

EU Taxonomy: Environmental Delegated Act

A Comparison of the Environmental Delegated Act and Recommendations of the Platform on Sustainable Finance

1 Introduction

The EU taxonomy is a central instrument in the EU Sustainable Finance Framework. By establishing sustainability criteria for economic activities and enhancing transparency, it aims at redirecting financial flows towards sustainable investments and thus to support the EU's climate and sustainability goals set out in the European Green Deal. In its efforts to develop criteria for key sectors, the European Commission is supported by the EU Platform of Sustainable Finance (PSF). Based on Article 20 of the EU taxonomy legislation (European Commission 2020), a multi-stakeholder expert group, the PSF advises the Commission, among other aspects, on technical screening criteria (TSC) for the EU taxonomy. This factsheet analyses the (TSC) proposed by the Platform on Sustainable Finance (PSF) (2022a, 2022b) to identify which of the criteria have been considered (and which have not) for the EU taxonomy in the published Taxo 4-Delegated Act (DA) (C/2023/2486) for non-climate environmental goals.

2 Execution of the analysis

In March 2022, the PSF has first published recommendations relating to TSC for the environmental objectives 3-6 (non-climate related objectives) of the Taxonomy Regulation. This task led to the Technical Annex (Part B) containing technical screening criteria for economic activities contributing to all six environmental objectives of the Taxonomy Regulation, including the rationale for those criteria (Platform on Sustainable Finance, 2022a). In addition, the PSF has published a supplementary report that provided additional technical screening criteria for climate and environmental goals (Platform on Sustainable Finance, 2022b). The supplementary report also addressed activities that required further work. Furthermore, some existing activities were updated based on the development of similar activities or the finalization of enabling frameworks. The reports of the PSF are structured by economic sectors. Nonetheless, activities in the publicly available reports were assigned to different environmental objectives. The published PSF reports (mostly) differentiate between climate-related and environmental objectives, which resonates with the division of the Climate DA (C/2020/852) and the Environmental DA (C/2023/2486) taken by the European Commission.

The analysis is carried out in the following steps.

1. Identify TSC per Environmental Objective of Technical Working Group (TWG) Part B – Annex: Technical Screening Report (March 2022) and TWG Supplementary: Methodology and Technical Screening Criteria (October 2022).
2. Extract Environmental Activities in the annex from the DA (C/2023/2486).
3. Compare the Activities from the Technical Screening Report (March 2022) and TWG Supplementary: Methodology and Technical Screening Criteria (October 2022) with the DA (C/2023/2486).
4. Identify the activities suggested by the PSF that were not included in the DA (C/2023/2486) and vice versa.
5. Identify the type of change: Based on our analysis, the Taxo-4 DA (European Commission, 2023) differs from the PSF suggestions with regard to:
 - a. The number of activities covered:
 - i) Activities proposed in the PSF reports that have not been considered in the DA (a.1).
 - ii) Activities that have been added by the DA that had not been previously suggested by the PSF (a.2).
 - b. The scope of the activities:
 - i) Activities in the DA that differ in the naming from the platform suggestions (b.1).
 - ii) Activities where the DA differentiates from published PSF recommendations (b.2).

This analysis has been completed for the sectors included in the published reports by the PSF and published Delegated Acts for the environmental objective three to six: (3) the sustainable use and protection of water and marine resources; (4) the transition to a circular economy; (5) pollution prevention and control and (6) the protection and restoration of biodiversity and ecosystems. While the analysis highlights where technical screening criteria for substantial contribution have been included and offers guidance on potential gaps in the EU taxonomy, it does not provide information on whether the European Commission (EC) has considered the criteria with the same level of ambition as recommended by the PSF.

3 Key results

The analysis allows us to identify gaps based on published recommendations by the PSF and existing criteria in the published DAs.

Below, we present a detailed analysis for the objectives (3) the sustainable use and protection of water and marine resources; (4) the transition to a circular economy; (5) pollution prevention and control and (6) the protection and restoration of biodiversity and ecosystems (see Figure 1-4). The outer circle shows the Platform criteria from March 2022, followed by the platform criteria from November 2022. The third and inner circle indicates the criteria that are included in the final DA. If there are no activities in a field, no criteria are proposed for the activities. The numbering of the activities results from the respective reports of the PSF (2022a, 2022b) and the DA (C/2023/2486) (European Commission 2023).

3.1 The sustainable use and protection of water and marine resources (environmental objective 3)

Based on the comparison of the PSF reports and the Delegated Acts, the following gaps can be identified:

- ▶ With regard to the non-climate environmental objective 3, we find that about 86% (6/7) of the activities recommended by the PSF in their published reports have been considered for the DA(C(2023)2486) (a.1).
- ▶ No activity has been added in the DA despite not being mentioned in the recommendations by the PSF in their published reports (a.2).
- ▶ One activity has been subject to name changes (b.1): 6.9 Nature based solutions (Nbs) for flood and drought risk prevention and protection for both inland and coastal waters (NACE F42.91) has been changed to 3.1. Nature-based solutions for flood and drought risk prevention and protection (NACE F42.91).
- ▶ One activity has been changed in the DA (b.2): E.3 Provision of IT/OT data-driven solutions that provide a substantial contribution to the use and protection of water and marine resources has been included as 4.1. Provision of IT/OT data-driven solutions for leakage reduction.
- ▶ It would be helpful to also include a sentence on how many activities were proposed and how many were integrated in the DA

Figure 1: Comparison of the TSC of the PSF and the Delegated Act (C(2023) 2486 for the environmental objective “(3) the sustainable use and protection of water and marine resources”



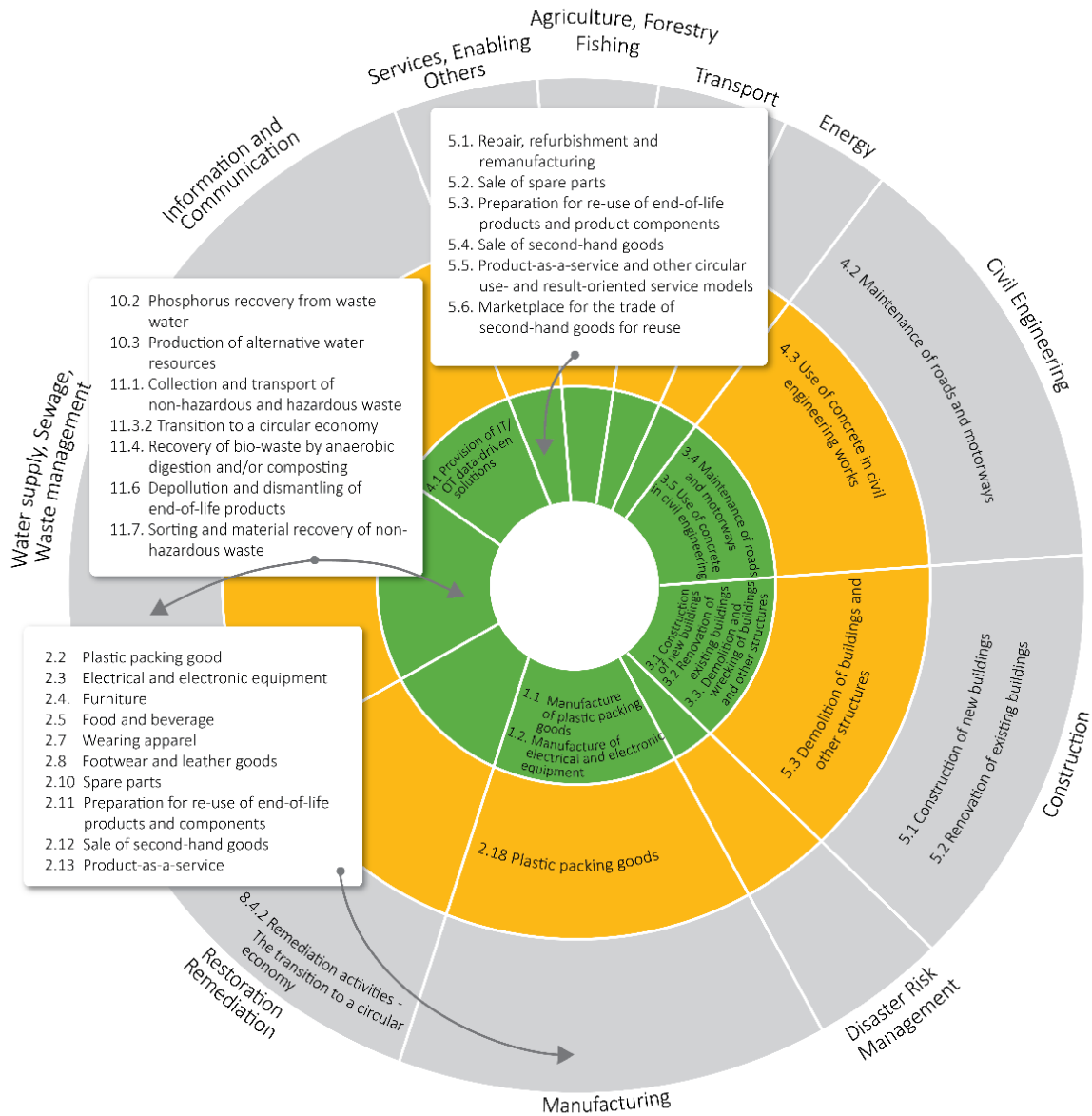
Source: Own figure, Climate & Company

3.2 The transition to a circular economy (environmental objective 4)

Based on the comparison of the PSF reports and the Delegated Acts, the following gaps can be identified:

- ▶ With regard to the non-climate environmental objective 4, about 81% (21/26) of the activities recommended by the PSF in their published reports have been considered for the DA(C (2023)2486) (a.1).
- ▶ No activity has been added in the DA despite not being mentioned in the recommendations by the PSF in their published reports (a.2).
- ▶ No activity has been subject to name changes (b.1).
- ▶ Two activities have been changed in the DA (b.2): 5.3 Demolition of buildings and other structures has been changed to 3.3 Demolition and wrecking of buildings and other structures, 2.10 Repair, refurbishment and remanufacturing, and sale of spare parts has been changed to 5.1. Repair, refurbishment and remanufacturing and 5.2. Sale of spare parts
- ▶ The DA labelled the activities “5.1. Repair, refurbishment and remanufacturing, 5.2. Sale of spare parts, 5.3. Preparation for re-use of end-of-life products and product components, 5.4. Sale of second-hand goods, 5.5. Product-as-a-service and other circular use- and result-oriented service models, 5.6. Marketplace for the trade of second-hand goods for reuse” in the sector “Services” while the PSF labelled them as “Manufacturing”. We apply the DA logic.

Figure 2: Comparison of the TSC of the PSF and the Delegated Act (C(2023) 2486) for the environmental objective “(4) the transition to a circular economy”



Source: Own figure, Climate & Company

3.3 Pollution prevention and control (environmental objective 5)

Based on the comparison of the PSF reports and the Delegated Acts, the following gaps can be identified:

- ▶ With regard to the non-climate environmental objective 5, about 55% (6/11) of the activities recommended by the PSF in their published reports have been considered for the DA(C(2023)2486) (a.1).
- ▶ One activity been added in the DA despite not being mentioned in the recommendations by the PSF in their published reports (a.2): 2.2. Treatment of hazardous waste.
- ▶ Two activities have been subject to name changes (b.1): 2.16 Manufacture of basic pharmaceutical products and 2.17 Pharmaceutical preparations have inspired the activities 1.1. Manufacture of active pharmaceutical ingredients (API) or active substances and Manufacture of medicinal products (NACE code C21.2) and 1.2. Manufacture of medicinal products (NACE code C21.2)
- ▶ One activity has been changed in the DA (b.2): 8.4.3. Remediation activities - Pollution prevention and control has been only partly adopted within the two activities 2.3. Remediation of legally non-conforming landfills and abandoned or illegal waste dumps and 2.4. Remediation of contaminated sites and areas.

Figure 3: Comparison of the TSC of the PSF and the Delegated Act (C(2023) 2486) for the environmental objective “(5) pollution and prevention control”



Source: Own figure, Climate & Company

3.4 The protection and restoration of biodiversity and ecosystems (environmental objective 6)

Based on the comparison of the PSF reports and the Delegated Acts, the following gaps can be identified:

- ▶ With regard to the non-climate environmental objective 6, about 20% (2/10) of the activities recommended by the PSF in their published reports have been considered for the DA(C(2023)2486) (a.1).
- ▶ No activity has been added in the DA despite not being mentioned in the recommendations by the PSF in their published reports (a.2).
- ▶ No activity has been subject to name changes (b.1).
- ▶ One activity has been changed in the DA (b.2): 8.1 Conservation of habitats and ecosystems has been changed to 1.1. Conservation, including restoration, of habitats, ecosystems and species
- ▶ The PSF labelled “Hotels, holiday, camping grounds and similar accommodation” for the sector as “Restoration, Remediation” while the DA labelled them as “Accommodation activities”. We apply the PSF logic.

Figure 4: Comparison of the TSC of the PSF and the Delegated Act (C(2023) 2486) for the environmental objective “(6) the protection and restoration of biodiversity and ecosystems”



Source: Own figure, Climate & Company

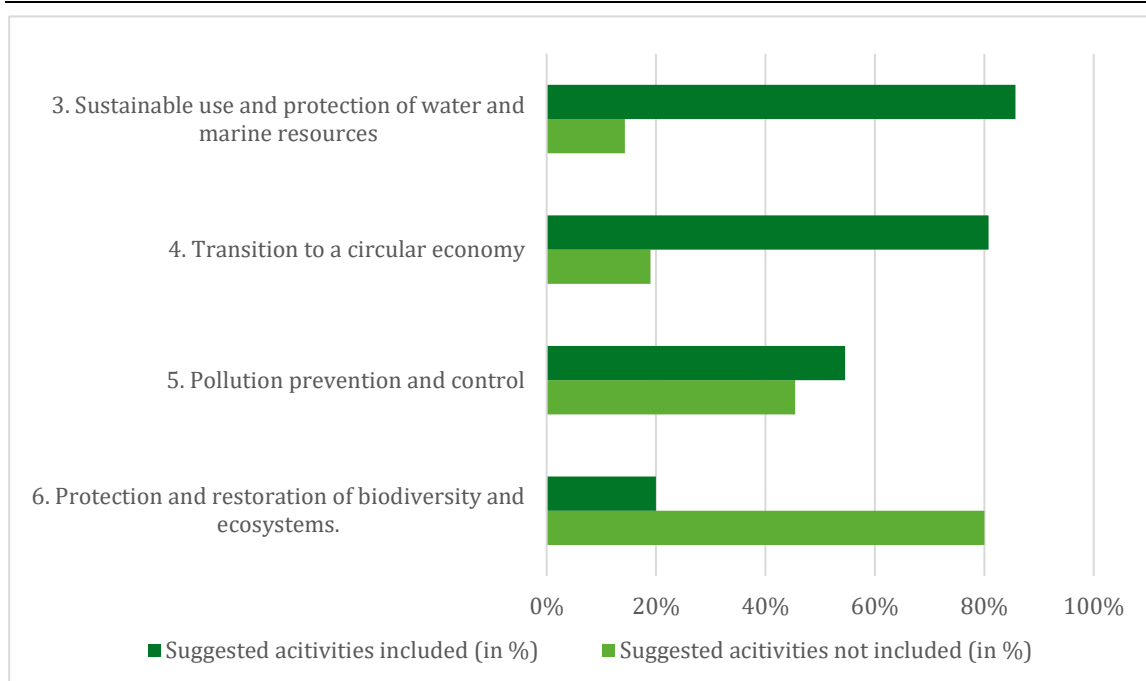
4 Conclusion

Based on the comparison of the PSF reports and the Delegated Acts, the following gaps can be identified for all environmental objectives:

- ▶ With regard to the non-climate environmental objectives 3-6, we find that 65% (35/54) of the total activities recommended by the PSF in their published reports have been considered for the DA(C(2023)2486) (a.1).
- ▶ One activity have been added in the DA despite not being mentioned in the recommendations by the PSF in their published reports (a.2).
- ▶ Three of the activities have been subject to name changes (b.1).
- ▶ Five activities have been changed in the DA (b.2).

Figure 5 illustrates the percentage of activity criteria recommendations by the PSF included in the Delegated Act (C)2023)2486) per environmental goal. It shows that the adoption rate is especially low for environmental objective four and six.

Figure 5: Comparison of the activities per environmental objective suggested by the PSF that are (not) included in the Delegated Act (C(2023)2486)

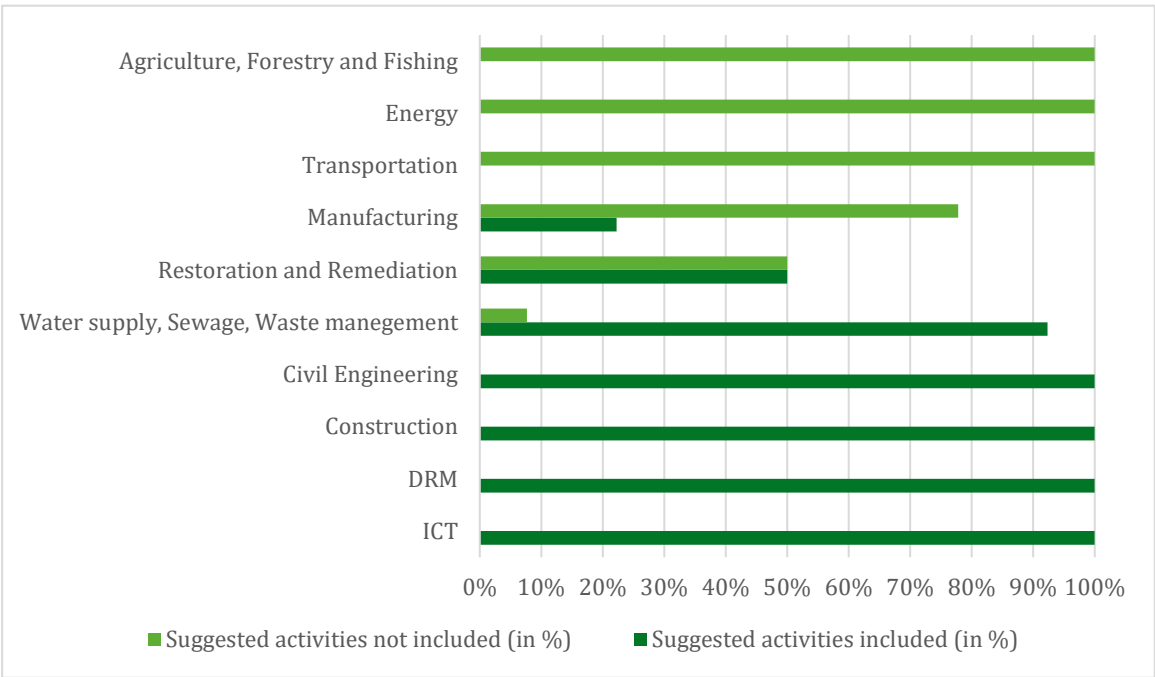


Source: Own figure, Climate & Company

Figure 6 illustrates the percentage of activity criteria recommendations by the PSF included in the Delegated Act (C)2023)2486) per sector. We find that for Agriculture, Forestry and Fishing, Energy and Transportation none of the suggested activities has been included in the DA, although the platform has made recommendations for substantial contribution. For manufacturing, 30% of the activities suggested by the PSF have been transferred, followed by the 50% for the sector Restoration and Remediation, 92% for the sector Water Supply, Sewage and Waste Management. For the sectors Civil Engineering, Construction, Disaster Risk Management (DRM) and Information and Communication (ICT) all criteria suggested are included. This could

indicate an initial direction for prioritization, as sectors previously omitted due to timing constraints, data gaps, or insufficient scientific evidence could now be examined for further analysis. (Figure 6- and per environmental goal: Figure 5).

Figure 6: Comparison of the activities recommended by the PSF that are (not) included in the Delegated Act (C(2023)2486) per sector



Source: Own Table, Climate & Company

The analysis highlights that gaps between activity criteria recommended by the PSF in their published reports and activity criteria included in the Environmental Delegated Acts remain. In some instances, the DA included PSF recommendations under different names or with changed scopes. Other times the DA included criteria that were not part of the published recommendation by the PSF. These gaps can be identified particularly for two environmental goals: the uptake of PSF recommended activities is comparatively low for the goals of 5) 5. pollution prevention and control and 6) the protection and restoration of biodiversity and ecosystems (Figure 5). Furthermore, the analysis highlights significant gaps in the uptake of

recommended activities for two sectors: 1) Agriculture, Forestry and Fishing and 2) Energy (Figure 6).

No conclusion can be made, however, on the substance of the criteria of the DA. The conducted analysis does not provide additional information on changed level of ambition from the PSF published recommendations and the final Delegated Act. For this, additional research needs to be undertaken.

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