

# EU Taxonomy. Developing Criteria for Sustainable Finance

Juan Bofill. Alide. 26.05.2021

*“The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities”*

*Disclaimer: This presentation includes slides extracted from the General Outreach Pack*

# Why a Taxonomy?

---

## Urgent climate change challenge with clear goals

- European Green Deal
- 2030 -55% target
- 2050 net zero target

## Solutions and capital are available

- Markets can work

## We need tools to make it easy to:

- Identify the opportunities
- create sustainable assets and activities
- guide capital to the right place

# 6 environmental interlinked objectives

---

## CLIMATE CHANGE

Mitigation

Adaptation

*Technical Screening Criteria  
in the Climate Delegated Act (April 2021)*

## OTHER OBJECTIVES

Transition to a **circular economy**

**Pollution prevention and control**

Sustainable use and protection of  
**water and marine resources**

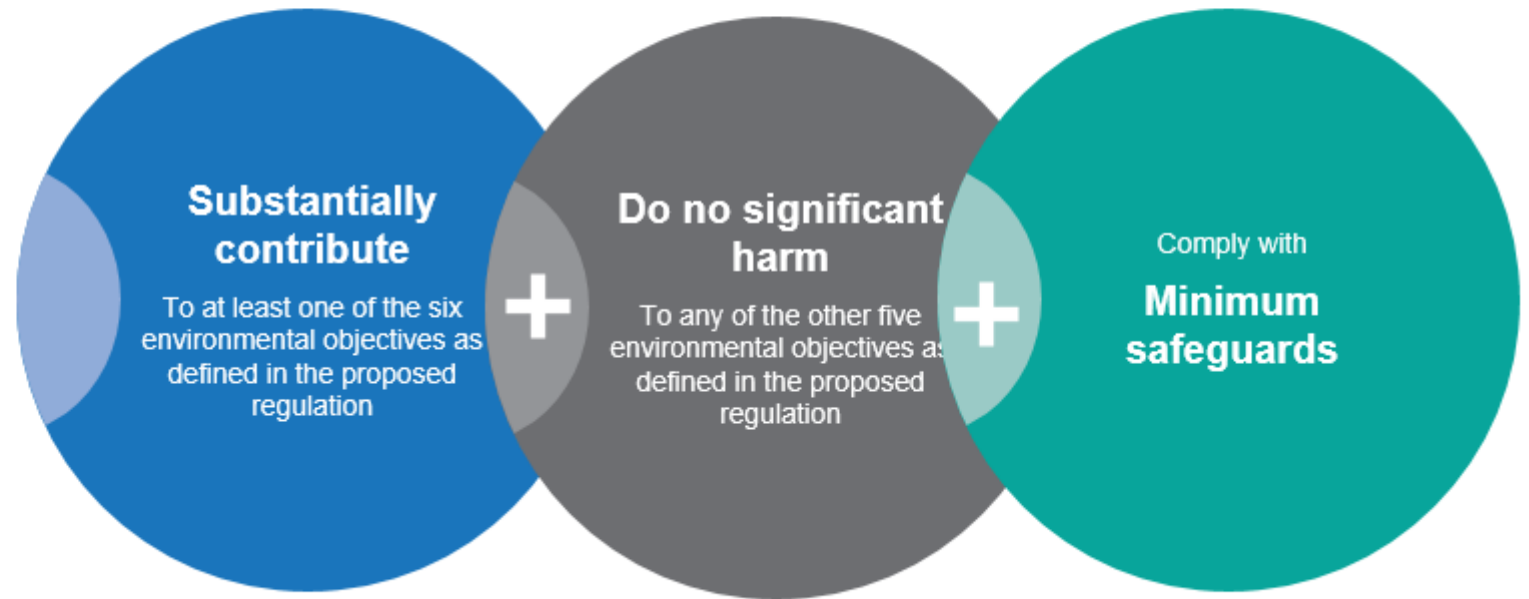
Protection and restoration of  
**biodiversity & ecosystems**

*Technical Screening Criteria  
under development*

# Key features of the Activities

---

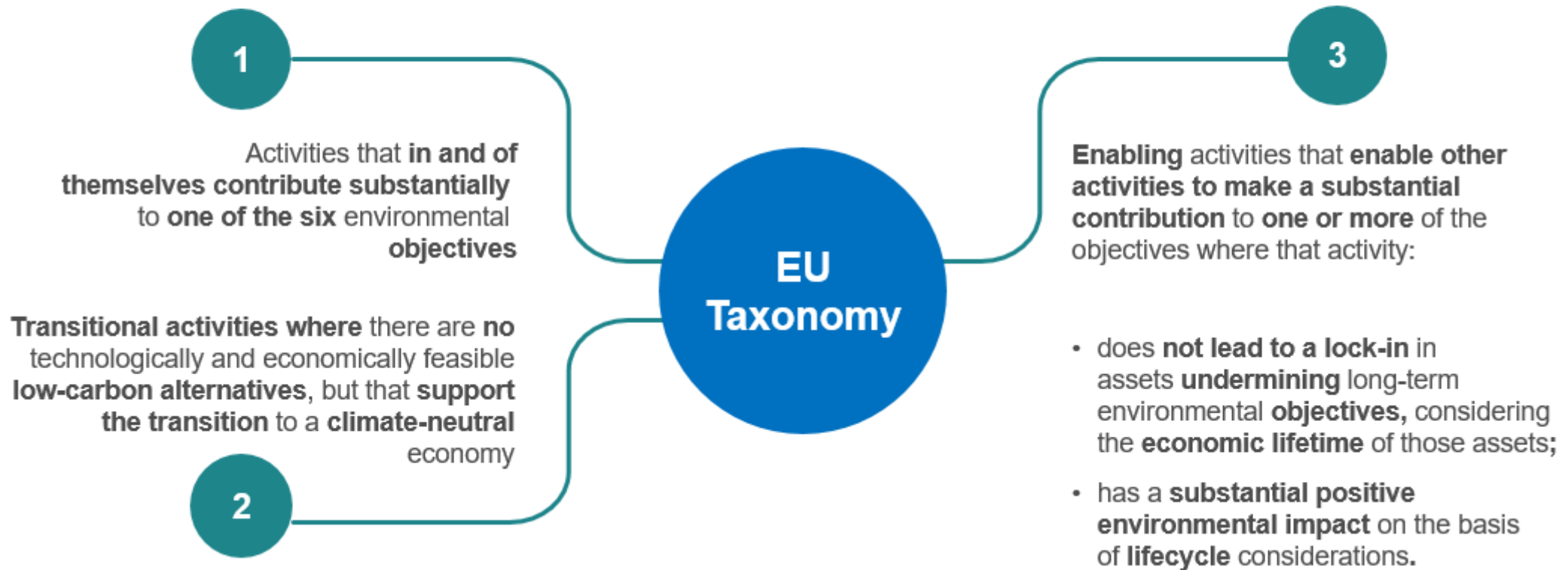
- **Science-based**
- Leverage existing work
- Dynamic
- Capex & Opex
- **Easy to use**



**Minimum Safeguards = UN Guiding Principles and OECD Guidelines**

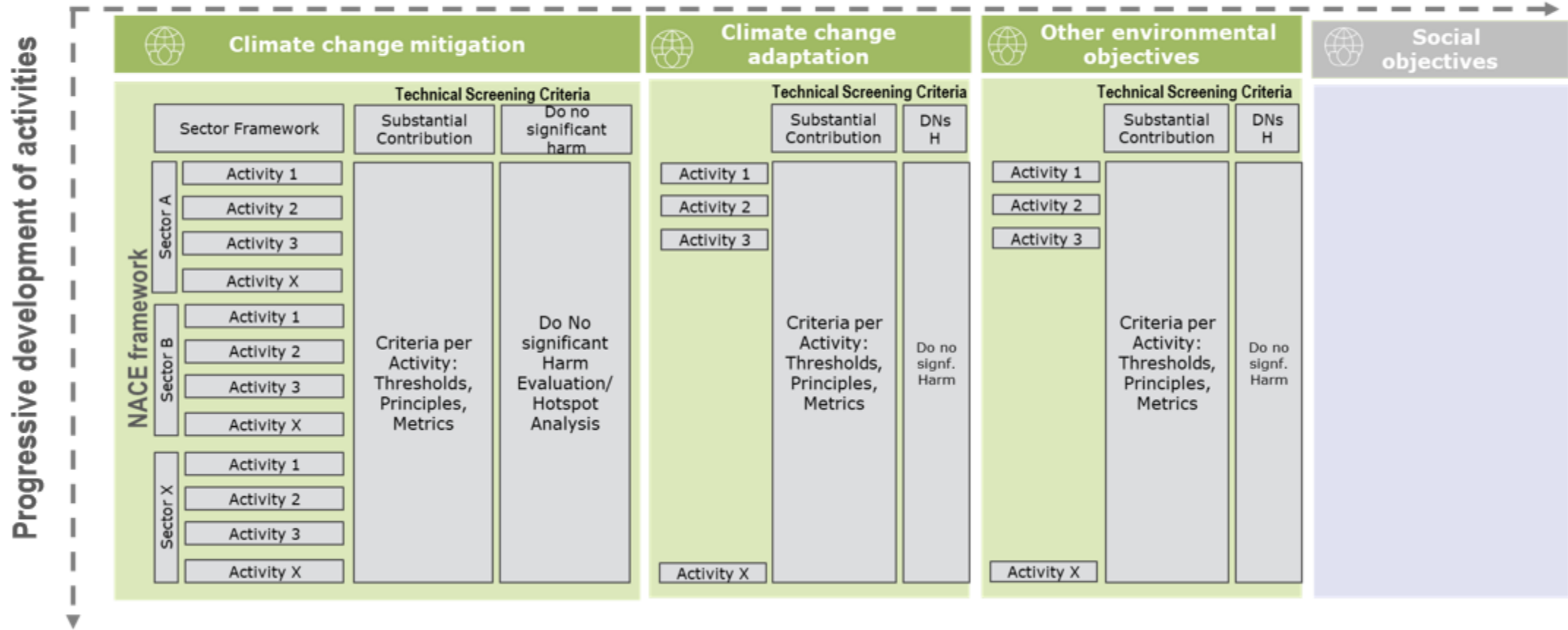
# EU Taxonomy. What does it look like?

## Types of activities



# The EU taxonomy – what does it look like?

Progressive development of activities per environmental (and potentially social) objectives



# EU Taxonomy

Regulation: mandatory disclosures

The Taxonomy Regulation mandates three user obligations:



## Financial market participants

Offering financial products in the EU, including occupational pension providers

Article 5 – Article 7

- How and to what extent the Taxonomy was used in determining the sustainability of the underlying investments;
- To what environmental objective(s) the investments contribute; and
- The proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.



## Large companies

Who are already required to provide a non-financial statement under the Non-Financial Reporting Directive

Article 8

- The proportion of turnover aligned with the EU taxonomy;
- CAPEX and OPEX aligned with the EU taxonomy.

→ *KPIs will be established in a separate delegated act*



## The EU and Member States

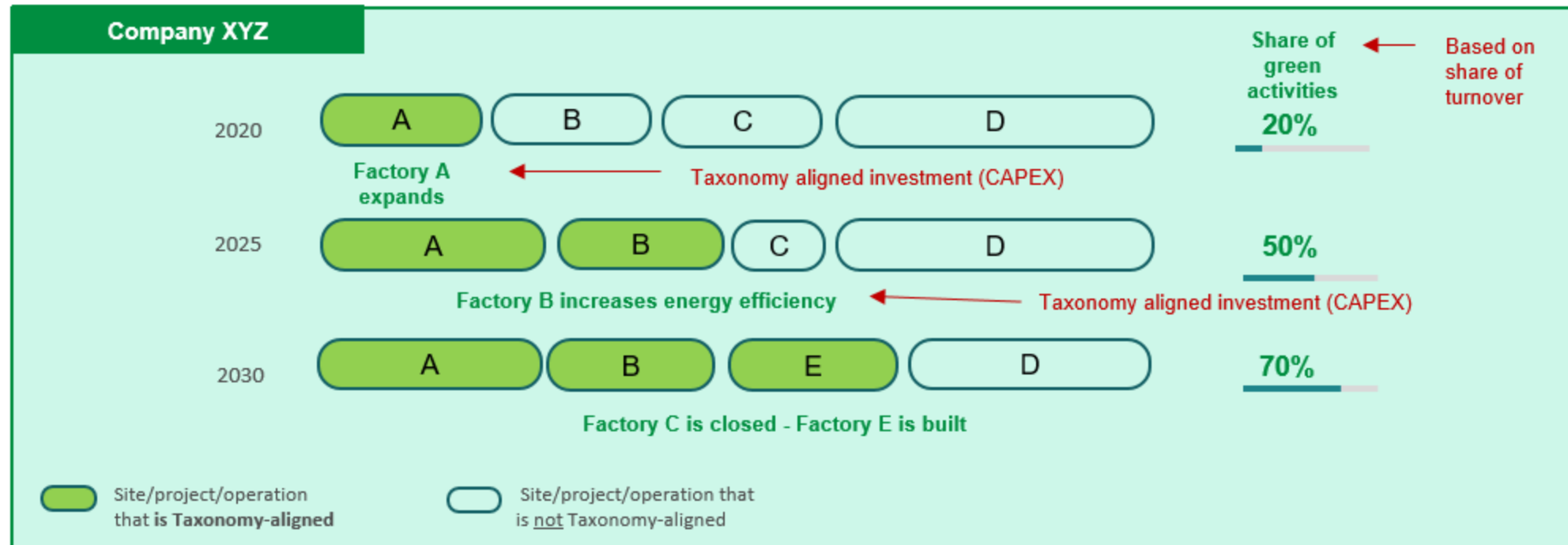
Article 4

When setting out measures on standards or labels for green financial products or green (corporate) bonds

# EU Taxonomy use

## Companies: how it helps transition

- By defining green economic activities, not companies
- The Taxonomy enables companies to transition by gradually increasing their share of green activities





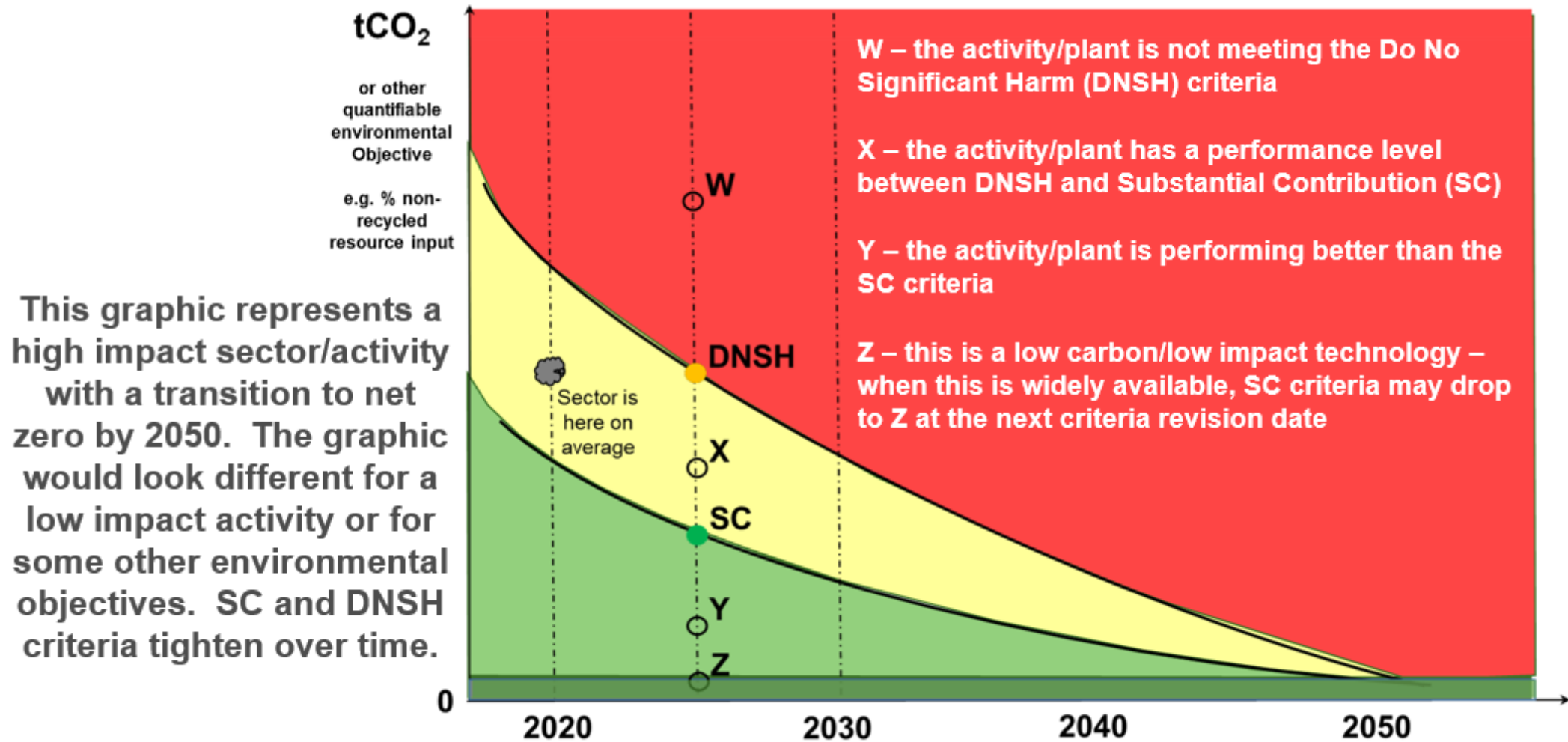
## First Delegated Act already published

NACE Macro-sector	Climate Change Mitigation Activities	Climate Change Adaptation Activities
<b>Forestry</b>	Afforestation Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event Forest management Conservation forestry	
<b>Environmental Protection and Restoration Activities</b>	Restoration of Wetlands	
<b>Manufacturing</b>	Manufacture of renewable energy technologies Manufacture of equipment for the production of hydrogen Manufacture of low carbon technologies for transport Manufacture of batteries Manufacture of energy efficiency equipment for buildings Manufacture of other low carbon technologies Manufacture of cement Manufacture of aluminium Manufacture of iron and steel Manufacture of hydrogen Manufacture of carbon black Manufacture of soda ash Manufacture of chlorine Manufacture of organic basic chemicals Manufacture of anhydrous ammonia Manufacture of nitric acid Manufacture of plastics in primary form	
<b>Energy</b>	Electricity generation using solar photovoltaic technology Electricity generation using concentrated solar power (CSP) technology Electricity generation from wind power Electricity generation from ocean energy technologies Electricity generation from hydropower Electricity generation from geothermal energy Electricity generation from renewable non-fossil gaseous and liquid fuels Electricity generation from bioenergy Transmission and distribution of electricity Storage of electricity Storage of thermal energy Storage of hydrogen Manufacture of biogas and biofuels for use in transport and of bioliquids Transmission and distribution networks for renewable and low-carbon gases District heating/cooling distribution Installation of electric heat pumps Cogeneration of heat/cool and power from solar energy Cogeneration of heat/cool and power from geothermal energy Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels Cogeneration of heat/cool and power from bioenergy Production of heat/cool from solar thermal heating Production of heat/cool from geothermal energy Production of heat/cool from renewable non-fossil gaseous liquid fuels Production of heat/cool from bioenergy Production of heat/cool using waste heat	

NACE Macro-sector	Climate Change Mitigation Activities	Climate Change Adaptation Activities
<b>Water Supply, Sewerage, Waste Management and Remediation</b>	Construction, extension and operation of water collection, treatment and supply systems Renewal of water collection, treatment and supply systems Construction, extension and operation of waste water collection and treatment Renewal of waste water collection and treatment Collection and transport of non-hazardous waste in source segregated fractions Anaerobic digestion of sewage sludge Anaerobic digestion of bio-waste Composting of bio-waste Material recovery from non-hazardous waste Landfill gas capture and utilisation Transport of CO2 Underground permanent geological storage of CO2	
<b>Transport</b>	Passenger interurban rail transport Freight rail transport Urban, suburban and road passenger transport Operation of personal mobility devices, cycle logistics Transport by motorbikes, passenger cars and light commercial vehicles Freight transport services by road Inland passenger water transport Inland freight water transport Retrofitting of inland water passenger and freight transport Sea and coastal freight water transport, vessels for port operations and auxiliary activities Sea and coastal passenger water transport Retrofitting of sea and coastal freight and passenger water transport Infrastructure for personal mobility, cycle logistics Infrastructure for rail transport Infrastructure enabling low-carbon road transport and public transport Infrastructure for water transport Low-carbon airport infrastructure	
<b>Construction and Real Estate</b>	Construction of new buildings Renovation of existing buildings Installation, maintenance and repair of energy efficiency equipment Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings Installation, maintenance and repair of renewable energy technologies Acquisition and ownership of buildings	
<b>Information and Communication</b>	Data processing, hosting and related activities Data-driven solutions for GHG emissions reductions N/A N/A	N/A Computer programming, consultancy and related activities Programming and broadcasting activities

NACE Macro-sector	Climate Change Mitigation Activities	Climate Change Adaptation Activities
<b>Professional, Scientific and Technical Activities</b>	N/A Close to market research, development and innovation Research, development and innovation for direct air capture of CO2 Professional services related to energy performance of buildings	Engineering activities and related technical consultancy dedicated to adaptation to climate change N/A N/A
<b>Financial and Insurance Activities</b>	N/A N/A	Non-life insurance: underwriting of climate-related perils Reinsurance
<b>Education</b>	N/A	Education
<b>Human Health and Social Work Activities</b>	N/A	Residential care activities
<b>Arts, Entertainment and Recreation</b>	N/A N/A N/A	Creative, arts and entertainment activities Libraries, archives, museums and cultural activities Motion picture, video and television programme production, sound recording and music publishing activities

# The Taxonomy and its criteria are dynamic

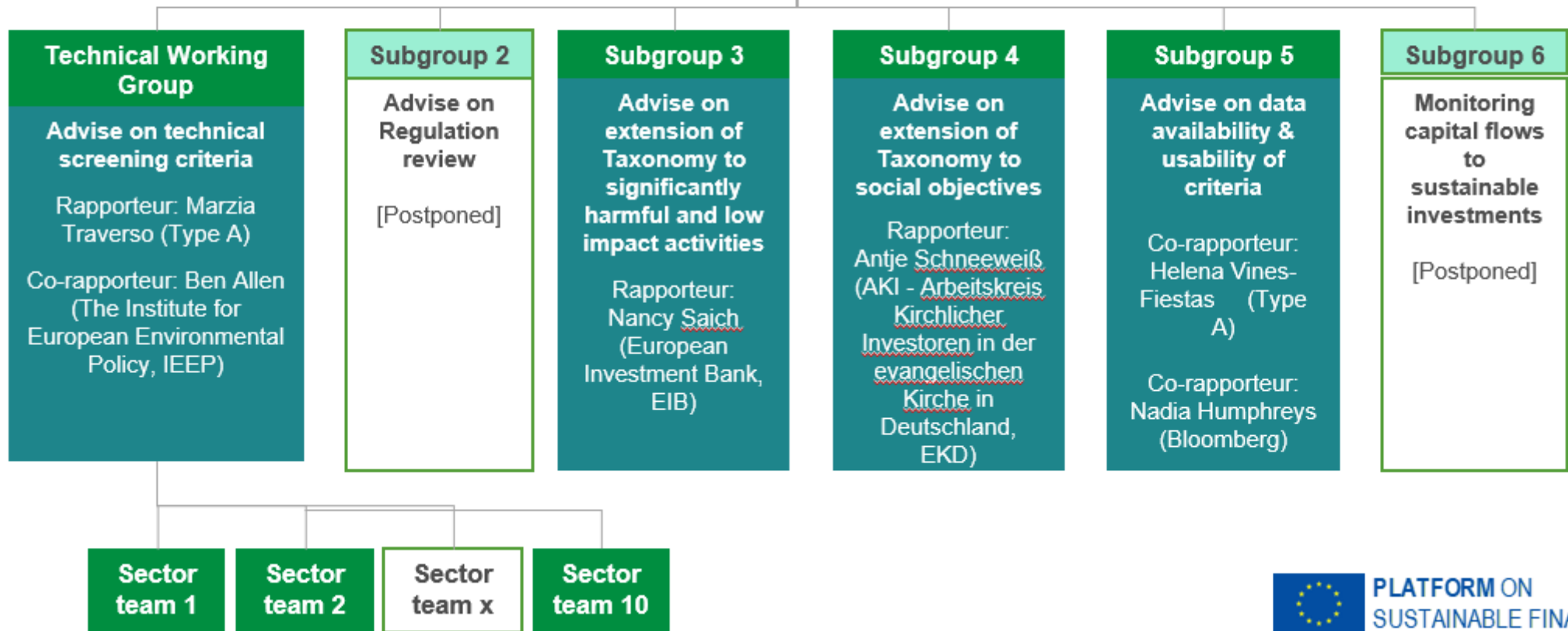


# Platform structure

Chair: Nathan Fabian (PRI)

**57 members & 11 observers**

Appointed members from a range of sectors, including industry, academia & civil society



# Tasks Technical Working Group. 2<sup>nd</sup> Delegated Act

Recommendations on technical screening criteria will form the basis for **Second Delegated Act** under art. 8 Taxonomy Regulation.

**Draft criteria** for the considered economic activities are developed by the TWG – around 60 activities.

Setting conditions under which an activity is

- Substantially contributing to one or more environmental objectives
- Does no significant harm to the other objectives

climate change mitigation

climate change adaptation

Sustainable use and protection of  
**water and marine resources**

Transition to a **circular economy**

**Pollution prevention** and control

Protection and restoration of  
**biodiversity & ecosystems**

- It is expected that the EU taxonomy will be adopted in 2023
- Together with other measures, the taxonomy will make the EU a global leader in setting standards for sustainable finance.
- The taxonomy will enable investors to re-orient investments towards more sustainable technologies and businesses.
- The EIB adopted the Climate Bank Road Map in December 2020
- The EIB will increase its level of support to climate action (CA) and environmental sustainability (ES) to exceed 50% by 2025
- The ES definitions to be adopted are the ones included in the EU taxonomy.
- Non-EU funds may face pressure & need and some advantage to disclose the percentage of investments that are aligned with the EU Taxonomy
- In addition, some investors (e.g. for areas or activities without clear guidelines) outside the EU may adopt the Taxonomy as a reliable framework
- Moreover, jurisdictions without clear guidelines may benefit from utilizing EU Taxonomy terminology. Domino effect?