TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

SUBGROUP: TAXONOMY

Progress Report

Disclaimer

This report is a progress update. Nothing in this report precludes, prejudices or pre-empts any possible future reports from the Technical Expert Group on Sustainable Finance. Nothing in this report commits the European Commission nor precludes any policy outcomes.

Since the previous update in September 2018, the Taxonomy Working Group (TWG) has focussed on:

1. Technical development:
    a. advancing work on climate mitigation thresholds by establishing draft criteria for "high confidence" sectors, developing a work plan to analyse additional sectors.
    b. developing the proposed approach on adaptation.
    c. developing analysis of do not significant harm in relation to objectives 2-6[1].
2. Developing a long-term work plan and a consultation package, to be launched by early December 2018.
3. increasing communications efforts to encourage positive engagement with the Taxonomy work

This document gives an overview of the approaches currently taken by the TWG and is kept short on purpose as this should be read in conjunction with the soon to be published consultation package. This will also be shared with MSEG for information and presented at the meeting before publication.

1. Technical screening criteria development

The group has several sub-streams working to develop consultation materials for:

a) Climate change mitigation
b) Climate change adaptation
c) Do not significant harm

a) Climate change mitigation

Since the September meeting, the work has focussed on developing draft technical screening criteria for the "high confidence" sectors.

[1] (3) Sustainable use of water and marine resources, (4) transition to a circular economy, waste prevention and recycling, (5) pollution prevention and control, (6) protection of healthy ecosystems.

NACE Macro-sector	Short term focus / areas with established market guidance
A – Agriculture, forestry and fishing	Forestry
C – Manufacturing	Energy efficiency improvements in selected sub-sectors
D – Electricity, gas, steam and air conditioning supply	Renewable power and heat generation
H – Transportation and storage	Low carbon land transport
F – Construction	Low emission buildings and substantive energy efficiency improvements
L - Real estate activities	

The methodology for selecting these was detailed in the September progress update paper which was shared both with the Council Working Party (CWP) working on taxonomy and the Member State Expert Group (MSEG) on sustainable finance.

For these sub-sectors, the TWG has collated existing guidance, principles and thresholds from the draft Taxonomy prepared by the High-Level Expert Group on Sustainable Finance, the European Investment Bank (EIB), MDB/IDFC common principles for tracking climate mitigation finance, Climate Bond Initiative (CBI) and where relevant, the China Green Bond Catalogue. For each of the priority sub-sectors, the group has reviewed the existing approaches, and developed principles, metrics and, where possible, specific thresholds. The group has also started to document the rationale for selecting their given approach. The group has also linked this to the permitted means of achieving the objective within the regulation (e.g. Article 6 for climate mitigation) and the requirements set out in Article 14.

Next steps

The TWG presented progress at the November TEG meeting. The group has identified around 25 economic activities within those sectors where principles, metrics and (in some cases) thresholds can be presented for consultation. The group is now preparing these for consultation.

The group is also analysing additional sectors to be included in the Taxonomy. MSEG input has been gratefully received and is being considered in this process. Additional expertise will be sought to contribute to these areas.

b) Climate change adaptation

As specified in the proposed taxonomy regulation, climate adaptation activities are location and context specific. There cannot be a single list of 'eligible' activities. For this reason, the methodology proposed by this group differs from that taken by the mitigation work-stream. The methodology takes three levels:

1. Core adaptation principles (based on a review undertaken into widely accepted approaches in the market – this is likely to be a process-based approach).
2. Indicative[2] adaptation activities in each sector, mapped against vulnerabilities
3. A list of adaptation activities which would be valid under most conceivable circumstances (e.g. satellite systems focussed on climate and weather-related observation).

[2] The purpose is to give examples of possible vulnerabilities and adaptation approaches while recognising that adaptation responses are location and context specific.

Next steps

The group has continued to develop the overarching approach to adaptation activities and is preparing a work plan, based on receiving additional technical input.

c) Do no significant harm

For environmental objectives 2-6, the "do no significant harm" approach developed for the last TWG meeting is been adapted into the activity template for some of the mitigation economic activities within the priority sectors.

Next steps

The TWG is also preparing a work plan to advance this analysis, based on receiving additional technical input (see below)

2. Consultation package

The group has adopted an eight-month work plan, to mid-June 2019, including a refined approach to outreach. This builds from the experiences of developing technical screening criteria for selected mitigation activities, as well as an assessment of the detailed work that will be required to establish new technical screening criteria from scratch. See *Figure 1*.

The group is preparing a full outreach package for release by early December 2018. This will have three elements:

1. **Open consultation** on high confidence / phase 1 mitigation sectors (the list previously presented to MSEG). Considerable industry expertise has gone into establishing thresholds for these sectors. The TWG sees its role here as collating and seeking technical comment on these thresholds. An example of the format is presented below – Template for open consultation. Technical experts and stakeholders can provide feedback on selected economic activities and the proposed criteria for the first sub-set of economic activities expected to make a substantial contribution to CO2e mitigation
2. **Call for experts** to contribute to technical design processes for defining criteria for climate mitigation for additional sectors and to advance work on adaptation and objectives 3-6. Technical experts can apply to provide technical input to the development of new criteria for further economic activities that have the potential to make a substantial contribution to mitigation objectives. These additional experts will provide input to the process, acting as a reference group, but ultimate decision-making will remain with the existing TWG members. There will also be a call for technical experts on Adaptation activities.
3. **Usability of the taxonomy.** Future users of the Taxonomy can provide feedback on the usability and fitness for purpose of the Taxonomy in practice.

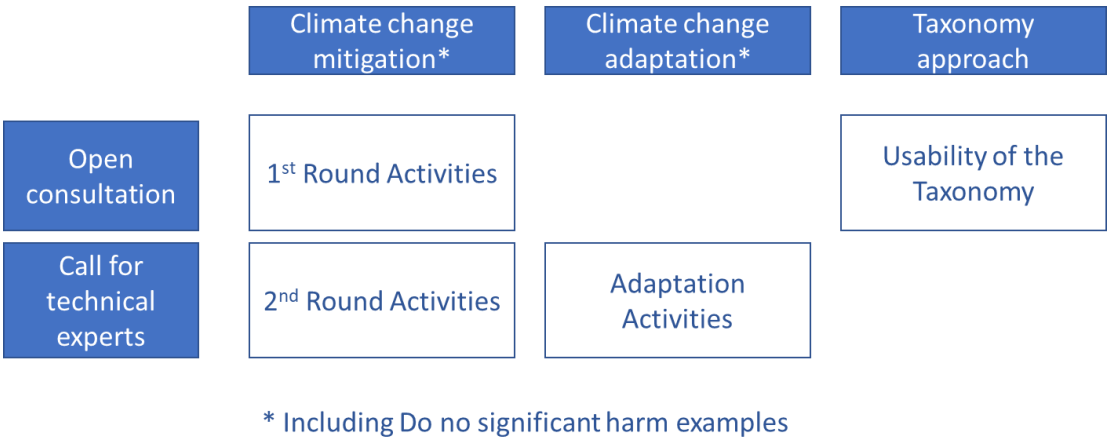

Figure 1 Visualisation of consultation activities

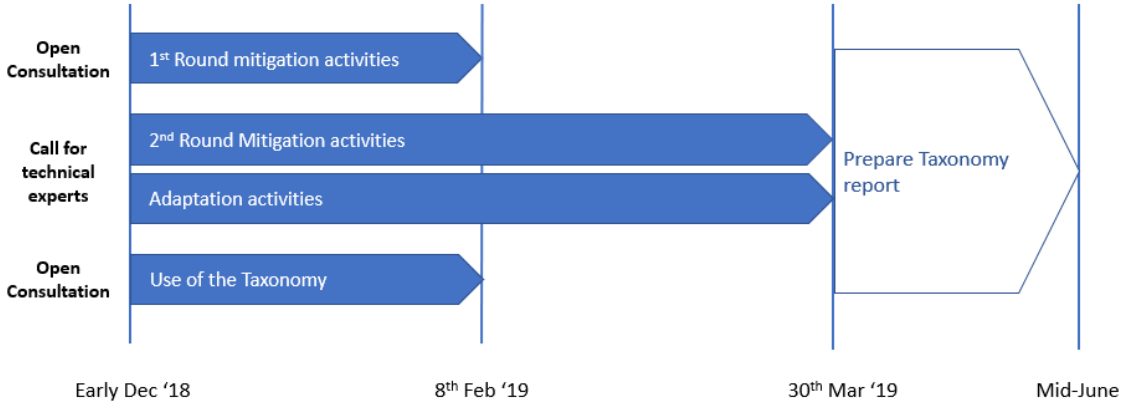

Figure 2 Timeline of consultation activities

a) Template for open consultation

The TWG has developed a common template for the "high confidence" mitigation sub-sectors to form the basis of the consultation. An example (geothermal energy) is below – ***please note this is in draft form only and should not be read as a formal output of the TEG***.

Sector classification and activity		
Macro-Sector	D) Energy	
Level	4	
Code	35.11	
Description	Energy Production (Geothermal)	
Mitigation criteria		**Questions 1 - 3**
Principle	Demonstrate substantial GHG emissions reduction over a likely alternative scenario	*Q1) Do you agree with the proposed principle [or methodology] for determining a substantial contribution to climate mitigation for this activity? If not, what alternatives do you propose and why?*
Metric	Direct GHG emissions	*Q2) Do you agree with the proposed metrics for assessing the extent of the mitigation contribution? If not, what alternatives do you propose and why?*
Threshold	Direct GHG emissions from electricity generation <122g CO2e/kwh	*Q3) To what extent do you agree with the proposed thresholds for the activity to qualify for inclusion in the Taxonomy? Please explain*

		your answer. If relevant, you may propose alternative thresholds that could be considered. [Answer could be on Likert scale instead yes/no]
Do no significant harm assessment		**Questions 4 - 5**
(2) Adaptation	-	*Q4) Do you agree with the 'do no significant harm' hot spots identified for these activities?*
(3) Water	Potential consequences on local water quality and consumption from contaminants and changes in the hydraulic regime.	*Q5) Is there any key area where significant harm needs to be avoided and which is not mentioned already? Why would that be significant?*
(4) Circular Economy	-	
(5) Pollution	Potential environmental impacts, restricted to a limited range of local land, resulting in significant waste of geothermal fluids and critical contaminants and atmospheric pollutants emissions.	
(6) Ecosystems	Geological risks assessments in order to avoid or mitigate the risk of geological hazard directly caused by the activity.	
Rationale		
Additional notes on conclusions reached	Electricity generation from geothermal energy can cause emissions of greenhouse gases (GHG). These emissions are generally much lower than emissions from electricity generation from fossil fuels. Direct emissions of carbon dioxide (and to a lesser extent methane) result from the release of naturally occurring non-condensable gases from geothermal fluid during the energy extraction process. The emissions threshold of 122gCO2e/kwh has been selected because it represents the international weighted average emissions for geothermal energy generation (Climate Bonds Initiative 2017). The threshold of <122gCO2e/kWh also applies for geothermal electricity plants which are hybridized with fossil or waste combustion processes. Note that combined Heat and Power production from geothermal will be treated separately (cf. D35.3).	

3. Communications

The consultation process is central to the communications approach – this is covered above. In addition, the group continues to develop and implement outreach plans with the other TEG sub-groups.

There is significant interest in the agenda. Examples of outreach include:

- a panel discussion at the Hub 4 Sustainable Finance conference in Frankfurt in October.
- a webinar co-hosted by the PRI and Responsible Investor magazine on 11 October which attracted around 700 attendees.
- a Presentation to the EPA green finance group by Commission and TEG/EEA on 9 Nov.
- a workshop for the MDB / NPBI community, hosted by EIB on 19 November.
- a live 'twitter event' on 4 December, hosted by the European Commission.

Appendix: Activities identified so far within Round 1 sectors

Transport

1. Passenger rail transport, interurban
2. Freight rail transport
3. Urban and suburban passenger land transport
4. Construction of roads and motorways
5. Construction of railways and underground railways

Manufacturing

1. Energy and resource efficiency in non-intensive manufacturing sectors
2. Manufacture of Renewable Energy Equipment
3. Manufacture of Vehicles
4. Manufacture of Other Low Carbon Technologies excluding vehicles and renewable energy

Energy

Electricity generation by the following methods:

1. Geothermal
2. Hydro
3. Solar PV
4. Concentrated solar power
5. Wind
6. Ocean energy

Buildings

1. Construction of new buildings
2. Specialised Construction Activities (Renovation of existing buildings)
3. Manufacture of key components for energy efficiency (via manufacturing group).
4. Energy and resource audits

Forestry

1. Afforestation
2. Reforestation
3. Rehabilitation/restoration of, for example, degraded forests
4. Sustainable management of existing forests