



The new EU Taxonomy on sustainable activities

Business briefing

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The new EU Taxonomy on sustainable activities

Business briefing

“In order to inform its work on the [action plan: financing sustainable growth](#) under the EU Green Deal, the European Commission established a [Technical Expert Group \(TEG\) on sustainable finance](#). Action 1 of the action plan called for the establishment of an EU classification system for sustainable activities, i.e. an EU taxonomy. The TEG, responding to the EU Commission’s requirement and Council Decision, published its [final report on EU Taxonomy](#) 9 March 2020.”¹

This briefing is designed to give WBCSD members a high-level understanding of what the Taxonomy is, how it might affect them and where to find the latest tools and resources.

Headlines

- The European Union wants to support investment in economic activities aligned with the SDGs and the Paris Agreement, with the overarching goal of reaching carbon neutrality by 2050.
- As part of this, the EU Commission is working to channel investment towards sustainable economic activities as part the [European Action Plan on Financing Sustainable Growth](#) under the [European Green Deal](#).
- To help investors systematically assess which economic activities to invest in, the [EU Commission’s Technical Expert Group](#) (TEG) released a sustainability classification system ([the EU Taxonomy for Sustainable Activities](#)) to guide policy makers, industry and investors in their decision-making processes.
- The Taxonomy covers six key environmental objectives: climate change mitigation and adaptation, circular economy, water, pollution prevention and the protection of ecosystems.
- Financial market participants will be required to complete their first set of disclosures against the Taxonomy, covering activities related to climate change mitigation and/or adaptation by 31 December 2021. Companies will be required to disclose in the course of 2022.²
- Demonstrating alignment with the Taxonomy could help public and private actors gain access to sustainable finance.³
- Some experts have raised concerns about the Taxonomy’s measurement methods, thresholds, scope and unintended consequences.
- WBCSD’s tools and guidance support management and disclosure responses.

Background

The European Union (EU) is transitioning to a new strategy - one that prioritizes climate neutrality, zero pollution, affordable and secure energy, smart transport and high-quality food.⁴

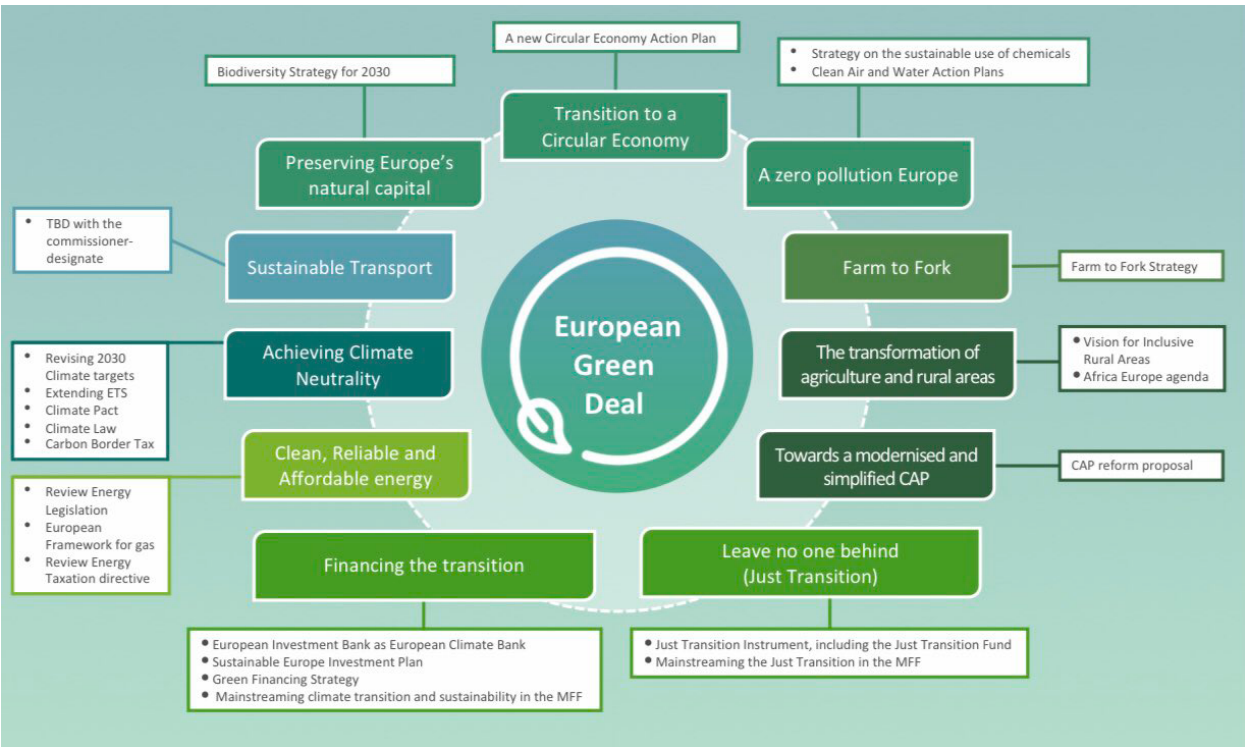
The [European Green Deal, released in December 2019](#), outlines the actions needed to transform Europe into “the first climate-neutral continent in the world”. Under the plan, “no one will be left behind”.⁵

The Deal, written into law using the proposed [EU climate law](#), focuses on significantly reducing emissions across the EU by 2030, building on the goals of the Paris Agreement and the SDGs, with a view towards net zero emissions by 2050.

In efforts to finance the transition, the EU Commission is undertaking numerous activities to encourage sustainable investments across the region through the EU Action Plan on Sustainable Finance.

In order to ensure all investments are channeled towards sustainable projects, the EU Commission’s Technical Expert Group released the [EU Taxonomy for Sustainable Activities](#) – an important enabler to finance the transition under the European Green Deal.

Figure 1: The EU Taxonomy, financing sustainable growth and the EU Green Deal



Source - European Commission

What is the EU Taxonomy?

The Taxonomy itself is a classification system designed to outline what constitutes a sustainable activity under the EU Green Deal.

Financial actors - such as investors - will use the Taxonomy to identify the proportion of their assets that are sustainable, according to alignment with the Taxonomy criteria.

Moving forward, portfolios must invest a minimum percentage of total assets in "green" activities in order to obtain any of the existing green labels in EU.

The objective is to reduce attempts at green washing.



Figure 2: EU environmental objectives that the Taxonomy aims to cover

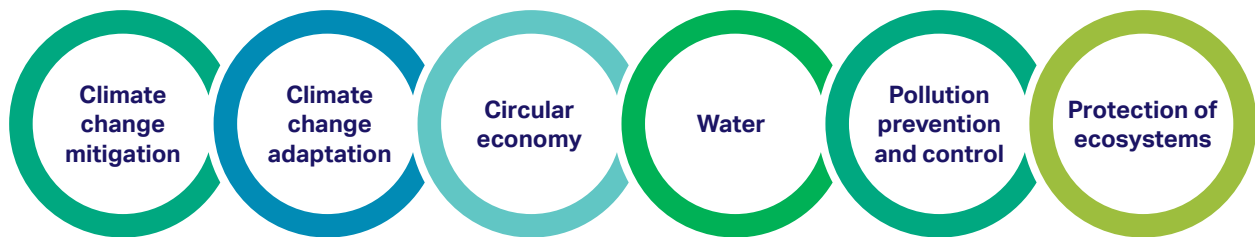


Figure 3: Taxonomy explanation (TEG June 2019 draft usability guide)

IS	IS NOT
<p>A list of economic activities and relevant criteria</p> <p>Flexible to adapt to different investment styles and strategies</p> <p>Based on latest scientific and industry experience</p> <p>Dynamic, responding to changes in technology, science, new activities and data</p>	<p>A rating of good or bad companies</p> <p>A mandatory list to invest in</p> <p>Making a judgment on the financial performance of an investment - only the environmental performance</p> <p>Inflexible or static</p>

Source - <https://www.bloomberg.com/professional/blog/the-eu-taxonomy-for-sustainable-finance-faqs-for-financial-market-participants/>

An economic activity that is "Taxonomy-aligned" is considered "sustainable" under the EU Green Deal.

For an economic activity to be "Taxonomy-aligned," (Figure 4) the activity should:

- Make a significant contribution to one of six environmental objectives (Figure 2).
- Do no significant harm (DNSH) to the other five environmental objectives.

- At minimum, follow "the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organization's Declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights".⁷



Figure 4: To align with the Taxonomy, economic activities must:



Source - Taxonomy: Final report of the Technical Expert Group on Sustainable Finance March 2020

Economic activities that meet the screening criteria outlined in the technical annex of the Taxonomy are considered strong investment options under the EU Green Deal, while those that do not meet the criteria – but who want to align with the Taxonomy - will need to illustrate how they plan to move toward alignment.

For activities that do not meet the screening criteria, the TEG recommends that companies disclose precise expenditure on improvements that promote alignment – such as retrofitting or R&D. These improvements can be counted as "Taxonomy-aligned" if they help the company meet the Taxonomy's screening criteria within five years.

"The TEG has also provided guidance on how companies and financial institutions can make disclosures using the Taxonomy, including [Excel](#) tools to help with implementation".⁸

Climate mitigation and adaptation: The Taxonomy in practice

Table 1 illustrates high level criteria associated with certain sectors/industries and key economic activities as they relate to climate change mitigation and adaptation. For further details of metrics, thresholds, rationale and assessments see the [Technical Annex to the TEG final report on the EU Taxonomy](#).



Table 1: Example - high level criteria relating to climate change mitigation and adaptation

MACRO-SECTOR/INDUSTRY	ACTIVITY	CRITERIA PRINCIPLE(S) SUMMARY
Climate mitigation		
Forestry	Afforestation	Compliance with sustainable forest management requirements. Increase above and below ground carbon sinks.
Agriculture	Livestock production	Demonstrate substantial avoidance or reduction of GHG emissions from livestock production. Maintain existing sinks and sequestration of grasslands.
Manufacturing	Manufacture of cement	Minimizing process emissions through energy efficiency improvements and switch to alternative fuels, promoting the reduction of the clinker to cement ration and the use of alternative clinkers and binders can contribute to the mitigation objective.
Electricity, gas, steam and air conditioning supply	Transition and distribution of electricity	Support: the integration of renewable energy into the power grid, the transition from carbon-intensive energy supply, via electrification and parallel development of low carbon power generation capacity, of grid management technology used for integrating low carbon emission generation and demand side energy savings and decrease direct emissions from transmission and distribution infrastructure.
Transport and storage	Passenger cars and commercial vehicles	Demonstrate substantial GHG emission reduction by: increasing the number of low- and zero emission vehicles, and improving vehicle efficiency.
Climate adaptation		
Financial and insurance	Non-life insurance	Insurance against climate-related hazards e.g. drought, flood, wildfire and storm.

Why does this matter?

According to the [TEG's final report](#), the Taxonomy makes it easier for investors to "pinpoint sustainable activities", which means it should ideally encourage companies and other economic actors to align with the goals of the European Green Deal.

To qualify for Taxonomy aligned investment, actors from public, private, civil society will be encouraged to more systematically consider climate change, the circular economy, pollution prevention, ecosystem protection and water when embarking on new projects and investments.

IMPLICATIONS FOR BUSINESS

The technical screening criteria on climate change mitigation and/or adaptation will be issued as part of the explicit legal requirements from the European Commission by the end of 2020.

Financial market participants will be required to complete their first set of disclosures against the Taxonomy, covering activities that substantially contribute to climate change mitigation and/or adaptation, by 31 December 2021.⁹

Companies that report under the EU Nonfinancial Reporting Directive (EU NFRD) also align with the new Taxonomy.¹⁰

Report preparers can use the Taxonomy's [technical annex](#) to inform their disclosures, while investors and other financial market participants can use it to identify appropriate sustainable investments.

THE POTENTIAL IMPACT OF COVID-19

The EU, and much of the globe, faces deep economic recession as a result of COVID-19. As such member states are preparing a "roadmap for recovery" and action plan to create high-quality jobs, strengthen resilience and enhance competitiveness - all in line with sustainability.¹¹ It is still unclear exactly how the EU Green Deal and Taxonomy will be affected.

A joint statement from the Members of the European Council illustrates the EU's commitment to rebuilding the economy swiftly and sustainably: "The urgency is presently on fighting the Coronavirus pandemic and its immediate consequences.

We should however start to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis".¹²

On 14 April 2020, The Green Recovery Alliance launched, urging leaders to consider climate change and biodiversity loss in post-pandemic recovery plans. Signatories include,¹² 12 environment ministers, 79 MEPs, 37 CEOs and business associations [including WBCSD], environmental groups, trade unions and think tanks". Additionally there are "50 signatories from the world of finance, including AXA, Allianz, BBVA, BNP Paribas Asset Management, Groupama Asset Management, Nordea Life & Pension, PensionDanmark, and Santander."¹³

Key challenges

Some experts have raised concerns about the Taxonomy regarding measurement, thresholds, scope and unintended consequences.

Authoritative voices like Mark Carney, for example, have commented on the scope of the Taxonomy. Certain technologies that could facilitate the transition

in the short term, may be left out. Carney has said that the goal shouldn't be to make the "whole economy transition... about funding deep green activities and blacklisting brown ones, we need fifty shades of green".¹⁴

Others have highlighted that local and national contexts should be considered, and that

classification and thresholds must be dynamic. Categorizing may not support efforts to bring sustainability into the mainstream, but it may encourage laziness and disincentivize ambition. Because of this, there are concerns that the Taxonomy may not help investors understand how their holdings actually make a difference to the real economy transition.^{15,16}

WBCSD's resources

By giving investors and other financial market participants key criteria, the release of the EU Taxonomy is an important tool for bringing sustainability considerations into decision-making processes.

However, this is just one piece of the puzzle.

Companies will also need to ensure efficient and effective disclosure practice. WBCSD has tools and guidance for

[external disclosure](#) that can support the disclosure of relevant, decision-useful information that meets the needs of investors and other key stakeholders.

Visit www.wbcsd.org for more.

EU guidance

TEG Final report on the EU Taxonomy

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

Using the taxonomy supplementary report

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-using-the-taxonomy_en.pdf

Technical annex

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

Taxonomy spreadsheet

https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en

EU Green bond standards

https://ec.europa.eu/info/publications/sustainable-finance-teg-green-bond-standard_en

Sustainable finance – minimum standards for climate benchmarks

<https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12020-Minimum-standards-for-benchmarks-labelled-as-EU-Climate-Transition-and-EU-Paris-aligned-Benchmarks>

References

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³ https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en#companies

⁴ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁵ https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

⁶ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

⁷ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

⁸ https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en

⁹ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

¹⁰ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

¹¹ <https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/>

¹² <https://www.consilium.europa.eu/media/43076/26-vc-euco-statement-en.pdf>

¹³ <https://www.euractiv.com/section/energy-environment/news/financiers-join-eu-green-recovery-alliance/>

¹⁴ <https://www.imf.org/external/pubs/ft/fandd/2019/12/a-new-sustainable-financial-system-to-stop-climate-change-carney.htm>

¹⁵ <https://www.ipe.com/viewpoint-investing-in-green-doesnt-equal-greening-the-world/10043518.article>

¹⁶ <https://www.responsible-investor.com/articles/encourages-laziness-and-disincentives-ambition-ben-caldecott-shares-his-tho>

ABOUT WBCSD

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD \$8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than 9 billion people are all living well and within the boundaries of our planet, by 2050.

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