

## **JBCE Position on the EU Taxonomy for Sustainable Finance**

### **Introduction**

The Japan Business Council in Europe (JBCE) and its members continue to support the European Commission's Taxonomy proposal and the ongoing work of Technical Expert Group.

As stated in the [JBCE Statement on EU Sustainable Finance Agenda and Taxonomy](#) (February 2019), we promote workable, market-relevant criteria for environmentally sustainable economic activities to make the Taxonomy usable across borders and throughout the value chain. It is paramount that industry's internationally diverse experience feeds into the work of the proposed Platform on Sustainable Finance.

A transparent and democratic approach is fundamental for the long-term, trusted usability of the EU Taxonomy. Open consultation enables both industrial companies and financial market participants to share market-tested sustainability screening criteria and improve them in a workable manner.

In view of the ongoing trilogue discussions on the Taxonomy Regulation, JBCE members call upon policy makers to revisit the following **THREE** points.

### **1. Focus on growth and innovation**

JBCE reminds the EU and its Platform on Sustainable Finance partners that the common goal is to mobilise private investments in the social infrastructure necessary to meet the Paris Agreement and the UN SDGs. Removing certain activities via a brown list or creating punitive measures will gain little support and confidence among international institutional investors.

We urge the Council and the Parliament to keep a technology-neutral approach and clarify the relevance of non-green sectors and of transitional and hybrid technologies in supporting and developing innovative, sustainable technologies. All CO2 reduction technologies will be needed to achieve the Paris objectives as the recent IEA's World Energy Outlook confirms. In line with the market take-up of alternative technologies, such as hybrid trains, conventional thermal power generation, combined-cycle power generation, HEVs and PHEVs will continue to play an important role for certain years to come as we pursue a zero-emission ambition.

### **2. Develop workable and coherent Technical screening criteria and thresholds**

We recommend that the Council and the Parliament ensure the coherence of technical screening criteria and their corresponding thresholds with existing EU regulations. A discrepancy or digression from the EU laws will introduce uncertainty for companies' production cycles, and create confusion in the market.

Furthermore, economic activities must be assessed holistically, taking into account social infrastructures and their investment needs. The production of components and services, the extraction and transportation of raw materials, and a strong social infrastructure: all of these are indispensable for sustainable economic growth. The ICT sector, as presented in [our response to the public consultation on the sustainable finance taxonomy](#) (see our response, p.46), has an enormous contribution to other sectors' transitional activities. ICT solutions are therefore one vital element of the

whole system to improve energy efficiency in society at large. Assessing individual economic activities in silos will fail to capture industry's dynamic potential and creates an unnecessary opportunity cost.

To build a market-accepted and usable Taxonomy, technical screening criteria and thresholds should be developed in a transparent, and adaptable process. In this regard, JBCE strongly recommends the inclusion of an international presence, which will facilitate not only exchanges of best practices, but also to ensure that the EU Taxonomy approach does not impede European competitiveness. Each revision or update should be accompanied by a rigorous impact assessment and stakeholder consultation.

### **3. Appropriate usage of Taxonomy**

Last but not least, JBCE requests that adequate and full consultation be made with the industry and financial market participants before finalising legal obligations under the Taxonomy (Article 4). A careful assessment – including clear guidance on which financial market participants, and potentially industrial companies, are legally obliged to use the Taxonomy – is necessary to prevent the misleading use of the Taxonomy.

As long as the Taxonomy does not cover all economic activities, it is not appropriate - and could even be counter-productive – to use this new classification as criteria for assessing the overall sustainability of a company's activities, or to design frameworks to increase corporate sustainability as a whole. Disclosure of Taxonomy-eligible turnover, Capex and Opex (as recommended in the Guidelines on non-financial reporting: Supplement on reporting climate-related information (C(2019) 4490 final)), in such a scenario would not adequately capture the state of corporate sustainability, or transitional efforts to move towards low-carbon, increase sustainability, and remain competitive in the long term.

### **Conclusion**

JBCE members operate in a complex, intertwined regional ecosystem. Our experience shows that sustainability is a much broader concept than the six objectives presented in the Taxonomy. Our members strive towards sustainability through a wide array of perspectives, for example resilience, energy security, safety and social economy. Ensuring that companies have flexibility to design their own sustainability approaches in this manner allows them to adapt to often different contexts while remaining competitive. The broader concept of sustainability and a balanced judgement among different elements is the key in ensuring responsible business management across global supply chains.

The comprehensive partnership between the EU and Japan became even stronger with the entry into force of the EPA in February 2019. This bilateral agreement provides one additional dialogue channel to bring industry and civil society's voice to the table. JBCE and Japanese industry are delighted to cooperate with EU actors in creating a practical and usable Taxonomy through the EPA channel as well as potentially through the Platform on Sustainable Finance and the International Platform on Sustainable Finance (IPSF).

#### About JBCE

The Japan Business Council in Europe was established in 1999 and is a leading European organisation representing the interests of more than 85 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.