

## **Opening Statement**

Thank you Chair for the opportunity to speak to the Committee today; we are pleased to be invited and to contribute to the deliberations of the Committee on foot of the publication of the Citizens Assembly Report.

I am accompanied today by my colleague Sean Judge. I am head of the Climate and Sustainable Finance Unit in the Department of Finance. The Unit's main area of responsibility relates to overseeing the Department's input to national and international climate priorities, as well as with regard to sustainability considerations in the financial services field.

The climate unit in the Department of Finance was established a few years ago, in line with the increasing focus on climate issues across Government. The unit aims to progress and support the integration and mainstreaming of climate action across the Department's key functions. In addition, in line with the Programme for Government requirement that each Minister make climate action a core pillar of their Department's strategies, the Department of Finance Statement of Strategy now includes a climate related strategic objective, namely: *"Promoting environmentally sustainable economic progress"*.

Traditionally, as members will know, the primary focus of the Department of Finance in supporting climate action has been through the taxation system with a number of environmentally progressive elements to Ireland's taxation regime already in place, however in recent years the remit is expanding. This expansion

includes advancing our macroeconomic and fiscal analysis to aid understanding of the effects of climate policies, introducing green budgeting analysis of the taxation system, and supporting green bond issuance.

As I mentioned, one aspect of my areas of responsibilities relates to managing the Department of Finance input into national climate policy and related areas. This includes engagement with the development of Ireland's Fourth National Biodiversity Action Plan, which we understand is to be published shortly. In support of the Biodiversity Action Plan, the Department of Finance has committed to include biodiversity in its work on climate and sustainable finance, including taking it into account in financial services, multilateral development financing and fiscal policy making, as appropriate.

While engagement on biodiversity issues is a new area for the Department of Finance, as it is for many state actors, the importance of addressing the challenge of biodiversity loss as well as taking advantage of the opportunities associated with the conservation and restoration of nature is acknowledged, as is the mutually reinforcing relationship between biodiversity and climate change. We know biodiversity contributes to and enhances climate mitigation and adaptation, while climate change can lead to degradation and loss of biodiversity and the diminution of ecosystem services.

The important work of the Citizens Assembly through its Recommendations and Report on Biodiversity Loss is also recognised, and, as I said, we are pleased to assist the Joint Committee and we will, of course, advise the Minister and the Government on those areas relevant to the Department of Finance.

I would like to set out a number of areas of work which are underway which are of relevance to biodiversity – not all of which are based on raw economic return considerations.

### **Sustainable Financial Services**

Firstly, in relation to the area of sustainable financial services, at an EU level, the Department of Finance oversees Ireland’s engagement with the EU Taxonomy on Sustainable Economic Activities, which is a very important piece of work in defining what economic activities are sustainable, and in guiding and encouraging investors to identify and channel money towards genuinely “green” investments.

As Committee members may be aware, the taxonomy is a classification system which specifies technical, science-based criteria for assessing whether or not specific economic activities make a substantial positive contribution to climate change, does no significant harm to the environment and meets specified minimum safeguards.

Although it is voluntary for companies to spend or invest in Taxonomy-aligned activities, financial institutions and certain companies in scope must report on the extent to which their business is aligned with the Taxonomy’s standards. In this way, the taxonomy has an increasingly influential role to play in guiding and mobilising investments in activities to achieve carbon neutrality. I will also highlight that as Taxonomy alignment reporting becomes embedded in the private sector, it can be expected that it will also become increasing for the public sector.

## **Joint Committee on Environment and Climate Action, 24 October 2023**

While the delegated acts in relation to climate change mitigation and climate change adaptation have applied since January 2022, earlier this year the European Commission adopted a delegated act which sets out criteria for the remaining taxonomy environmental objectives, including in relation to the protection and restoration of biodiversity and ecosystems, which sets out conditions for activities such as conservation of habitats and species.

Ireland has been a strong supporter of the taxonomy and of science-based requirements throughout its development, and we in the Department will continue to engage constructively during negotiations on the delegated act, which are expected to be concluded before the end of the year.

### **Funding/Financing**

The announcement by the Minister for Finance on Budget day (10 October), that he would establish two new funds: (i) the Future Ireland Fund (FIF); and (ii) the Infrastructure, Climate and Nature Fund (ICNF) also represents an important development in terms of allocating funding for biodiversity and nature initiatives.

The Future Ireland Fund will be maintained over the longer term with the return on the Fund used to support government expenditure for future generations. This will help to deal with future recognised expenditure pressures including ageing, climate, digitalisation and other fiscal and economic challenges.

The Infrastructure, Climate and Nature Fund will help to ensure that the State has resources available in a future downturn to support capital expenditure through

the business cycle. This would avoid generating backlogs in capital projects, due to a lack of spending during possible downturns.

The ICNF will also have a climate and nature remit worth up to €3.15 billion. The aim of this is primarily to help the achievement of the national carbon budgets and sectoral emissions targets, through the delivery of capital projects. The Fund is designed to be used where it is clear our climate targets are not being reached.

On 12 October, the General Scheme of a Bill to provide for the establishment of both funds was published, and the General Scheme has also been referred to the FINPERT Oireachtas Committee for pre-legislative scrutiny with a view to progressing the legislation as soon as possible.

In addition, EU programmes will be an important source of funding for biodiversity, with the Multiannual Financial Framework (2021-2027) to provide a minimum annual spend on biodiversity objectives, starting at 7.5% in 2024 and rising to at least 10% in 2026 and 2027.

I will also mention the important role of the National Treasury Management Agency (NTMA), which is a body under the aegis of the Department of Finance, in contributing to the funding of biodiversity in tandem to supporting the broader green financing needs of the State.

In particular through its funding and debt management function, the NTMA, on behalf of the State has issued Irish Sovereign Green Bonds (ISGBs) to the value

of over €10 billion, with the proceeds allocated against eligible green projects. Eligible projects are identified across six broad categories, one of which relates to Environmentally Sustainable Management of Living Natural Resources and Land Use. As outlined in the 2022 ISGB Allocation Report eligible green expenditure by the State on forestry and bio-energy was €74 million, with an allocation of €50 million made against this, in line with all other eligible green programmes.

Ireland Strategic Investment Fund, (ISIF) managed by the NTMA is also supporting biodiversity, with ISIF's impact investment strategy including the themes of: Investments; Climate; Scaling Indigenous Businesses; and Food and Agriculture.

A key part of ISIF's Food and Agriculture strategy is focused on developing solutions in the land use, land use change and forestry (LULUCF) sector and in the circular and bio economies covering forestry, anaerobic digestion, carbon farming and alternative crops. This will involve collaborations with other state agencies, Irish corporates, and international funds.

In terms of investments commitments to date, ISIF has over €100m committed to Forestry Funds which, at the end of 2022, had 12,500 hectares of Forestry, of which 1,700 hectares was created from bare land contributing to our afforestation targets. These forests incorporate the planting of native tree species, at a level of 20% to 30% of afforestation.

The Strategic Banking Corporation of Ireland (SBCI) also launched the Growth and Sustainability Loan Scheme on 19 September 2023. 30% of the €500m loan guarantee scheme, which is targeted at SME investment in environmental sustainability measures; is being given priority. The purpose of discounted loans provided under this element of the Scheme is to address climate change, environmental and biodiversity issues. It should be noted that the Growth and Sustainability Loan Scheme is open to SMEs and small mid-caps, including farmers and fishers.

**Fiscal Policy/Environmental Taxation:**

As I mentioned earlier in my statement, the primary focus of the Department of Finance in supporting climate action has traditionally been through the taxation system, with a suite of environmentally progressive elements to Ireland's taxation regime already in place including the carbon tax regime, as well as numerous measures to incentivise the uptake of Electric Vehicles. In terms of measures more directly linked to biodiversity, under section 232 of the Taxes Consolidation Act 1997 profits or gains from the occupation of woodland in the State, which is managed on a commercial basis and with a view to realising a profit, are exempt from income tax and corporation tax.

The Department of Finance fully recognises that the taxation system, operating in conjunction with other measures, provides an important climate action policy lever. Fiscal measures, which help to incentivise the use of greener fuels and technologies and support a move away from more pollutant fossil fuels, play an important role in the journey to a carbon neutral economy.

Air pollution, including emissions of carbon dioxide, nitrogen oxide and sulphur dioxide contribute to biodiversity loss, and therefore measures which aim to reduce these emissions can contribute to tackling biodiversity loss. It is recognised that many fiscal measures aimed at emissions reductions, while not specifically targeting biodiversity, will contribute to mitigating climate change and improving air quality, which ultimately has knock-on benefits for biodiversity.

However, it is important to note that field expertise is required to ascertain the specific impacts and benefits of these policy measures on biodiversity. This moves beyond the remit of the Department of Finance, however, we are available to provide input on the operation of current taxation measures. If the committee wishes to present expert-informed specific tax policy proposals, the Department of Finance is happy to engage and evaluate these measures.

### **Multilateral Development Banks**

Finally, through Ireland's membership of multilateral development banks, the Department of Finance will continue with collaborate with partners to ensure that biodiversity is included as a priority within their respective policy programmes.

Of note, the Department welcomes the recent broadening of the World Bank's mission to explicitly focus on biodiversity and nature as a global priority to deliver a liveable planet.

Support from the European Investment Bank (EIB) has also assisted helped to establish Peatland Finance Ireland (PFI) which is developing a Peatland Standard



## **Joint Committee on Environment and Climate Action, 24 October 2023**

to standardise the contributions made by investing in peatland restoration to carbon storage and sequestration.

Thank you Chair; I am happy to have the statement published and Sean and I are pleased to listen to Committee members' views and take questions.