and strategies aligned to Paris and be rewarded with inclusion in the index, or work against the long-term interests of beneficiaries and wider society and be excluded*."[5]

Such market precedents are voluntary and do *not* depend on public financial support. There is therefore a very strong rationale to *require* companies asking for public support from the Solvency Solvency Support Instrument to put in place meaningful green transition plans.

2. Specify that the green transition plans need to be time-bound and science-based

The green transition plans are not specified, which makes the clause much too vague. It should be clarified that such green transition plans need to be time-bound and science-based. **Green transition plans may otherwise be totally useless to contribute to the achievement of EU climate and environmental objectives, if they are only incremental.** Incremental improvements do not deserve public financial support.

The latest IPCC 1.5°C report makes clear that alignment of corporate business models in high-carbon sectors should be done with the 1.5°C Paris Agreement's goal.

3. Refer to the EU taxonomy to define environmentally harmful activities

The scope of the proposal to identify companies omits to refer to the EU taxonomy. It focuses on companies "*with a certain level of exposure to a pre-defined list of environmentally harmful activities, in particular the sectors covered by the EU Emissions Trading System (EU ETS)*".

It would be a significant missed opportunity and inconsistency to not refer to the EU taxonomy that will provide economic activity-level criteria and will gradually become a milestone to identify significantly environmentally harmful activities.

WWF recommendations
• **Require companies to put in place a green transition plan.** • **Ensure that such plans are time-bound and science-based, aligned with the 1.5°C Paris Agreement goal.** • **Refer to the EU taxonomy to define environmentally harmful activities.**

[4] https://www.rbs.com/rbs/about/climate.html.
[5] https://www.anglicannews.org/news/2020/01/c-of-e-pension-board-launches-london-stock-exchange-index-to-monitor-climate-change-progress.aspx.

2. 'Doing good': setting a climate and environment target and tracking

The legislative proposal states in Article 9 on requirements for the use of the EU guarantee:
"'While recognising the demand-driven nature of the EFSI, the EIB shall:
(a) target that at least 40 % of EFSI financing under the infrastructure and innovation window support project components that contribute to climate action, in line with the commitments made at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21). EFSI financing for SMEs and small mid- cap companies shall not be included in that computation. The EIB shall use its internationally agreed methodology to identify those climate action project components or cost shares;"

However, this target only applies to the infrastructure and innovation window – which is ending. There is no such target for the solvency window.

1. Set an ambitious climate and environment target

Three flaws need to be underlined in the proposed regulation:

- The 40% climate target only applies to the infrastructure and innovation window. **It does not apply to the new solvency support window which has therefore no climate target.** This is also inconsistent with the InvestEU regulation (the successor of EFSI), for which EU institutions already agreed last year that the climate target will apply to *all* the windows under the the guarantee fund. The target should therefore apply to the new solvency support window;
- The figure itself is too low and, in particular, inconsistent and not commensurate with the forthcoming new, higher 2030 climate target in the Climate law. As a matter of comparison, the European Investment Bank already agreed a 50% climate and environment target;
- **Such a 'climate-only' target is not consistent the European Green Deal** that has a broader environmental reach with the Biodiversity Strategy, the Farm to Fork strategy, the new circular economy Action Plan, etc. It should be noted that the EU taxonomy will enable to track spending for various environmental objectives, beyond climate (see point 2 below), making it feasible to identify spending to various environmental objectives.

It is therefore necessary to set up an ambitious climate and environment target in Article 9.

2. Use the EU taxonomy to track climate and environment spending

The EU taxonomy is the most relevant tool to track climate and environment spending in a robust way, but is omitted in Article 9.

In its recent 'Climate Bank Roadmap 2021-2025', the European Investment Bank commits explicitly: "*5.12 The EIB Group intends to start tracking its new climate action and environmental sustainability ambitions starting in January 2021, building on past experience and the existing guidance provided in the context of the EU Taxonomy to date*".

For the sake of clarity, the EU taxonomy should therefore be directly refered to in Article 9.

WWF recommendations

- **Ensure that the climate target in Article 9 applies to the new solvency support window, similarly to InvestEU, increase it to 50% for climate and environment, and track spending with the EU taxonomy.**

3. Ensuring a robust 'do no harm' approach

The legislative proposal states, in Annex II section 6 (d) to the EFSI regulation (investment guidelines):
"Companies targeted by funds, special purpose vehicles or investment platforms shall be encouraged to comply, to the extent possible, with minimum high-level social and environmental safeguards in line with guidance provided by the Steering Board."

This is a very weak requirement, only encouraging companies to the extent possible. Such an approach is totally inconsistent with:

- **the green oath to 'do no harm' of the European Green Deal;**
- **the InvestEU regulation (the successor of EFSI), for which EU institutions already agreed last year that 'do no harm' guidance will be developed by the Commission under the form of a delegated act,** *"to ensure that projects are subject to climate, environmental and social sustainability proofing with a view to minimising detrimental impacts and to maximising benefits to the climate, environment and social dimensions"* (Articles 7.3 and 7.4).

The Annex II section 6 (d) to the EFSI regulation therefore needs to be amended.

In addition, for consistency and simplicity purpose, we recommend to refer in Annex II to the InvestEU 'do no harm' guidance.

WWF recommendations

- **Require not encourage companies to comply with minimum social and environmental safeguards provided by the Steering Board;**
- **Require companies to comply with the 'do no harm' exclusion list and guidance developed by the Commission under the InvestEU regulation – the successor of EFSI (InvestEU Article 7.4 and Annex V (B)).**

.

For further information:

Sebastien Godinot
Economist
WWF European Policy Office
Email: sgodinot@wwf.eu
Mobile +32 489 461 314

Henry Eviston
WWF European Policy Office
Email: heviston@wwf.eu
Mobile +44 770 602 5686

WWF

Why we are here
To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

www.wwf.eu