EUROPEAN FORUM for MANUFACTURING

'HOW SUSTAINABLE FINANCE CAN DRIVE MANUFACTURING GROWTH IN EUROPE'

18h30 – 22h00 Dinner Debate Roundtable
Wednesday 16 May 2018
Parliamentary Salons 5 & 6

European Parliament




Danuta HÜBNER MEP, (Poland, EPP), Chair, Parliamentary Constitutional Affairs Committee

Danuta Hübner, chairing the event, welcomed Manufacturing and Financial Markets representatives as well as Parliamentary colleagues to this European Forum for Manufacturing in the European Parliament. She particularly underlined the importance of bringing industry and finance together to debate the new Sustainable Finance Action Plan. She then introduced the Commission's keynote speaker.

Ugo BASSI, EUROPEAN COMMISSION, DG Financial Stability, Financial Services and Capital Markets Union

EUROPEAN COMMISSION ACTION PLAN FOR SUSTAINABLE FINANCE

His main points included:

- The European Commission intends to deliver quickly on sustainable finance. It will create a toolbox offering an alternative to bank lending
- The report of the High Level Group was ready within 2 ½ months. The speed was because EC was committed to it
- Around €180 billion of additional investments a year are needed to achieve the EU's 2030 targets, including a 40% cut in greenhouse gas emissions. This is why, on the basis of the recommendations set out by the High-Level Expert Group on sustainable finance, the Commission has set out a roadmap to boost the role of finance in achieving a well-performing economy that delivers on environmental as well as social goals
- In addition to the 10 point Action Plan, a separate package will be published shortly to create a common European taxonomy on climate change mitigation activities
- There is a need to develop common definitions as to what is green and what is not green
- The dialogue between every interested party will remain open and will be expanded to broader environmental risks
- It is intended to create standards to define, for example, what is a green bond. These will be adopted through 2 measures
- A Regulation will be proposed shortly to define sustainability in asset allocation and risk management
- It is also intended to introduce transparency rules. Nothing will create an obligation to invest in green bonds. It is up to asset managers to disclose what they do and the way they do it
- The Commission will aim to put on the table something before the end of this Parliamentary mandate
- The Parliament is thinking along the same lines. Market participants will also have an important role to play

HOW BUSINESS INTEGRATES SUSTAINABILITY IN STRATEGY AND FINANCING

Antoni Ballabriga, BBVA - Banco Bilbao Vizcaya Argentaria, Global Head of Responsible Business; Member of Global Steering Committee of United Nations Environment Program for Financial Institutions

Introduction

- Our mission is to ensure that the bank systematically places people at the decision-making processes: from the design of a product to customers' complaints.

- We challenge and give support to all business units and support areas to achieve it.

- We are considered a second line function as compliance or risk functions. I report every quarter to the Board of Directors and I lead a team of 150 people.

- I have structured my brief intervention in three points. First, the new era we are living connecting sustainability & financial impact; second, what should be the social role of banking in this new era; and third, what are we doing at BBVA to promote sustainable finance.

A new era

- We are living in an era of profound economic and social transformation. We are facing major challenges: environmental, social & technological challenges.

- The status quo, business as usual, is not an option anymore. We have finally understood that if we do not change our habits, our way of living, working, producing, or consuming, the consequences for the planet and the human race will be dire.

- In this new era, there are four major global forces that form a tipping point that also affects banking and its social role:

    ◊ First, these issues are more than ever part of the global agenda. Two key milestones: the Paris Agreement on Climate Change and Sustainable Development Goals (SDGs) by United Nations. It is an ambitious agenda that commits states but also involves companies.

    ◊ Second, the enormous market opportunity generated by these SDGs. A market estimated at $12 trillion in 2030 that will require an annual investment in new infrastructure alone of between $5 and $7 trillion, of which 70% will be concentrated in emerging markets.

    ◊ Third, growing pressure from institutional investors, who are asking companies for information on how they integrate environmental and social aspects into their operations, as well as their long-term vision.

    ◊ And finally, regulation and soft-regulation, with three relevant initiatives.

        o First, the FSB TCFD recommendations, already embraced by more than 250 companies including financial institutions with $81 trillion in assets under management. In this regard, I would highlight the work promoted by UNEP FI,

the United Nations sustainable finance forum, together with a pilot group of 16 global banks, in which BBVA participates, to develop an open methodology to help implement these recommendations. We issued a first report on transition risk a few weeks ago and in June will be issuing a new one on physical risks.

- o Second, the EC's Action Plan on sustainable finance which we welcomed and that sets out a roadmap for the next two years, with10 key actions and three priorities: mobilising capital to boost sustainable development, managing environmental and social risks, and strengthening the transparency and long-term orientation of the financial system.

- o Third, the creation of the international network of central banks and supervisors on climate change

What should be the social role of banking in this new era?

- As our Executive Group Chairman said last week in our first Sustainable Finance Forum in Madrid: "We must reset banking. We must reimagine banking".

- Banks should redefine their purpose which has to be massive, transformational and oriented to create a positive impact on people's lives.

- We must build balanced and long-term relationships with our clients and other stakeholders, based on extreme transparency and always avoiding conflicts of interest.

- Banks must take advantage of all the possibilities offered by new technologies to universalize access to financial services, help people make the best financial decisions and boost their financial health.

- Banks must help their clients and customers to drive sustainable development and the transition to a low-carbon economy.

At BBVA we want to be a catalyst for this change. For this reason, we are proud to be part of the initiative promoted by the United Nations to define a set of Banking Principles. This initiative was started in the UNEP Banking Committee chaired by my colleague Stephen Hibbert from ING, in which 25 banks from all the continents are working together in line with the "Principles of Responsible Investment" for investors or the "Sustainable Insurance Principles" for insurers created a few years ago. These Banking Principles, which we expect to announce later this year, will set the standards and accountability model for this new bank.

BBVA's Strategy on Sustainable Finance

And what are we doing at BBVA? We do responsible banking and sustainable finance is of main strategic priorities.

We are already delivering solutions to help our clients in their strategies for the transition to a low carbon economy and promoting sustainable development. We are the most active player in green bonds in Spain and starting also in Latin America. We participated in the issuance of €10,6 Billion bonds last year.

We are also a pioneer bank worldwide promoting green loans: €9,2 billion in last 15 months, particularly two main types of green loans: loans with specific use of proceeds on green projects

or activities with third part certification; and revolving credit facilities where price is linked to ESG performance. One good example could be the two green loans to Iberdrola for a total amount of €5.3 billion.

But we wanted to go further and amplify our ambition. In this context, on March 2018, we decided to go one step further and we announced our new strategy for climate change and sustainable development. This commitment to 2025 is based on three pillars: finance, manage, engage:

a) Finance: We will help create €100 billion in capital mobilisation to curb climate change and achieve the SDGs. This pillar is about contributing to green investments and financing, sustainable infrastructures, social entrepreneurship -including solutions to promote loans to women entrepreneurs- and financial inclusion

   In this line we have launched our SDGS Bonds Framework last month and we issued the greatest green bond in the Eurozone by a bank with €1 billion in total

b) Manage: mitigate our own environmental and social risks and minimize potentially negative impacts, direct and indirect. In this sense, we are the first bank in the world to disclose our exposure to fossil fuels (3.4% of our total assets), and we work to align our activity with the climate objectives of a 2º scenario

   We have also set new sector norms in energy, mining infrastructure and agribusiness. And we have set a target of 70% renewable energy in 2025, 100% in 2030.

c) Engage: We will engage with all stakeholders to collectively promote the financial sector's contribution to sustainable development. Our clients, our customers, our employees, our investors, watchers, regulators, competitors… we need everyone because as EC Vice-President Dombrovskis said: "sustainable finance will no longer be a niche, it will be mainstreamed. We need to go fast, we need to go together".

The successful transition to sustainable finance will also require a corporate cultural change, a predisposition to this new way of doing finance based on longer-term time horizons; new business models and changes in corporate governance.

We very much welcome the regulator's engagement to establish a regulatory framework that will allow and foster the transition to a sustainable financial system, starting with common definitions and a clear taxonomy. We stand ready to contribute to the work of policy makers.

Ed Wells, HSBC HOLDINGS, Head of Policy for Global Markets, Sustainable Finance & Conduct

The Paris Agreement created a global political consensus and in doing so, also removed uncertainty for business, enabling the private sector to chart its route from Paris to the low-carbon economy of the future. The size of the task facing the global economy – particularly in new infrastructure in emerging markets – appears daunting, around $95 trillion over the next 15 years to deliver a sustainable economy that will limit warming to below 2º. But this is deliverable - providing we can mobilise the trillions including the assets whose owners want to invest responsibly. (Signatories to the UN Principles for Responsible Investment manage at least $65 trillion)

By providing such a clear and powerful signal to the market, policymakers have begun to set a framework that enables these private funds to be channelled at scale from high to low carbon activities. The role of private finance in delivering the transition across industry and sectors will be crucial - according to the People's Bank of China, around 85% of the funds will need to come from the private sector.

The EU is already playing its part as a global leader on action on climate change. The European Commission is to be commended for its ambitious and far-reaching Action Plan on Sustainable Finance and the European Parliament has produced a timely and significant contribution to the debate - most recently with its own-initiative Report. As well as understanding the risks, it is also important to remember that the opportunities for sustainable growth that arise from the low-carbon transition are significant for future economic efficiency and competiveness and for delivering amenities to the wider population.

The Paris Agreement was also instrumental in helping focus attention on these wider social and economic benefits. Those benefits will be not just to the climate and the environment – critical as those are – but to citizens across the world, as countries forge ahead with delivering their "Nationally-Determined Contributions" (NDCs) to the Paris Agreement.

Europe has also shown an important initiative here with the Juncker Plan and the European Fund for Strategic Investment. If these NDCs are well planned and prepared, they can create a pipeline of infrastructure and development projects that are "bankable" and that can offer wider economic and health benefits to people's lives - particularly the growing number living and working in rapidly expanding urban conurbations. By switching from fossil fuels to renewable sources of energy, air quality is improved and health risks are reduced. By providing public transit systems to decarbonise transport, congestion in cities can be eased and citizens connected to new jobs and other opportunities. By tackling waste, economies can be made more resource-efficient, reducing their burden on the environment and boosting their competitiveness. And most important, by cutting carbon intensity it is possible - as China has shown recently - to disaggregate carbon emissions and growth.

Financial institutions like HSBC also have an essential role to help finance the transition. We have made a number of high profile commitments to this – issuing the first corporate Sustainable Development Bond - in November 2017. In addition, HSBC has pledged to:

- provide $100 billion in sustainable financing and investment by 2025. The goal is one of five new commitments that HSBC is making to tackle climate change and support sustainable growth in the communities it serves
- intensify support for clean energy and lower-carbon technologies, as well as projects that support the implementation of the United Nation's Sustainable Development Goals
- source 100% of our electricity from renewable sources by 2030, with an interim target of 90% by 2025. By signing long-term agreements with suppliers, HSBC aims to support the development of new renewable power facilities
- reduce exposure to thermal coal and actively manage the transition path for other high-carbon sectors. This includes discontinuing financing of new coal-fired power plants in developed markets and of thermal coal mines worldwide. (Our new Energy Policy issued in April 2018 limits future coal projects to three developing countries and then under strict criteria – this exception ending in 2025 when HSBC will permanently cease coal financing

- lead and shape the debate about sustainable finance and investment. This includes promoting the development of industry-wide definitions and standards. HSBC is very keen to engage with policymakers on this agenda - including delivering the EU Action Plan

- adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to improve transparency. In our future Group annual reports, HSBC will give more details on its approach to climate-related risks and opportunities. This process began in February 2018 in our Annual Report and Accounts for 2017

But the transition won't happen unless we can make economics drive the process. For that, we need to unlock the power of markets. Better and more consistent information about climate-related risk and opportunities is essential. TCFD implementation can provide the data set that investors and lenders need. Better disclosure will enable transition risk to become integrated into the broader credit risk framework for banks like HSBC. There is also growing evidence that high ESG performance is being correlated with improved credit performance. This is a link that the EU is looking to establish with its work on possible "green supporting factors" to reduce the weighting of certain investments where they can be shown to be less risky. It is important to collect the data to establish whether such measures are justified and to see where and how the capital framework should be recalibrated.

In addition to the above, there is also an essential role that policy and regulation will continue to play - for example in the energy transition and in decarbonising transport and the switch to electric vehicles which can and is being accelerated by procurement and emissions policies in cities and municipalities. These policies need to be consistent, well-planned and signalled, to allow industry to respond. The impact on supply chains can be dramatic and we should work to ensure that this transition is both just and orderly. There is also a need for investment to continue to flow towards industries in high carbon sectors to enable them to make the transition to a more sustainable model.

The EU Action Plan can provided a critical element in moving from policy to product. The promised "taxonomy" is important but should not be seen as a silver bullet. The private sector should play a key part in helping to create this taxonomy. But the Action Plan should focus on the whole investment chain and not just on the "green" assets as these are likely to remain only a small subset for the foreseeable future. And where useful frameworks already exist – such as the ICMA Green Bond Principles – EU standards should seek to align themselves rather than risking duplication and fragmentation of what is still a developing market. This includes the integration of ESG factors into asset management. There is also a need to ensure effective policy coordination between financial services, energy, climate change for example and with a need to embed flexibility and enable scope for innovation.

Science tells us that limiting global warming to 2° or less is still possible, but we need to act now and we need to be more ambitious. By building on the legacy of COP21 in this way we can ensure that the Paris Agreement genuinely becomes a milestone on the way to a lower-carbon and more sustainable future.

Richard Northcote, COVESTRO, Chief Sustainability Officer

Introduction

Covestro is committed to sustainable development through innovation. It develops high-performance materials and application solutions to help master global challenges such as resource depletion, climate change, lightweight mobility and the sustainable city development, as defined in the UN SDGs.

We aim to contribute to the environment and the general prosperity of society, while conserving more natural resources.

To this end, we are continuously refining our product portfolio. It consists primarily of components for polyurethane foams, the engineering plastic polycarbonate and raw materials for coatings and adhesives. We supply these products to key sectors such as the automotive, construction, and electrical and electronics industries.

Besides production innovations, we are focused on the development of new and better production processes to help protect the environment and also to provide our customers with cost and technological advantages.

In addition, Covestro is focused on long-term, profitable growth following the triple-bottom line principle of 'People, Planet, Profit'.

Our Key Recommendations on The EC Action Plan

We believe that the power of finance can, and should, be used to facilitate the transition to a sustainable economy in the EU which extends beyond climate transition. Taking into consideration the European Commission Action Plan, we would like to focus our inputs on four main points:

1. Corporations should be transparent

Transparency of market participants' activities is essential to a well-functioning financial system. Corporate transparency on sustainability aspects is a prerequisite to enable financial market actors to properly assess the long-term value creation of companies and their management of sustainability risks. Corporate reporting is ineffective if longer-term risks are not fully transparent and thus cannot be taken into account.

We therefore support the Commission proposal for a unified EU classification system, which should provide clarity on which activities can be considered 'sustainable'.

2. Sustainable infrastructures

The extension of EFSI, the European Fund for Strategic Investment until 2020 (EFSI 2.0), together with the associated investment target increase, is beneficial for Europe. In addition, we believe that an increased focus on sustainable projects, with at least 40% of EFSI financing for infrastructure and innovation to support climate action projects, would be extremely beneficial. We also support the EU's commitment to make at least 20% of its budget directly climate-relevant.

We further acknowledge that the roll-out of the EU External Investment Plan (EIP) will encourage sustainable investments in partner countries. For this, sustainable development should be the

guiding principle, aiming at the creation of decent jobs and inclusiveness.

3. Benchmarks

The EC seeks to define more transparent and appropriate sustainable methodologies which are needed to reduce the risk of 'greenwashing' and to deliver greater transparency. For instance, a sound methodology for low carbon indices should reflect compatibility with the objectives of the Paris Agreement, in order to improve the performance assessment of low-carbon funds.

As the Paris target demands that society gets 10 times more from carbon than it currently achieves, Covestro has joined forces with a consortium involving Systemiq and Volans to develop a methodology for measuring carbon productivity, The Consortium defines carbon productivity as the value created from fossil carbon resources (coal, oil and natural gas), just as capital productivity tracks the financial return on investment and labor productivity measures the value created from human resources.

4. Corporate reporting in NFID

Acknowledging that the Commission is launching a fitness check of EU legislation on public corporate reporting, including the NFI Directive to assess whether public reporting requirements for listed and non-listed companies are fit for purpose, we do believe that sustainability is key to evaluating the performances of a company, and that it should therefore be clearly part of the reporting exercise.

However, a "one size fits all" measuring system would not be suitable. This is why we support the European Parliament proposal to build a robust, reliable and uniform definition for reporting in the framework of the NFID and the need to define the most strategic metrics for each sector or sub-sector.

A) How a Corporate Can Embed Sustainability into its Operations and Strategy Planning

As the European Commission points out, we are increasingly faced with the catastrophic and unpredictable consequences of climate change and resource depletion, and therefore urgent action is needed to adapt public policies to this new reality. Global challenges are facing us, and we need to respond boldly to them.

The financial system and governments have a key role to play here, though we also believe that the private/industrial sector and civil society should also contribute to this reflection in order to "Make the world a brighter place".

Measurable concrete targets

At Covestro, we have decided to set ourselves concrete targets, in order to be able to measure our sustainability.

a) We will align our research and development projects (R&D) to address the Sustainable Development Goals of the United Nations. In fact, by 2025, 80% of our R&D project spending will be targeted in areas that contribute to achieving these goals, either undertaken in partnership or endorsed by recognized institutions.

b) All our suppliers with recurrent annual spending exceeding €100,000 will be assessed and have to achieve compliance with our sustainability requirements.

c) We aim to reduce our specific greenhouse gas emissions – those generated per metric ton of product produced – by 50% when compared to our base year 2005.

d) We have pledged to help improve the living conditions of ten million people in underserved markets, primarily in developing and emerging countries, by the year 2025. We will focus primarily on affordable housing, sanitation and food security, for which our materials offer significant benefits.

e) Our products are based on carbon. In order to achieve added value from this element, we are working with recognized institutions and non-profit organizations along our value chain. With the help of our carbon productivity initiative *(https://carbonproductivity.com)* , we aim to increase the added value of the carbon used by us along the value chain.

B) What "Sustainable Investment" Means for Covestro

Transforming Europe's economy into a greener, more resilient and circular system within a low carbon economy will not only reduce our environmental footprint, but also contribute to addressing existing societal inequalities.

It will also boost competitiveness by improving the efficiency of production processes and reducing the costs of managing resources.

Unfortunately, the EC points out in its "Action Plan: Financing Sustainable Growth", that there is a current lack of clarity among investors regarding what constitutes a sustainable investment.

We have implemented clear decision criteria incorporating sustainability aspects into our investments' decision making.

'People Planet Profit' as a guiding principle

Sustainable investment should follow the Triple-Bottom Line principle. For several years now, this principle has been applied at Covestro. We therefore aim to foster the generation of increased value on each of the economic, environmental, and social levels. Our choices and measures are always required to reflect this principle: Through all our developments, we must generate a positive impact on at least two of the aspects, with no negative impact on any. One example of this is that Covestro is constantly working on increasing the share of alternative resources in the production of its plastics where this helps the environment.

However, should any process impact negatively on environmental concerns or societal benefits, (e.g. generation of increased greenhouse gases or increasing competition for food products), we will not pursue this course of action.

C) How Do We Translate "Sustainability" into Concrete Projects to Respond To The Global Challenges

'Sustainable finance' generally refers to the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities. In general, long-term thinking is at the core of Covestro's investment decision. This is reflected in our circular and low carbon economy projects, as well as in strategy to develop new technologies that improve safety and which help to improve the performance of renewable energy *(https://www.covestro.com/encompany/strategy/attitude).*

An example translation of this concept, is what we call inclusive business.

What is Inclusive Business?

One of our five sustainability targets is to contribute to improving the lives of people in underserved markets, primarily in developing and emerging countries. In collaboration with partners including customers, government bodies and non-governmental organizations, we are developing new business models for affordable solutions, based on our technologies and products that benefit the very low-income population.

In India and the ASEAN countries, for example, we are focusing primarily on food security, sanitation, clean water and affordable housing in which our materials offer significant benefits.

A majority of people in developing regions depend on agricultural production as a source of income. However, with between 30-50% of harvested goods lost through wastage, there is significant opportunity to boost the incomes of the lowest wage earners.

Covestro is collaborating with unconventional partners from different sectors (customers, NGOs, social enterprises, governmental institutions, and impact investors) in the area of food security solutions, benefiting farmers on the ground by reducing post-harvest-losses, increasing incomes, and improving livelihoods.

Examples of inclusive businesses are as follows:

- Solar Dryer Parabola Domes
- Solar Conduction Dryers
- Cold Storage Solutions
- Better living conditions with our affordable housing solutions *(https://www.covestro.com/en/sustainability/lighthouse-projects/inclusive-business)*

Robert LAUX, BOMAG, Senior Vice President, Operations & Quality Management

BOMAG employs approximately 2,300 persons and has a turnover of approximately €800 million. The company is owned by FAYAT, a French privately-owned corporation. FAYAT counts 19,000 employees and has a turnover of €4 billion.

Robert Laux is also Vice chairman of the Commitee for European Construction Equipment (CECE) _ High Level Technical Policy Advisory Group (HLTPAG), which is the group of managers who oversee the technical engineering decisions in their corporations. HLTPAG provides CECE with suggestions on fields of relevance for the construction machinery industry.

In our industry, sustainability has always been a goal for our companies and for the products that we develop and manufacture. Construction machines are the tools which deliver all kinds of infrastructure and buildings. Our aim is to improve the sustainability of the construction sector as a whole. This englobes sustainable investments and sustainable financing.

The application of stricter engine emission limits is a major investment that the construction machinery industry has been going through in the last years and that we are still consequently working on. After 2020, all the construction machines freshly placed on the market will fulfil

the strictest engine emission limits in the world. This is clearly a commitment towards climate protection and thus to sustainability. Having said that, one could easily think that stricter engine emissions are the key to sustainability improvements, which is a major mistake.

As previously mentioned, our machines are tools created for the construction industry that are being used by the construction sector to build, for instance, roads and infrastructures. CECE is running several research projects to identify the link between CO_2 emissions and the impact of individual machines and the wider scope of the overall construction process including material production and transport on the environment. The results will give relevant information on how to improve the transparency of sustainable construction in terms of climate impacts from CO_2. This will help investors to evaluate the different criteria of sustainability. It will also give the legislators a better understanding of why the construction machinery industry is, in terms of emissions and climate impact, very different than the car or truck industry.

This is not only our commitment, but also our hope and motivation to get a holistic view on the construction sector and their processes a whole, rather than focusing only on the construction machinery industry. Acknowledging the achievements regarding the improvement on sustainability, it is now the time to motivate the construction value chain to deploy theses eco-friendly machines in their fleets. The new improved machines need to be bought by our customers. A possible example to encourage the construction industry to renew their fleet would be to offer them financial support to invest into the development of new machines with less emissions and therefore, a lower climate impact.

The construction process is much more than machines or material. Our industry is constantly innovating its process. For instance, digitalisation will significantly change the way construction business is done. CECE is currently running a project to better understand the demands and possibilities of digitalising the construction sector. In terms of material and the re-use of existing material in existing buildings, we are always seeking to innovate our methods and processes. The main driver is always economical investment and its return therefore is the key to enable more sustainable solutions.

Today, construction processes are based on national standards. Renewing these standards is a slow process and, we believe that it delays the process towards more sustainable solutions and prevents sustainable investments. Companies acting more sustainably have often higher costs and are suffering for the lack clarity in the evaluation of sustainability for this industry.

We clearly want to motivate policy makers to consider sustainability as a key decision that needs to be implemented in the return of investment analysis methods for the construction industry. You must keep in mind, that the construction machinery industry is only involved in the second or even third phase of this evaluation process and thus the turnaround cycles are today fairly long. It would be a constant failure to use fuel consumption of machines in artificial test cycles as the measure for CO_2 emissions of construction sites.

All this information is not only relevant for the EU market, but also for the rest of the world. Sustainable development should be a guiding principle. We encourage you to have a close look at projects, starting from their contents and execution, as too often the investment capital can be easily put into a less sustainable stream causing potentially less interesting results, which is not in the interest of EU decision-makers.

Lieve WIERINCK MEP, (Belgium, ALDE) Economic & Monetry Committee ECON, Shadow Rapporteur, Own-Initiative Report on Sustainable Finance

Dear colleagues and stakeholders from across the industry, I strongly believe that we have the same goals: to fill the €180 billion gap and increase sustainable investments, while enhancing the stability of our financial system. Although we have the same goals, we have different ideas of how they can be achieved. This has become very clear in our discussions on the Own Initiative Report that we recently voted in the ECON committee.

To give you one example, I do not agree that monetary policy should be used as a tool for objectives other than the price stability and a stable, healthy monetary system. In addition, it is not up to us to the regulator to steer finance in one direction for the sake of sustainability. In addition, I want to stress that a green investment is not necessarily a sustainable investment!

The flow of finance should be guided by the market: by investment decisions that take into account material risks and market conditions. For every product there is a market. If an investor wants to make a high-carbon investment that decision is his to make. However, we have to make sure that he is aware of the risk involved and that his return on investment reflects this risk.

So what role can we play as legislators?

1. We need to make sure that non-sustainable investments become a material financial risk: for example through ETS.

2. We need to guarantee that all market players have the information they need, to identify these risks.

3. And finally, it is our job to ensure that all this information can be found in a uniform and harmonized language that is comparable and that can be used by the investor in his decision-making.

I strongly believe that this is what the taxonomy should provide. And I am very much looking forward to the upcoming Commission proposal. As a result, it will become easier for a sustainable investment to find funds, regardless of the company or sector that is making the investment. From the beginning, it was my belief that we should target those that want to change within the 100%, instead of the top 10%.

It is not my goal to reward those companies that are already sustainable. What I want is a market incentive for any company that wants to become more sustainable than it is today.

To conclude, I want each market player to continue what they are doing today, but with the tools and information that enhance risk assessment.

My final goal is to ensure that those companies that want to invest in sustainability have access to the finances to do so.

Why stop at filling a gap of 180 billion? When we can fundamentally change a market that is worth trillions.

José Inacio FARIA MEP, (Portugal, EPP), Environment Committee

It is always a great honour for me to be associated with the European Forum for Manufacturing and its initiatives, some of which I had the pleasure of hosting.

I am here today to exchange views with you on how business integrates sustainability in their strategy and financing, in an environmental point of view.

Following the strategy set out forward in 2015 by the United Nations, on the establishment of the 17 Sustainable Development Goals and the 169 targets, under Agenda 2030, to stimulate action in areas of critical importance for humanity and the planet, the EU has committed itself to implement this Strategy internally and globally, in cooperation with its partners.

And, for that purpose, on November 2016, the EU has adopted a sustainable development package towards the full implementation of the Agenda 2030 for the Sustainable Development.

In the EU, the world's biggest carbon market, the cap-and-trade program for emissions is the cornerstone of the region's plan to cut greenhouse gases and new financial instruments are being created to benefit sustainable companies in Europe.

In that sense, last 8th of March, the European Commission unveiled its strategy for a financial system that will support EU's climate and sustainable development agenda, and boost the role of sustainable finance in driving emissions reductions throughout the trading bloc.

This strategy, or Action Plan, sets out a roadmap for helping the EU drive the 180 billion Euros of additional investment that is estimated to be needed every year to hit the EU's target of cutting greenhouse gas emissions by 40% by 2030.

This EU's Action Plan on sustainable finance is just a part of the Capital Markets Union's efforts to connect finance with the specific needs of the European economy for the benefit of our planet and society.

However, to succeed, public finance and regulation are not enough. We all know that!

To achieve these goals, the private sector has a critical role to play. With its private financial assets, it represents a huge lever towards green and sustainable investment.

But in order to be successful, I consider that private investors need a systemic change in investment culture.

Being, a member of an ecological and humanitarian Portuguese party, the Earth Party, I believe that in this 21st century sustainable development is no longer an ethical or moral issue, but increasingly an economic one.

Like Commissioner for Climate Action and Energy, Aries Cañete said "Paris Agreement is a massive investment opportunity. How can we unlock it?"

And with this very challenging question, I leave you hoping that the insights of the financial and manufacturing sector representatives that we are honoured to have here today with us, can help us finding at least some of the answers.

Alfred SANT MEP, (Malta, S&D), ECON

It seems to me that when we look forward to the development of sustainable finance, not least with respect to manufacturing, we should be aware that we have a very long road before us.

Sustainability has been on the agenda of many companies in the EU, but it has mainly been unrelated from their core strategy. Moreover, it seems that companies take a fragmented and reactive approach - ad hoc initiatives to enhance their green “reputation” or deal with emergencies - rather than dealing with sustainability as an issue that has a direct impact on business results.

Our financial markets are structured to reflect return on investment that responds to quantifiable and well recognised cost and price indicators.

Developments like climate change which are likely to happen well beyond the timeframe set for the value added of an investment qualify as an act of God if they become effective during the investment’s lifetime.

That can best be countered prudentially by buying insurance to guard against its occurrence.

Though this can be labelled short termism, it is the rational way by which the financial and productive systems operate under neo-liberal rules, with prices serving as signals to communicate to economic players how inputs can be converted to outputs at enterprise level, while leaving a financial surplus.

It is true that there is a growing market in which investors prioritise environmental concerns and put their wallets on the line.

Still it is relatively a small market and in no way can it be said to have sufficient momentum to by itself help counter the emerging disasters that are foreseen, unless corrective action is taken.

There is only one way by which to achieve truly effective corrective action.

Business firms among others must begin to take into account future environmental damage as an operational concern of today. For this to happen, such damage must be converted into an ongoing current day cost that firms will have to internalise.

Which is why public policy measures, at national or EU, level need to be applied.

The Commission has given a good start to this process with the follow up it is carrying out to the first conclusions of its expert working group on sustainable finance: the goal is to make sure that more businesses will have to take a long-term strategic view of sustainability and build it into their strategies to drive returns on capital, growth and risk management.

The ground is being laid for corrective action to be organized in a focused, step by step manner.

However - I may be wrong but - the impression being given is that this focus is too concentrated on the bigger utilities and productive firms.

Yet a huge proportion of manufacturing output in Europe is turned out by small and medium size enterprises.

Could it be that the strategy being followed is based on the assumption that measures which are geared towards sustainability in the bigger enterprises will ultimately percolate down to SMEs since many of the latter function as suppliers to the larger conglomerates?

In my view, it would be a mistake to go down this path. Strategies to promote sustainable finance for manufacturing should specifically also target SMEs.

When designing "incentives" and "penalties" in order to create a framework for sustainable finance to thrive, it will be necessary to adopt a graduated approach. Any big bang scenario does not make sense. The "one-size-fits-all" approach should also be avoided because what would work for big or listed companies doesn't necessarily work for SMEs. This is not made clear in my view in the road map that the European Commission has been pursuing.

On such a basis, it would seem that any scenario being adopted in the future would eventually take the form of "cost penalties" increasing progressively over the years to their full level; while at the same time incentives would be degressively lowered from the initial high point at which they are set.

This would allow firms to alter and improve their production systems according to a plan within a framework that would remain recognizable to the one in which they now operate.

There is no reason why such an approach would not be applicable to European SMEs right from the start.

Many SMEs finance their growth and investment plans through bank loans, cash flow and suppliers' credit.

The experience with EFSI has shown that European investment platforms can accommodate substructures that cater for manufacturing SMEs to promote new investment projects.

The same could apply for focussed efforts to bring manufacturing SMEs into mainstream exercises to mobilise sustainable finance.

While the penalty system would apply for all relevant inputs no matter who uses them, whether large conglomerate or SMEs, incentives would be tailor made for SMEs, through specific green platforms that provide support by way of cheaper long term finance backed by green bonds or similar instruments.

The point I am trying to make is that SMEs should be considered as of now, as main participants in any future scheme to promote and run sustainable finance in Europe.

POLICY MEASURES TO BOOST GREEN FINANCE INTERNATIONALLY & IN THE EU

Hugues Delafon, CREDIT AGRICOLE CIB, Managing Director Sustainable Banking

Introduction:

- I work for Crédit Agricole CIB, the Investment Bank of Crédit Agricole Group. Formerly as Head of Debt Capital Markets Origination for Corporate and now part of the growing Sustainable Banking team.

- In the DCM team, we advise our clients to structure and place capital markets instruments such as bonds which form the main part of the funding of any industrial companies today. In the Sustainable Banking team, we help our clients and our DCM team make these instruments “Sustainable” and “Green”, and respond to investor demand.

- The growth of our team in itself, from a couple of people 7 years ago to 10 people now in Europe and Asia, is a testimony of the considerable appetite for Sustainable Finance expertise currently

1) Sustainable Finance instruments for Industrial companies?

- Green Bonds

  ◊ GBs have developed fast. Non-financial corporates represent around 25% of the market and €35 billion of financing in 2017

  ◊ Opportunity for corporate issuers to i) communicate on their Sustainability Strategy and put the spotlight on key projects, but also ii) to diversify their investor base to Green investors

  ◊ Most corporate issuers come from the same capital-intensive sectors with large green assets such as renewable energy in the Utility Sector or Green Buildings in real estate

  ◊ For “core” industrial sectors such as manufacturing, it is more complex to earmark large capital expenditures to be labelled as Green. Nevertheless, we have seen some outstanding examples, such as Schneider Electric €200 million Green Bond in 2015, where the “use of proceeds” was targeted to the core Energy Efficiency R&D. Different approach for Danone’s recent €300 million Social Bond which was earmarked to a series of different investments helping its community of people

- Green “ESG-indexed” Loans

  ◊ Very recent development, as this market really took off in 2017 and the beginning of 2018.

  ◊ ESG-indexed loans are very standard loans where the margin paid by the borrower is indexed to an external or internal ESG indicator, such as third-party ESG rating or CO2 footprint reduction targets. Unlike the Green Bonds, it is a “General Corporate Purpose” facility not necessarily earmarked to green projects. It is however an

opportunity for a Company to integrate its Sustainable Strategy within one of its financial contracts, generally its relationship Revolving Credit Facility. Examples of such ESG-indexed include Philips, Stora Enso, Danone and Skanska.

◊ On their side, lending banks are keen to highlight the Green Loans in their balance sheet and contribute to the extraordinary fast start of this market. For example, at Crédit Agricole, we have already implemented a Green Liquidity Supporting Factor which incentivises our bankers to originate more such Green Loans.

2) What are the drivers for the development of Sustainable Finance?

Sustainable Financing, i.e., ESG seen as a business driver in fixed-income markets, really started in 2013-2014, while ESG has been around in the equity markets for many years. The Green and Social Bonds emerged then, as an efficient tool for ESG investors and issuers to embed Sustainability in fixed-income instruments without discussing the price.

At this stage, the reason for the growth of this market has been mainly market-driven:

- Corporate stakeholders' (shareholders / staff / management/ clients/ financiers) willingness to engage and communicate on Sustainability
- Response to growing investors demand for Green assets and for the transparency
- Fear of being left behind and missing an opportunity to be seen as best in class

But no sense of urgency yet, and Sustainable Finance remains a "nice-to-have" or "something for the future" for the people who have not tested it. But once an issuer / an investor starts to be active in this space, they generally embrace the concept.

3) What could make a difference?

The policy-makers could contribute to the development of Sustainable Finance and make a meaningful impact to promote *transparency* and the long-term development of a *strong infrastructure* for Sustainable Finance: this objective and challenge has been well described in the HLEG report. The key will be to find the right balance between soft and hard laws to promote market driven and private initiatives, while giving a fair and organised operating framework for Sustainable Finance practitioners.

- As a first key step, an EU Green Bond label, based upon an EU Sustainable taxonomy would make a real difference. It needs to be ambitious in setting clear definitions because quality drives quantity, but by the same token flexible to keep innovation and market initiatives. We are of the opinion that a classification with various shades, Dark Green, Medium Green, Light Green such as the one developed by Cicero is a good way to address a wide scope of businesses and projects; as well as a boost to exemplarity and best practices, as all issuers want to be seen as "Dark", in the end.
- It is also key to mobilise all public bodies involved in the fixed-income value chain: central banks, treasury of EU and national agencies as potential Green Bond investors; Debt Management Offices, public institutions and corporates, as potential Sovereign issuers.
- Price would obviously be an exceptionally strong driver.
  ◊ Structurally, the cost of a Green Bond is strictly equal to the cost of borrowing under a conventional Bond. In the bank loan market, some banks are anticipating

and provide a small price advantage for Green Loan, as they assume there is a long-term correlation between a strong ESG performance and credit performance. We are talking in each case of a few basis points.

◊ A Green Supporting Factor would translate into an immediate price advantage for issuers and drastically boost the Green Bond and Green Loan markets.

- Last but not least, Sustainable Finance, and the Green Bond and Loan markets could also benefit from a European carbon price scheme. This would be an opportunity to structure fixed-income instruments where the issuer and investors would share the same objective of CO_2 reduction and share the benefits.

Suzanne Buchta, BAML BANK OF AMERICA MERRILL LYNCH, Managing Director, Debt Capital Markets

Policy measures can absolutely boost green finance in the EU. The European Commission's Action Plan has done a superb job of tackling this broad and complex topic. It lays out an ambitious road map, with defined deadlines, for each milestone. I wholeheartedly support this plan and urge the Commission to seek the expertise of banks in the Technical Expert Group.

Since helping to start the Green Bond Market in 2007, Merrill Lynch has underwritten over $25bn in Green bonds and Social bonds, both for our clients and for ourselves. In fact, just this Monday, we issued over $2bn of green bonds in our own name to finance the billions we lend wind and solar projects from our own balance sheet. Relying on this experience, I am honoured to be able to share a few ideas:

In my view, there are three important points to consider:

1. We must re-evaluate how we think about and measure risk

2. We must set specific and strict definitions, particularly if we are going to redefine how we measure risk

3. We must find a balance. Given the immensity of the finance needed to create a low-to-no-carbon paradigm shift, we need to strike a happy balance between crowding in as many players as possible, and, at the same time, not allowing those definitions we just discussed to get watered down

Re-Evaluating Risk

It has been put forward that the European Parliament consider reduced capital charges for green investments. This would send a market signal that would spur further capital allocation to such assets. However, central bankers have argued, and I quote, that "capital requirements should be calculated on the basis of just a single factor – the riskiness of the exposures in question" and that to "water down" the regulatory mandate with Environment, Social & Governance factors would "ultimately lead to risks to financial stability."

What we must realize, however, is that ESG factors are intended to quantify exactly that – risks that we are currently overlooking. Quantifying these risks will, reversely, have a positive effect on financial stability. This is something that both the industry and the European Union have been trying to address for the past decade.

Tackling Definitions

In order to include ESG in capital charges or tax benefits or credit ratings we need definitions. Assuming we agree to define “Sustainability” as synonymous with “the whole of ESG” and assuming we define “green” to be synonymous with “the E in ESG” (and even these basics are not yet agreed), then we need to define what we mean by the ‘E’ in ESG and what we mean by the ‘S’ in ESG.

Fortunately, in its Action Plan, the European Commission has committed to addressing exactly this pressing endeavor. The Technical Expert Group will, first and foremost, develop a taxonomy that defines the ‘E’ in ESG and then defines the ‘S’ in ESG.

We applaud the Commission for committing to achieve this, especially in such a short time frame.

The environmental taxonomy will delineate “green” projects. Provided these definitions are set down strictly, without the influence of vested interests, they will go a long way to making sure that the Green Finance space does not get watered down to the point that we are back to business as usual and miss the urgent goals of the Paris Climate Accord.

Finding a Balance

Beyond strict definitions of what constitutes an Environmental or “Green” project, we should crowd in all types of “issuers” of green debt. We need this momentum, this fervor, to encourage the financing of green innovation. The Use of Proceeds bond format, currently the most common format in the green bond market, enables a regular bond issuer to promise to use the proceeds of that bond for specific types of projects. This Use of Proceeds concept is transformational for fixed income because it gives bond investors an ability to advocate, to “vote,” with their pockets the way stock investors do.

However, such bonds are only a second order mobilization of capital – the investor buys the issuer and the issuer invests in the projects. We need to also crowd in Green Bonds directly issued by renewable energy projects, by pools of green collateral, by “pureplay” companies whose revenues come 100% from climate mitigation activities (I’m referring to companies like wind manufacturers or solar panel leasing companies). These Green Bonds represent a first order mobilization of capital – the investor is directly buying the green projects and therefore directly lowering the cost of capital for those projects. Such Green Bonds are currently less common because green collateral and pureplay green companies are still relatively scarce, but they represent where we are all really trying to go with green financing. Rather than crowd them out in our definition of what constituents a Green Bond, we should welcome them in.

Carey Evans, BLACK ROCK, Director, Global Public Policy

BlackRock is an asset manager whose objective is to create better financial futures for our clients and the people they serve.

As a fiduciary to our clients, our firm is built to protect and grow the value of our clients' assets. From BlackRock's perspective, business-relevant sustainability issues can contribute to a company's long-term financial performance, and thus we believe that further incorporating these considerations into the investment research, portfolio construction, and stewardship process can enhance long-term risk adjusted returns.

As such, BlackRock supports EU's ambitions of building a policy framework accelerating the growth of assets dedicated to sustainable investing. To achieve this objective, we recommend focusing on four sets of incentives:

1. Encourage asset owners, those institutions and individuals deciding where to invest their assets, to increase allocations to sustainable investments.

Decisions about how capital is allocated are ultimately taken by asset owners – a diverse group of institutions, individuals and government or official entities all of whom have their own unique investment constraints and objectives, driven by their assets and liabilities, their investment beliefs, their tax and accounting considerations, and their regulatory framework. BlackRock is supportive of efforts by EU policymakers to further explore whether there are regulatory barriers that currently prevent greater asset allocation to certain types of sustainable or long-term investments, and whether there are targeted changes to those frameworks that would be appropriate.

The European Commission's "Financing sustainable growth" action plan indicates that the EU institutions will look into recalibrating prudential measures for banks and insurance companies. While capital requirements can provide powerful incentives or disincentives to particular types of investment, we believe that any reconsideration of capital rules would need to be measured and appropriate, so as to not encourage undue risk taking and ensure that capital frameworks can still achieve financial stability aims.

2. Encourage disclosure of material information on sustainability by companies, and recognise a set of standards that can apply broadly and consistently.

One area where both asset managers and asset owners can grow their integration of sustainability is in regard to the use of material ESG considerations within investment and risk management processes and decision-making. We believe that sustainability-related issues have real impacts on long-term financial performance. But the take-up of these considerations in investment or risk management processes is hampered by the lack of clear, consistent standards for investee companies to report material Environmental, Social and Governance (ESG) information. Much of the available ESG data is self-reported, with more comprehensive disclosures typically coming from large-cap companies. ESG metrics built on this data can also be inconsistent, with individual ESG metrics weighted differently across data providers, meaning ESG scores from different providers have a low correlation with one another; unlike credit ratings, for example.

Importantly, companies and investors need to focus on ESG risks and opportunities that are relevant to the company's operations and business strategy. The Non-Financial Reporting

Directive, implemented since 2018, is a clear step in the right direction for the EU. In the upcoming review of the Directive, the EU could encourage companies to provide clear and consistent data on material sustainability issues relevant to their long-term strategy, and to contribute to greater standardisation of reporting frameworks.

3. Provide a stable and consistent framework for sustainable investment products.

Building a robust landscape of sustainable investment products allows asset owners to more easily increase their incorporation of ESG and sustainability considerations. We currently see a range of different investment products marketing themselves in Europe as 'green', 'sustainable', ''socially-responsible' or other related labels, even if the criteria can vary widely. In many cases, national regulators or industry organisations are developing their own taxonomies. This can create confusion and make it difficult to build pan-European scale for investment products that seek to offer asset owners cost-efficient solutions to meet their sustainable investing needs. In this regard, we believe that a pan-European taxonomy could be helpful in giving a broader range of asset owners and asset managers the confidence and certainty to invest in and offer (respectively) such products.

We welcome the focus of the Commission on building up a common EU taxonomy and agree that much of the success of the EU strategy of increasing sustainable investments rests on the success of the taxonomy. Such a taxonomy should be a 'living' classification that is flexible enough to allow it to evolve with greater shared understanding and expertise in sustainability and sustainable investment

4. Embrace corporate governance and stewardship standards.

Often overlooked in this debate, we see stewardship as a key mechanism for asset managers (and asset owners who manage their assets internally and hence, retain voting power over shareholdings in companies) to encourage companies to adopt sound practices in relation to ESG and sustainability factors relevant to their businesses. In doing so, they not only enhance the value of their clients' investments in those companies over time, but they contribute to a more sustainable economy.

Promoting stewardship standards should be a key focus of the European Commission's efforts in promoting the role of the financial sector in meeting broader sustainability goals. While the revised Shareholders Rights Directive (SRD) requires disclosure of stewardship or shareholder engagement policies and how they are executed (on a comply or explain basis), we believe adding to best practices across Europe can complement the SRD requirements and help raise the bar for stewardship practices, corporate governance standards, and shareholder promotion of long-term business value creation.

Susanne Rompel, INNOGY SE, Head of EU Representation

Innogy Position on Sustainable Finance

1. Introduction and presentation of Innogy

Innogy is a leading European energy company with headquarters in Essen, Germany. With 23 million customers and 42.000 employees across Europe, our business and expertise rely on three branches: renewable energies, grid and infrastructure as well as retail markets. Innogy is Germany's biggest distribution system operator and provides the number one distribution grid in Central Europe with a total length of 574.000 km. Being a global leader in wind energy, we operate 3,9 GW of renewable capacity. Moreover, in the past we have gathered first-hand experience in using green financing instruments, being the first energy corporate in Germany using a Green Bond.

2. Sustainable Finance and the Paris climate accord goals

When adopting the Paris Agreement on climate change in December 2015, the EU and world governments committed to the objective of a more sustainable economy and society. Also we at Innogy are firmly convinced that the EU will not achieve its long-term energy and climate goals, and thus deliver on the Paris climate accord, without the involvement of all the key stakeholders – in addition to the energy sector, this certainly also applies to the financial sector. We need to ensure a more sustainable economic growth path and a long-term stability of our financial system by profoundly reviewing the functioning of our financial system: Investment strategies that combine financial return with social and environmental benefits are fundamental for a modern and future orientated EU financial sector.

3. Innogy's position on the European Commission's and the European Parliament's proposals on Sustainable Finance

Innogy has very much welcomed the Commission's Action Plan on Sustainable Finance on 8 March. We support the Commission´s stand and the planned measures. The financial sector is a key mover regarding the transformation of the economic system, since it enables the necessary investments to achieve climate and environment goals. It still needs to be determined, how the concrete implementation of the manifold initiatives will be carried out. This will be crucial in order to assess the consequences for the financial market in general and for companies like Innogy in particular.

Innogy welcomes the Own Initiative Report of the EP, as it takes into account the social and environmental aspects when making financial investment decisions. Also we believe that this is the right path forward for a long-term stability of the EU financial system. However, taking into account the relative young market for green products, a balance has to be found in order not to over regulate the business, and thus, discourage potential investors.

4. Innogy practical examples – Green Bond

Green Bonds play an essential role in paving the road towards more sustainable finance. At Innogy, we have gathered experience with the first benchmark-sized German Green Bond in 2017. The inaugural bond was worth €850 million with a 10 year maturity - by using this bond, we were able to re-finance the construction of five wind parks across Europe (see below).

Windparks financed with Innogy's green bond
- Galloper (UK), Innogy share 25%
- Gwynt y Mor (UK), Innogy share 50%
- Nordsee One (Germany), Innogy share 15%
- Nordsee Ost (Germany), Innogy share 100%
- Zuidwester (Netherlands), Innogy share 100%

Background

The revenue from Innogy's first green bond was used to refinance four offshore wind parks in the UK and Germany as well as the Dutch onshore park Zuidwester-Repowering project. For the latter, wind turbines from the 1980s and 90s have been refinanced and replaced. Each of the 12 new turbines can produce as much electricity as all the 50 previous installations together. The overall annual electricity production of all wind parks refinanced by Innogy's green bond adds up to approximately 3TWh. Therefore, they produce sufficient CO_2 free energy for 830.000 households.

For the issuance, Innogy has set up a Green Bond Framework that encompasses renewable as well as energy efficiency and emobility projects. Our framework is aligned with the existing Green Bond Principles 2017, published by the International Capital Market Association (ICMA). This particular experience provided us with true benefits that are reflected in mainly three positive outcomes: First, the Green Bond enabled Innogy to considerably broaden our investor base. Second, the transaction was met with strong interest from investors and oversubscribed five times. Third and most crucial, we were able to place the bond at a very attractive pricing.

Bearing in mind this encouraging experience, European standard and labelling would be an important step in the right direction for sustainably operating companies like Innogy. However, a regulatory framework needs to be carefully designed – in no case it should be so strict that it would hinder green financial products rather than support them. The still relatively new market for green products in the Fixed Income Sector shows strong growth rates. Currently, the Green Bond Principles provide a framework, which is accepted by international investors. To further enhance a measured standardisation on EU level, investors, emitters and associations such as, for Germany, DAI (Deutsches Aktieninstitut), VdT (Verband Deutscher Treasurer), DIRK (Deutscher Investor Relations Verband) should be involved. In general, Innogy is open for cooperation, including within the above mentioned associations.

The Green Bond market is growing fast: A European regulation should improve identifiability and prevent green-washing with Green Bonds. For this reason, the general sustainability performance of a company should be included in the analysis. We very much regret that this issue is not included in the current Action Plan. This is astonishing since the EU has already taken important steps for more transparency. EU rules require large companies to publish regular reports on the social and environmental impacts of their activities since 2018 – at Innogy we included these disclosures in our annual Sustainability Report. The EU regulation on non-financial reporting includes social aspects of sustainability. Here we need a more holistic view and not a mere concentration on climate change.

5. Underwriting of corporate renewable PPAs and support for cross border renewable projects

Apart from Green Bonds, there are other elements which are crucial when it comes to green financing. Two aspects which have been also put forward by our umbrella organisation, WindEurope, should be mentioned at this place: (1) Underwriting of corporate renewable PPAs and (2) Support for cross boarder renewable energy projects. Corporate PPAs become increasingly important to finance renewable assets, yet, credit risk is a major issue for overall project risk and bankability.

So far Innogy mitigates credit risk by focusing on reliable counterparties (i. e. often big players). Credit risk (as well as other market and political risks) can increase project risk premiums, and thus, cost of capital – this can be a major investment barrier. Any instrument of risk sharing from a reliable third party such as the EIB can thus help to reduce project risk premiums, bankability and ultimately cost of capital – this leads to the realisation of a higher number of projects. Underwriting of corporate PPAs would provide further opportunities to mitigate credit risk which would be especially beneficial for contracts with smaller counterparties. However, the concrete implementation and product is crucial, i. e. low transaction costs and clear processes are success factors.

Innogy also very much supports and welcomes the initiative of the Commission to create an EU wide framework for renewables post 2020. However, we are convinced that the international opening of RES markets should be (more) ambitious - with i.a. higher ambition levels of minimum of 30% in 2026. Regional auctions using a harmonised regulatory framework and with larger capacities should be established in order to counteract the fragmentation of RES markets, increase liquidity and reduce transaction cost for RES developers. As an example, we support current initiatives to foster cross-border development of wind offshore (e.g. “North Sea Offshore Energy Clusters Initiative” launched by the European Commission). The most decisive point in this regard is regulatory certainty. Only with a reliable framework, investors have security for their investments.

6. Key messages and summary

We welcome the Commission´s Action Plan and planned measures in general. In order to achieve the climate and energy goals, we need to be ambitious not only in the power sector, but also in other sectors, e.g. finance. Innogy has gathered experience with the first benchmark-sized German Green Bond in 2017 - by using this bond, we were able to re-finance the construction of wind parks. European regulation should improve identifiability and prevent green-washing with Green Bonds. However, taking into account the relative new market, a regulatory framework so strict that it would hinder green financial products rather than support them should be avoided.

Leah Charpentier, FIRST SOLAR INC, Head of EU Regulatory Affairs & Government Relations

First Solar is a leading global provider of comprehensive PV solar energy solutions with over 17GW installed in more than 35 countries. We design, manufacture and sell PV solar panels with an advanced thin film semiconductor technology and we develop, design, construct, and sell PV power plants that use the solar panels we manufacture. We are the world’s largest thin-film PV solar panel manufacturer and one of the world’s largest PV solar panel manufacturers. Additionally, we provide operations and maintenance (O&M) services to plant owners that use solar panels manufactured not only by us, but also by other third-party manufacturers. First Solar offers global recycling services for its PV panels and operates industrial-scale, high-value recycling facilities in Europe, the US and Malaysia.

Financing Solar Projects and Green Finance

Developing and building utility scale solar projects is all about access to finance. A solar plant has an expected lifetime of over 25 years, however most of its capital expenditure occurs upfront at the development and construction stage, as operation and maintenance expenses are negligible in solar compared to those of conventional electricity generation.

This means cheap finance is a decisive factor for the development of solar projects, and its absence holds up global political commitments to fight against climate change by decarbonizing the world's energy supply. Green finance can therefore help address one of the greatest obstacles to faster solar deployment worldwide.

Barriers to Green Financing

Solar and other green assets continue to be first and foremost assessed according to their technical, commercial and regulatory risk profile. For solar projects this means technology, performance, currency, market design and off taker risks still define whether we get access to affordable financing or not.

In developing countries especially, this leads to a situation where solar assets, which are increasingly the least expensive climate change mitigation tool, cannot be deployed because of expensive capital associated with currency and regulatory risks.

The solar industry is making efforts on gathering performance data from solar plants to address customer and investor concerns linked to technical and performance risks. Standardization work at the International Electrical Commission (IECRE) is particularly promising on this front. For other risk parameters, which are out of our control, we are hoping that green finance might help compensate some of these risk considerations because of the increased demand for green financial assets.

What the EU Can Do to Improve the Situation

The work done so far by the High level Expert Group (HLEG) and the Commission to classify investments which would be eligible for green finance is thorough and interesting. However many of the parameters laid out in the draft taxonomy presented in annex 3 of the HLEG report, assess green assets on the basis of one dimensional environmental parameters. This approach is much less sophisticated than the way many companies comprehensively report on their existing environmental footprints at the moment.

First Solar has spearheaded the PV industry efforts to arrive at the EU product environmental footprint category rules (PEFCR) for PV electricity, which should be used for a comprehensive environmental evaluation of PV technologies in the future. DG Environment is currently using the data generated during this industry wide pilot project to help inform the decision whether PV modules should be subject to the eco-design or ecolabel regulations. In this context, focusing on CO_2 emissions alone might not be a step in the right direction.

Internationally however, we are starting to see promising convergence between many of the existing corporate reporting schemes we use such as the Global Reporting initiative (GRI) and the Carbon Disclosure Project (CDP) and initiatives led by the financial services industry. GRI

and CDP are currently making progress to include the recommendations from the Task Force on Climate related Disclosure (TCFD.) Given this trend is underway, we want to make sure that the EU's upcoming sustainability taxonomy will not be at odds with other tried and tested reporting frameworks.

The EU Commission must be transparent about the process that will lead to the sustainable finance taxonomy, and ensure that parameters selected are objective. There should be as little room for subjectivity as possible in the assessment of what may qualify as a green investment or not. The more subjective the parameters are, the least likely the Taxonomy will build trust.

First Solar has made the choice of technology differentiation within the solar industry and also of the differentiation of our product and manufacturing environmental footprint. Our modules have an environmental footprint which is three to four times lower than that of our competitors. Many of our customers select our technology because it is the lower carbon solar option. We are eager for EU regulators to help define and refine this differentiation between green and greener. However, we want to ensure this work will build on existing best practices and industry standards.

As a company which has placed itself at the forefront of environmental disclosure and life cycle analysis in our industry, First Solar hopes the Parliament will champion some of these better law making principles when it assesses the upcoming sustainable finance legislative proposals.

Sirpa PIETIKÄINEN MEP, (Finland, EPP), ECON

I am the lead negotiator on behalf of the EPP group on the own-initiative report within the European Parliament that will be voted in plenary at the end of May.

The financial sector is needed on-board to tackle climate change & to invest in the circular economy.

Reaching the Paris climate goals and transitioning to a low-carbon economy will necessitate a total of over €11 trillion of investments in new technology and energy-efficient infrastructure globally by 2030. In Europe, the financial need is €180 billion annually.

Private investments need to be directed in an appropriate manner in order to reach these goals. "*No time should be wasted in ensuring that our legislation reflects these objectives in order to provide the necessary legal certainty for long-term investments that are being made today*".

I welcome the final compromise text that calls for the incorporation of the environmental impact indicators in company reporting and in long-term in the financial regulation as a whole.

The report sets the European Parliament's vision to the needed action on sustainable finance in the context of the final recommendations of the European Commission High-Level Expert Group on sustainable finance and the European Commission Action Plan presented earlier this year.

A structural challenge for the financial services sector continues to be a narrow and short-term concept of value creation, which results from incentives arising from the current legislation. For this reason, sustainability factors, comprised of environmental, social and governance factors, need to be integrated in all financial legislation and the prudential supervision in the EU. This is what the European Parliament's report has succeeded in pushing forward.

I underline that profit and loss expectations change greatly from short term to long-term scenarios as global warming proceeds. Benchmarks, credit ratings, stress tests and stock exchange rules play a significant role in directing assets of investors in financial markets.

In order to move towards a sustainable economy, investors need uniform reporting to base their investment decisions on. Similar for financial reporting, in the future companies would provide data in their annual accounting on their performance using indicators such as use of resources, climate-preparedness and treatment of employees, for instance such indicators are already being developed by the OECD, the UN, the European Environmental Agency, and various actors in the financial services sector.

The Commission's first proposals on sustainable finance are a welcome step forward. The proposal to strengthen the fiduciary duty of institutional investors and asset managers is an important effort to shift incentives. Regarding the second proposal aiming at the development of an EU-wide taxonomy for green investment products, I note that it is crucial that such an EU taxonomy is built on comparable and robust indicators that allow for comparison of companies and investment projects. Success in solving sustainable taxonomy will define how well we will be able to incorporate sustainability in the financial markets as a whole.

Georgios KYRTSOS MEP, (Greece, EPP), ECON

Most people believe that the major problem the Greek economy faces is the huge public debt which corresponds to almost 180% of GDP. In my view, Greece´s main economic problem and a major obstacle to a new period of steady and economic growth is the absence of a strong and competitive manufacturing sector.

The economic and social situation in Greece is improving but this is mainly due to the tourist sector that has obvious limitations. Every April the number of people employed increases by 90 to 100 thousand and every October we have more or less, the same reduction. Employment in the tourist sector is seasonal. Employment goes up at the beginning of the tourist season and goes down at the end of the tourist season.

In addition, jobs in the tourist sector and services are not well paid because most of them are part time. So most young people in Greece that manage to find employment have to cope with less than €400 euros per month. This is the major factor explaining the intensity of the brain-drain with hundreds of thousands well educated and dynamic young Greeks seeking employment in foreign, mostly european, countries.

A big difference between Greece and other countries that had to implement an adjustment programme like Ireland, Spain and Portugal, is our inability to increase in a dynamic way our manufacturing exports so as to be able to service our debt without resulting to very austere economic measures. By increasing your share of the global market you get well placed to cover your financing needs without following a very strict economic and fiscal policy. At the same time you are able to create new, well paid, full-time jobs.

It is of strategic importance for the Greek economy to invest in the modernisation and expansion

of the manufacturing sector which for the time being contributes less than 9% of GDP. Forward -looking industrialists estimate that as a first step in the right direction the manufacturing sector should grow through the necessary investment, so as to contribute 12% of GDP in the next years.

Despite the structural problems of the Greek economy, I believe that there are investment opportunities that can drive manufacturing growth through sustainable finance. Take for example the Public Power Corporation which undergoes a process of partial privatisation and is on the verge of financial collapse. According to McKinsey´s report the situation of the Public Power Corporation can be redressed until 2022 provided it invests heavily in renewable energy so as to increase its renewable energy productive potential. The modernisation of Public Power Corporation which is considered the biggest public corporation in Greece is a huge task by Greek standards.

Another positive example of how to invest in the Greek manufacturing sector with a controlled risk is given by the new Multiannual Financial Framework. Greece will get extra assistance and attention because the GDP has fallen by 25% due to the crisis so most Greek regions will be entitled to more support from the cohesion funds. There are also new criteria for the allocation of funds that are in favour of Greece since they take into account the level of unemployment and youth unemployment and the number of refugees present in the regions that will be financed.

Greece is dominant in the globalised market of shipping. I think that it would be a good idea to collaborate with the representatives of major Greek shipping companies in order to finance a joint project for the reduction of carbon dioxide emissions through issuing a green bond or in any other way.

Greece remains an exception to the European rule of steady growth during the past five years but the structural problems of its economy should be used as an opportunity for additional investment in the manufacturing sector which drives growth and employment. In my view, there are possibilities for additional European financing, major foreign companies can cover the rest of their financing needs from the European banking system which does not have the problems of the Greek banking system and can get the necessary tax incentives from the Greek government and authorities provided that the investment is big enough and creates a large number of new well paid jobs.

Tanguy Van de Werve, ASSOCIATION FOR FINANCIAL MARKETS IN EUROPE-AFME, Managing Director, Advocacy

As the representative of Europe's wholesale financial community, AFME has for a long time supported the Commission's Sustainable Growth agenda and recognized the role that capital markets can play to transition towards a greener economy. This is why we welcome the recent European Commission's Action Plan on Sustainable Finance and the EU's leadership role in this essential area.

The work of the European Parliament in this space is also instrumental in developing the right policy solutions and in driving forward the sustainable finance agenda in the coming years.

The ECON Committee Own Initiative Report on sustainable finance is an important contribution to the ongoing debate and a clear indication of the European Parliament's own ambitions in that field. We expected no less from this House.

Private finance is playing a major role in delivering the transition to a more sustainable economy and in implementing the Paris Agreement.

AFME member banks, as the intermediaries between corporate and government issuers and various types of global investors, are keen to assist wherever they can. Our members not only underwrite, distribute and trade the loan, debt and equity securities which fund sustainable finance, but they also produce crucial research that can make a difference.

The right policy actions will play a key role in encouraging private investments and in increasing allocations towards sustainable finance frameworks. Europe needs to expand the available pot of loan, bond and equity investments that will be required, through completion of the CMU Action Plan.

AFME believes that the progressive development of a sustainability taxonomy and promoting green standards and labels will help position Europe as a global leader in sustainable finance.

A workable taxonomy can, however, only emerge from a consensus from a wide range of market professionals. AFME and many of our member banks have applied to the EC's Technical Expert Group on Sustainable Finance where we would be ready to make impactful contributions.

We agree that disclosure plays a catalyst role in making sustainable investment decisions and in promoting socially responsible investment analysis. We therefore very much support the work of the industry-led Task Force on Climate-related Financial Disclosure of the Financial Stability Board.

Disclosure by the investee companies also facilitates shareholders and company engagement, which is a key driver for corporate sustainability.

It is important that any policy actions be fact-based. For instance, additional data and research are needed to assess whether sustainable investments are less or more risky than non-sustainable ones.

We also believe that greater and more diversified European issuance could be achieved by further developing the green securitisation market. Green securitisation could be one of the most effective potential means to harness small scale developments like residential rooftop solar, Electric Vehicles leases and small SME loans for energy storage projects.

The OECD estimates that annual issuance of green asset-backed securities could reach between US$280-380 billion by 2035 for renewable energy, energy efficiency and low-emission vehicles financing alone. AFME plays a leading role in developing safe and transparent securitisations for Europe and is determined to help grow the European green securitisation market.

Late last year, AFME, together with other associations published a Green Finance directory, copies of which should be available on your table, to help highlight the wide range of initiatives already underway and the need for European and global cooperation on a range of agreed policy initiatives.

Looking ahead, AFME looks forward to engaging with policymakers in building sustainable finance frameworks that promote investments and innovation. We welcome in that respect the reference, in the ECON Own Initiative Report, to the need to actively involve the banking sector.

Antony Fell, EUROPEAN FORUM FOR MANUFACTURING, Secretary General

The next EFM meeting will be on:

The 3rd Data Package & Artificial Intelligence Communication

It will take place on Wednesday 20 June 2018, in the European Parliament, chaired by Henna Vikkunen MEP. We have invited Robert Viola, Director-General for Communications Networks, Content and Technology to be a keynote speaker. The Roundtable Dinner Debate will focus on 2 issues:

- The future complexities around data for the technology industries, and
- Unlocking Data and Artificial Intelligence

My thanks to all the speakers, to AFME for its support and particularly to Tanguy de Werve and Julia Sirotina as well as to Danuta Hübner for chairing so ably and to the EFM staff.

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