

JBCE Statement on EU Sustainable Finance Agenda and Taxonomy

The Japan Business Council in Europe (JBCE) and its members support the overall objectives of sustainable finance and the EU taxonomy as proposed by the European Commission. JBCE agrees this work will make important contributions to the targets of EU and international policies related to the achievement of Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development. We further acknowledge that financing and appropriate support to investments are indeed the missing links to achieve these targets.

We support the idea of promoting international standardisation in this field. JBCE companies operate across borders and we believe that the project of creating a sustainability classification system should, and if designed correctly, will benefit the entire value chain.

Therefore, we propose the following **four adjustments** to further improve the EU's Taxonomy-making.

1. Global coordination with a balanced industrial stakeholder perspective

JBCE encourages the Technical Expert Group on Sustainable Financing (TEG) and the European Commission to take a global perspective in developing standards for sustainable activities and investments. Industry's representation from various sectors in the TEG and the forthcoming Platform on Sustainable Finance must be guaranteed for the benefit of meaningful and market-relevant monitoring and development of criteria for environmentally sustainable economic activities.

In addition, activities are very often linked to specific national or regional characteristics and industrial ecosystems develop over time in their vicinity. As such, the framework should not simply consider economic activities in isolation but also their role within the economy, society or other ecosystems they are rooted in, the size of their contribution to the national or regional GDP, the financial resources and skills needed to implement measures that meet the criteria, etc. Both differences across regions and manufacturing sectors should be acknowledged. This would allow for a just transition to a sustainable economy.

The EU-Japan comprehensive partnership under the bilateral EPA will soon provide a timely platform for cooperation between EU and Japan at government, industry and civil society levels. Both EU and Japan are required to establish committees and working parties, such as a committee on Trade and Sustainable Development or a new platform where for sustainability discussions focused on making economic prosperity long-lasting, more socially inclusive and less dependent of exploitation of finite resources and the natural environment. With a common goal to fight climate change and engage in responsible business, both the EU and Japan can join forces to deepen the sustainable finance agenda also at international level.

A globally resilient and adaptable decision obviously takes time. But such meditated decision-making enables both policy-makers, companies and stakeholders to minimise preventable and unintended consequences. JBCE joins other stakeholders to argue that a well-established Taxonomy with an open and global stakeholder involvement is a pre-

condition for other legislative proposals on Sustainable Finance, which will have far-reaching impacts on the global regulatory agenda.

2. Be positive and inclusive to foster innovation

To mobilise investments in alignment with economic, environmental, societal and governance objectives, the European Commission must maintain a positive and inclusive mindset to encourage companies to transition to these goals. JBCE is concerned that the current TEG approach of threshold-defining could result in punitive instruments that filter out non-green sectors/technologies, even if unintentionally. We call on the Commission to keep a technology-neutral approach and clarify the relevance of non-green sectors and of transitional and hybrid technologies in their role to support and develop innovative, sustainable technology. For instance, the EU Taxonomy relating to Automotive sector should be in line with the latest environmental Regulation on CO₂ emissions, which does not ban any specific technology but allows a "technology-neutral-approach". All CO₂ reduction technologies will be needed to achieve the Paris objectives. In line with the market take up of alternative technologies, HEVs and PHEVs will continue to play an important role for many years to come to pave the way to zero emissions. These economic activities should be encouraged to transition faster, rather than being punished.

It is important to focus more on the 'continuous improvement' from the current situation rather than getting caught up in the different nature of economic activities. Japan's Policy on Energy Conservation Actⁱ (effective 1979) is designed to promote all possible technology for climate transition, which requires reduction in energy use intensity by 1% yearly for the facilities, submission of annual reports on their energy consumption and investment plans to the Government, and assignment of a qualified energy manager. The Commission should consider a similar approach to ultimately create clarity in order to foster innovation, reward concrete transitional activities, mitigate inequality and enhance competitiveness.

JBCE stands ready to support a future EU industrial policy strategy. In the recently published Communication on the Single Market in a changing world,ⁱⁱ the Commission recognises that international production is increasingly organised within global value chains in which the innovation and production process spans several countries. For the benefit of EU competitiveness and a climate-neutral Europe by 2050, we encourage the European Commission to focus on screening criteria for the sustainable technology sector and leave other sectors out of the scope.

3. Create a transparent and adaptable process of criteria development

JBCE requests a transparent and adaptable process in establishing the technical screening criteria, including the substantial contribution and the significant harm to the environmental objectives. The TEG and the Commission must ensure the affected industry's prompt access to expected outputs of this screening. The Commission should particularly be mindful that the general screening criteria are clarified in the primary legislation to ensure each revision or update is accompanied by a rigorous impact assessment and stakeholder consultation.

We agree that more detailed criteria should be handled by delegated acts. Given the substantial impact of these detailed criteria on industry and for the benefit of well-functioning of the Taxonomy, JBCE proposes two key working principles.

- Transparent methods that are easily consulted by all market players. Open consultation enables practitioners to share market-tested sustainability assessment procedures for their activities. It is also a precondition of a successful taxonomy, as the method and governance ultimately determine the usability of a classification.
- Adaptable and dynamic measurements for innovation and technological development. Regular review of the criteria in assessing substantial contribution or significant harm is required. In order to avoid a lock-in situation, the Platform should be authorised to periodically revise the criteria with clear and transparent review cycles. The current Commission proposal does not include any specific review cycle, but due to fast technological innovation and for the sake of maintaining a predictable situation for industry, such a clause is necessary.

4. Clarify the scope and the goal of Taxonomy in relations to other policies

JBCE requests the European Commission to clarify how the classification system links to other EU legislation in the primary legislation.

As argued in Point 1, we would like the Commission to broaden the consultation and cooperation to international levels to prevent future inconsistent or competing legislative initiatives derived from the Taxonomy.

ⁱ https://unfccc.int/files/bodies/awg/application/pdf/2_japan.pdf

ⁱⁱ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0772>

About JBCE

The Japan Business Council in Europe was established in 1999 and is a leading European organisation representing the interests of more than 80 multinational companies of Japanese parentage operating in the European Union.

Our members operate across a wide range of sectors, including electronics, wholesale trade, precision instruments, pharmaceutical, railway, textiles, glass, automotive, financial service and chemical manufacturing.

Building a new era of cooperation between the EU and Japan is the core of our activities. The key goal of JBCE is to contribute to EU public policy in a positive and constructive way by drawing on the expertise and experience of our member companies.