

IIGCC response to the consultation on the EU Technical Expert Group (TEG) on Sustainable Finance: Taxonomy Technical Report

11 September 2019

Usability of the taxonomy

1. Do you expect to use the Taxonomy in your business activities in the short term (1-3 years) or long term (4 years or more)?
 - Yes
 - No
 - Don't know / no opinion / not relevant

2. Can the Taxonomy be made more useful for disclosures related to your specific financial product? This question covers only financial products where disclosure obligations are foreseen by the Taxonomy proposal.
 - Yes
 - No
 - Don't know / no opinion / not relevant

3. Can the Taxonomy be made more useful for your investment decisions in different asset classes?
 - Yes
 - No
 - Don't know / no opinion / not relevant

4. Is it sufficiently clear when the entire activities of a company or other entity should be considered as Taxonomy eligible (revenues or turnover) and when only expenditures by companies or other entities should be considered Taxonomy eligible?
 - Yes
 - No
 - Don't know / no opinion / not relevant

5. What practical tools or measures could be developed to facilitate the implementation of the taxonomy by financial actors? *2000 character(s) maximum*

Overall IIGCC welcomes the taxonomy and efforts to instil sustainability disciplines into different markets for financial products, and we see the TEG'S technical report on EU taxonomy as a positive step for developing a future EU taxonomy in legislation. The comments in this feedback focus on areas where we see the potential for improvement.

From the perspective of the institutional investor community, it is noted that the taxonomy does not appear to have been written with listed equities specifically in mind and is just one of the markets that the taxonomy is intended to cover.

In the report, significant focus is put on agriculture and forestry which are important from a climate point of view. However, for equity investors these sectors represent a very small part of equity markets. Meanwhile less attention is put on key subsectors, such as the manufacture of low-carbon technologies and cement.

There are, therefore, sizeable gaps for investors who focus on low-carbon technologies, particularly in the manufacturing of components and sub-systems that are then sold into other end markets including in manufacturing, water utilities and transportation.

In respect of implementing the taxonomy, investors are keen to understand how the thresholds will be translated into industry emission thresholds and how these could be applied to portfolio emission targets. The development of a tool or guidelines, which supported the implementation of the content of the taxonomy at an asset manager level from a scientific perspective could be useful.

Further development of the taxonomy

1. What economic activities that can make a substantial contribution to the climate change mitigation objective should next be considered for the Taxonomy? *3000 character(s) maximum*

Given the fast pace of evolution and innovation in many of the areas covered by the taxonomy, it is important that the taxonomy is responsive to these changes. We would suggest that not only are financial market participants encouraged to 'inform the Commission', but that the Commission should maintain a public register of the additional areas that stakeholders believe should be covered in future iterations of the taxonomy.

IIGCC supports the creation of a Platform on Sustainable Finance as a tool that will enable the continuity of the EU taxonomy work that is currently performed by the TEG and could play a key role in further developing the taxonomy. However, the mandate needs to be made clear, and could include the monitoring of relevant developments, including technological and scientific developments, so that the taxonomy and other initiatives are effectively maintained and fully up to date.

While the taxonomy rightly focuses specifically on several high Green House Gas (GHG) emitting manufacturing sectors that will remain critical in a zero-carbon economy (e.g. cement, steel etc) there needs to be an additional section which would cover other manufacturing sectors such as semiconductors, personal electronics, food and beverage, pulp and paper etc. These sectors collectively have a substantial GHG emissions footprint and there are a range of technologies that are commonly used to reduce emissions in these sectors including greater use of

automation, variable speed drives and process controls governing the use of energy and resources. These areas are not specifically covered anywhere else.

In addition, the section on the manufacture of low-carbon technologies currently excludes the equivalent components and sub-systems that support the manufacturing of low and zero emission vehicles. As a result, the entire automotive supply-chain supporting the manufacturing of electric vehicles is not taxonomy eligible.

Water collection, treatment and supply activities are currently only covered where they meet a certain energy efficiency standard. It is not clear however, that the equipment that is needed in order to achieve this efficiency standard is covered by the taxonomy.

We would also support a provision in the taxonomy for water collection, treatment and supply standards to take account of local market conditions, e.g. significant improvement for the local economy. Insisting on high efficiency standards in this market risks creating a 'significant harm' of no water service at all, particularly in emerging or developing countries.

- 2. Should any of the economic activities included in the Technical report be reconsidered as regards their inclusion in the taxonomy?**
- Yes
 - No
 - Don't know / no opinion / not relevant
- 3. For what economic activities should an illustrative template for substantial contribution to climate change adaptation be developed next? *3000 character(s) maximum***

The list of areas currently covered by adaptation is limited. It can be anticipated that our understanding of how society adapts to climate change will evolve significantly over the coming years as inevitable levels of climate change impact upon the economy and society. For example, fire-fighting equipment manufacturers have already noted an increase in demand for their products and services as a consequence of increased intensity and frequency of wildfires (particularly in the US). The taxonomy does not currently cover this sort of activity and so needs to be made flexible enough to capture the wide variety of products and services that are likely to emerge in helping society to adapt to climate change.