LETTER OF COMMITMENT

TO **SUSTAINABLE FINANCING** IN PORTUGAL

“The European Commission has recognized that sustainability and the transition to a safer, carbon neutral, climate resilient, more resource efficient and circular economy are factors of long-term competitiveness for the European economy. ”

CONTEXT

Economic growth over the course of the last century has led to a significant reduction in poverty and major improvements in life quality across most of the world. However, this model of economic growth, based on extraction - production – disposal, also generates significant environmental impacts, which, today, have resulted in changes to climate systems, loss of biodiversity and, although not uniformly, in the degradation of basic environmental factors, such as soil, water and air. Although the overall economic costs of these changes are not yet sufficiently clear to everyone, the environmental and social impacts are already becoming more obvious, so it is important to reflect on the less positive features of the process of economic growth, with a view to encouraging sustainability, not only in economic and financial terms, but also environmental, social and institutional governance.

A number of global players has understood the need for and the urgency of building environmental concerns more thoroughly into economic growth models, in order to create more sustainable growth, with a special focus on greenhouse gas emissions that contribute towards a change in the climate system which is difficult to reverse. In this respect, 197 countries signed up in 2015 to the Paris Agreement, the main commitment of which is to achieve a global balance between greenhouse gas emissions and removal in the second half of the century. To achieve this global commitment means that signatory countries must commit to becoming carbon neutral during the second half of the 21st century.

The European Commission has recognized that sustainability and the transition to a safer, carbon neutral, climate resilient, more resource efficient and circular economy are factors of long-term competitiveness for the European economy. It will therefore be necessary to invest in the transition towards an economic model which contributes to the environmental objectives set out at a European level, in particular to: mitigate the effects of climate change; encourage adaptation to climate change; promote the sustainable use and protection of water and marine resources; ensure the transition to a circular economy, and the avoidance and recycling of waste; ensure the prevention and control of pollution and the protection of biodiversity and restoration of ecosystems. Since these environmental objectives are broad ranging in scope, the Paris Agreement emphasizes the importance of mitigating the impacts of climate change, in particular the recognized need for an economic model based on renewable energies that promotes decarbonized mobility, energy efficient buildings, carbon sequestration through forests, sustainable and precision agriculture, among other relevant measures, also highlighted by the European Commission as part of the European Union's long-term strategy for a prosperous, modern, and competitive economy, and with a neutral impact on climate. Putting this change into effect requires the involvement of society as a whole, since governments alone are not enough. In particular because the very high levels of investment required will not be attainable solely by the public sector.

According to the European Commission, this transition will involve a focus on new sectors, new technologies and new business models. Today, it is possible to estimate that the actions and policies carried out to achieve the 2020 energy and climate targets have added between 1% and 1.5% to the European workforce, and this trend is expected to continue. A large part of this investment will be made by the private sector (companies, social economy institutions and households) and that is why it is so important for Member States to give clear and long-term signals to guide investors in their investment options, in order to avoid obsolete assets, increase the volume of sustainable financing and point it towards more productive innovations.

Since this represents a profound transformational process that involves society as a whole, the investment will necessarily take place in all sectors, and will be, according to its type, shared between households (e.g. investment in efficient domestic appliances, electric cars or home insulation), companies (e.g. renewable energy, hydrogen powered trucks, electric furnaces and boilers), social economy institutions (e.g. more efficient vehicle fleets, restoration of heritage real estate and equipment) and the State (e.g. more efficient public transport, decarbonization of public buildings and of public sector vehicle fleets). The private sector and households will account for the vast majority of these investments.

In Portugal, the overall aggregate investment needed to achieve carbon neutrality by 2050 is projected to be € 1,017 billion, according to the Roadmap for Carbon Neutrality in 2050.

Of these, about EUR 930 billion will be invested in any case as a result of the normal process of modernization of the economy, driven by policies underway to ensure the functioning of the energy system, which translates into an annualized value of 27-29 billion of euros. These market forces will lead to an estimated reduction in emissions of 65% by 2050, which is still not enough to achieve carbon neutrality.

Given that Portugal is aiming to reduce emissions by more than 85% by 2050, the additional investment required to achieve carbon neutrality will be around EUR 86 billion for the whole period, in other words between 2.1 to 2.5 billion euros per year (around 1.2% of GDP). In addition to the reduction of emissions in the energy system from 70% to 90%, this investment will also lead to substantial gains in energy efficiency and a reduction in energy dependency, which will have major impact (positive) on the energy bill. This additional volume of investment to achieve neutrality is in line with estimates made by the European Commission for the entire European Union in its long-term strategic plan. These estimates range from EUR 175 to 290 billion per year by 2050, equal to about 1.1% to 1.8% of the European Union's GDP in 2018.

The State should therefore play an active role in defining and adapting a regulatory, fiscal and incentive system that provides clear signals over the long term to facilitate the transition to a new model of economic growth based on investment in sustainable projects and activities. In addition, the financial sector should build incentives into its investment policies and its offer of new financial products that are appropriate to the objective of achieving a carbon-neutral economy by 2050, so that the private sector can access the financing needed to make investments and acquisitions in and for an increasingly decarbonized economy.

SCOPE

Against this background, the Think Tank for Sustainable Finance was set up, made up of the main players in the financial sector in Portugal and coordinated by the Ministry of the Environment and Energy Transition, in partnership with the Ministry of Finance and the Ministry of Economy. The Think Tank identified key areas and a number of recommendations over different time frames, in order that the financial sector in Portugal can make a contribution towards accelerating this process, in particular via the setup of a structure to promote Sustainable Financing in Portugal.

This Letter of Commitment, voluntarily signed up to by its signatories, aims to contribute towards promoting and developing sustainable financing in Portugal, thus giving continuity to the work already done by the Think Tank.

FUNDAMENTALS

Whereas:

- Climate change poses a significant threat to the economy, society and the environment, including risks to growth and financial stability, and thus calls for an urgent need to respond to them;
- Climate change is also an opportunity, and concerted action at a global level can generate substantial benefits for our societies by stimulating technology and innovation, improving human well-being and accelerating economic growth;
- Climate change and environmental risks are a potential financial risk;
- The right transition to a carbon neutral and climate change resilient economy should be reflected in macroeconomic planning and the management of public financing;
- The transition to a carbon-neutral economy in 2050 implies an increase or reallocation of private financing, by also aligning the financial system with the needs of investment associated with carbon neutrality, and consistent with applicable prudential and market conduct regulations, given that available public resources are not sufficient;
- The redirection of capital flows towards sustainable investment is crucial to ensure the sustainable and inclusive growth of the Portuguese economy.

COMMITMENTS

MINISTRY OF THE ENVIRONMENT AND ENERGY TRANSITION
IS COMMITTED TO:

- Coordinating the future work of the Think Tank for Sustainable Financing;
- Continuing to disclose in advance the objectives of future public policies on sustainability issues, in particular those related to climate change, energy efficiency and biodiversity (such as the 2050 Carbon Neutral Roadmap and the National Energy and Climate Plan 2030, among others);
- Promoting actions to increase awareness of and provide education in sustainability and sustainable financing, namely via the funds of the future PT2021-2027.

MINISTRY OF ECONOMY
IS COMMITTED TO:

- Promoting the revision of the selection criteria for SME Leaders and SME Excellence, in order to gradually incorporate sustainability factors into these criteria, and to looking at the possibility of creating a category of Green SMEs or Sustainable SMEs;
- Encouraging the transition of businesses and social economy institutions to the sustainability paradigm by identifying and leveraging financial support from the next multiannual European financial framework (2021-2027);
- Rationalizing the lines of financing protocoled with the Portuguese government and simplifying the procedures associated with accessing them;
- Promoting the creation of financial products, with the involvement of the public and private sectors (following the principles of “blended finance”), inspired in particular by the opportunities arising from the InvestEU Program;
- Following up on and participating in future work resulting from the Think Tank for Sustainable Financing.

MINISTRY OF FINANCE
IS COMMITTED TO:

- Developing a fiscal policy favorable to sustainability;
- Encouraging the transition of businesses and social economy institutions to the sustainability paradigm by identifying and leveraging financial support from the next multiannual European financial framework (2021-2027);
- Promoting the creation of financial products, with the involvement of the public and private sectors (following the principles of “blended finance”), inspired in particular by the opportunities arising from the InvestEU Program;
- Following up on and participating in future work resulting from the Think Tank for Sustainable Financing.

BANK OF PORTUGAL, THE SECURITIES MARKET COMMISSION AND THE INSURANCE AND PENSION FUNDS SUPERVISORY AUTHORITY
ARE COMMITTED TO:

- Working together, within the framework of their responsibilities, to analyze the role of the financial system in identifying and managing environmental risks, in financing and investing in green and low carbon projects, within a broader context of sustainable development and in accordance with European regulation and supervision;
- Following up on and participating in future work resulting from the Think Tank for Sustainable Financing.

SIGNATORY FINANCIAL INSTITUTIONS AND EURONEXT LISBON
ARE COMMITTED TO:

- Promoting the debate about sustainability and the environmental, social and governance risks and opportunities at the level of the Boards of Directors of financial institutions, so that these risks and opportunities are considered when defining their strategies;
- Promoting training in sustainable financing aimed at their employees at various levels of the organization (including the Board of Directors), focusing on the risks relating to credit, financial, commercial and / or production products;
- Following up on the revision of the selection criteria for SME Leaders and SME Excellence, in order to gradually incorporate sustainability factors into these criteria, and to looking at the possibility of creating a category of Green SMEs or Sustainable SMEs;
- Encouraging the gradual integration of environmental, social and governance criteria into the analysis of financing and investment;
- Following up on and participating in future work arising from the Think Tank for Sustainable Financing.

PORTUGUESE BANKING ASSOCIATION, THE PORTUGUESE ASSOCIATION OF INSURERS, THE ASSOCIATION OF ISSUERS OF LISTED MARKET PRICES AND THE PORTUGUESE ASSOCIATION OF INVESTMENT FUNDS, PENSIONS AND ASSETS
ARE COMMITTED TO:

- Promoting the debate about sustainability and the environmental, social and governance risks and opportunities at the level of their governing bodies and with their members, so that such risks and opportunities are considered when defining their strategies;
- Promoting training in sustainable financing, non-financial information and sustainability challenges, among its members and employees;
- Following up on and participating in future work arising from the Think Tank for Sustainable Financing.

LETTER OF COMMITMENT
TO SUSTAINABLE FINANCING IN PORTUGAL

SIGNATORY INSTITUTIONS

REPÚBLICA PORTUGUESA | AMBIENTE E DA TRANSIÇÃO ENERGÉTICA

REPÚBLICA PORTUGUESA | FINANÇAS

REPÚBLICA PORTUGUESA | ADJUNTO E DA ECONOMIA

ASF
Autoridade de Supervisão de Seguros e Fundos de Pensões

BANCO DE PORTUGAL
EUROSISTEMA

CMVM
COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS

aem
ASSOCIAÇÃO DE EMPRESAS EMITENTES DE VALORES COTADOS EM MERCADO

APB
ASSOCIAÇÃO PORTUGUESA DE BANCOS

APFIPP
ASSOCIAÇÃO PORTUGUESA DE FUNDOS DE INVESTIMENTO, PENSÕES E PATRIMÓNIOS

aps
ASSOCIAÇÃO PORTUGUESA DE SEGURADORES

LETTER OF COMMITMENT TO SUSTAINABLE FINANCING IN PORTUGAL
SIGNATORY INSTITUTIONS

EURONEXT

BPI

Banco Montepio

BARCLAYS

CA Crédito Agrícola

IFD Instituição Financeira de Desenvolvimento

Millennium bcp

NOVO BANCO

Santander

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Lisbon, 8th of July 2019