Sustainable Finance Taxonomy

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Proposal for a Regulation on the establishment of a framework to facilitate sustainable investment

- The Commission published a legislative proposal on the establishment of a framework to facilitate sustainable investment, the Taxonomy proposal, on 24 May 2018
- The main objective is to define the concept of environmentally sustainable investments with a view to channel capital flows towards those type of investments. In particular, the proposal sets a framework to identify which economic activities are environmentally sustainable:
  - Activities contributing to at least one of the environmental objectives established by the proposal (climate mitigation and adaptation, protection of water and marine resources, circular economy, pollution prevention, ecosystem protection).
  - Activities that do not significantly harm any of the objectives above.
- This framework is intended to serve two purposes: Member States authorities shall use it when setting national legislation to promote sustainable investments (e.g. labelling schemes, green bonds schemes, etc.), and Financial actors shall use the criteria above to determine the environmental sustainability of an investment.

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- **The European Parliament** ECON/ENVI committees vote took place 11 March, the plenary vote on 28 March
- What would have been the biggest change in the proposed amendments compared to the COM proposal was an addition of a definition of ‘environmentally harmful economic activities**”**, with a view to channel investments away from these activities and sectors – these amendments were rejected in the plenary (brown listing)
- Instead the report now asks the Commission to conduct an impact assessment by 31st Dec 2021 of a possible introduction of such criteria”.
- Introducing this concept of “environmentally harmful economic activity” at this stage would have risked to cover many industrial sectors which form the backbone of the European economy, including all energy-intensive industries

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- In addition, some political groups proposed strict disclosure requirements for the credit institutions and investee companies (these amendments also were rejected in the vote) - For the credit institutions this would have meant “disclosing the share of their activities that fund economic activities having a significant negative environmental impact” and for the investee companies “disclosing the percentage of their turnover supporting activities having a significant negative environmental impact”.

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- **The Council** is working on their approach during the spring/early summer
- EUROFER is working together with the Alliance of Energy Intensive Industries and has drafted letters and position papers, in addition with meetings with the Member States' representatives
- Due to the legislative term ending soon and the Parliament being on recess after the mid-April's last plenary session, trilogue negotiations with the Council on taxonomy are not expected to start before autumn
- In the latest Presidency version, the Council includes our key asks in the text: technology neutrality, value-chain perspective, CCSU, qualitative + quantitative criteria, relevant industries involvement in the platform as well as including a notion of the importance of transition activities in mitigation.

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- **EUROFER** supports the objective of the Sustainable Finance Action Plan to mobilise investments in the EU in view of achieving sustainable transition to a low carbon economy. However the proposed taxonomy should not hinder innovation & decarbonisation transition of the European steel industry. Access to investments will be key to make it successful. We advocate therefore that:
  - The taxonomy should keep a flexible approach that prevents prescriptive and rigid categories which do not take the dynamic evolution of technology into account.
  - Industrial value-creation chains should be fully represented in the taxonomic system, as well as considered and evaluated holistically.
  - A purely binary consideration between ‘environmentally sustainable’ or ‘activities with a negative environmental impact’ does not represent current industrial realities and societal needs.
  - The taxonomy should not be misused as punitive instrument - it is key to take into account if an activity is in transition to a carbon lean configuration and operation, including preparatory large-scale innovation projects and specific timelines and pathways of its transition.
  - Taxonomy should not lead to any additional reporting duties or disproportionate cost increases for the real economy.
  - Taxonomy must consider a fully comprehensive life-cycle analysis.

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- In addition and parallel to the legislative work, the Commission has formed a **Technical Expert Group** (TEG) to work on the specific screening criteria by which to determine whether an economic activity is sustainable. These screening criteria will subsequently be proposed for use in the delegated acts in accordance with the regulation. TEG invited additional experts through a selection process to take part in three taxonomy workshops in which 2 of them we have a steel industry representative: (1) 2nd Round climate change mitigation activities (2 steel industry representatives), (2) Climate change adaptation activities and (3) Do no significant harm assessment (1 steel industry representative).

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- EUROFER expresses strong concerns on the proposal for screening criteria suggested by the Commission for the 2nd Round climate change mitigation activities. In particular, EUROFER advocates the following:
- The **scope of the initiative for sustainable investment needs further clarifications** – whether activities or companies are to be considered.
- Furthermore the proposed mitigation principle and criteria for iron and steel only cover part of the full activity since neither the improvement potential nor the contribution from the use of its products over the lifecycle is included. In particular the transition to climate neutral economy will need the innovative steel products that are enablers for low carbon technologies, which needs to be recognised. Hence **the entire value chains, as assessed by life-cycle assessment (LCA), should be considered to assess the real impact of the full value chains**.
- The **LCA - which we deem the most suitable approach - includes both the so called "greening of" AND "greening by" principles**. In addition, the **LCA should include indirect emissions** such as from electricity or alloys consumption.
- The **ETS benchmarks are the wrong reference to assess the environmental sustainability of the installations** since they are not meant to reflect the technical feasibility of the steel sector and only focus on GHG emissions. They are values based on the rules for sharing the free allocation, with several deductions applied even to the actual carbon emissions of the best 10% plants (waste gases transferred to power plants, heat exports and production of electricity).
- Using ETS Benchmarks is therefore not useful and contra productive for this policy and alternatives should be applied. We suggest to **use rather the LCA approach or alternatively the European Standard EN 19694**.