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The European Green Deal: Do no significant harm

Dominik Varga



The "European Green Deal": the ambitious goal of the EU to implement a new growth strategy in an effort to stop emitting greenhouse gases by 2050 and to make economic growth independent of resource use.

An important part of the measures connected to the European Green Deal is the so-called EU Taxonomy for sustainable investments. Its goal is to provide the markets with a standardised definition of sustainability in the investment arena.

The idea is on the one hand to prevent green-washing and on the other hand to promote a standardised understanding of the term (i.e. sustainability) in the financial sector. Together with our research partners, we have therefore had a closer look at the proposal from the TEG (Technical Expert Group) and what it and the Taxonomy mean for companies and their ESG profile.

Do no significant harm

ESG ratings are an important item in the evaluation of companies. ESG ratings reflect an aggregate rating based on all important sustainability criteria of a company. Our research partners disagreed on the question of what that meant for the establishment of ratings.

On the one hand, it has become clear in our conversations that much is still in the conceptualisation phase; on the other hand, companies are already assessed on the basis of the SDGs ([Sustainable Development Goals](#)), i.e. a framework similar to the proposed EU Taxonomy. Also, the concept of "Do no significant harm" from the EU Taxonomy is already integrated in the ESG risk management of one of our research partners and set up very much along the specific sectors both in the Taxonomy and in the company rating process of our research partners.

Ready for the Taxonomy?

That being said, much additional research is needed, and we can see a trend towards more sustainability. This can be gathered from the increased level of reporting from companies on sustainable activities (sustainability reports) as well as from statutory reporting requirements to which listed companies are subjected.

For example, companies on the Hong Kong stock exchange are obliged to publish a sustainability report. This trend is a global one and thus not limited to Europe. However, the TEG is aware that particularly at the outset it is difficult to monitor full compliance with the Taxonomy.

Flight from Europe

Given the fact that the trend of sustainability reporting from companies has become global, experts do not fear any form of "Taxonomy flight" in the corporate sector.

Our research partners do not expect companies to move their operating business to non-EU states in order to flee the Taxonomy. Also, the EU Taxonomy refers to products that are offered in the EU. This means it is irrelevant whether companies are based in an EU country or not. As long as they participate in the EU common market, compliance with the EU Taxonomy is obligatory.

COVID-19 effects

A very common concern is that the sustainability trend in the economy might be relegated to the passenger seat because many companies are currently dealing with the effects of Covid-19. However, the statements about the packages aimed at providing stimulus to the economy generally do not support that concern. The various states have shown great commitment to the integration of climate protection criteria with relief credit. This is meant to ensure that the Paris Agreement (i.e. specific emission reduction targets) are not forgotten in the European Green Deal.

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