Feedback on the usability of the taxonomy

ORGALIM RESPONSE

Fields marked with * are mandatory.

Introduction

Disclaimer: This invitation for feedback is part of DG FISMA, DG ENV, DG CLIMA and DG ENER ongoing work to develop the taxonomy, for which the Commission has set up the TEG. The action plan on financing sustainable growth – action 1 – requests the group to develop the taxonomy on the basis of broad consultation of all relevant stakeholders. This feedback process is not an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any policy outcome.

The proposed regulation (in Article 4 on use of the criteria for environmentally sustainable economic activities) envisages two specific uses of the taxonomy:

1. **Member States** when setting out “requirements on market actors in respect of financial products or corporate bonds that are marketed as ‘environmentally sustainable’”;

2. **Financial market participants** “when marketing financial products as environmentally sustainable investments, or as investments having similar characteristics, will have to disclose how and to what extent the criteria have been used to determine the sustainability of the product.”

To comply with the regulation, the information disclosed by financial market participants should enable investors to identify:

- “the percentage of holdings pertaining to companies carrying out environmentally sustainable economic activities”;
- “the share of the investment funding environmentally sustainable economic activities as a percentage of all economic activities”.

For financial market participants, these are disclosure requirements. The taxonomy is not a mandatory list of activities in which to invest. Funds targeting environmental objectives are not limited to investing in taxonomy-compliant activities. Moreover, the taxonomy can also be used on a voluntary basis by any financial institution. The taxonomy should also encourage companies to raise funds for projects that meet the criteria of the taxonomy.

Considering the above, and also the wider aims and objectives of the taxonomy (see taxonomy approach explained), potential users of the taxonomy are invited to respond to the feedback questions.

More information:

- on this feedback process
- on the protection of personal data regime for this workshop registration form

1. Information about you

* Are you replying as:
  - a private individual
  - an organisation or a company
  - a public authority or an international organisation

* First name and last name:

* Name of your organisation:
  ORGALIM representing Europe’s technology industries
* Name of the public authority:

Contact email address:

* Is your organisation included in the Transparency Register? (If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this feedback process. Why a transparency register?)
   
   Yes
   No

* If so, please indicate your Register ID number:

   20210641335-88

* Type of organisation:
   - Academic institution
   - Media
   - Company, SME, micro-enterprise, sole trader
   - Non-governmental organisation
   - Consultancy, law firm
   - Think tank
   - Consumer organisation
   - Trade union
   - Industry association
   - Other

* Please specify the type of organisation:

   European trade association; Orgalim represents Europe’s technology industries – innovative companies spanning the mechanical engineering, electrical engineering and electronics, and metal technology branches. Together they represent the EU’s largest manufacturing sector, generating annual turnover of around €2,000 billion, manufacturing one-third of all European exports and providing 11 million direct jobs.

* Type of public authority
   - International or European organisation
   - Regional or local authority
   - Government or Ministry
   - Regulatory authority, Supervisory authority or Central bank
   - Other public authority

* Please specify the type of public authority:

* Where are you based and/or where do you carry out your activity?

   Belgium

* Field of activity (if applicable):

   at least 1 choice(s)
   - Accounting Auditing
   - Banking
   - Credit rating agencies
   - Insurance
   - Pension provision
   - Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
   - Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges) Social entrepreneurship
   - Other
   - Not applicable

* Please specify your activity field(s) or sector(s):

   European manufacturing industry

* Sector (if applicable):

   at least 1 choice(s)
   - A Agriculture, forestry and fishing
   - B Mining and quarrying
   - C Manufacturing
1. Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

Please refer to:
- example sheet: Energy production (geothermal)
- full list of 1st round climate mitigation activities, screening criteria and questions

**Yes**

**No**

Don't know / no opinion / not relevant

Please explain your answer to question 1:
2000 character(s) maximum

**Orgalim welcomes the EU to establish a better common understanding of what economic activity should be considered as environmentally sustainable and receive priority financing in support of the EU’s wider policy objectives. However, while the proposed taxonomy might help to identify better or more environmentally sustainable activities, it will in our view face limitations in terms of providing a final conclusion. Economic activities are diverse, national contexts of economic activities may differ from country to country and technology innovation, process development and innovation continuously evolve. A “one size fits all” approach will in our view neither be useful nor establish a fair level playing field. Sufficient flexibility would have to be built into the taxonomy to allow its continuous evolution according to scientific findings, technological progress, innovation and case by case assessments. Also, consistency between the technical screening criteria to be developed by the TEG on Sustainable Finance and the pending draft regulation on establishing the taxonomy is at this stage not ensured as the legislative process is still pending. National contexts of economic activities may have to be better taken into account and technology neutrality as key principle is essential for the acceptance of the future taxonomy and for guaranteeing fair access to finance for internationally competing companies. As manufacturers operating in Europe we wonder how non-EU activities would be assessed/be subject to the future EU taxonomy. We doubt that the proposed taxonomy will be fit to assess the ties of industrial value chains correctly. While life cycle analysis shows the positive impact of certain products despite the use of energy and emission intense raw materials, the proposed taxonomy could lead to misleading results The taxonomy should take into account the transition phase which may require different technologies to be applied during the transformation than afterwards. (2000 characters)**
2. Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

Yes
No
Don’t know / no opinion / not relevant

Please explain your answer to question 2:

It will be a challenge for the sector to follow the implications that the taxonomy will have and implement it in practice, in particular since the sector is highly characterized by small and medium sized companies. Administrative burden, human and financial resources necessary for implementing the taxonomy, such as for gathering, evaluating and presenting the necessary data and information to demonstrate compliance with the different criteria and technical screening criteria will pose practical challenges to companies, and SMEs in particular. Since the legislative framework for the taxonomy has not yet been agreed between EU regulators, it remains uncertain in how far the legislative criteria and technical screening criteria will be consistent with each other, further increasing the challenge of preparing for its implementation. Also, important definitions and terminology (such as “green” or “sustainable”) remain unclear at this stage.

3. For financial market participants: will the proposed structure and format of the Taxonomy enable you to comply with potential future disclosure obligations?

Yes
No
Don’t know / no opinion / not relevant

What changes would you propose?

4. Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?

Yes
No
Don’t know / no opinion / not relevant

What changes would you propose?

5. Would the use of the taxonomy require any additional resources (for example in human resources or information technology)?

Yes
No
Don’t know / no opinion / not relevant

Please specify what additional resources and if possible, give an indication of the expected costs (e.g. as a % of turnover or operating costs):

The burden of proof of fulfilling the criteria of an “environmentally sustainable economic activity” when requesting access to finance would be on companies. This will require additional resources, both human and financial, in companies. SMEs will face even higher challenges since human and financial resources are particularly tight. Also, new IT systems may have to be installed in order to gather, evaluate and provide the necessary data and information on the fulfilment of the different criteria/technical screening criteria.
Considering ongoing legislative debates, there is a risk of disclosure requirements stemming from the use of the taxonomy to become unmanageable for companies. Duplicating reporting or disclosure requirements should be avoided. (761 characters)

6. Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement:

Designing an EU taxonomy of what represents an environmentally sustainable economic activity in the EU in times when other regions of the world are in the process of doing so is in our view closely linked to the question of European sustainability leadership, which we generally support. Also, linking the EU’s policy objectives, and its energy, climate and environment objectives in times of implementing the Paris Agreement in particular, is a very strong market and investment signal that can trigger true change in the market if properly designed. Given the far-reaching consequences of the taxonomy (namely no access to finance for an economic activity of a company), the importance of a well-designed and thoroughly thought through concept that rewards for European technology leadership and innovation cannot be overestimated. Technology neutrality, flexibility in taking into account national differences and technological developments will be some elements of a reliable taxonomy. Measurability, consistency with existing harmonised EU and international standards and EU legislations will be other. SMEs will require particular support measures in implementing the system and economic activities in Europe should not be discriminated against such activities in other regions of the world. The latter can result in significant competitive disadvantages for companies operating in Europe and even result in “investment leakage”. This must by all means be avoided. (1471 characters)