



**PLATFORM ON
SUSTAINABLE FINANCE**

Developing criteria for the sustainable finance taxonomy

The Technical Working
Group



Opening Remarks

MAIREAD MCGUINNESS

**COMMISSIONER FOR FINANCIAL SERVICES, FINANCIAL
STABILITY AND CAPITAL MARKETS UNION**



**PLATFORM ON
SUSTAINABLE FINANCE**



Introduction

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Work of the TWG

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In this presentation

- Technical Working Group – role in the platform
- How the work within the TWG is structured
- Sectors covered
- Process
- Points of public engagement

The Taxonomy is ...

Priority for this subgroup:

- Developing **technical screening criteria** for activities that can make *substantial* contribution to environmental objectives 3-6
- Defining **level of environmental ambition**

Bu also the TWG will:

- Advise on updates to existing criteria for climate
- Assessment of requests any proposed revisions
- Cost benefit analysis of options

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



The Taxonomy is ...

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

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Protection and restoration of
biodiversity & ecosystems

Sustainable use and protection of water and marine resources (art. 12)

- (a) protecting the environment from the adverse effects of urban and industrial waste water discharges;
- (b) protecting human health from the adverse impact of any contamination of water intended for human consumption by ensuring that it is free from any micro-organisms, parasites and substances that constitute a potential danger to human health as well as increasing people's access to clean drinking water;
- (c) improving water management and efficiency;
- (d) ensuring the sustainable use of marine ecosystem services or contributing to the good environmental status of marine waters; or
- (e) **enabling** any of the activities listed in points (a) to (d) of this paragraph in accordance with Article 16.

climate change mitigation

climate change adaptation

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Transition to a circular economy (Art. 13)

- (a) uses natural resources, including sustainably sourced bio-based and other raw materials, in production more efficiently
- (b) increases the durability, reparability, upgradability or reusability of products, in particular in designing and manufacturing activities;
- (c) increases the recyclability of products, ...
- (d) substantially reduces the content of hazardous substances and substitutes substances of very high concern in materials and products throughout their life cycle,
- (e) prolongs the use of products;
- (f) increases the use of secondary raw materials and their quality, including by high-quality recycling of waste;
- (g) prevents or reduces waste generation, including the generation of waste from the extraction of minerals and waste from the construction and demolition of buildings;

climate change mitigation

climate change adaptation

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Pollution prevention and control (Art. 14)

- (a) preventing or, where that is not practicable, reducing pollutant emissions into air, water or land, other than greenhouse gasses;
- (b) improving levels of air, water or soil quality in the areas in which the economic activity takes place whilst minimizing any adverse impact on, human health and the environment or the risk thereof;
- (c) preventing or minimising any adverse impact on human health and the environment of the production, use or disposal of chemicals;
- (d) cleaning up litter and other pollution; or
- (e) enabling any of the activities listed in points (a) to (d) of this paragraph in accordance with Article 16...

climate change mitigation

climate change adaptation

Transition to a **circular economy**

Pollution prevention and control

Sustainable use and protection of
water and marine resources

Protection and restoration of
biodiversity & ecosystems

Protection and restoration of biodiversity & ecosystems (art. 15)

- (a) nature and biodiversity conservation, including achieving favourable conservation status of natural and semi-natural habitats and species, or preventing their deterioration where they already have favourable conservation status,...;
- (b) sustainable land use and management, including adequate protection of soil biodiversity, land degradation neutrality and the remediation of contaminated sites;
- (c) sustainable agricultural practices, including those that contribute to enhancing biodiversity or to halting or preventing the degradation of soils and other ecosystems, deforestation and habitat loss;
- (d) sustainable forest management, including practices and uses of forests and forest land that contribute to enhancing biodiversity or to halting or preventing degradation of ecosystems, deforestation and habitat loss; or

climate change mitigation

climate change adaptation

Sustainable use and protection of
water and marine resources

Transition to a **circular economy**

Pollution prevention and control

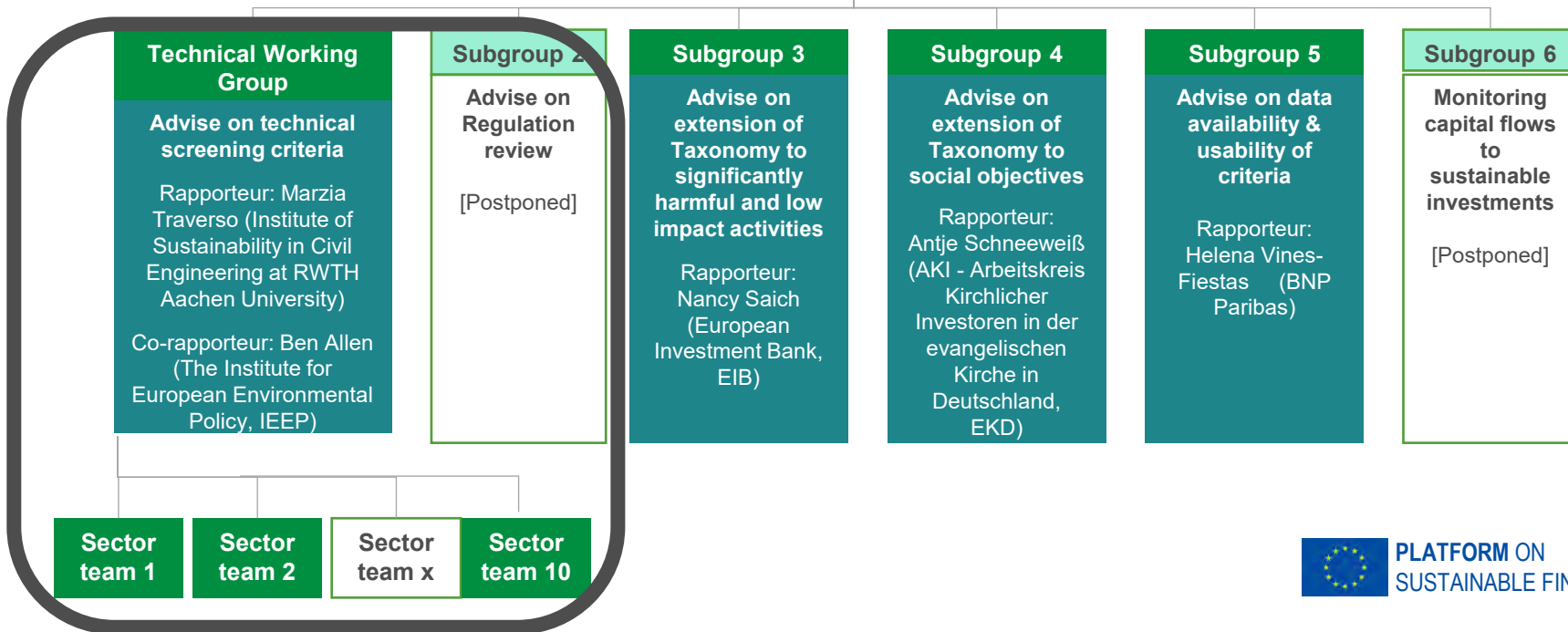
Protection and restoration of
biodiversity & ecosystems

Platform structure

Chair: Nathan Fabian (PRI)

57 members & 10 observers

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





Structure of the TWG

▪ Members of TWG

- Industry representatives, NGOs, banks, and academia/researchers
- Additional experts to cover all prioritised

▪ Sector teams

- Division into smaller groups according to expertise
- Following the structure of the **NACE codes** for economic activities; determine substantial contribution; building the evidence-base for **developing the technical screening criteria**
- About 10 members per team, 10 teams in total
- Each sector team has a secretary who reports to the rapporteurs on progress and challenges

Rapporteurs

- Marzia Traverso (RWTH Aachen University)
- Ben Allen (IEEP)

Reporting the Platform plenary and the chair of the Platform

Sectors covered in the TWG



Agriculture, Forestry and Fishing



Mining and Processing Sectors



Manufacturing
(chemicals, rubber and plastics,
pharmaceutical products and preparations)



Manufacturing
(metals, electronics, machinery)



Manufacturing
(textiles, wood products, food products and
beverages)



Energy



**Construction and buildings,
ICT, Emergency Services**



Transport



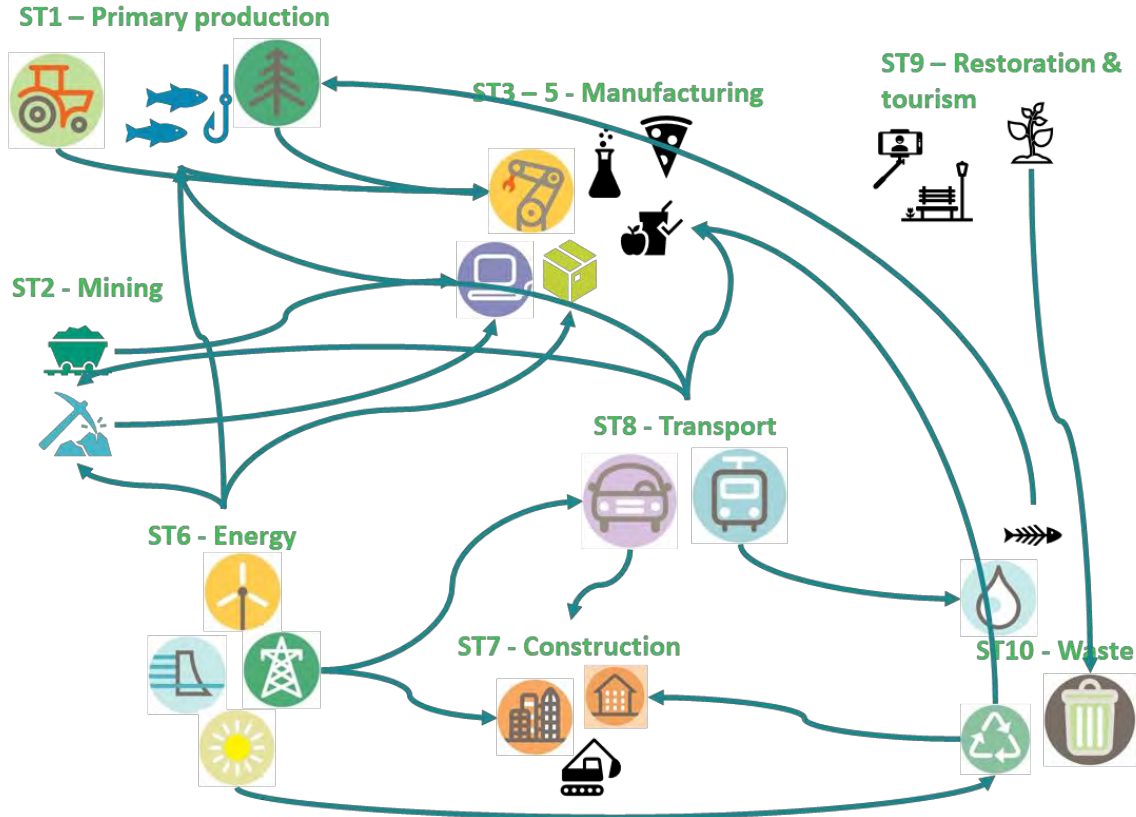
**Restoration and Remediation,
Tourism**



**Water Supply, Sewerage, and
Waste Management**



Sectors covered in the TWG – Interconnection





Composition of TWG

Expert in each sector team



Water

Biodiversity

Circular
Economy

Pollution



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Methodology and rationale

- Methodology for developing technical screening criteria elaborated by the European Commission's Joint Research Centre (JRC).
- Starting point are **pre-prioritised activities**, based on an external study and taken over by the TWG.
- Centred around the activities' **environmental impact** for the objective, the potential for reducing the impact or magnitude of positive impact

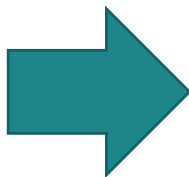
Steps to technical screening criteria

1. Describe nature of contribution
2. Define the scope of the activities
3. Define 'type of contribution'
4. Identify reference points
5. Select approach to criteria
6. Set level of ambition
7. Determine criteria for SC
8. Determine criteria for DNSH

Methodology⁽¹⁾

Steps to technical screening criteria

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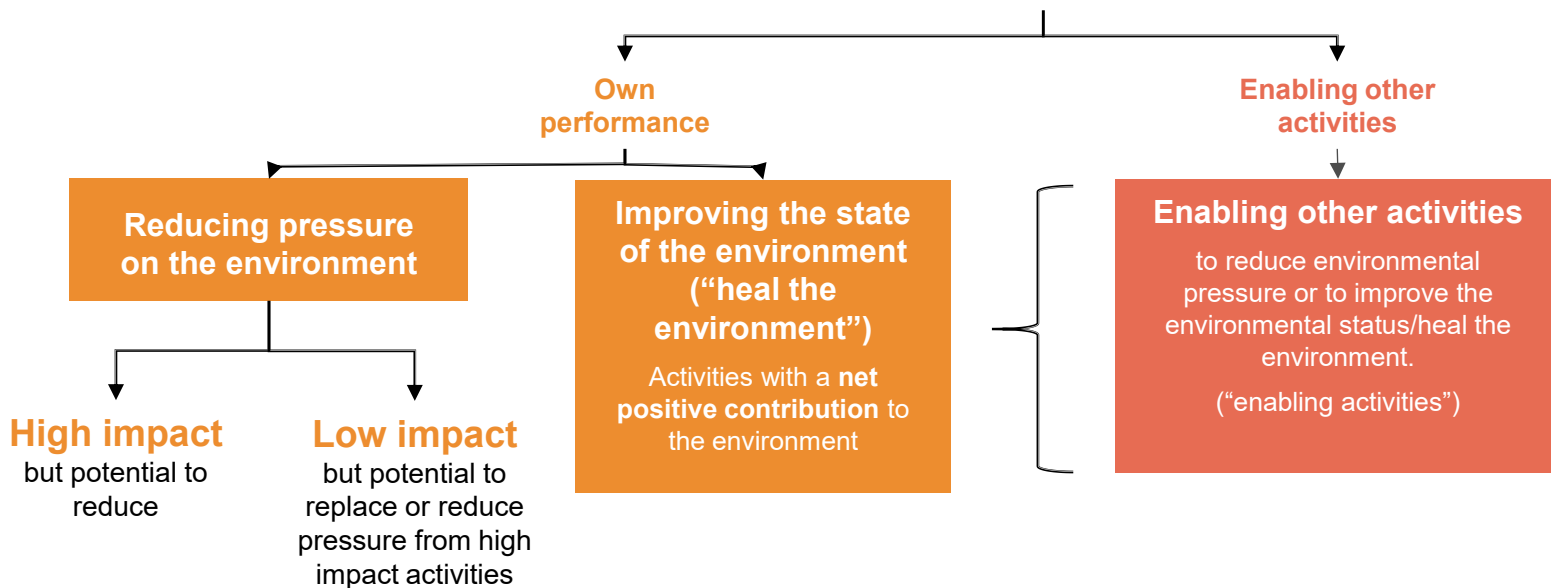
1. Definition how a substantial contribution can be made to the environmental objective considered
2. Definition of right level of granularity
3. Based on the types of substantial contribution defined for each environmental objective, identify the one(s) that are relevant to the activity considered for the environmental objective addressed for substantial contribution.

⁽¹⁾Based on: JRC (forthcoming), ("Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6")"

Methodology⁽¹⁾

Step 3: How can the activity make a substantial contribution?

Activities with substantial contribution

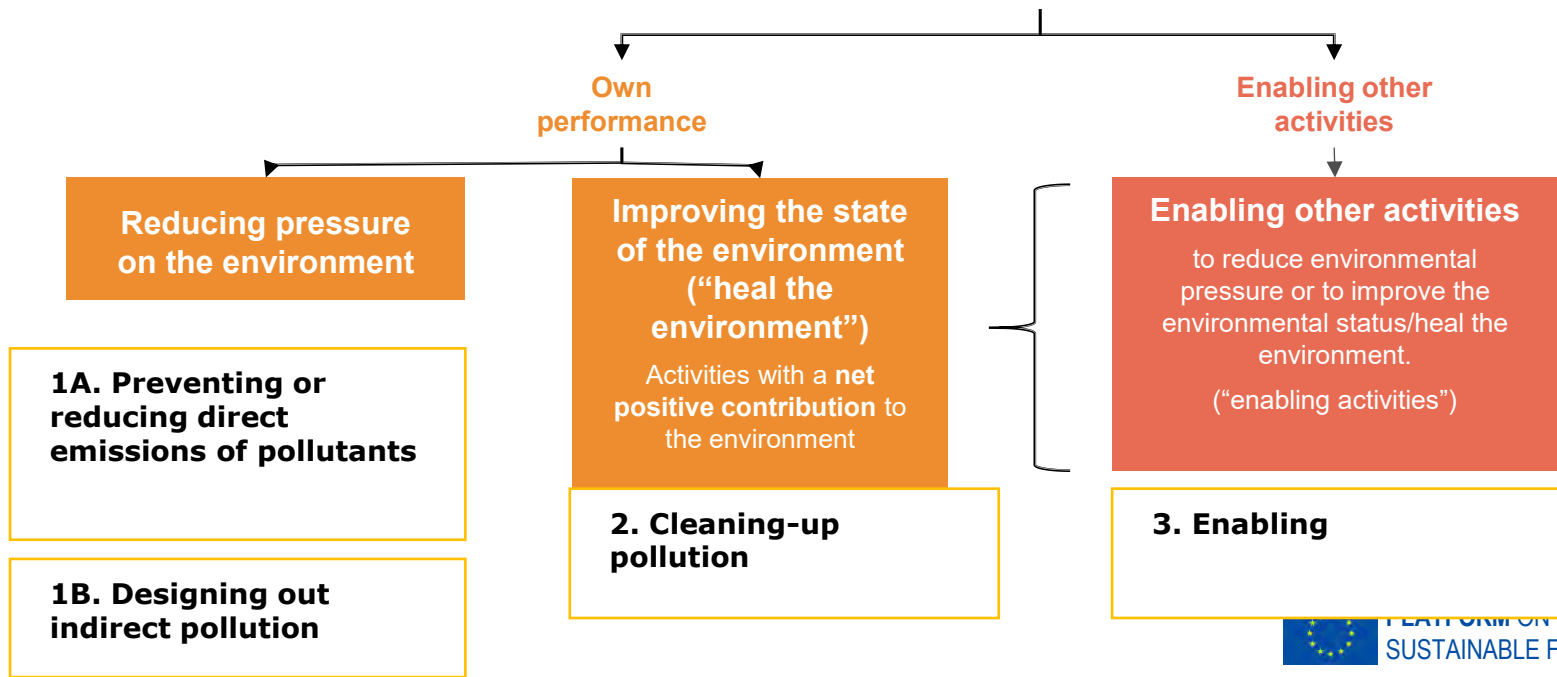


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Methodology- example

Step 3: substantial contribution types for the pollution prevention and control objective.

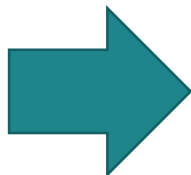
Activities with substantial contribution



Methodology⁽¹⁾

Steps to technical screening criteria

1. Describe nature of contribution
2. Define the scope of the activities
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4. Identify and analyse:

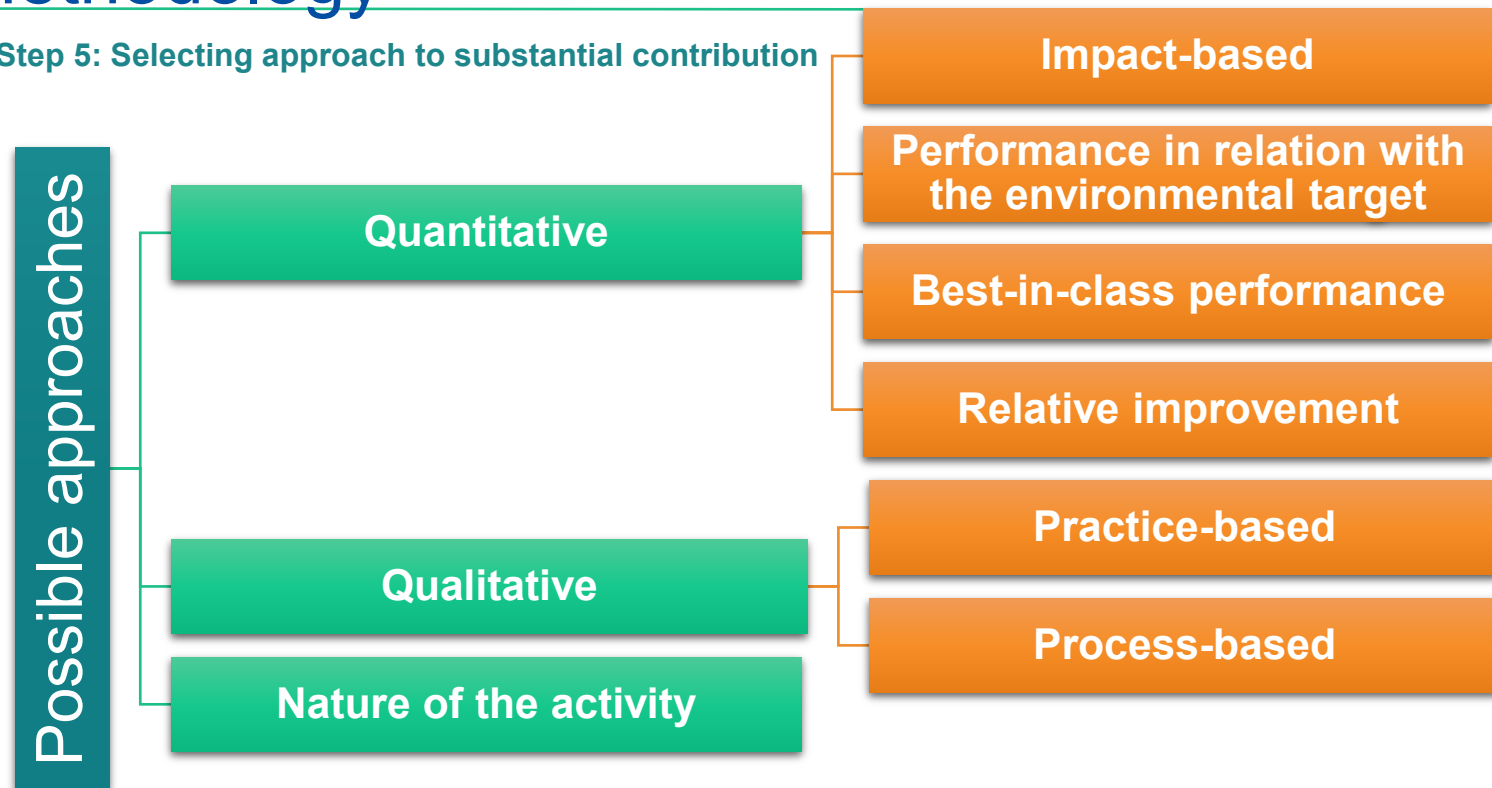
- forward-looking / end-state reference points (EU policies, scientific work, industry data/outlook, reports from think tanks etc.).
- state-of-the-art reference points

⁽¹⁾Based on: JRC (forthcoming), ("Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6")"



Methodology⁽¹⁾

Step 5: Selecting approach to substantial contribution



⁽¹⁾Based on: JRC (forthcoming), ("Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6")

Methodology⁽¹⁾

Step 5: Selecting approach to substantial contribution: quantitative approaches

Impact-based

Performance in relation with the environmental target

Best-in-class performance

Relative improvement

Practice-based

Process-based



- **Impact-based approach:** criteria that are set within this approach require a certain level of *impact* of the activity on the environmental objective considered. The impact of an activity depends on the *pressures* that the activity exerts (e.g. water abstraction,) but also on the *context* in which an activity takes place (e.g. water availability in the area where the activity is located).
- **Performance in relation with the environmental target:** criteria that are set within this approach require a certain level of performance defined in terms of a *pressure* that the activity exerts on the environment (e.g. water abstraction, etc.). Activities qualify if they achieve a certain level of performance derived from environmental considerations
- **Best-in-class performance:** Like for the previous approach, but activities qualify if they operate above a threshold based on the performance currently achieved by best performers (e.g. the threshold can be the average level of performance achieved by the top 10% best activity operators in the EU).
- **Relative improvement:** In this approach, the criteria require a minimum evolution of a metric over time. Activities qualify if they are responsible of an improvement by at least a defined relative threshold, (e.g. recycling quote increase at least 20% compared to a previous point in time).

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⁽¹⁾Based on: JRC (forthcoming), ("Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6")"



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Methodology⁽¹⁾

Step 5: Selecting approach to substantial contribution: qualitative approaches

Impact-based

Performance in relation with
the environmental target

Best-in-class performance

Relative improvement

Practice-based

Process-based

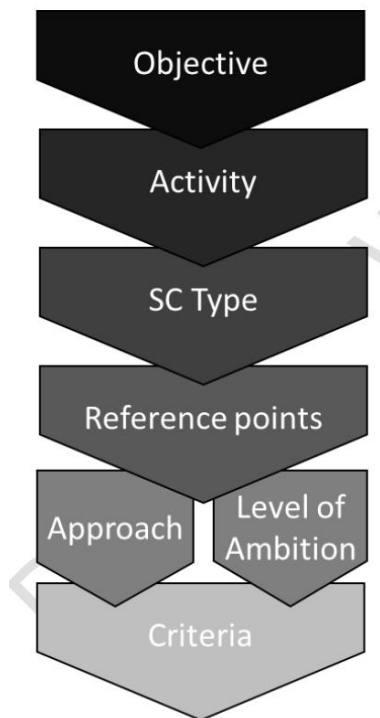
- **Practice-based:** This *qualitative approach* relies on a set of precise practices reducing the pressure or improving the status of the environment. These practices describe *how* the activity must be performed. Activities qualify if they adopt those practices. An example could be the implementation of sustainable farming practices.
- **Process-based:** The criteria define a number of *qualitative process-based* steps to determine how to reduce the pressure or enhance the status of the environment. Activities qualify if they follow those steps.

⁽¹⁾Based on: JRC (forthcoming), ("Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6")"



Methodology⁽¹⁾

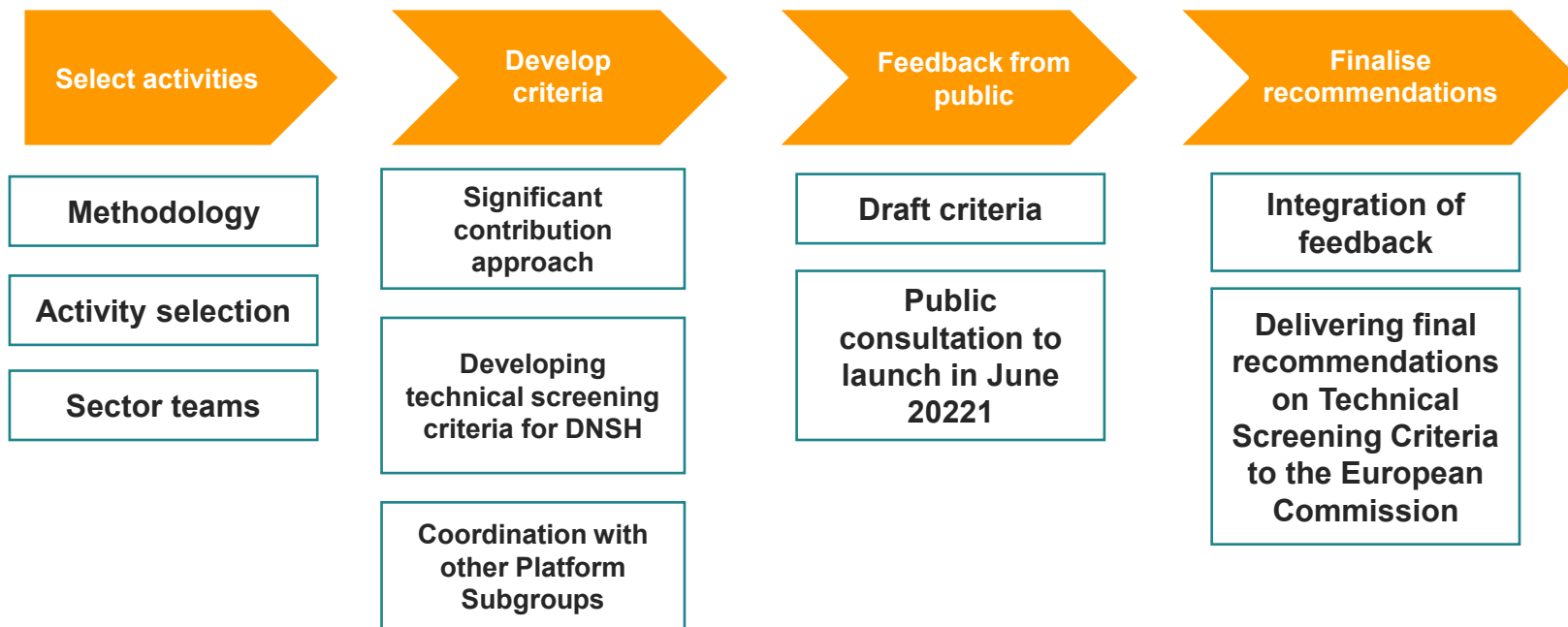
Selecting a right approach to develop technical screening criteria



- The Taxonomy Regulation (art. 19) defines a number of conditions that need to be complied with in the setting of technical screening criteria. These can be summarised in the following four broad requirements:
 - policy coherence;
 - environmental ambition and integrity;
 - level playing field;
 - usability of the criteria.

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Process flow – developing technical screening criteria

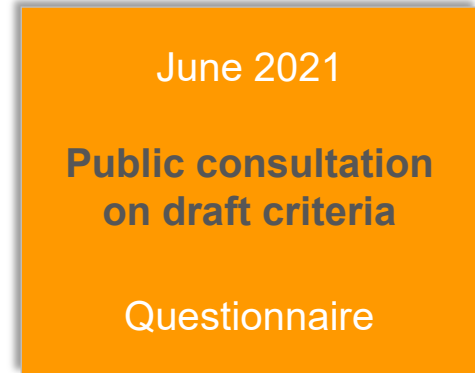
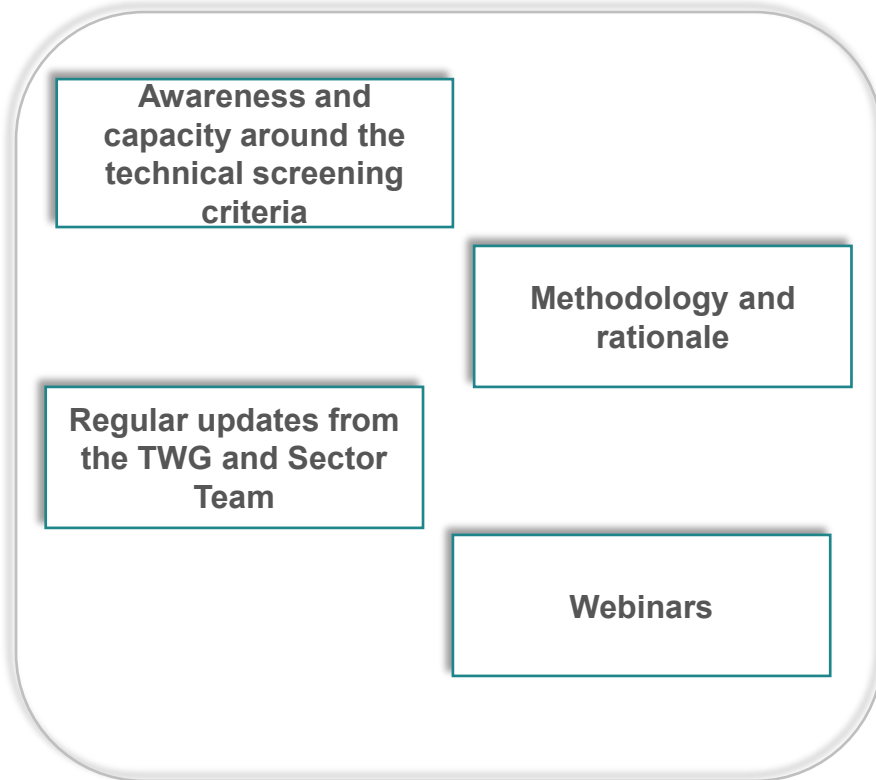


Final recommendation



- It will consist of 4 parts and each of them will have:
 - Definition of the level of ambition for environmental objective;
 - Reference point and Rationale for the Technical Criteria
 - Technical Screening Criteria
 - DNSH

Points of public engagement



Q & A
