



“Applying the EU Taxonomy”: Lessons from the Front Line

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Summary Presentation for BMU by Malte Hessenius

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What is this paper? And what it is not?



- ▶ A narrative report in the context of the Green Recovery
- ▶ It provides practical examples of Taxonomy applications
 - 1) the project/city level;
 - 2) companies & equity funds;
 - 3) the public domain
- ▶ Public domain: an exemplification how the TEG's screening thresholds can advance/replace currently used methodologies

O Defining Green: Why the EU Taxonomy is Strategically important for Europe

EU climate leverage is bigger than its share of global emissions

- The **EU's NGEU** and **MFF** stand as the **second largest stimulus** following the COVID19 crisis setting a basis for a sustainable and resilient recovery.
- Europe's environmental footprint and influence extends **beyond its own borders**

There is no practical alternative to a taxonomy

- A **common language** is required to connect the physical currency of **GHG emissions** to **economic** and **financial** ones
- Crucial to speak the same language as the private sector

Many activities are just not eligible to be “green”

- **Not every activity can align** with the EU Taxonomy by making a substantial contribution, as they simply **fall outside the eligible sectors**.
- ... “Not all activities qualify and that is okay”

1 EU Taxonomy for Projects and Cities

Case study:

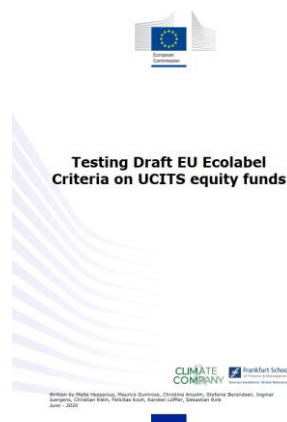
- ▶ Using the TEG technical annex EY's teams in 27 EU MS identified **€200 billion** necessary public and private investments in **1,000 shovel-ready projects**
 - ▶ The final EY list of 1,000 projects contains **57% taxonomy-aligned** municipal, public and privately promoted projects.
- ▼
- ▶ **EY's application of the taxonomy** demonstrates that the **EU's goal** of **investing 37%** of the Recovery and Resilience Fund and **30%** of Next Generation EU and the 2021-27 MFF in **EU Taxonomy aligned projects is feasible.**



...the pipeline of green projects could be as high as €1 trillion, potentially returning all of the 12 million fulltime workers lost to Covid-19

2 EU Taxonomy for Companies and Funds

Example 1: Test on 1,831 companies invested by 101 EU-domiciled “green” equity funds (June 2020)



- ▶ 14% of company revenues could not be mapped to Taxonomy
- ▶ With improved company reporting, easier application of the EU Taxonomy will be possible

Example 2: “Testing the Taxonomy: Insights from the PRI Taxonomy Practitioners Group” (Sept 2020)



- ▶ Shows 35 positive case studies describing their members' experiences from applying the Taxonomy
- ▶ Shows that PRI's members from an array of disciplines already moving to lever the EU Taxonomy approach

Challenges & barriers:

- **Poor quality reporting & lack of data**

For companies and funds, two regulations that use EU taxonomy definitions, are critical drivers:

- ## ► Non-Financial Reporting Directive (NFRD) & Sustainable Finance Disclosures Regulation (SFDR)

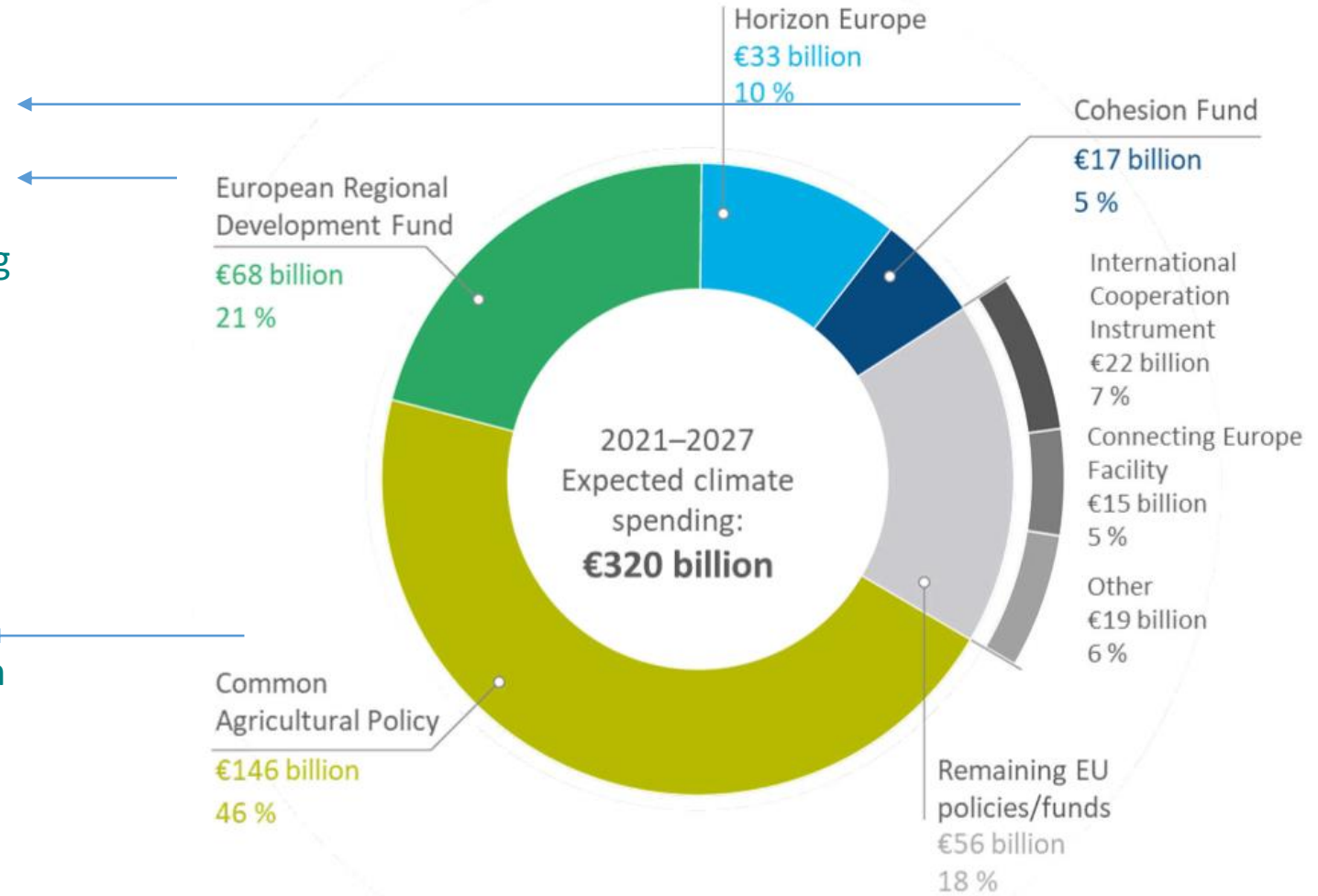
3 EU Taxonomy for public funds – we need a tracking methodology measuring materiality (“substantial contribution”)

Cohesion Policy

- Energy Efficiency renovation (100% coefficient, no substance)
- High-efficiency co-generation and district heating
- Among others

Agriculture

- Almost half of the climate spending but only <15% of EU’s GHG emissions
- Methodological flaws as highlighted by European Court of Auditors
- Negative impact on climate not taken into account



3 Exemplification: mapping EU Taxonomy criteria to currently used method

Rio Markers targeting “Cohesion Policy” (line by line)

022	Research and innovation processes, technology transfer and cooperation between enterprises focusing on the low carbon economy, resilience and adaptation to climate change	100 %
023	Research and innovation processes, technology transfer and cooperation between enterprises focusing on circular economy	40 %
POLICY OBJECTIVE 2: A GREENER, LOW CARBON EUROPE BY PROMOTING CLEAN AND FAIR ENERGY TRANSITION, GREEN AND BLUE INVESTMENT ECONOMY, CLIMATE ADAPTATION AND RISK PREVENTION AND MANAGEMENT		
024	Energy efficiency and demonstration projects in SMEs and supporting measures	100 %
025	Energy efficiency renovation of existing housing stock, demonstration projects and supporting measures	100 %
026	Energy efficiency renovation of public infrastructure, demonstration projects and supporting measures	100 %
027	Support to enterprises that provide services contributing to the low carbon economy and to resilience to climate change	100 %
028	Renewable energy: wind	100 %
029	Renewable energy: solar	100 %
030	Renewable energy: biomass	100 %

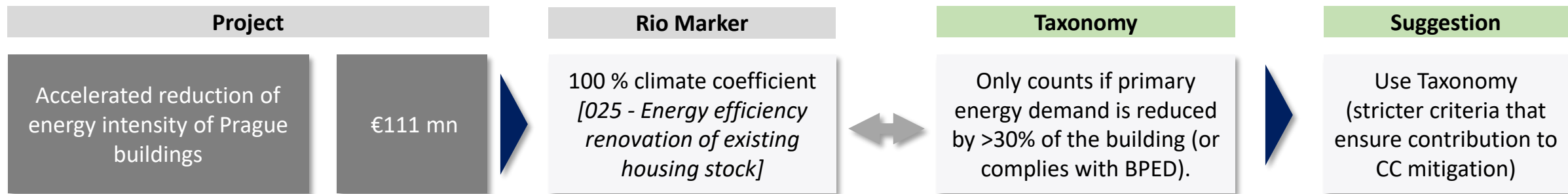


Acknowledgement: For this section, we thank Christina Anselm from Frankfurt School of Finance for helpful contributions.

3 One precise examples on linking the Rio Markers to the EU Taxonomy

Energy Efficiency

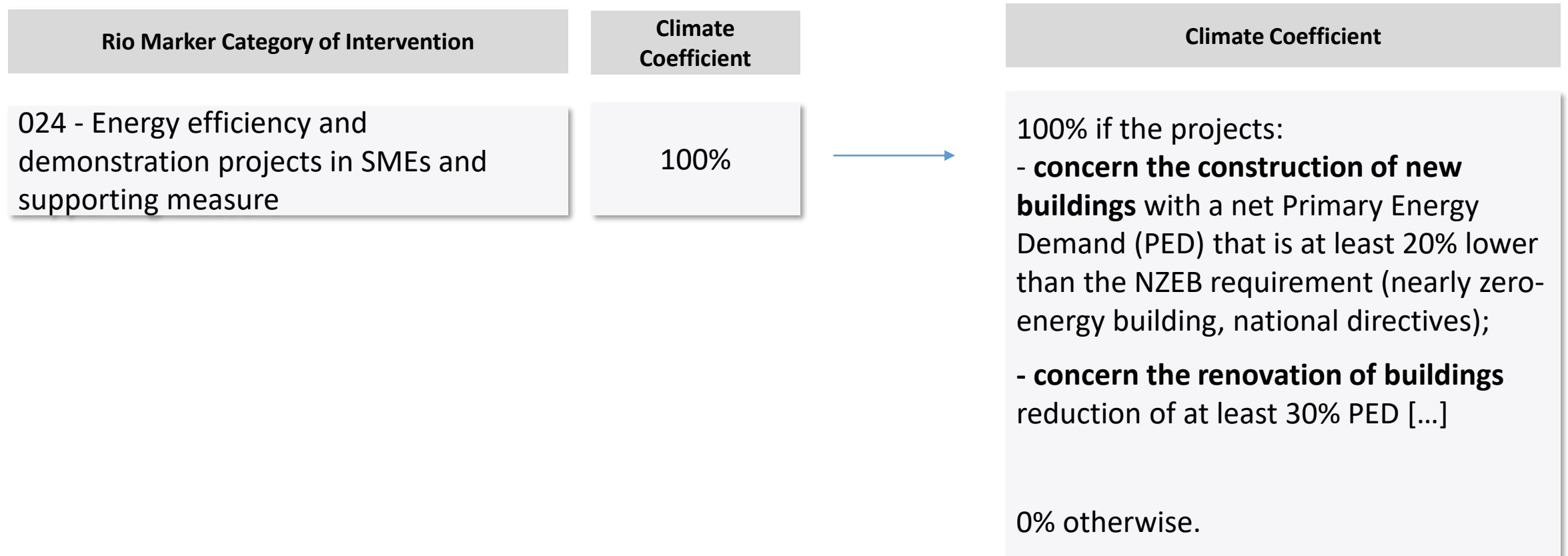
1 Investments in energy efficiency (project identified by the „EY study“)



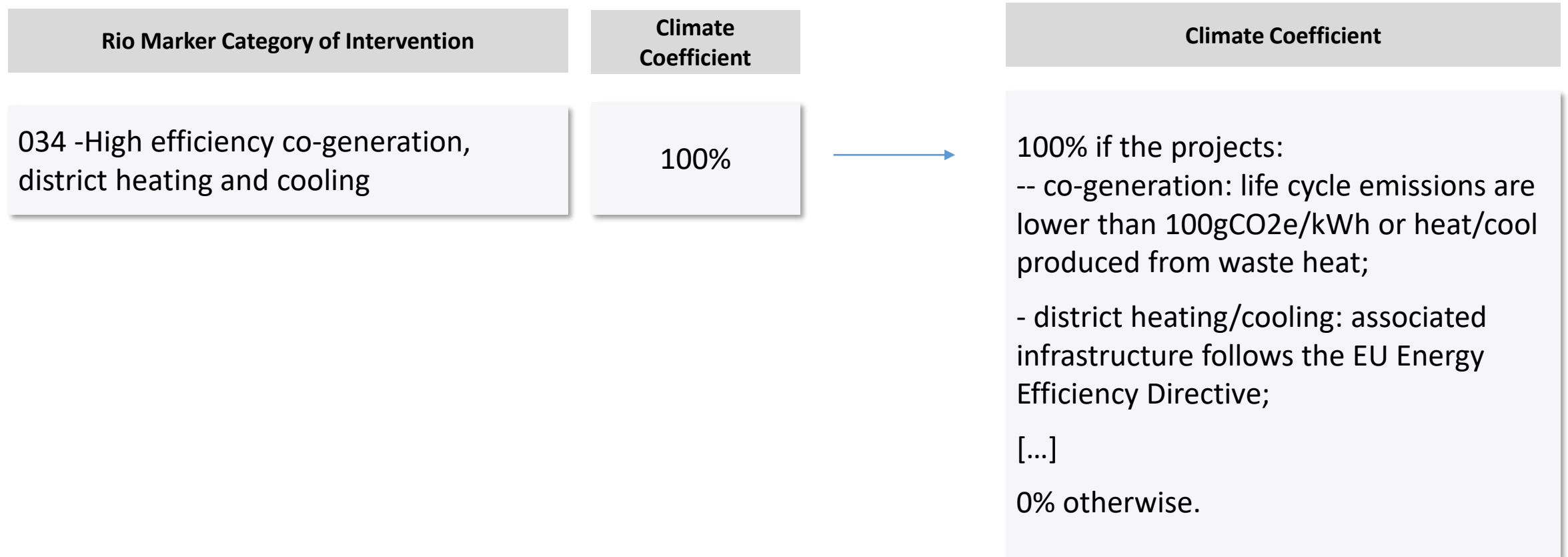
More examples on district heating, renewables, etc...

3 “Taxonomizing Rio Markers” - A temporary, second best solution but a pragmatic way forward? (1/2)

Advancing Rio Markers through Taxonomy thresholds



3 “Taxonomizing Rio Markers” - A temporary, second best solution but a pragmatic way forward? (2/2)



To conclude (and contextualize results...)

A)

In the absence of a taxonomy, financial markets already apply their own definitions of “green” and “sustainable” to both corporates and sovereigns.

B)

The EU should be in the driving seat and proactively shape these market standards

C)

This report provides sufficient evidence that the EU Taxonomy is already applicable today and can evolve as a dynamic framework

D)

As a second best and temporary solution, the currently proposed method (RRF regulation) must be adapted to avoid harmful lock-in effects and prohibit green washed recovery plans.

Thanks a lot!

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- Find the report on:
[https://www.climateandcompany.com/
applying-eu-taxonomy](https://www.climateandcompany.com/applying-eu-taxonomy)

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Backup Slides

Conversion from the Common Regulation COM(2018) 375

Aggregation of suggestion

Overview Evaluation		
Final Evaluation	Count	Percentage
No climate relevance	71	50%
Use Taxonomy	61	43%
Neither frameworks work	8	5%
Use Rio Marker	3	2%
SUM	143	100%

Intervention field dimensions

- In close to 50%, no climate relevance
- We recommend the application of the EU Taxonomy over the Rio Markers for approximately 40%
- We suggest that that neither Rio Markers nor the EU Taxonomy should be used for roughly 5-6%

Not covered by the Taxonomy:

ID	Intervention Field Dimension	Rio Markers Climate coefficient
048	Air quality and noise reduction measures	40%
130	Protection, development and promotion of natural heritage and eco-tourism	0%
139	Outermost regions: airports	0%

For only 3 cases, or roughly 2%, we recommend the application of the Rio Markers over the EU Taxonomy.

Does the current tracking method cover all dimensions of a (green) RRP?




No, it does not...

Sector	EU GHG emissions	RIO	Taxonomy	EU climate spending (2014-20) ¹	EU climate spending (2021-27) ²
> 90% emissions	EEA data (2017)	Own assessment		Source: ECA, IEEP and own assumptions ¹	
Energy	~ 29%	✓	✓✓	~ 5-10%	~ 5-10%
Transport	~ 22%	✓	✓✓	~10-15%	~ <10-15%
Industry	~ 20%	N/A	✓✓	< 3%	< 3%
Buildings	~ 13%	⚡	✓	~ 5-10%	~ 5-10%
Agriculture	~ 12%	⚡	✓	~ 50%	~ 46%

Notes: 1) Estimates derived from facilities with biggest „climate contribution“ (CAP, ERDF, CF, Horizon); 2) based on COM proposal from 2018

How to apply the EU Taxonomy to public stimulus measures?

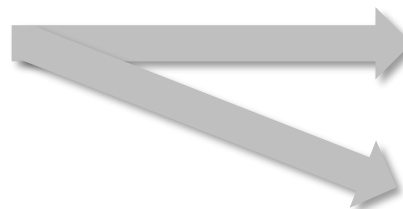
Some examples from the German stimulus package

Recipient of RRF money	Examples	Taxonomy evaluation
Projects/ Companies	Energy efficiency programs	
	Relevant SME activities ¹	
	[...]	
Households	Premium for e-vehicles	
	Reduction in consumer tax	
	[...]	
Municipalities	Subsidies for public transport	
	Investment plan sports facilities	
	[...]	

Notes: 1) for instance taxonomy-aligned program by KfW "Climate protection offensive for SMEs" ([link](#))

2 Applying the EU Taxonomy for climate tracking: Practical examples

- ▶ Applying the EU Taxonomy depends upon **whom you are** and which type of investment is being assessed.
- ▶ Put simply, an activity – which can be a project or investment – should meet this **criteria:**



- Fund manager, bond issuer, project financier or Government
- Project or asset, share portfolio or capital investment budget

1. ELIGIBILITY:

Activity fits a defines NACE macro-sector category for climate mitigation or adaptation

2. ALIGNMENT:

Activity must make a substantial contribution defined by a threshold in climate mitigation or adaptation

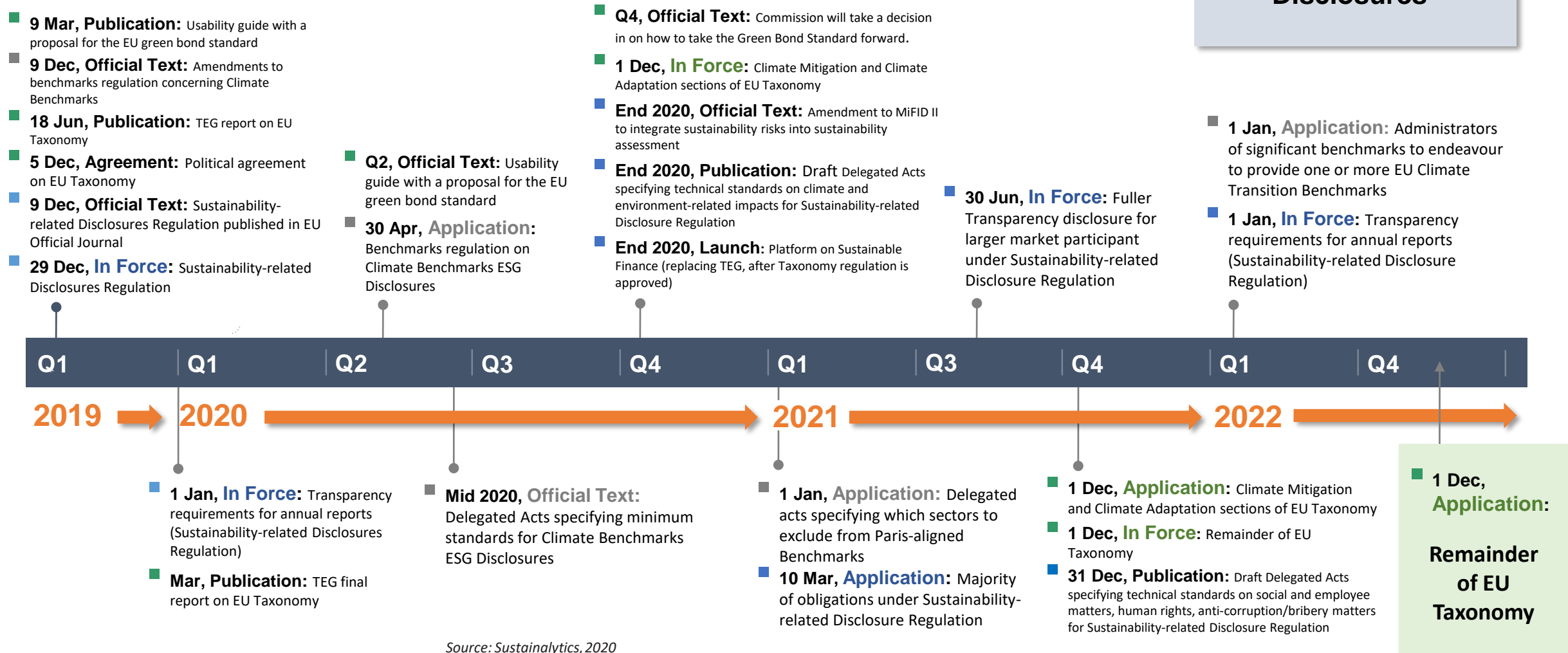
3. DNHS:

Do No Significant Harm to the other five EU environmental objectives

4. COMPLIANCE:

Comply with minimum safeguards

EU Taxonomy implementation timeline can support EU recovery investments



Timings of Recovery and Resilience Plans fits EU Taxonomy Regulation

