



# EU Taxonomy

## Context and first climate delegated act

3rd JRC Summer school for Sustainable Finance

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# April- and June 2021 Sustainable Finance packages in relation to the EU Taxonomy

## April package



Taxonomy (first) **climate delegated act**



*Direct Taxonomy deliverable*



Proposal for the **Corporate Sustainability Reporting Directive (CSRD)**



*Scope for Taxonomy reporting*



Amending delegated acts on **Sustainability preferences** and **fiduciary duties**

## June package



Taxonomy delegated act under **Article 8** (specifying disclosure requirements)



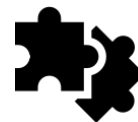
*Direct Taxonomy deliverable*



Proposal for an **EU Green Bond Standard**



*Builds on EU Taxonomy*



**Strategy** for financing the transition to a sustainable economy



*Announces further development of EU Taxonomy*

# From the 2018 Action Plan to the new Sustainable Finance Strategy



**Reorienting capital flows**  
towards sustainable  
investment



**Mainstreaming  
Sustainability into risk  
Management**



**Fostering  
transparency and  
Long-termism**



**Finance the path to  
sustainability**



**Improve the  
inclusiveness of  
Sustainable Finance**



**Enhance the  
financial sector's  
resilience and  
contribution**



**Promote  
international  
consensus for an  
ambitious SF agenda**

# Taxonomy Regulation – Objectives



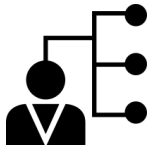
Create **harmonised language** (“dictionary”) and build trust for the markets for what is green → mitigate market fragmentation and greenwashing and incentivize (cross-border) investments



Help investors to make **informed investment decisions**



**Facilitate the transition** for companies, help polluting sectors in the transition



Provide the **basis for further policy action**



→ **Help reorienting capital to support the European Green Deal targets**

# The Taxonomy Regulation – User obligations



**Financial market participants**  
offering financial products in the  
EU  
**Article 5 – Article 7**

- **Product level:** Proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.
- Amending the Sustainable Finance Disclosure Regulation
- Specified in **regulatory technical standards**



**Large companies** who are subject  
to the Non-Financial Reporting  
Directive  
**Article 8**

- **Entity level:** Proportion of turnover aligned with the EU taxonomy, Capex and Opex aligned with the EU Taxonomy.
- Additional information published in the non-financial statements
- KPIs are specified in the **delegated act under Article 8** of the Regulation



**The EU and Member States**  
**Article 4**

**Public Standard/label level:**  
When the EU or Member States set out measures on standards or labels for green financial products or green (corporate) bonds.  
Example: EU Green Bond Standard

# Taxonomy Regulation – Framework for the EU Taxonomy

## Criteria for a sustainable economic activities (Art. 3)

- (a) **Substantially contribute** to at least one of the six environmental objectives as defined in the Taxonomy Regulation (= positive contribution)
- (b) **Do not significantly harm** any of the environmental objectives (= safeguard)
- (c) Be carried out **in compliance with minimum safeguards**
- (d) Comply with **technical screening criteria** [specifying points (a) and (b)]

## Environmental Objectives (Art. 9)

- (a) climate change mitigation;
- (b) climate change adaptation;
- (c) the sustainable use and protection of water and marine resources;
- (d) the transition to a circular economy;
- (e) pollution prevention and control;
- (f) the protection and restoration of biodiversity and ecosystems.

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**Scope of the Climate Delegated Act**

# Climate Delegated Act: Structure

- Activity **descriptions** and **technical screening criteria** define the scope of covered activities/assets;
- NACE codes serve as **orientation for users**
- **Enabling and transitional activities** are indicated
- Each activity has performance thresholds for substantial contribution and where necessary, DNSH

## ANNEX I: Climate change mitigation taxonomy

### Activity 1

**Activity description** + indication if transitional/enabling activity

#### **Technical screening criteria:**

1. Substantial contribution to climate change mitigation
2. Do no significant harm to adaptation
3. Do no significant harm to water
4. Do no significant harm to pollution
5. Do no significant harm to circular economy
6. Do no significant harm to biodiversity

### Activity 2

Etc.

## ANNEX II: Climate change adaptation taxonomy

### Activity 1

**Activity description** + indication if enabling activity

#### **Technical screening criteria:**

1. Substantial contribution to climate change adaptation
2. Do no significant harm to mitigation
3. Do no significant harm to water
4. Do no significant harm to pollution
5. Do no significant harm to circular economy
6. Do no significant harm to biodiversity

### Activity 2

Etc.



Note: A more user-friendly version is available online as  
**“EU Taxonomy Compass”**



# Climate Delegated Act: Sectors Covered

## Forestry

- Afforestation, forest restoration, forest management and forest conservation activities.
- Combination of instruments and best practices (i.e. forest management plan, climate-benefit analysis, guarantee of permanence, audit).



Net removals of CO<sub>2</sub>, preserving carbon stocks, dealing with increasing pressures, capacity to help adapting to climate change.

## Manufacturing

- Transition components, aluminium, steel, cement, plastics, chemicals,
- Enabling activities (i.e. manufacture of solar panels);
- Transitional activities based on best-in-class (i.e. cement manufacturing).



Reduction of pressure (third largest emitting sector of direct GHG emissions in the EU); enabling other sectors by producing crucial materials

## Energy

- Broad spectrum of activities covered: Energy generation (solar, wind, geothermal, hydro, etc.); storage, transmission and distribution, co-generation, production of heat/cool, installing heat pumps. etc.
- 100g technology-neutral threshold maintained.



Reducing GHG emissions in energy production and for use of energy in other sectors.

# Climate Delegated Act: Sectors Covered

## Water and Waste

- Waste activities (i.e. treatment of waste, water collection, treatment and supply), water activities, transport and storage of CO<sub>2</sub>.
- Criteria for waste: best practices for the sector
- Criteria for water: absolute and relative performance.



Provision of secondary raw materials, replacing fossil-based products, transport and permanent storage of captured CO<sub>2</sub>, etc.

## Transport

- Land transport (rail, road – urban, interurban, active mobility) and water transport (coastal and sea- passenger and freight transport) as well as enabling infrastructure (including for air transport).
- Zero-tailpipe vehicles and vessels (fuel neutral), sunset clause until 2025: relative and absolute thresholds for non zero-tailpipe vehicles and vessels.



Decarbonising transport fleet and infrastructure, shift of transport to lower emission modes, infrastructure for clean mobility.

## Buildings

- Construction of new buildings, acquisition and ownership, renovation of buildings, several individual measures related to buildings.
- EPC class A or best 15% for existing buildings, 10% lower than NZEB for new buildings.



Energy consumption and emissions of buildings, focus energy efficiency. Construction elements also included in other sectors.

# Climate Delegated Act: Sectors Covered

## ICT

- Green Data centers/ data processing and hosting: best practices for those centers in terms of energy efficiency etc.
- Provision of enabling digital solutions for GHG emission reductions in other sectors.



Reduce energy consumption for data processing, provide solutions for other sectors.

## Research

- Close to market research (lower TRL levels not yet covered) for mitigation and adaptation.
- Criteria are set to support other activities included in the taxonomy to reach their thresholds.
- Enable transitional activities to go beyond the current ambition levels.



Research alternative, new, more efficient solutions, technologies, products etc. in all sectors.

## Financial services

- Insurance and reinsurance – underwriting of climate-related perils, such as from extreme weather events etc.



Help all sectors to reduce their exposure to risks from climate change.

# Next steps for the EU Taxonomy

- Complementary delegated act for sectors not covered in the first DA, i.e. agriculture, certain energy activities.
- Delegated act for the next four environmental objectives
- More climate activities alongside the delegated act for the next four environmental objectives (i.e certain manufacturing activities, adaptation activities)
- New legislative proposal on decarbonisation
- Reports on the potential extension of the EU Taxonomy.

# Thank you



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