



# Taxonomy & Mainstreaming

*Serge Giacomotto - CLIMA D3*

*April 2023*

# How to finance the green transition?

**European Green Deal Objective: mobilise at least €1 trillion in sustainable investments by 2030**

**30% of EU Budget and NGEU to finance Climate**

<b>Public Investments</b>	<b>Recovery and Resilience Fund</b>	<b>NDICI</b>
	<b>Horizon Europe</b>	<b>Cohesion Funds</b>
	<b>InvestEU</b>	<b>CAP</b>
	<b>LIFE Programme</b>	<b>Modernisation Fund</b>
	<b><i>Social Climate Fund*</i></b>	<b>Innovation Fund</b>
	<b><i>Other including State Aid</i></b>	

**Private investments**

**2018 Action Plan on Sustainable Finance**

**2021 Renewed Sustainable Finance Strategy**

**Do No Harm Principle**

# 2018 Sustainable Finance Action Plan

The Action Plan made extensive use of the Regulatory Toolbox to leverage the potential of capital markets.

The specific objectives of the Action Plan are:

1. **To reorient capital flows towards sustainable investment** in order to achieve sustainable and inclusive growth.
2. **To manage financial risks** stemming from climate change, resource depletion, environmental degradation and social issues.
3. **To foster transparency and long-termism** in financial and economic activity

The package of measures included a **proposal for an EU taxonomy regulation**, a proposal for a regulation on **sustainability disclosures (SFDR)** and on **developing low-carbon benchmarks**.

# What is the EU Taxonomy?

**The EU Taxonomy is the only tool that allows to perfectly and systematically compare the environmental performance of different companies and funds.**

- The EU Taxonomy created a **common language** for investors and companies, to **define** which economic activities can be considered environmentally sustainable.

## Disclosure Requirements under the EU Taxonomy

- Obligatory disclosure for large listed non-financial and financial companies via NFRD/CSRD.
- Disclosure on financial products marketed as Sustainable/ESG via SFDR.

## Other Requirements

- EU Member States and the Commission are required to use the EU taxonomy when creating labelling schemes.

## What the EU Taxonomy is NOT

- Making a judgement on the financial performance of an investment.
- A rating of good or bad companies.
- A mandatory list to invest in.
- A label.
- Inflexible or static.

# Taxonomy alignment

An activity undertaken by a corporate is Taxonomy-aligned if it complies with the following three conditions:

1. **Substantial Contribution** to at least one environmental objective (climate change mitigation, climate change adaptation, circular economy, water, biodiversity, pollution).
2. **Do No Significant Harm** to the other environmental objectives.
3. **Minimum Social Safeguards** compliance i.e compliance with UN Guiding Principles and OECD Guidelines for Multinational Enterprises.



To assess alignment, corporates must use the **Technical Screening Criteria**.

# Example of Criteria

For the moment, the EU Taxonomy covers 13 economic macrosectors, responsible for 80% of EU direct GHG emissions.

## Manufacture of Aluminium – SC to Mitigation

The activity manufactures one of the following:

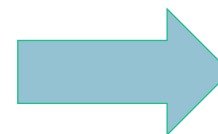
- a. **primary aluminium** where the economic activity complies with two of the following criteria until 2025 and with all of the following criteria after 2025:
  - i. GHG emissions < 1,484 tCO<sub>2</sub>e per ton of aluminium manufactured;
  - ii. the average carbon intensity for the indirect GHG emissions < 100g CO<sub>2</sub>e/kWh;
  - iii. the electricity consumption for the manufacturing process < 15.5 MWh/t Al.
- b. **secondary aluminium.**

# Taxonomy reporting

The Taxonomy allows to compare the levels of sustainability of different investments, as environmental sustainability can be summed up into one number: % of Taxonomy-Alignment

Example 1: **Company A** carries out **3 activities**, all of which are taxonomy-eligible

Activity 1	Activity 2	Activity 3
35% of A's revenues	45% of A's revenues	20% of A's revenues
50% Green	30% Green	20% Green



Taxonomy alignment for A's revenues:

$$35\% * 50\% + 45\% * 30\% + 20\% * 20\% = 35\%$$

Example 2: **Equity ESG Fund** includes investments in **3 companies** with different levels of taxonomy-alignment

Company A	Company B	Company C
50% of X	25% of X	25% of X
34% Green	20% Green	20% Green



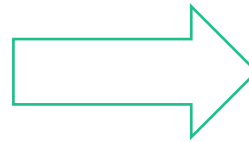
Taxonomy alignment of Fund X:

$$34\% * 50\% + 20\% * 25\% + 20\% * 25\% = 27\%$$

# Climate Mainstreaming

Historically, climate tracking has been done using an adapted version of the Rio DAC Markers.

Climate Contribution of Budget  
for 2014 to 2020 period:  
**20%**



Climate Contribution of Budget  
for 2021 to 2027 period:  
**30%**

Expected contribution to Climate	Significant	Moderate	None
EU Climate Coefficient	100%	40%	0%



- **InvestEU** is the first programme to have committed to using ‘appropriately’ the Taxonomy for Climate Tracking and sustainability proofing.
- **Since it became the EU Climate Bank, EIB’s lending policy** has been framed by the Taxonomy.



# Using the Taxonomy (1/2)

**Taxonomies can be helpful tools to guide both private and public investments.**

## **Benefits of using the taxonomy in public finance:**

- DNSH criteria can be used as minimum standards and to identify harmful spending.
- Taxonomies allow to look at both Climate objectives but also other environmental considerations.
- More objective sustainability criteria.
- Can support the uptake of taxonomies by financial market participants.

However, there are challenges to using the taxonomy in public finance.

# Using the Taxonomy (2/2)

Various stakeholders have called on the EC to use the Taxonomy in public finance. Taxonomy use in public finance is not so easy and not harmonized across financial programmes (e.g RRF vs. InvestEU)

## Principles for using the Taxonomy in public financing schemes

- Do we know the beneficiaries? Which economic sectors?
- How large is the beneficiary?
- Who implements the Programme? How many actors to implement the programme?
- Does the programme finance economic activities or other? (e.g RRF may finance national fiscal measures)
- Grants vs. guarantees? Better to require compliance with Taxonomy criteria with grant financing.
- Equity vs. Debt? Much easier for equity-based instruments to require compliance with criteria.
- For Debt, is the instrument Use-of-Proceeds (e.g a green bond)? If UoP, should be easier to use the Taxonomy.
- Quality/usability of the criteria?

# Taxonomy Development Timeline

The co-legislators empowered the Commission to develop the taxonomy through Level 2 Acts.

June 2020	<ul style="list-style-type: none"><li>• Adoption of the <b>Taxonomy Regulation</b>: it sets out the methodological requirements and the level of ambition, to define “environmentally sustainable investment”.</li></ul>
June 2021	<ul style="list-style-type: none"><li>• Adoption of the <b>Climate Delegated Act</b> covering sustainable activities for climate <b>change adaptation and mitigation objectives</b>.</li></ul>
July 2021	<ul style="list-style-type: none"><li>• Adoption of the <b>Disclosures Delegated Act Regulation (Article 8 DA)</b>, specifying Taxonomy reporting rules for large financial and non-financial corporates in scope of NFRD/CSRD.</li></ul>
March 2022	<ul style="list-style-type: none"><li>• Adoption of the <b>Complementary Climate Delegated Act on nuclear and gas</b>: it amends the Climate DA to the integrate these sectors into the Taxonomy.</li></ul>
From 2023	<ul style="list-style-type: none"><li>• <i>Taxonomy Delegated Act covering activities substantially contributing to the other four environmental objectives</i></li><li>• <i>Future reviews of the Delegated Acts?</i></li><li>• <i>Taxonomy Extension? (level 1 change)</i></li></ul>