

The EU taxonomy - criterias and impact

10. May 2021





Agenda

- 1 Assessment method and technical criterias
- 2 Reporting obligations and indirect effects
- 3 What is next



1

Assessment
method and
technical criterias



What is the taxonomy and what is it not



A system for classification of economic activities, setting criteria for what is sustainable (“taxonomy-aligned”)



First legal standard defining what is environmentally sustainable



Binary system with science-based criteria



Does not prohibit any activity, but imposes reporting duties for certain categories of companies






EU-taxonomy has developed criterias for activities in certain sectors only (“taxonomy-eligible”)

Criteria for environmental objectives 1 and 2







 1. Forestry	 2. Restoration of wetlands	 3. Manufacturing	 4. Energy
 5. Water supply, sewerage, waste management and remediation	 6. Transport	 7. Construction and real estate activities	 8. Information and communication
 9. Professional, scientific and technical activities			

Criteria for environmental objective 2

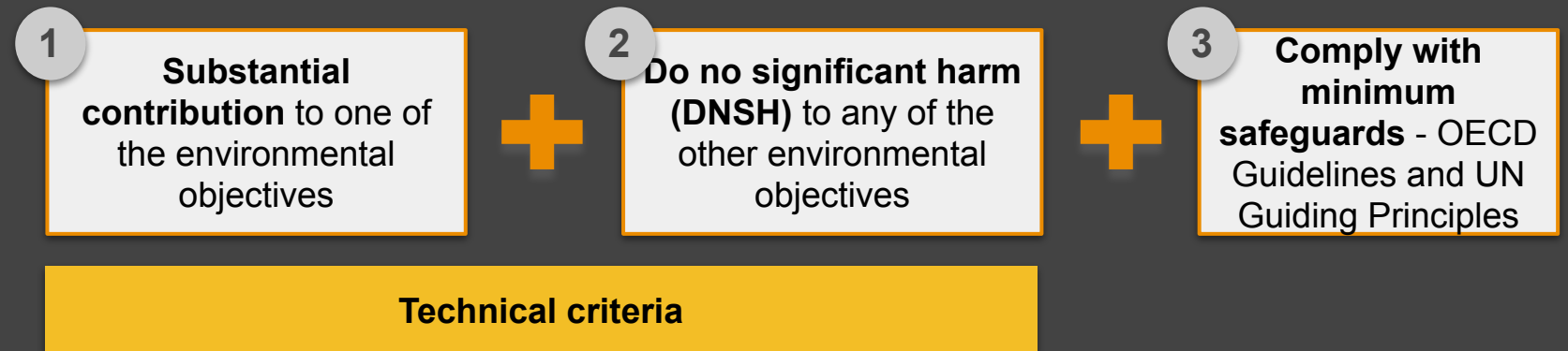
 10. Financial and insurance activities	 11. Education	 12. Human health and social work activities	 13. Arts, entertainment and recreation
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Covers activities responsible for approx. 80% of EUs GHG emission

Taxonomy-alignment test

The environmental objectives		
1	Climate change mitigation	
2	Climate change adaptation	
3	Sustainable use and protection of water and marine resources	
4	Transition to a circular economy	
5	Pollution prevention and control	
6	Protection and restoration of biodiversity and ecosystems	

To be defined as environmentally sustainable, an economic activity must:



Example: wind power (final draft)



4. Energy

Description of the economic activity

Minimum requirements on how to substantially contribute to climate change mitigation

4.3. Electricity generation from wind power

Description of the activity

Construction or operation of electricity generation facilities that produce electricity from wind power.

Where an economic activity is an integral element of the 'Installation, maintenance and repair of renewable energy technologies' as referred to in Section 7.6 of this Annex, the technical screening criteria specified in Section 7.6 apply.

The economic activities in this category could be associated with several NACE codes, in particular D35.11 and F42.22 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

Technical screening criteria

Substantial contribution to climate change mitigation

The activity generates electricity from wind power.

Do no significant harm ('DNSH')

(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.
(3) Sustainable use and protection of water and marine	In case of construction of offshore wind, the activity does not hamper the achievement of good environmental status as set out in Directive 2008/56/EC of the European Parliament and of the Council ¹⁵⁸ ,

¹⁵⁸ Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive) (OJ L 164, 25.6.2008, p. 19).

resources	requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptor 11 (Noise/Energy), laid down in Annex I to that Directive, and as set out in Commission Decision (EU) 2017/848 ¹⁵⁹ in relation to the relevant criteria and methodological standards for that descriptor.
(4) Transition to a circular economy	The activity assesses availability of and, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.
(5) Pollution prevention and control	N/A
(6) Protection and restoration of biodiversity and ecosystems	The activity complies with the criteria set out in Appendix D to this Annex ¹⁶⁰ . In case of offshore wind, the activity does not hamper the achievement of good environmental status as set out in Directive 2008/56/EC, requiring that the appropriate measures are taken to prevent or mitigate impacts in relation to that Directive's Descriptors 1 (biodiversity) and 6 (seabed integrity), laid down in Annex I to that Directive, and as set out in Decision (EU) 2017/848 in relation to the relevant criteria and methodological standards for those descriptors.

Minimum requirements for the economic activity to do no significant harm to the other five environmental objectives ("DNSH").

Example: hydro power (final draft)



Description of the economic activity

Minimum requirements on how to substantially contribute to climate change mitigation

<p>4.5. Electricity generation from hydropower</p> <p><i>Description of the activity</i></p> <p>Construction or operation of electricity generation facilities that produce electricity from hydropower.</p> <p>The economic activities in this category could be associated with several NACE codes, in particular D35.11 and F42.22 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.</p> <p><i>Technical screening criteria</i></p> <hr/> <p>Substantial contribution to climate change mitigation</p> <hr/> <p>The activity complies with either of the following criteria:</p> <ul style="list-style-type: none"> (a) the electricity generation facility is a run-of-river plant and does not have an artificial reservoir; (b) the power density of the electricity generation facility is above 5 W/m²; (c) the life-cycle GHG emissions from the generation of electricity from hydropower, are lower than 100gCO₂e/kWh. The life-cycle GHG emissions are calculated using Recommendation 2013/179/EU or, alternatively, using ISO 14067:2018¹⁶², ISO 14064-1:2018¹⁶³ or the G-res tool¹⁶⁴. Quantified life-cycle GHG emissions are verified by an independent third party.

Do no significant harm ('DNSH')	
(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.
(3) Sustainable use and protection of water and marine resources	<p>1. The activity complies with the provisions of Directive 2000/60/EC, in particular with all the requirements laid down in Article 4 of the Directive.</p> <p>2. For operation of existing hydropower plants, including refurbishment activities to enhance renewable energy or energy storage potential, the activity complies with the following criteria:</p> <p>2.1. In accordance with Directive 2000/60/EC and in particular Articles 4 and 11 of that Directive, all technically feasible and ecologically relevant mitigation measures have been implemented to reduce adverse impacts on water as well as on protected habitats and species directly dependent on water.</p> <p>2.2. Measures include, where relevant and depending on the ecosystems naturally present in the affected water bodies:</p> <ul style="list-style-type: none"> (a) measures to ensure downstream and upstream fish migration (such as fish friendly turbines, fish guidance structures, state-of-the-art fully functional fish passes, measures to stop or minimise operation and discharges during migration or spawning); (b) measures to ensure minimum ecological flow (including mitigation of rapid, short-term variations in flow or hydro-peaking operations) and sediment flow; (c) measures to protect or enhance habitats.

Minimum requirements for the economic activity to do no significant harm to the other five environmental objectives ("DNSH").

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Example: shipping (final draft)



Description of the economic activity

Minimum requirements on how to substantially contribute to climate change mitigation

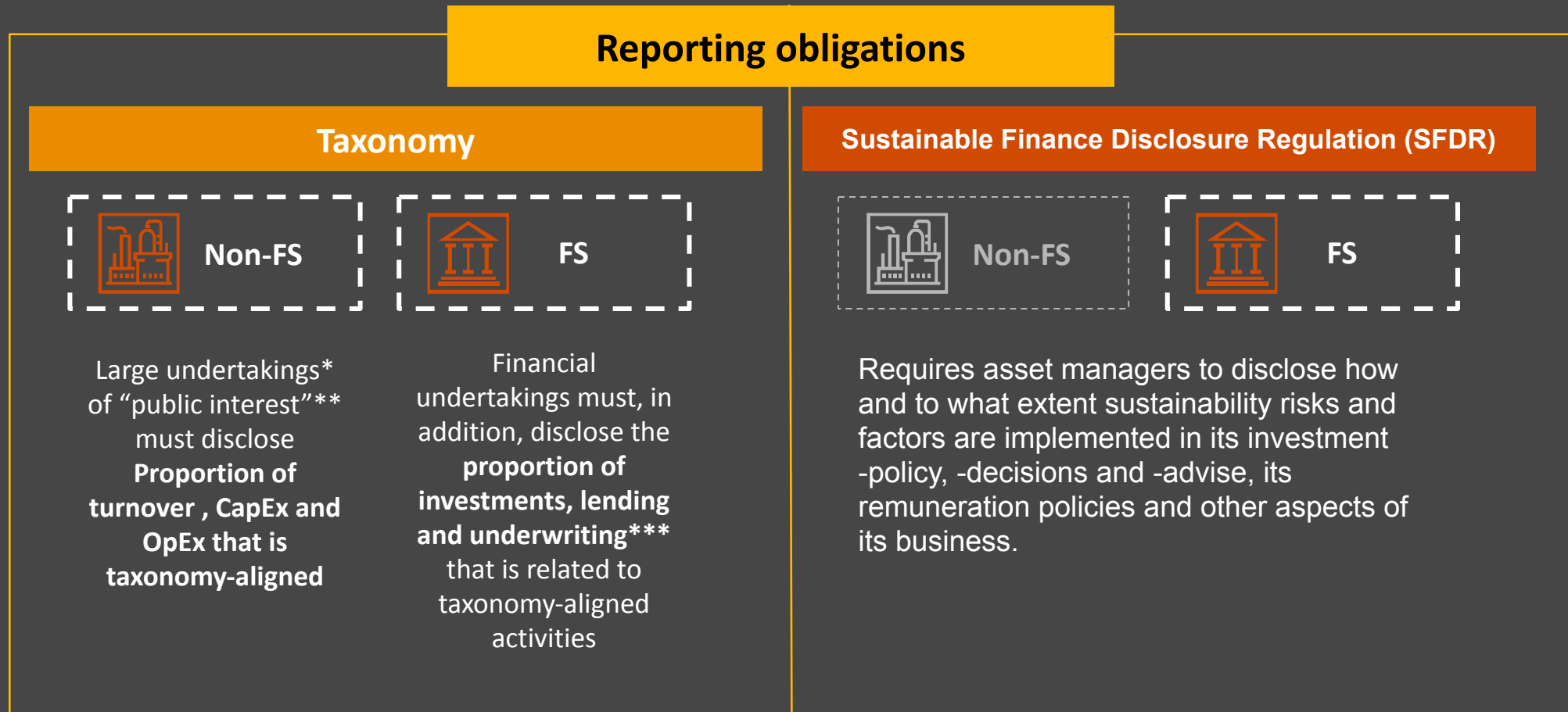
Minimum requirements for the economic activity to do no significant harm to the other five environmental objectives (“DNSH”).

<p>6.10. Sea and coastal freight water transport, vessels for port operations and auxiliary activities</p> <p><i>Description of the activity</i></p> <p>Purchase, financing, chartering (with or without crew) and operation of vessels designed and equipped for transport of freight or for the combined transport of freight and passengers on sea or coastal waters, whether scheduled or not. Purchase, financing, renting and operation of vessels required for port operations and auxiliary activities, such as tugboats, mooring vessels, pilot vessels, salvage vessels and ice-breakers.</p> <p>The economic activities in this category could be associated with several NACE codes, in particular H50.2, H52.22 and N77.34 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.</p> <p>Where an economic activity in this category does not fulfil the substantial contribution criterion specified in point 1 (a) of this Section, the activity is a transitional activity as referred to in Article 10(2) of Regulation (EU) 2020/852, provided it complies with the remaining technical screening criteria set out in this Section.</p> <p><i>Technical screening criteria</i></p>	<p>Design Index (EEDI) value 10 % below the EEDI requirements applicable on 1 April 2022²⁴⁸ if the vessels are able to run on zero direct (tailpipe) CO₂ emission fuels or on fuels from renewable sources²⁴⁹.</p> <p>2. Vessels are not dedicated to the transport of fossil fuels.</p>						
<p>Substantial contribution to climate change mitigation</p>	<p>Do no significant harm (“DNSH”)</p>						
<p>1. The activity complies with one or more of the following criteria:</p> <p>(a) the vessels have zero direct (tailpipe) CO₂ emissions;</p> <p>(b) until 31 December 2025, hybrid and dual fuel vessels derive at least 25 % of their energy from zero direct (tailpipe) CO₂ emission fuels or plug-in power for their normal operation at sea and in ports;</p> <p>(c) where technologically and economically not feasible to comply with the criterion in point (a), until 31 December 2025, and only where it can be proved that the vessels are used exclusively for operating coastal and short sea services designed to enable modal shift of freight currently transported by land to sea, the vessels have direct (tailpipe) CO₂ emissions, calculated using the International Maritime Organization (IMO) Energy Efficiency Design Index (EEDI)²⁴⁷, 50 % lower than the average reference CO₂ emissions value defined for heavy duty vehicles (vehicle sub group 5-LH) in accordance with Article 11 of Regulation 2019/1242;</p> <p>(d) where technologically and economically not feasible to comply with the criterion in point (a), until 31 December 2025, the vessels have an attained Energy Efficiency</p>	<table border="1"> <tr> <td data-bbox="1352 539 1549 629">(2) Climate change adaptation</td> <td data-bbox="1549 539 2173 629">The activity complies with the criteria set out in Appendix A to this Annex.</td> </tr> <tr> <td data-bbox="1352 629 1549 772">(3) Sustainable use and protection of water and marine resources</td> <td data-bbox="1549 629 2173 772">The activity complies with the criteria set out in Appendix B to this Annex.</td> </tr> <tr> <td data-bbox="1352 772 1549 1418">(4) Transition to a circular economy</td> <td data-bbox="1549 772 2173 1418"> <p>Measures are in place to manage waste, both in the use phase and in the end-of-life of the vessel, in accordance with the waste hierarchy.</p> <p>For battery-operated vessels, those measures include reuse and recycling of batteries and electronics, including critical raw materials therein.</p> <p>For existing ships above 500 gross tonnage and the new-built ones replacing them, the activity complies with the requirements of Regulation (EU) No 1257/2013 of the European Parliament and of the Council²⁵⁰ relating to the inventory of hazardous materials. The scrap ships are recycled in facilities included on the European List of ship recycling facilities as laid down in Commission Decision 2016/2323²⁵¹.</p> </td> </tr> </table>	(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.	(3) Sustainable use and protection of water and marine resources	The activity complies with the criteria set out in Appendix B to this Annex.	(4) Transition to a circular economy	<p>Measures are in place to manage waste, both in the use phase and in the end-of-life of the vessel, in accordance with the waste hierarchy.</p> <p>For battery-operated vessels, those measures include reuse and recycling of batteries and electronics, including critical raw materials therein.</p> <p>For existing ships above 500 gross tonnage and the new-built ones replacing them, the activity complies with the requirements of Regulation (EU) No 1257/2013 of the European Parliament and of the Council²⁵⁰ relating to the inventory of hazardous materials. The scrap ships are recycled in facilities included on the European List of ship recycling facilities as laid down in Commission Decision 2016/2323²⁵¹.</p>
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Reporting obligations and indirect effects

Undertakings that will be directly affected by the taxonomy

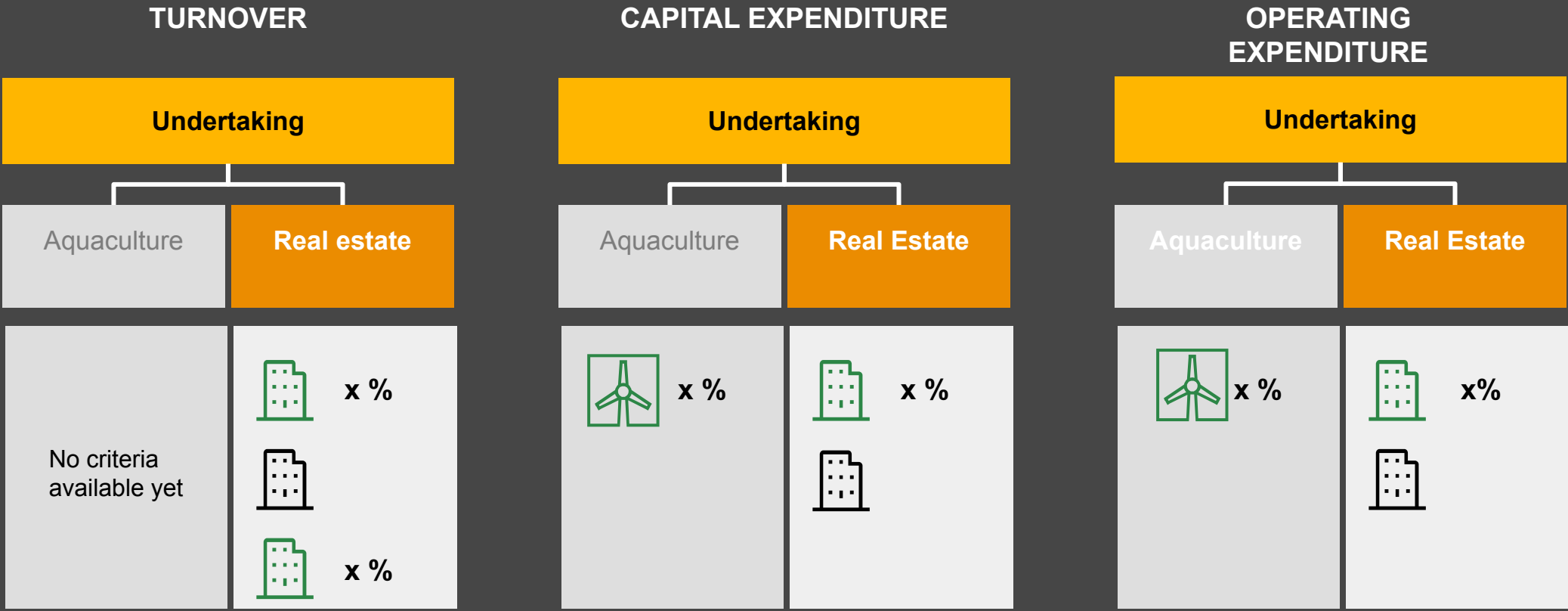


* More than 500 employees and turnover +MEUR 40 or balance +MEUR 20

** Undertaking with listed instruments as well as banks, insurance and credit institutions

*** Draft delegated act to article 8

Non-financial undertakings should report taxonomy alignment using three different KPI's



Sustainability reporting will affect “all” businesses - either directly or indirectly



Large undertakings must disclose to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable



Large undertakings will want to boost their taxonomy-aligned proportion



All businesses that deliver to large undertakings could therefore benefit from being able to brand their products as taxonomy-aligned



And may include:

- a) Investments to achieve taxonomy-alignment in own activities*
- b) Purchase of taxonomy-aligned goods and services*

Alle businesses should therefore consider whether their activities and products are in fact, or could be, taxonomy-aligned

Two examples:

A large undertaking with activities that are not taxonomy-eligible, eg aquaculture could:

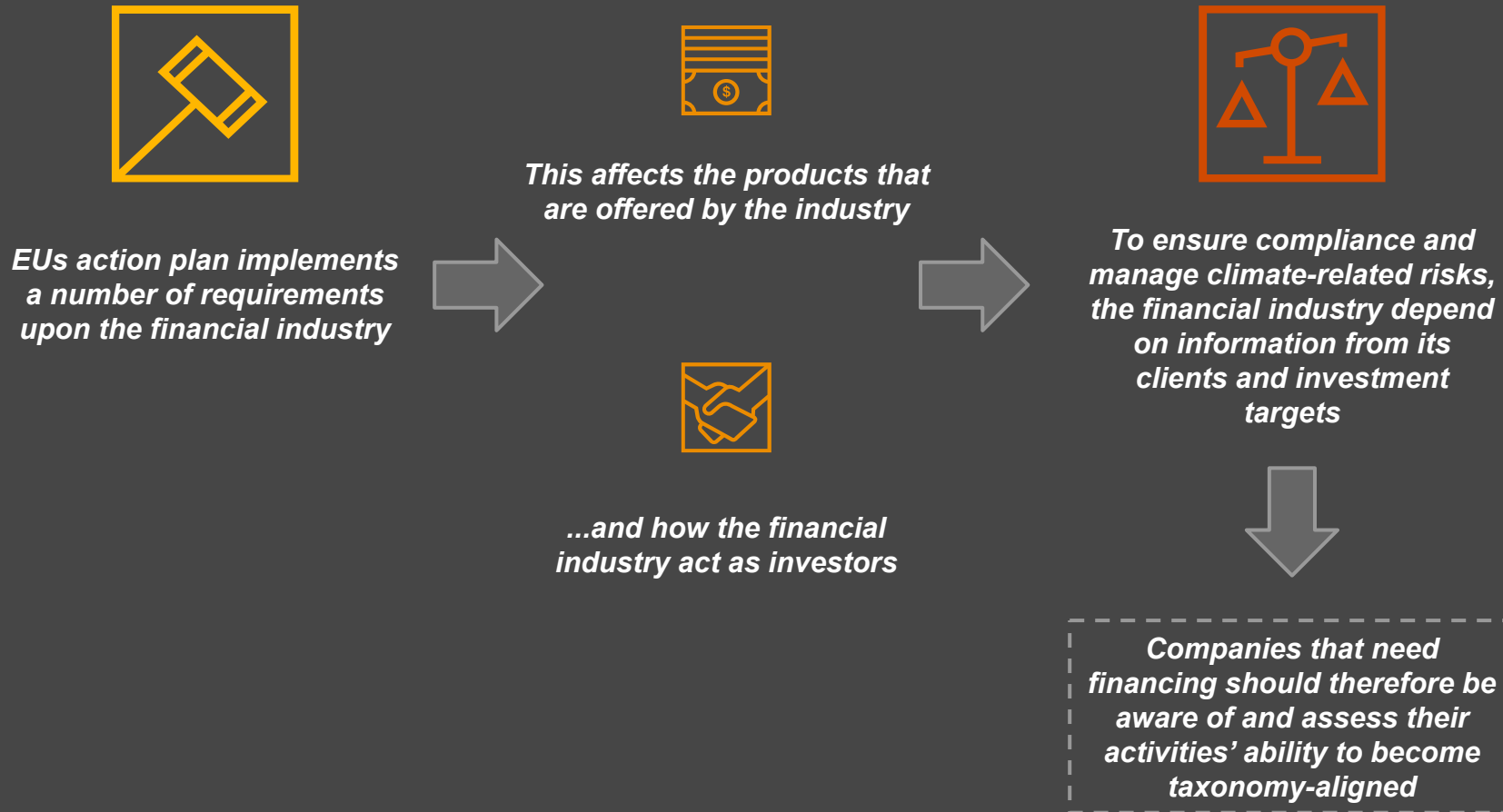
- Purchase taxonomy-aligned electricity*
- Lease a taxonomy-aligned office building*

A large undertaking with activities that are taxonomy-eligible, eg shipping, but the activity is not taxonomy-aligned could:

- Invest in technology that turns their vessels taxonomy-aligned*

*In both cases, the large undertaking could **report capital expenditure and operating expenditure as taxonomy-aligned proportion of its activities.***

...as will the requirements for the financial industry



An example:

Sustainable Finance Disclosure Regulation (SFDR)

Requires asset managers to disclose how and to what extent sustainability risks and factors are implemented in its investment -policy, -decisions and -advise, its remuneration policies and other aspects of its business.

Consequently, companies that give clear guidance as to its activities positive taxonomy-alignment, are more likely to be invested in.

Ability to demonstrate taxonomy-alignment will have wide-ranging significance

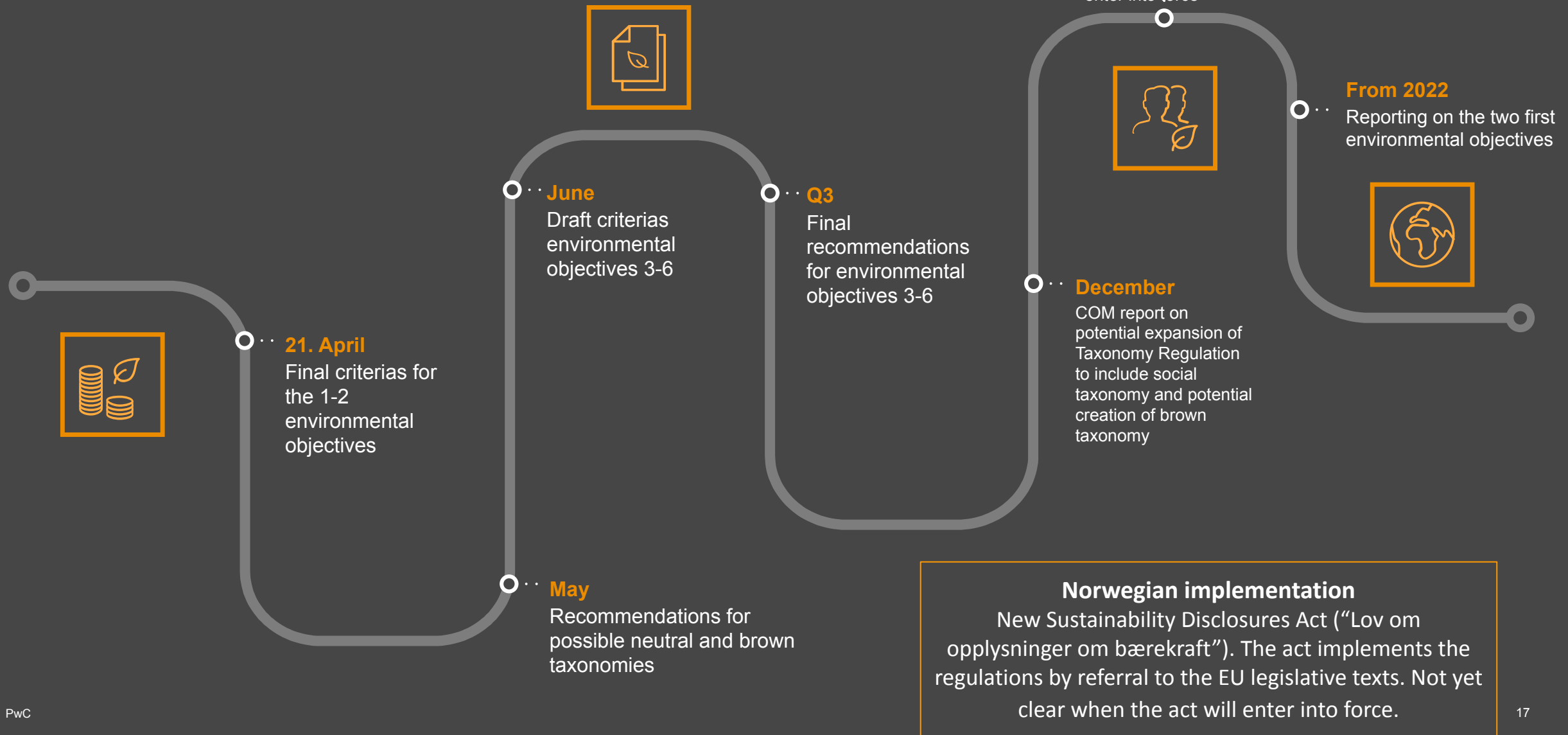


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What is next

Timeline - EU Taxonomy

A lot to happen in 2021





Daniel Næsse

Lawyer, Advokatfirmaet PwC

97 17 57 17

daniel.naesse@pwc.com

Thank you for the attention, and please get in touch if you would like to discuss any of today's topics!