



# Consultation on the Renewed Sustainable Finance Strategy

## SEA EUROPE RESPONSE TO RELEVANT (SELECTED) QUESTIONS

### Introduction

On 11 December 2019, the European Commission adopted its [Communication on a European Green Deal](#),

**Above all, the transition to a sustainable economy will entail significant investment efforts across all sectors, meaning that financing frameworks, both public and private, must support this overall policy direction:** reaching the current 2030 climate and energy targets alone would already require additional investments of approximately €260 billion a year by 2030.

**However, the financial system as a whole is not yet transitioning fast enough.** Substantial progress still needs to be made to ensure that the financial sector genuinely supports businesses on their transition path towards sustainability, as well as further supporting businesses that are already sustainable. It will also mean putting in place the buffers that are necessary to support de-carbonisation pathways across all European Member States, industries that will need greater support, as well as SMEs.

**For all of these reasons, the European Green Deal announced a Renewed Sustainable Finance Strategy which will predominantly focus on three areas:**

- 1. Strengthening the foundations for sustainable investment by creating an enabling framework, with appropriate tools and structures.**
- 2. Increased opportunities to have a positive impact on sustainability for citizens, financial institutions and corporates.** This second pillar aims at maximising the impact of the frameworks and tools in our arsenal in order to “financegreen”.
- 3. Climate and environmental risks will need to be fully managed and integrated into financial institutions and the financial system as a whole,** while ensuring social risks are duly taken into account where relevant.

### Objectives of this consultation and links with other consultation activities

**The aim of this consultation, available for 14 weeks (until 15 July) is to collect the views and opinions of interested parties in order to inform the development of the renewed strategy.** All citizens, public authorities, including Member States, and private organisations are invited to contribute.

## Section I: Questions addressed to all stakeholders on how the financial sector and the economy can become more sustainable

**Question 4:** Would you consider it useful if corporates and financial institutions were required to communicate if and explain how their business strategies and targets contribute to reaching the goals of the Paris Agreement?

- Yes, corporates;
- Yes, financial institutions;
- **Yes, both;**
- If no, what other steps should be taken instead to accelerate the adoption by corporates and financial sector firms of business targets, strategies and practices that aim to align their emissions and activities with the goals of the Paris Agreement?
- Do not know.

**Question 5:** One of the objectives of the European Commission's 2018 Action Plan on Financing Sustainable Growth is to encourage investors to finance sustainable activities and projects. Do you believe the EU should also take further action to:

- Encourage investors to engage, including making use of their voting rights, with companies conducting environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law, with a view to encouraging these companies to adopt more sustainable business models: **Agree**
- Discourage investors from financing environmentally harmful activities that are not in line with environmental objectives and the EU-wide trajectory for greenhouse gas emission reductions, as part of the European Climate Law: scale from 1 (strongly disagree) to 5 (strongly agree).
- In case you agree or strongly agree with one or both options [4-5]: what should the EU do to reach this objective?

SEA Europe welcomes the objectives of the European Commission 2018 Action Plan on Financing Sustainable Growth and fully supports the ambitions of the European Commission's "European Green Deal" (EUGD). In this respect, sustainable finance has a key role to play to stimulate and reward the investments into advanced green technologies and green maritime solutions that will be key to transform waterborne transport into a climate neutral mode of transport. The EU should pursue its efforts to integrate sustainability considerations into its financial policy framework while safeguarding and boosting at the same time the European industry's global competitiveness. Technological neutrality and a goal-based approach to avoid a curtailing of (innovative) clean technologies and solutions will be however essential. All options for clean technologies, alternative fuels and their optimal integration need to be researched, developed, supported, and facilitated, also financially. Policy actions should stimulate flexibility and thus refrain from imposing or prescribing specific technological solutions or specific alternative fuels. Furthermore during the transitional period, well-established fossil fuels with significant emission reduction potential will be needed and should therefore receive continued financial support. Existing energy converters with high efficiency should not be discredited because they have been used with fossil fuels in the past. To sum up, internal combustion engines and LNG technology amongst others, will still play a significant role in the decarbonization of waterborne transport if utilized with climate neutral synthetic fuels in the future.

## Section II: Questions targeted at experts

*The following section asks further technical and strategic questions on the future of sustainable finance, for which a certain degree of financial or sustainability-related expertise may be useful. This section is therefore primarily addressed at experts.*

**Question 7:** Overall, can you identify specific obstacles in current EU policies and regulations that hinder the development of sustainable finance and the integration and management of climate, environmental and social risks into financial decision-making?

### Challenges:

- a) risks arising from a “one size fits all” approaches which do not take into full account the distinct industrial sector specificities, including the related financing structures, needs and challenges, e.g. shipbuilding/shipping financing as a highly specialised segment
- b) global competitive environment and lack of level playing field, exacerbated by the continuous shift of (ship) financing to Asia: need to keep/make ship financing attractive and available in the EU

### Opportunities

- a) stimulate demand for clean ships and advanced maritime technologies and thereby boost world leadership and innovative manufacturing capabilities of European maritime technology sector
- b) empower first movers (provided reporting requirements are clear and factual)
- c) increase competitiveness of green maritime companies (will have easier access to finance) and ROI of green investors

**Question 9:** As a corporate or a financial institution, how important is it for you that policy-makers create a predictable and well-communicated policy framework that provides a clear EU-wide trajectory on greenhouse gas emission reductions, based on the climate objectives set out in the European Green Deal, including policy signals on the appropriate pace of phasing out certain assets that are likely to be stranded in the future?

- Please express your view by using a scale from 1 (not important at all) to 5 (very important). 5 very important
- For scores of 4 to 5, what are, in your view, the mechanisms necessary to be put in place by policy-makers to best give the right signals to you as a corporate or a financial institution?

A predictable and well-communicated EU policy framework is of key importance for the European maritime technology sector which, as a strategic a solution provider to transform waterborne transport into a climate neutral mode of transport, is very capital-intensive and facing harsh competition with Asian companies benefitting from massive state aid and domestic cheap financing. For European shipyards and maritime equipment companies, the development of an adequate and competitive sustainable financing ecosystem in Europe is crucially needed to enable them to carry out viable projects, maintain their global leadership in complex products and develop innovative cutting-edge maritime solutions which are key to implement the European Green Deal policy ambitions. To that end, significant additional investments will be necessary both for the research and development (R&D) of innovative green and maritime technologies and to support the market uptake and deployment of existing as well as innovative technologies and mature alternative fuels.

**Question 12:** In your opinion, how can the Commission best ensure that the sustainable finance agenda is appropriately governed over the long term at the EU level in order to cover the private and public funding side, measure financial flows towards sustainable investments and gauge the EU's progress towards its commitments under the European Green Deal and Green Deal Investment Plan?

Access to competitive sustainable financing in Europe is vital for the European waterborne sector, including the European maritime technology sector, which is by nature highly capital intensive and operating at global level and hence exposed to fierce (and often) unfair competition notably from the Far-East nations. An adequate and attractive financing ecosystem in Europe is of paramount importance to develop and promote uptake of innovative and sustainable solutions and technologies as well as supporting the green transformation of maritime industries in line with the EU policy ambitions. In this respect, technological neutrality and a goal-based approach are key to avoid a curtailing of (innovative) clean technologies and to stimulate a rapid development of alternative fuels for waterborne transport. Due to the large variety of ship types and ship trades, there is not a "one-size-fits-all" solution for the transformation of waterborne transport. The optimal pathways to rapid emission reduction and towards the zero-emissions' ship and climate neutrality are by no means straightforward. Therefore, all options for clean technologies, alternative fuels and their optimal integration need to be researched, developed, supported and facilitated, also financially. The above is also relevant in view of the development of an EU taxonomy for the maritime sector, whose criteria and principles should be discussed and decided based on (scientific) facts, as opposed to (political) emotions, and in consultation with the full maritime sector, including the maritime technology sector, in light of the specificities of the waterborne industry. A close cooperation between policymakers, financing institutes, maritime stakeholders is key to avoid that inefficient measures and/or inadequate actions are adopted or imposed that may harm the sector, without reaching the European Green Deal targets.

**Question 14:** In your opinion, should the EU take action to support the development of a common, publicly accessible, free-of-cost environmental data space for companies' ESG information, including data reported under the NFRD and other relevant ESG data?

- Yes,

**Question 15:** According to your own understanding and assessment, does your company currently carry out economic activities that could substantially contribute to the environmental objectives defined in the Taxonomy Regulation?<sup>3</sup>

- Yes

**Question 47:** Do you think that an EU framework for supply chain due diligence related to human rights and environmental issues should be developed to ensure a harmonised level-playing field, given the uneven development of national due diligence initiatives?

- Yes

**Question 48:** Do you think that such a supply chain due diligence requirement should apply to all companies, including small and medium sized companies?

- Yes/No/Do not know.
- If necessary, please explain the reasons for your answer.

For SMEs such a requirement could, for instance, set only a "general framework" for the approach to be adopted by the reporting company with an option for the latter to provide more (detailed) information, if available (for instance, if electricity in a third country of a specific provider is 100%-green, and not based on coal). In the period when the Commission has not developed such a "general framework", at least, the standards of OECD or ILO should be applied.

## Project Pipeline

The existing project pipeline (availability of bankable and investable sustainable projects) is generally considered to be insufficient to meet current investor demand for sustainable projects. Profitability of existing business models plays a role, with some projects (e.g. renewable energy), being more bankable than others (e.g. residential energy efficiency). Identifying the key regulatory and market obstacles that exist at European and national level will be key in order to fix the pipeline problem. Please note that questions relating to incentives are covered in section 2.6.

**Question 60:** What do you consider to be the key market and key regulatory obstacles that prevent an increase in the pipeline of sustainable projects? Please list a maximum three for each.

- **Perpetuation of overcapacity, depressed newbuilding prices and low profitability in world shipbuilding and shipping markets** hinders technological progress and investment in innovative and clean technology. In this context, financing appears to be a challenge for many (small) ship owners, reflecting squeezed market conditions with small margins, reduced accessibility to commercial banks partially caused by increasingly stringent banking regulations (e.g. Basel III) over the recent years, and limited access to financing programs (e.g. national and EU/EIB financing programs).
- **Lack of investment certainty.** Regulatory inconsistencies or discussions on eventual rule changes hamper the necessary investment in technologies. To encourage the entire waterborne sector to invest significantly in the transformation of waterborne transport into a zero-emission mode of transport, investments need to be underpinned by a regulatory framework that offers legal certainty to the entire sector, including to the maritime technology sector. To that end, e.g. application dates for green technologies, enforced by public international law (such as IMO instruments), have to be maintained, to avoid stranded innovation. Furthermore, due to the longevity of maritime technology, first movers investing in innovative technologies deserve protection as well, even if the rapidly changing state-of-the-art offers new superior pathways towards zero emission shipping. Some technologies and/or fuels might turn out to be only intermediate solutions or transitional steps, but they are needed to rapidly achieve initial milestones of interim strategies for GHG and harmful emissions reduction and can therefore not be phased-out on short notice.
- **Question 63:** The transition towards a sustainable economy will require significant investment in research and innovation (R&I) to enable rapid commercialisation of promising and transformational R&I solutions, including possible disruptive and breakthrough inventions or business models. How could the EU ensure that the financial tools developed to increase sustainable investment flows turn R&I into investable (bankable) opportunities?

Following successful RD&I, technologies are mature enough for roll-out, however, this is financially seen often a valley of death. First of all because the investment costs are higher than for conventional technologies, and secondly because of possible higher operational expenses. Thirdly, capital expenses might increase due to the high risk of implementing a new technology. Appropriate financing schemes would thereby be beneficial to stimulate the roll-out/uptake of alternative technologies and concepts.

**Question 64:** In particular, would you consider it useful to have a category for R&I in the EU Taxonomy?

- Yes/No/Do not know.

**Question 65:** In your view, do you consider that the EU should take further action in:

- Bringing more financial engineering to sustainable R&I projects? Yes/No
- Assisting the development of R&I projects to reach investment-ready stages, with volumes, scales, and risk-return profiles that interest investors (i.e. ready and bankable projects that private investors can easily identify)? Yes/No
- Better identifying areas in R&I where public intervention is critical to crowd in private funding? Yes/No
- Ensuring alignment and synergies between Horizon Europe and other EU programmes/funds? Yes/No
- Conducting more research to address the high risks associated with sustainable R&I investment (e.g. policy frameworks and market conditions)? Yes/No
- Identifying and coordinating R&I efforts taking place at EU, national and international levels to maximise value and avoid duplication? Yes/No
- Facilitating sharing of information and experience regarding successful low-carbon business models, research gaps and innovative solutions? Yes/No
- Increasing the capacity of EU entrepreneurs and SMEs to innovate and take risks? Yes/No
- If necessary, please explain your answer.

Financing engineering, including the creation of new financing mechanisms, is importance to finance research and innovation but should not undermine the existing funding mechanisms, such as public grants. A sound coordination between grants and other finance instruments remains crucial for long-term investment planning for maritime industrial projects and the deployment of new technologies, acknowledging that loans and guarantees cannot achieve the same objectives as grants.

## 2.6 Incentives to scale up sustainable investments

**Question 69:** In your view, should the EU consider putting in place specific incentives that are aimed at facilitating access to finance for SMEs carrying out sustainable activities or those SMEs that wish to transition?

- Yes/No/Do not know.
- If yes, what would be your main three suggestions for actions the EU should prioritise to address this issue?
  - Drastic Simplification of reporting requirements and application procedures
  - Stimulate green financing availability for SMEs through better access to EIB instruments. The maritime technology sector has experienced some difficulties with the EIB in the past: zome applications for EIB intermediate loans have resulted in complicated and other unsuccessful processes for many companies, whilst several of them have also faced obstacles in the selection for direct loans. It is thsu recommended to lower the €25 million threshold – which is too high for SMEs to apply for direct loans – to a €10 million threshold. This is particularly relevant for SME-yards, who are generally facing more funding difficulties than larger yards. Moreover, EIB tools such the Green Shipping Guarantee facility should be broadened to target smaller transactions ranging from EUR 5-50 million. Guaranteeing shipbuilding projects of

specifically SME shipowners who are lacking access to finance and are offering the largest market to decarbonize will be key.

- increase SMEs (and individuals) perception and literacy on sustainable finance

## 2.7 The use of sustainable finance tools and frameworks by public authorities

**Question 70:** In your view, is the EU Taxonomy, as currently set out in the [report](#) of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector, for example in order to classify and report on green expenditures?

- Yes - please explain which public authority could use it, how and for what purposes.
- Yes, but only partially - please explain which public authority could use it, how and for what purposes, as well as the changes what would be required to make it fit for purpose.
- No - please explain why you consider that it is not suitable for use by public authorities, and how those reasons could be best addressed in your view.

SEA Europe is in principle favourable to the use of the EU Taxonomy by the public sector. However, the EU taxonomy as currently set out in the Report of the Technical Expert Group on Sustainable Finance does not (yet) address the maritime sector. SEA Europe looks forward to the development of an adequate taxonomy for the maritime sector to be done in consultation with all the affected private stakeholders (incl. the maritime technology sector) which reflects the specific features of the full spectrum of maritime activities.

**Question 71:** In particular, is the EU Taxonomy, as currently set out in the [report](#) of the Technical Expert Group on Sustainable Finance, suitable for use by the public sector in the area of green public procurement?

- Yes/Yes, but only partially/No /Do not know
- If no or yes, but only partially, please explain why and how those reasons could be best addressed.

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**Question 72:** In particular, should the EU Taxonomy<sup>8</sup> play a role in the context of public spending frameworks at EU level, i.e. EU spending programmes such as EU funds, Structural and Cohesion Funds and EU state aid rules, where appropriate? Please select all that apply.

- Yes, the taxonomy with climate and environmental objectives set out in the Taxonomy Regulation;
- Yes, but only if social objectives are incorporated in the EU Taxonomy, as recommended by the TEG, and depending on the outcome of the report that the Commission must publish by 31 December 2021 in line with the review clause of the political agreement on the Taxonomy Regulation.
- No;

- Do not know.

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