

THE TAXONOMY EFFORTS CONTINUE - ITS EXTENSIONS TO BE SUBMITTED FOR PUBLIC CONSULTATION

Since the adoption of the European Green Deal in 2020, the European Union is determined to reach climate-neutrality by 2050. However, these ambitious plans, in order to come to fruition, require broad regulatory adjustments in many areas, one of them being growth financing, which has been reflected in the Plan on Financing Sustainable Growth adopted by the European Commission on 8 March 2018. One of the objectives set out in the plan is to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. In this pursuit, the European Parliament and the Council passed the Taxonomy Regulation (Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088) which aims to establish a unified classification system for sustainable activities. In other words, the Taxonomy Regulation lays the foundations for an EU-wide classification system, which provide for a uniform and harmonised way to determine what economic activities can be considered as sustainable.

It aims to provide clarity and a common understanding of what can be considered "sustainable." As a result, the EU wants to increase public and private financial flows towards "green" activities and avoid greenwashing by setting science/evidence-based criteria for different categories of performance.

However, by its very nature, the Taxonomy Regulation is only a framework and the whole system will be supplemented by the delegated acts which will be adopted by the Commission in cooperation with the Platform on Sustainable Finance, the expert body established under the Taxonomy Regulation.

According to the provisions of Art. 26.2 of the Taxonomy Regulation, the Commission is obliged to publish by 31 December 2021 a report describing the provisions that would be required to extend the scope of the Taxonomy Regulation in two areas. Firstly, those extending beyond environmentally sustainable economic activities and, secondly, those covering social

objectives. With respect to this obligation and the mandate given by the European Commission, the Platform recently published two draft reports for public consultation analysing the extension of taxonomy in these two respective areas. Bearing in mind that the European Commission will base its final report on the analyses of the Platform, the results of the following reports will be of great importance for the business financing model in the EU in the upcoming years.

First report: Tackling the binary classification

The first report (Public Consultation Report on Taxonomy extension options linked to environmental objectives) focuses on the problem of the so-called binary classification where some economic activities are unable to meet the above mentioned requirements and may be mistakenly considered by some users as environmentally "unsustainable".

In its assumptions, the taxonomy is not binary, but there is a considerable risk, as the Platform notices, that some areas of activity would be perceived by the market in this way. In result all activities that do not report green might suffer from limited access to financing despite having an extremely low environmental impact. To prevent such phenomenon the Platform considers extending the taxonomy to include two additional categories of activity, i.e. significantly harmful activities and no significant impact activities.

First group is seen as unable by their nature to transition and significantly harmful to one or more of the six environmental objectives set out in the Taxonomy Regulation and consequently excluded from green taxonomy. An example of such activity would be solid fossil fuel power generation that is incapable of transition to environmentally sustainable performance level.

Second one represents all these activities that have low impact across the six environmental objectives. They are neither green nor particularly harmful. The Platform proposed a working definition which describes the so-called NSI activities as economic activities which: (i) do not have the potential, to make a substantial contribution to any one of the six EU environmental objectives; (ii) and are not at risk of causing significant harm to any one of the six EU environmental objectives; OR are already included in Annex II of the climate Delegated Act as potentially substantially contributing to climate adaptation, AND have no criteria set for causing significant harm to any of the other five environmental objectives.

Second report: Measuring the social aspects

On the other hand, the second report (Draft Report by Subgroup 4: Social Taxonomy) recommends identifying economic activities that contribute to social goals (e.g. ensuring decent work, integrating and building sustainable communities and affordable health care). A social taxonomy would be a tool to help investors identify opportunities to contribute to these goals. According to the report, the foothold for the taxonomy in this area are international authoritative standards in the field of human rights, such as the International Bill of Human Rights. Additionally, the Platform considers the issue of social taxonomy from two perspectives.

Vertical one is focused on products and services for basic human needs and basic infrastructure. Any activity that makes them more accessible while being harmless to other social purposes, should be regarded as social on the basis of taxonomy.

In a horizontal approach, the Platform takes into account the impact on different groups of stakeholders affected by economic activities – workers, including value chain workers, consumers and communities. Moreover, the report emphasises the need to balance environmental and social needs, which do not always coincide. In this regard, the Platform suggests applying minimum environmental criteria each time.

Although the final shape of the report will be decided by the Commission, it is the conclusions of the above-mentioned reports prepared by the Platform that will most likely determine the scope of the upcoming taxonomy extension. In fact, it could be argued that this is the moment when the future financing costs of respective economic activities in the EU is in the balance.

Comments on both consultations are due by 27 August 2021. The Platform intends to submit final advice reports to the EU Commission in autumn 2021. Both reports can be found on the official website of the European Commission.

Reference list:

- https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf
- https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sf-draft-report-social-taxonomy-july2021_en.pdf
- <https://www.gov.pl/web/rozwoj-praca-technologie/zrownowazone-finansowanie>
- <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>

CONTACTS

Andrzej Stosio
Partner

T +48 22 627 11 77
E andrzej.stosio
@cliffordchance.com

Maksymilian Jarzabek
Advocate

T +48 22 627 11 77
E maksymilian.jarzabek
@cliffordchance.com

Krzysztof Burda

T +48 22 627 11 77
E krzysztof.burda
@cliffordchance.com

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www.cliffordchance.com

Norway House, ul. Lwowska 19, 00-660
Warsaw, Poland

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