

WEBINAR REPORT:

# A European sustainability taxonomy for investors

**“We need a transition in the economy as we have already crossed some of the planetary boundaries.” Meet Brenda Kramer, who is a member of the European Commission’s Technical Expert Group (TEG) on Sustainable Finance. Brenda presented the highlights of the European report for a European Taxonomy and a European standard for green bonds (published 9 March 2020). The taxonomy is the first set of common European rules to define what counts as a green investment, aiming to divert capital flows to more sustainable activities, increase transparency and stamp out “greenwashing”.**

that humanity faces, the current level of action aimed at changing course is too weak. A focus on sustainable environmental outcomes, including new tools, is needed to enable transition to



## Setting the scene

The webinar was organised and facilitated by Iris van de Looij, director DUFAS, and host of the ‘Derde Klimaatwerkconferentie’ (10 March) that was postponed due to the coronavirus outbreak.

## Why do we need a EU Taxonomy?

Brenda: “We need a taxonomy for a transition in the economy as we have already crossed some of the planetary boundaries.” However, despite widespread recognition of the challenges

a sustainable economy – and the current urgency to fight the corona virus doesn’t take away the urgency to transition to a sustainable economy. “We need tools that translate scenarios like these from IPCC<sup>1</sup> into market-friendly tools and we’re hoping taxonomy can serve that goal. It is a classification tool that lists economic activities and performance criteria consistent with Europe’s commitment to reach net-zero carbon emissions by 2050 and build resilience to climate change.”

<sup>1</sup>Intergovernmental Panel on Climate Change ([www.ipcc.ch](http://www.ipcc.ch))

## How does this report help investors?

Brenda: “The taxonomy helps investors and companies to identify economic activities that contribute substantially to achieving a carbon-neutral European continent by 2050. It presents a list of economic activities which can make a substantial contribution to climate change mitigation and criteria to do no significant harm to other environmental objectives. A question was raised what ‘a substantial contribution’ is. Brenda: “As an obvious example: if you would have a coal plant and you’d make it highly energy-efficient, it is still a coal plant, so that would rank on the list of exclusions.” It also presents a framework for evaluating substantial contribution to climate change adaptation. The list of economic activities covered in this report is not exhaustive and additional activities should be added to the Taxonomy in future, Brenda says.

## What does the EU Taxonomy do?

The taxonomy sets performance thresholds (referred to as ‘technical screening criteria’) for economic activities which:

- make a substantive contribution to one of six environmental objectives (see list);
- do no significant harm (DNSH) to the other five, where relevant;
- meet minimum safeguards (e.g., OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

The performance thresholds will help companies, project promoters and issuers access green financing to improve their environmental performance, as well as helping to identify which activities are already environmentally friendly. In doing so, it will help to grow low-carbon sectors and decarbonise high-carbon ones.

## Six environmental objectives of the EU Taxonomy

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention and recycling
- Pollution prevention and control
- Protection of healthy ecosystems

**Source:** [EU TEG on Sustainable Finance, Taxonomy Technical Report, June 2019](#)

Brenda: “Of these six environmental objectives we focused on two goals, i.e. climate change mitigation (net zero by 2050; 50% to 55% reduction by 2030) and climate change adaptation (build capacity; increase resilience). These are very clear goals that we can work towards to.” Why is the tool so important? “It is an implementation tool that can enable capital markets to identify and respond to investment opportunities that contribute to environmental policy objectives.

Decisions by investors to allocate capital or influence company activities will be making a substantial contribution to climate goals and to the related SDGs.”

### What does the EU Taxonomy report consist of?

The report sets out the results of the work to date undertaken by the TEG on Sustainable Finance in relation to the development of an EU classification system for environmentally sustainable economic activities. The report also includes a “Technical Annex” with screening criteria for 70 climate change mitigation and 68 climate change adaptation activities.

Picture: Brenda Kramer



In addition, it provides guidance on the boundaries of negative impact, with “do no harm” criteria for pollution prevention and control, use and protection of water and marine resources, circular economy, and protection and restoration of biodiversity and ecosystems. The user manual for the EU standard for green bonds helps investors to put the previous recommendations into

practice. In addition, the European Commission is investigating the possibilities for an official EU standard for green bonds.

### What's next?

The report is the basis for the delegated legislation that the European Commission is developing this year under the taxonomy regulation. The new EU Taxonomy will have wide ranging implications for investors and issuers working in the EU, and beyond. Brenda: “The working group will remain as an advisory group for the European Commission until September 2020.” Among other things, it will advise the Commission on standards, labels, data and reporting and further elaboration of questions relating to climate-related benchmarks and taxonomy. The working group, consisting of 35 experts from across the EU, has previously published advice on non-financial reporting and climate-related benchmarks.

### Timeline

This is the expected timeline for the implementation of the EU Taxonomy:

#### EU Taxonomy

- **Q2/Q3-20:** Final text of regulation for EU Taxonomy expected to be ready
- **31-Dec-20:** European Commission to adopt the Delegated Acts on the technical screening criteria for climate mitigation and adaptation (12-month ratification period)

- **31-Dec-21:** European Commission to adopt the Delegated Acts on the technical screening criteria for other remaining environmental objectives (12-month ratification period)
- **01-Jun-21:** The EC will adopt a delegated act to specify the reporting requirements.

### Read the report:

[Taxonomy: Final report of the Technical Expert Group on Sustainable Finance](#)

### Questions or comments?

The answers to the webinar Q&A session will be sent out to the participants soon. Please contact Brenda Kramer, Senior Advisor Responsible Investment at PGGM ( [brenda.kramer@pggm.nl](mailto:brenda.kramer@pggm.nl)) for more information on the EU Taxonomy report, e.g. on CapEx and OpEx count, company disclosure, the five step approach (non-NFRD) and reporting on product level.

This webinar was organised and facilitated by Iris van de Looij, director DUFAS, and host of the 3rd Klimaatwerkconferentie (10 March) that was postponed due to the coronavirus outbreak. Please contact Iris van de Looij ([ivdl@dufas.nl](mailto:ivdl@dufas.nl)) to learn more about the Klimaatwerkconferentie.

### About the EU Green Deal

The EU Green Deal announced in December 2019 sets the overall tone for the direction of the EU's commitment to sustainability. The main ambition of the EU Green Deal is to make Europe the first carbon-neutral continent by 2050. The taxonomy helps investors and companies to identify economic activities that contribute substantially to this. The deal includes a Green Deal Investment Plan and a Just Transition Mechanism. On 4 March, the European Commission unveiled its new Climate Law, designed to ensure net zero emissions in the EU by 2050, which was met with much debate.



[Website: A European Green Deal](#)