

Triodos Bank's response to the EU Ecolabel consultation

Q 1.1. Do you agree with the proposal of a set of mandatory criteria for the EU Ecolabel for this Product Group?

We have some concerns that even if the Ecolabel can provide a clear indication of what economic activities can be considered as environmentally sustainable, different approaches within different financial market participants regarding the same investment/activity may continue to exist. Making use of existing standards and frameworks, e.g. appropriate ISO standards, is important to ensure uniform application across markets and types of financial institutions.

Q 2.1. Do you agree with initial proposed scope for the EU Ecolabel?

Scope

The Ecolabel is part of the bigger Action Plan on Financing Sustainable Growth. The Ecolabel will only contribute to this Action Plan when the requirements are meaningful and impactful, in other words, the requirements must be ambitious. In line with the "green funds" in the Netherlands, we urge to require at least of 70% of the portfolio to meet the "positive" Ecolabel criteria whilst the other 30% should do no harm to other environmental, social and governance aspects.

Level of labelling

It is strongly advised to apply the Ecolabel at product level and not at management company level. There are multiple advantages to this.

- 1) it is very transparent for the retail investor which products have obtained the label.
- 2) the breadth of the Ecolabel will become much larger as any investors could develop a fund that qualifies for the Ecolabel.
- 3) if there is strong demand for such products from retail investors than this would incentivize investors to develop more of these products, thereby mobilizing finance to sustainable growth. The success of the "green funds" in the Netherlands prove that this concept works and that the thresholds are not too strict.

Q 2.2. Do you think other financial products/services should be included that are not covered in the initial proposed scope?

Pension products should be included. Ideally all retail and institutional products should be in scope. We suggest defining a roadmap for the inclusion of other financial products.

Q 2.3. To what extent could savings and deposits be included within the scope in the future given the need to be able to identify specific uses of the money held in them as being 'green'?

We would recommend the inclusion of savings and deposits.

Q 2.4. While bonds are included as underlying to investment funds, to what extent could retail bond products themselves be included within the scope in the future, with verification of their greenness based on the Green Bond Standard?

Yes, certainly. And this is relatively easy as there are guidelines already in place like the green bond principles.

Q 2.5. Are there any other financial products or retail investment opportunities that could be considered for a future scope?

Priority should be given to UCITS and pension products. The ultimate scope should be all products that are offered to European citizens or companies by European licensees (MiFID, IBIP, pension fund licensees or banks).

Q 3.1. Is there a way to address economic activities not yet featured in the current version of the EU taxonomy and its technical criteria?

Although this is not recommended, it is probably needed depending on the progress of the EU taxonomy. By the end of 2019, only climate change adaptation and mitigation will be defined by the TEG. We recommend developing the Ecolabel aligned with the TEG as much as possible. We expect it to become overly complicated if the EU taxonomy and the EU Ecolabel do not apply the same economic activities.

Q 3.2. How could the revenue for a parent group with number of daughter companies and their share be handled?

Revenues should be consolidated up to the level of the equity and/or bond issuing entity. This is relatively straightforward.

Q 3.3. How should assets held in other investment funds be treated within these criteria? Do they require any special form of verification?

To qualify for the label assets held in other investment funds should be in scope. The label should be granted at fund level and should cover the entire portfolio.

Q 3.4. To what extent should real estate also be considered as a specific asset within the portfolio verification?

If so, how could its performance be verified? Real estate should also be included. There are plenty of standards that can be used to assess the greenness of real estate like BREEAM.

Q 3.5. Should assets for which verification of greenness is not required be included within the total portfolio asset value?

Yes. All assets should be included and should be verifiable to calculate the percentage for the threshold.

Q 3.6. Should any type of criteria on trading practices and/or use of funds be applied to derivatives and cash?

Yes as far as derivatives are concerned. Although the amounts in these types will most likely be limited the same screening should take place. For cash this is not required.

Q 3.7. Does the assessment and verification require any specific parts to be tailored to individual products within the scope?

No comment.

Q 3.8. Do you think the proposed environmental exclusions should be expanded to include more economic activities?

The exclusion list should be ambitious given the goals of the ecolabel; simply listing what is already illegal, doesn't add any value. Exclusions must be aligned to the "harm" as defined in the Taxonomy regulation. This includes:

- Illegal deforestation: excluding Illegal deforestation is a too weak approach. Legality is a minimum condition. The focus should be on excluding non-sustainable logging practices from the Ecolabel. The wording could be exclusion of logging, unless managed in a sustainable fashion as defined by certification schemes such as FSC and PEFC and peatland agriculture (this is the approach followed by the French Label).
- Production of pesticides that are not authorised for use or import to the EU: this is also too lenient. For an ambitious Ecolabel, the use of pesticides should be limited to the extent possible.
- Waste management facilities without materials or energy recovery: this should be strictly defined. There should be a minimum threshold for materials recovery like > 50%. Energy recovery is an end-of-pipe solution so this should not qualify under an Ecolabel.
- Genetic engineering: GMO's should be excluded under the Ecolabel. This is in line with the general stance on this topic in Europe.
- Nuclear power should be part of the exclusion list. When taking the whole supply chain into consideration nuclear power is not CO2 neutral. As long as the technology is not intrinsically safe, the technology can be used for other (read: warfare) purposes and there is no sustainable solution found for nuclear waste, nuclear power should be excluded for the Ecolabel.

For sovereign bonds the focus of exclusion should be on NO signature to the most significant UN conventions on environmental, social and arms. Conventions that need to be signed and ratified by governments could include:

- Sustainable Development Goals
- Paris Agreement on Climate Change
- International Convention on Civil and Political Rights (1966)
- International Covenant on Economic, Social and Cultural Rights (1966)
- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (1984)
- Convention on the Rights of the Child (1989)
- Convention on the Elimination of All Forms of Discrimination Against Women (1979)
- Convention on the Elimination of All Forms of Racial Discrimination (1965)

- Core Labour Right Conventions (freedom of associations, right to organize and collective bargaining, no forced labour, no child labour, no discrimination)
- Arms conventions (Non-Proliferation of Nuclear Weapons Treaty, Comprehensive Nuclear Test Ban Treaty, Chemical Weapons Convention, Biological Weapons Convention, Ottawa Convention (Ban on Anti-Personnel Mines), Oslo Convention on Cluster Munition and Arms Trade Treaty)
- Framework Convention on Climate Change
- Montreal Protocol (Ozone Layer), including 7th amendment (Beijing 1999)
- Convention on Biological Diversity, including Cartagena Protocol on Biosafety
- Kyoto Protocol
- Convention on International Trade of Endangered Species of Wild Fauna and Flora
- Basel Convention (transboundary movements of hazardous wastes and their disposal)
- Convention on Migratory Species (or Bonn Convention)
- Ramsar Convention (conservation and wise use of wetlands and their resources)
- Rotterdam Convention (trade of certain hazardous chemicals and to contribute to the environmentally sound use of those hazardous chemicals)
- Stockholm Convention (Persistent Organic Pollutants)
- UN Convention to Combat Desertification (to reverse and prevent desertification/land degradation and to mitigate the effects of drought in affected areas)
- UN Convention on the Law of the Sea (division of ocean affairs and the law of the sea)
- Convention on World Heritage (to protect the world cultural and natural heritage)

Q 3.9. Do you think the partial exclusions threshold should apply to each company's activities or to the portfolio as a whole? *If it should apply at portfolio level, should it be set differently for specific sectors?*

It is very important that the exclusions are applied on a company level. Applying strict thresholds at company level (we agree with max. 5% for each individual exclusion criterion) will automatically lead to the same maximum percentage at portfolio level. It is very important that the thresholds are applied at company level to avoid that (very) unsustainable companies end up in the portfolio if there are enough sustainable companies that compensate for this. Such a situation would be undesirable.

Q 3.10 Do you think the proposed exclusions list on the basis of social & ethical aspects should be enriched with more activities?

Q 3.11 Do you think it may be appropriate to also exclude poor corporate management practices and/or poor human capital development? If yes, how it will be possible to verify such exclusions?

It is very important that green activities are also socially and governance-sound practices. We are pleased to see tobacco and weapons on the exclusion list including ILO and Global Compact violations. However, our experience is that if investors claim to exclude ILO and Global Compact violators, only a handful of companies are excluded on these criteria. The Ecolabel needs to ensure that these exclusions (or safeguards) are meaningful by securing that environmentally sustainable investments never harm any social objective and that they are in accordance with good governance practices. For instance, environmental investments should never harm access to basic needs, lead to tax avoidance or should not include conflict minerals. These criteria should be applied at company level.

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Q 3.12 What will be a reasonable interval for monitoring and reporting information to the consumers?

Semi-annual.