Sustainable Finance:
Regulation on a framework to facilitate sustainable investments

Brussels, 18th October 2018

The Sustainable Finance package launched by the Commission aims to make sustainability considerations part of financial decision-making in order to enhance the efforts to fight climate change and address environmental risks. Among the proposals, the "regulation on the establishment of a framework to facilitate sustainable investment" should create a unified classification system of sustainable economic activities ("taxonomy").

The EU has promoted an energy policy characterized by a diversified energy mix to ensure the security of supply and encourage investments in infrastructure, in line with its Member States' needs.

During the past decades, all the components of the energy mix have played a key role within the European economic development and for the well-being of EU citizens. The energy transition to a more sustainable economy should take into account all the players already involved in the current energy landscape in order to guarantee a smooth, efficient and inclusive energy transition model.

In this context, the **EU refining industry recently launched its** "**Vision 2050" to demonstrate** its commitment towards greenhouse gases (GHG) emissions reductions and the EUs sustainability goals. The sector is developing and investing in new low-carbon technologies, contributing to the **EU environmental objectives,** such as the transition to a circular economy, while continuing to provide affordable solutions both to the EU transport system, to the industrial value chain (such as petrochemicals) and to EU citizens. However, the refining industry cannot walk this path alone. Alternative technology solutions that are being developed to reduce the EU carbon footprint also require broad financial resources and the investments often struggle to generate competitive returns. The affordability of these alternative solutions will improve with economies of scale, but, until then, support is vital to enable the successful transition towards a low-carbon future.

- **FuelsEurope welcomes the EU Commission's package on Sustainable Finance** and its efforts to unlock private investments in projects and technologies that reduce the impact on the environment, decrease CO_2 emissions and improve the efficiency of the industry itself.
- **The new legislation should complement the already existing EU policies,** strengthening the certainty and the stability of the regulatory framework, and avoid contradictions between EU legislative acts.

A plurality of solutions: a flexible and technology neutral approach

Climate change requires urgent actions from all sectors of the economy and **liquid fuels will continue to play an important role** across the different transport sectors for decades[1]. Thus, the promotion of low and zero carbon technologies should take into consideration all investments with the potential to enable, including those in refineries and in low carbon fuels.

Indeed, even in a 2ºC scenario, fossil fuels would still represent over 43% of the global total primary energy demand (TPED) and over 30% of the European Union TPED by 2050[2].

Aware of the key role they will play in the future, a number of refineries have already started an evolution along different low-carbon pathways and many examples of ongoing R&D and early deployment projects illustrate how the industry could evolve whilst mitigating climate change risk, in

[1] IEA, *The World Energy Outlook* (WEO) 2017
[2] IEA, Energy Technology Perspectives (ETO) 2017

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an investment-friendly regulatory framework. A financial approach based on the principles of **technology neutrality, cost effectiveness and free competition** should allow our industry to unlock its technology potential: as there is "no silver bullet" in the fight against climate change, the contribution of all energy sources will be necessary in this roadmap towards GHG emissions reduction.

- The taxonomy should adopt an **inclusive approach** towards different technologies, namely providing a definition of what activities could be generally defined as "sustainable", rather than a closed list of specific "sustainable activities".
- When drafting the taxonomy, the classifications should be based on the potential of investment projects, and not on generic classes of projects, **so to avoid a-priori judging certain assets or entire sectors as "non-sustainable".**
- Indeed, each project should be assessed on an individual basis, considering whether it meets the overall objectives of the regulation, as defined in Article 5. Hence, the Commission should avoid blocking promising projects. CCS, for example, could make a substantial contribution to climate change mitigation, despite concerns over its environmental impact, which should be carefully assessed.
- The **criteria mentioned in the regulation should be flexible enough** to adapt to the market needs, to consider the different levels of possible contribution to the GHG reduction process and to take into account the scalability of a given technology, its potential multiple application, its applicability of learnings to other projects and cross-sectoral spill-overs.
- While the Commission aims at a homogenous approach, **the specific characteristics and needs of a Member State should be taken into account**, with its trajectory in the energy transition.
- The classifications should be based on a **Life Cycle Analysis**, ensuring a holistic approach on the impact of various technologies on the global climate.
- The taxonomy should facilitate the availability of funds for sustainable research projects in a long-term perspective. Only a broad coalition of industry experts and financial institutions will be able to deliver workable solutions, creating a nurturing research environment, in view of the implementation of *HorizonEurope*.

Investment decisions

We appreciate that the Commission aims to guide investors to better understand sustainability factors in their investment projects.

The financial sector plays a key role in the deployment of the technologies that will deliver the reduction of the EU's environmental footprint whilst maintaining the competitiveness of the EU's industry. Investors will need to be able to form a holistic and balanced view on risks and opportunities associated with an industry, specific company or project. Rules on the financial support across the EU for reaching the EU's sustainability goals should not undermine investors' basic fiduciary duties by prioritizing some factors, possibly at the expense of others. The Sustainable Finance framework needs to ensure that the financial risks of "green" investments are not obfuscated by incentives based only on some of the key parameters.

- **The autonomy** of judgement of investors and the EU liberalized financial market should be respected and the taxonomy should not impose a standard defining what is acceptable as an investment. Furthermore, the EU proposal should be consistent with the regime for climate-related financial disclosures that provides relevant information to investors and should strike a balance between the efforts spent on that reporting and its added value.

- Investment decisions from EU financial institutions based on a taxonomy classification regulation may result in unfair competition practices with non-European investors that may directly impact market shares, corporate incomes and EU jobs.

Social and economic classifications

We welcome the EU regulation going beyond the environmental classification, assessing also the socio-economic impact of a given investment. Currently the refinery industry supports 1.3 million EU jobs, provides 23bn Euros per year of added value to the EU economy[3] and plays a key role in granting access to energy and securing and diversifying supply. Moreover, it contributes to combatting energy poverty through the high energy efficiency of this sector.

- Therefore, it is key to **maintain the involvement of funds** (pension and others) that contribute to the sustainable development of the industry.
- The **non-EU regulatory framework should also be considered** in drafting the new sustainable policies: the taxonomy should not risk **jeopardizing the existing competitive level playing field**. The EU should moreover be mindful of the unintended side-effects that its policies might entail: involuntarily pushing manufacturing activities to other regions, possibly with lower climate ambitions, that may not only result in the loss of economic and social activity in the EU, but also in a worse environmental burden overall.

Stakeholders involvement

For the above-mentioned reasons, it will be important to take into consideration the voice of the EU industry when drafting the delegated acts related to the "taxonomy". However, in June 2018 FuelsEurope was among the stakeholders that expressed their concerns on the composition of the Technical Working Group (TWG) on Sustainable Finance set up to define the details of the taxonomy system. The lack of representatives from key industrial sectors (such as refineries and transport) excludes an important contribution and fundamental expertise.

- FuelsEurope – and Concawe, the scientific division of the European Petroleum Refiners Association – are **fully available for consultation at any time**.
- We recommend the **creation of a mirroring group** with the involvement of the relevant businesses not included in the TWG (representatives from energy intensive industries, from other manufacturing sector etc.). This would help the co-legislators to define and prepare a fundamental science-based regulation that could deliver the right impacts all across the EU economy.

FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 41 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

FuelsEurope aims to promote economically and environmentally sustainable refining, supply and use of petroleum products in the EU, by providing input and expert advice to the EU institutions, Member State Governments and the wider community and thus contributing in a constructive and pro-active way to the development and implementation of EU policies and regulations.

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[3] Source: EU Refining Fitness Check (EU Commission, Jan. 2016)