



Technical report on EU Taxonomy

OVERVIEW

1. What is the task of the TEG?

Action 1 of the Commission's Action Plan on financing sustainable growth calls for the establishment of an EU classification system for sustainable activities, or Taxonomy.

- Europe needs to attract private capital to sustainable activities – an additional €175 to 290 billion a year of private investment is needed to meet climate goals alone.
- This creates opportunities for investors and for companies (and other issuers of financial securities).
- But investors need better information and useful tools if they are going to react to these opportunities.
- The EU Taxonomy is a classification tool to help investors and companies identify environmentally friendly economic activities.
- It can help to grow the clean economy of the future and substantially improve the environmental performance of industries we have today.

Within the framework of the proposed Taxonomy regulation, the TEG has been asked to develop recommendations for technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation, while avoiding significant harm to the four other environmental objectives: sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention control and protection of healthy ecosystems.

2. What are the TEG's main recommendations/key conclusions?

Key recommendations

1. The Taxonomy report sets out the basis for a future EU Taxonomy in legislation. Investors and other potential users of the Taxonomy can already start to understand the implications of the Taxonomy. The report contains:
 - *Technical screening criteria for 67 activities that can make a substantial contribution to **climate change mitigation** across the sectors agriculture, forestry, manufacturing, energy, transportation, water and waste, ICT and buildings. Almost all activities have also been assessed for significant harm to other environmental objectives.*
 - *A methodology and worked examples for evaluating substantial contribution to **climate change adaptation**.*
 - *Guidance and case studies for **investors preparing to use the Taxonomy**.*



2. Consistent with the Mandate of the TEG, the Taxonomy recommendations:
 - *Identify the most relevant potential contributions to each environmental objective over the short and long-term.*
 - *Specify minimum requirements to avoid significant harm to other objectives.*
 - *Build, in many cases, on Union labelling and certification schemes, methodologies or regulations, as well as well-established market Taxonomies.*
 - *Are based on conclusive scientific evidence, high quality research and market experience.*
 - *Consider the life-cycle of an economic activity.*
 - *Are technology neutral, to the extent possible.*
3. The TEG recommends, in addition, that the Taxonomy:
 - **Support ease of use.** *The TEG considered the users and uses of the Taxonomy in developing its recommendations, especially in relation to the Green Bonds Standard, but also in relation to data needs and future disclosure requirements to ensure the Taxonomy can support investment decisions.*
 - **Be dynamic and flexible.** *Quantitative criteria are given wherever possible so that solutions can be specified by the market and evolve over time. Criteria which should be tightened later have been signalled in advance to provide predictability to markets.*
 - **Support the transition from brown to green.** *Economic sectors and activities that are not already low carbon have been included in the Taxonomy to provide an incentive for their substantial contribution to climate change mitigation.*
 - **Be inclusive of economic sectors.** *By focussing on classifying economic activities and not investable entities, the Taxonomy can be used by any organisation to specify the proportion of its activities that substantially contribute to environmental objectives.*
4. The TEG considers that three kinds of activity can make a substantial contribution to climate change mitigation. These are:
 - 1) **Activities that are already low carbon.** *These activities are already compatible with a 2050 net zero carbon economy. Examples include zero emissions transport, near to zero carbon electricity generation and afforestation.*
 - 2) **Activities that contribute to a transition** *to a zero net emissions economy in 2050 but are not currently operating at that level. Examples include electricity generation <100g CO₂/kWh or cars with emissions below 50g CO₂/km.*
 - 3) **Activities that enable those above.** *For example, manufacture of wind turbines or installation of highly efficient boilers.*

3. What are the next steps?

The TEG's mandate has been extended until the end of the year. The TEG will use this time to:

- Refine and further develop some incomplete aspects of the proposed technical screening criteria for substantial contributions and avoidance of significant harm.
- Seek additional feedback on criteria that have not yet been subject to public consultation (the TEG will launch a call for feedback by early July).
- Develop further guidance on implementation and use of the Taxonomy.

The TEG's recommendations are designed to support the European Commission in the development of future Delegated Acts, as proposed in the Taxonomy regulation.

