EU Sustainable Finance Strategy Beyond 2020

Emerging Priorities on Environmental Accounting

And the opportunity for creating synergies

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European Commission - Environment
Today’s Content

• Background

• Rational for (further) action on Sustainable Finance
• Obstacles & Strategic Response
• Current and future Priority Actions

• The environmental Accounting Priority

• Recommendations Possible Next Steps
Rapid Rising Natural Capital Risks Jeopardize Wealth & Wellbeing

Requires swapping ‘thematic prioritization’ for ‘total risk management’

cf. Global Risk Reports, Planetary Boundaries, Agenda 2030 and SDGs, Paris, ...
Green Finance Essential for Delivering the Environmental Agenda
But Reality in Mobilizing Markets (Very) Far from Policy Goals and Rhetoric

Financial Markets
(ESG ~2%)
(E < 2%)
Cf JP Morgan 2018
**Sustainable Investment Growth Obstacles & Strategic Response**

*A Framework for Moving from « 2% » Today To « 100% » By 2050*

- **Sustainable Investment Obstacles***
  - Poor Understanding of Environmental Risks
  - Lack of Harmonized Methods & Metrics
  - Poorly Joined-Up Policies
  - Limited bankable investment pipeline
  - Other

- **Aggregated Investment Agenda**
  - Education & Training
  - Risk Management Information System
  - Investment Promotion (Risk Mitigation Options & Opportunities)
  - Impact Monitoring & Evaluation (Natural Capital & Circular Economy)
  - Research, Innovation & Co-operation

* See HLEG, UNEP-World Bank, PR-CFA, ... (2018)

** Focusing today on “green” investments; to extended to social.
The Sustainable Finance Strategy Beyond 2020
Maintaining Momentum, Strengthening, Extending, Accelerating

<table>
<thead>
<tr>
<th>Investment Agenda</th>
<th>Climate Air, Water, Land, Biodiversity Circular Economy Social</th>
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<tr>
<td></td>
<td>Climate and Environmental Risks Social Risks Financial Risk</td>
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<td>Taxonomy (Climate + No Harm + Nat Cap) Environmental Accounting (E-GAAP) Non-Financial Reporting &amp; Investors’ Disclosure</td>
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<td>Market surveillance platform Environmental impact surveillance Social impact surveillance</td>
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<td>Research Innovation Co-operation</td>
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- **Climate**
- **Air, Water, Land, Biodiversity**
- **Circular Economy**
- **Social**
- **Climate and Environmental Risks**
- **Social Risks**
- **Financial Risk**
- **Taxonomy (Climate + No Harm + Nat Cap)**
- **Environmental Accounting (E-GAAP)**
- **Non-Financial Reporting & Investors’ Disclosure**
- **Investment Needs Analysis**
- **Financial Product and Service Standards**
- **Portfolio Development**
- **Market surveillance platform**
- **Environmental impact surveillance**
- **Social impact surveillance**
- **Research Innovation Co-operation**
The Aggregated Green Impact Investment Agenda*
Combining Forces to reduce (not shift) risks towards « break-even »

- Reducing the Natural Capital Footprint
  - Air: Climate, Air Pollution, Ozone, ...
  - Water: Pollution, Availability, Floods, ...
  - Land**: Degradation, Fragmentation, ...
  - Biodiversity: Loss of habitats & species, ...

Towards break-even levels compatible with One Planet objectives (Paris, SDGs, EU Environmental Action Plans,...)

- Applicable universally at international, national, regional, corporate and project level
- Also covering the raw material and energy sources agenda

* By greening the business and the economy through (better) implementing agreed environmental policies, leveling the playing field, and transitioning towards a resource efficient, low pollution, carbon, circular economy.
The Environmental Accounting Priority (Corporate and Project)
Enabling Total Impact Measurement and Management

<table>
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<tr>
<th></th>
<th>Tier 0: Stores Warehouse Offices</th>
<th>Tier 1: Assembly</th>
<th>Tier 2: Manufacturing</th>
<th>Tier 3: Raw Material Processing</th>
<th>Tier 4: Raw Material Production</th>
<th>Total in Millions</th>
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<tr>
<td><strong>Air Pollution</strong></td>
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<td>8% €64,5</td>
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<td><strong>Greenhouse Gas Emissions</strong></td>
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<td>39% €277,2</td>
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<td><strong>Land Use</strong></td>
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<td>27% €209,9</td>
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<td><strong>Waste</strong></td>
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<td>5% €37,0</td>
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<td><strong>Water Consumption</strong></td>
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<td>11% €88,2</td>
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<tr>
<td><strong>Water Pollution</strong></td>
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<td></td>
<td></td>
<td>14% €106,7</td>
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<tr>
<td><strong>Total</strong></td>
<td>7% €45,0</td>
<td>11% €100,0</td>
<td>4% €13,70</td>
<td>26% €197,5</td>
<td>54% €385,7</td>
<td>100% €775,0</td>
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The Environmental Accounting Priority (2/3)
Generating data relevant for managing the green (business) transition

Environmental Accounting Programme
1. Corporate Environmental Accounting
2. Project Environmental Accounting
3. Product Environmental Footprint Analysis
4. Default External Cost Data Bases
5. National Environmental Accounting
The Environmental Accounting Priority (3/3)
Towards Generally Accepted Environmental Accounting Principles

International Environmental Accounting Panel(s)
(Corporate E-GAAP)

LIFE E-GAAP Prep project
(InvestEU, EIB, ...)

Environmental Accounting Practitioners Platform(s)
(Best Practice Sharing and Promotion)
**Summary**

- Science has been calling for systemic or **system-based ‘total risk management’** which could be usefully pursued based on the logical concept promoted by the **natural capital protocol** and the simultaneous tracking its 4 components (air, water, land, and biodiversity) as material,

- While the sequential topical approach continues to prevail (one priority at the time); **corporate frontrunners** and their sustainability service providers are leading the way on comprehensive ‘total impact’ **environmental management accounting systems** that directly inform sound corporate (investment) decisions (increasingly also covering human/social capital);

- Fading resistance to use **monetized accounts** and progress in the use of **life cycle assessments** is allowing companies (and other entities) to analyse and manage aggregated environmental impacts (and dependencies) **across (international) supply chains**;

- Leading practitioners have signaled interest to partner with the European Commission for the purpose of **promoting environmental accounting** across a wide range of sectors based on developing **generally accepted environmental accounting principles (E-GAAP)** and general and sector specific **practitioners platforms**; These platforms will complement existing platforms (e.g. Business and Biodiversity and the EFRAG hosted accounting laboratory with a particular thematic focus).

- As (large) corporate institutions develop enhanced insights into their environmental ‘footprints’ alongside their supply side, they will **need national/geographical context to complete their risk assessment and/or track their performance in terms of environmental impact and dependencies** and related performance data (e.g. to track progress in terms of transforming towards a circular economy, ect.)
**Next Steps**

- The forum of experts may wish to **take into account the emerging trend in corporate environmental accounting** to ensure that national environmental accounts can provide answers to a new type of (operational) questions that are likely to arise in the (near) future;
- Considering that work on environmental accounting could be stepped up in the fall of 2019 with a view to having a first E-GAAP in the course of 2020-2021, **the SEEA community may wish to anticipate this in its strategic orientation and planning**;
- Similar considerations may include that there seems to be an increasing trend towards natural capital related risks assessments at the level of a sector or an economy, hence that the need to national ‘total footprint’ analysis and forecasts is likely to increase;
- A. **dedicated follow-up discussion with interested parties could be held towards the end of 2019**
- ...
Thank you
Also to Johan Lammerant!

Comments and Questions
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