



2020-IP01: EU-Wide Classification System ('Taxonomy') for Sustainable Investments

In December 2019, the European Parliament and Council finalised a political agreement – part of the Commission's 'Action Plan on Financing Sustainable Growth' – on the creation of a "green list"; a classification system for sustainable economic activities (or taxonomy), which will be a world first.

Underlining the EU commitment to implementing the Paris Agreement, this classification system will create a common language that investors can use whilst investing in activities that have a 'substantial positive impact on the climate and environment'. Not only will this provide a helpful system to allow investors to know whether an investment is truly green, but will also help to scale up private and public investments to a climate-neutral economy. It will help to move capital to projects that are sustainable; all positive steps toward implementation of the Paris Agreement, which sets out a global framework to avoid climate change by limiting global warming to below 2°C (aiming for 1.5°C), whilst aiming to strengthen countries' ability to deal with the impacts of climate change.

The aim of the green list is to 'reduce fragmentation resulting from market-based initiatives and national practices' and to 'reduce "greenwashing", i.e. the practice of marketing financial products as "green" or "sustainable", when in fact they do not meet basic environmental standards'¹.

The political agreement sets out a framework for what can be classified as an 'environmentally sustainable economic activity', setting out six 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

Along with the above objectives, it details requirements that economic activities would need to comply with in order to qualify as an environmentally sustainable economic activity:

1. They must provide a substantial contribution to at least one of the six environmental objectives (above)
2. There would be "no significant harm" to any of the other environmental objectives
3. They must comply with robust and science-based technical screening criteria
4. They must comply with minimum social and governance safeguards

With regards to the objective of substantial contribution to climate change mitigation, the political agreement notes that to be included, an activity would need to contribute to the stabilisation of greenhouse gas concentrations at a level which 'prevents dangerous anthropogenic interference with the climate system'. This prevention would be done so by either avoiding or reducing greenhouse gas emissions, or enhancing greenhouse gas removals.

Carbon capture and storage (CCS) is specifically noted in Article 6 of the agreement, whereby it states that 'increasing the use of environmentally safe carbon capture and utilisation (CCU) and carbon

¹ European Commission Press Release: 'Sustainable finance: Commission welcomes deal on an EU-wide classification system for sustainable investments (Taxonomy)' https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6793



capture and storage (CCS) technologies that deliver a net reduction in greenhouse gas emissions² would be one such economic activity that would be considered to contribute substantially to climate change mitigation and consistent with the temperature goal of the Paris Agreement.

The full technical report on the EU taxonomy³, which has guided the recent agreement, states confidently that ‘CCS is a key technology for the decarbonisation of Europe’ and notes that the technology is included in all of the Commission’s pathways in its Long-Term Strategic Vision plan, and also relied heavily upon in the IPCC’s Special Report on 1.5 Degrees. It specifies activities that can make a substantial contribute to climate change mitigation; those that are already low carbon and those that contribute to a transition to net-zero, for example, power generation. However, the report specifies such generation be less than 100g of CO₂ per kWh, pointing out that ‘the availability of CCS means that no remaining segment of the electricity supply system will be capable of emitting CO₂ to the atmosphere.’ In addition, the ‘transport and storage of CO₂ should be considered essential to the infrastructure of a modern, sustainable society. It can aid electricity grid expansion, the integration of renewables and the deep decarbonisation of energy intensive industries; support and enable CO₂ removal; and help stimulate a green hydrogen market. Without CO₂ transport and storage infrastructure, Europe will not achieve its climate objectives’.

The EU Green Deal⁴ also notes that industries should foster the development of innovative technologies such as CCUS and energy storage – and the infrastructure alongside. The EU industry needed frontrunners to develop commercial applications of such technologies, and the EU Emissions Trading System Innovation will help to deploy such large-scale projects.

The instigation of the Green Deal, taxonomy and political agreement is a huge step forward in terms of green investment by setting out a general framework and will encourage the deployment of CCS / CCUS; a list of sustainable economic projects and activities will be assessed and developed through acts based on the report from the Technical Expert Group on Sustainable Finance.

The full text from the political agreement can be found at

<https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf>.

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² Final compromise text on the EC ‘proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment’, Brussels, 17th December 2019, <https://data.consilium.europa.eu/doc/document/ST-14970-2019-ADD-1/en/pdf>

³ EU Technical Expert Group on Sustainable Finance, Taxonomy Technical Report, June 2019, https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-taxonomy_en.pdf

⁴ European Commission, The European Green Deal, 11th December 2019, COM(2019) 640 final, https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf