

To: Commissioner McGuinness
CC: DG FISMA

Brussels, 14 December 2023

Setting next steps to develop the EU taxonomy

Dear Commissioner McGuinness,

First, we would like to congratulate the Commission for its [Recommendation on facilitating finance for the transition to a sustainable economy](#) from last June. **It defines transition finance for the first time**, a step in the right direction to dispel confusion and bring clarity. The implementation of this Recommendation will heavily rely on its successful inclusion into the Taxonomy framework. We would therefore like to recommend the following five steps to develop the EU Taxonomy:

1. Explore the extension of the environmental taxonomy to more categories

The Recommendation opens a door to an extended environmental taxonomy. The Annex indeed frames *“Investments for transitioning beyond climate mitigation do-no-significant-harm levels in a first step”*¹, which is the definition of the intermediate transition proposed by the Platform on sustainable finance in its [2022 final report](#) on the extended environmental taxonomy – an intermediate transition that currently does not exist but would be critical to help companies reduce environmental harm. It would build on a taxonomy in three categories (sustainable / intermediate / unsustainable), which is already feasible technically with the existing Substantial Contribution and Do No Significant harm criteria. The Annex to this letter provides more elements on the issue. **On this basis, we urge the Commission to:**

- **Assess how to update the Taxonomy Regulation or Delegated Acts (including for Article 8), so that companies will report their exposure to an extended taxonomy in three categories;**
- **Launch an initiative in 2024 with the Platform and volunteering companies to test the use of an extended environmental taxonomy in three categories, in order to gather feedback.**

2. Adopt criteria for new activities proposed by the Platform on sustainable finance

The taxonomy suffers from a patchy coverage of sectors and economic activities, a shortcoming raised numerous times by various stakeholder groups. Yet, the Platform made technical recommendations for many activities which have still not been endorsed by the Commission, despite the perceived lack of controversy about several given activities – for example, the **manufacture of food products and beverages**². **We urge the Commission to adopt a Delegated Act in the first half of 2024 to integrate these sectors in the EU taxonomy in line with the Platform’s recommendations.**

¹ Section 5.1. *What the EU Taxonomy can be used for*, Point 4, Page 12.

² Other activities for which Platform’s criteria are ready include : Finishing of textiles / Tanning of leather / Manufacture, repair, refurbishment and resale of wearing apparel / Manufacture, remanufacture and reselling of footwear and leather goods / Design, manufacture, remanufacture and reselling of furniture / Environmental refurbishment of hydropower facilities / Manufacture of chemicals / Manufacture of chemical products / Forestry.

3. Adopt criteria for new activities, notably the decommissioning of unsustainable activities

The full decommissioning of unsustainable activities which cannot be transitioned, such as the operation of coal plants and mines, should urgently be included to the list of 'green' activities³. This would send a much-needed signal for the achievement of the EU 2030 environmental objectives: **in addition to growing the green economy, the EU economy needs to reduce harm from existing activities which cannot be transitioned** by phasing them out (and must stop developing new harmful activities in parallel). **The Commission should adopt criteria for such decommissioning activities in 2024.**

4. Tighten existing climate criteria where relevant to align with revised EU climate legislation

Many climate mitigation taxonomy criteria build on EU legislation on climate change or energy efficiency. With the Fit For 55 package raising the EU ambition for 2030, several pieces of EU legislation were revised, notably the EU ETS and the Energy Performance Building Directive that the taxonomy criteria build upon. Consequently, **these taxonomy criteria are about to become obsolete and need to be revised in 2024 to maintain the consistency of the EU policy framework.**

5. Include SMEs in the scope of taxonomy reporting for financial institutions

Separately, the Commission launched its [SME Relief Package](#) in September 2023. In Action 15 of this Package, it commits to '*assess an SME-friendly adaptation of the Green Asset Ratio to be considered in a future update of the Taxonomy Disclosures Delegated Act*'. We strongly support the inclusion of SMEs in the Green Asset Ratio of financial institutions, as it will have two benefits: incentivize financial institutions to support SMEs to green their business and, in turn, incentivize SMEs – which represent 99% of all EU companies - to report their taxonomy alignment. **We recommend the Commission to update the Article 8 Delegated Act for that purpose in the first half of 2024.**

We would be pleased to exchange with you on these matters in a meeting or call at your convenience. Please do not hesitate to contact us should you have any questions. Thank you very much for your consideration.

Yours sincerely,

Signatories

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Biodiversity Conservation Center, Alexey Zimenko

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³ This is fully consistent with the [recommendation from the International Platform on Sustainable Finance](#) (coordinated by the Commission) to "*develop more in-depth analysis of the coordinated phase-out of coal*" (2023) and the GFANZ recommendations for [The Managed Phaseout of High-emitting Assets](#) (2022).

BirdWatch Ireland, Oonagh Duggan
Campagna Nazionale NoRigass, Annunziata d'Arco
Campagna per il Clima Fuori da Fossile, Renato de Nicola
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Climate Strategy, Peter Sweatman
Compassion in World Farming, Peter Stevenson
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ShareAction, Maria van der Heide
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Society for Sustainable Living (STUŽ), Jiří Dlouhý
Transport & Environment, Giorgia Ranzato
urgewald, Regine Richter
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Annex

In 2022 the EU Platform on Sustainable Finance published its [final report on the 'extended taxonomy'](#) as mandated by the Commission.

There is a strong and powerful narrative to extend the EU environmental taxonomy to new categories, in order to significantly clarify and accelerate transition finance. This is a central element of the Commission's [Strategy for Financing the Transition to a Sustainable Economy](#), which commits to "develop a more comprehensive framework and help the financing of intermediary steps towards sustainability".

The Platform's recommendation is to shape the taxonomy in three categories: sustainable / intermediate / unsustainable economic activities – building on the two existing sets of criteria, the Substantial Contribution criteria and Do No Significant Harm criteria. It is therefore already technically possible to shape the three categories.

We would like to highlight several important issues related to the extended taxonomy:

- The extended taxonomy defines concretely two types of transitions (intermediate transition and green transition) instead of one today (green transition). The **intermediate transition** is for the case where the activity cannot reach the level of ambition of the sustainable category immediately, but can exit the unsustainable category as a first step: it will enable **many more financial products for accompanying many more companies** in such transitions.
- The extended taxonomy will cover a **far broader part of the EU economy** and of financial portfolios than the current green taxonomy, hence will become much more relevant for market stakeholders. The latest MSCI data find that companies reported 13% taxonomy alignment for revenues and 18% for capex for 2022. While this is higher than feared, it is still too small to transition the EU economy for a while.
- Importantly, this extension will **provide a conclusive answer to all critiques on the 'binary' nature** of the current green-only taxonomy.
- In terms of usability, the extended taxonomy builds on the **same criteria as the green taxonomy** (Substantial Contribution and Do No Significant Harm criteria), bringing **little to no additional burden** for companies to report their taxonomy exposure: a single assessment will enable companies to report their exposure to each of the three categories.
- The extended taxonomy will reassure many sectors and companies that while they are not part of the green taxonomy, they are equally not doing environmental harm.
- The extended taxonomy is **science-based** and will substantially contribute to the credibility of the European Green Deal.

Time-wise, as recommended by the Platform a first voluntary phase should start quickly, based on non-binding guidelines, to gather feedback from market practitioners.