

## **Final IIGCC response to the call for feedback on the result of the technical comparison of some features of the EU and China taxonomies**

This paper sets out IIGCC's final position and inputs into the International Platform on Sustainable Finance (IPSF) [consultation](#) on the [Common Ground Taxonomy \(CGT\) Table](#) as submitted on 4<sup>th</sup> January 2022.

### **1. Background to the consultation**

In July 2020, the EU and China initiated a Working Group on taxonomies with the objectives to undertake a comprehensive assessment of the existing taxonomies for environmentally sustainable investments, including identifying the commonalities and differences in their respective approaches and outcomes.

On 4<sup>th</sup> November, the IPSF Working Group Co-Chaired by the EU and China published their Instruction Report on the "[Common Ground Taxonomy – Climate Change Mitigation](#)". The report represents technical work between the EU and China taxonomies with no legal effect and is not formally endorsed by IPSF member jurisdictions. The result does not create either a 'common' or 'single' taxonomy or a standard that is mandatory for IPSF member jurisdictions. It takes due note of the fact that the EU Taxonomy Climate Delegated Act is still subject to scrutiny at EU co-legislator level and does not pre-empt any discussion or decision that could be made in this context.

The [CGT Table](#) is the result of an in-depth comparison exercise that puts forward areas of commonality and differences between the EU and China's green taxonomies. This first publication covers the initial phase of work which will be expanded over time.

The scope covers substantial contribution criteria for climate change mitigation, whilst other environmental objectives are not covered at this stage. Considering the difference of the environmental legislation system by different jurisdictions, other eligibility features such as Do No Significant Harm were not covered within the scope of the first phase.

Please find further background to the CGT, the consultation questions, and IIGCC's initial draft response below.

#### **a. The Common Ground Taxonomy**

The CGT can be used to improve the comparability and future interoperability of taxonomies around the world. Hence, it intends to provide more clarity and transparency about the commonalities and differences between approaches and eventually lower the transboundary cost of green investments and scale up the mobilisation of green capital internationally. It also provides a solid methodology on the basis of which other taxonomies can be compared in the future.

The CGT is:

- An analysis on approaches of the EU taxonomy and China taxonomy, and the methodology for comparing and identifying commonalities and differences between some features of the two taxonomies
- An evolving tool that may help different actors to understand the types of activities that could be covered under the respective taxonomies within the scope of the comparison exercise

- A technical document for voluntary reference by interested parties within the limits of the scope of the comparison exercise
- An analytical tool or reference for other jurisdictions to consider when developing their own taxonomies

The CGT is not:

- A legal document the EU and China which entails requirement/obligation for either the EU or China to amend their taxonomy
- A single taxonomy or exclusive definition of environmentally sustainable economic activities covering all environmental objectives, such as biodiversity, pollution prevention, etc.
- Covering all eligibility features or all activities in the EU and China taxonomies as explained in the [Instruction Report](#)
- A proposal for international standards or legal document that imposes any global standard on other jurisdictions

#### **b. Methodology**

The Instruction Report for the CGT explains that the “methodology underpinning the CGT is a key part of the value of this work”. The first stage involved the extraction of climate change mitigation activities from the China Taxonomy, the second involved mapping all activities in both taxonomies to a neutral code so that they could be more easily compared. The International Standard Industrial Classification of All Economic Activities (ISIC) was used as the international reference classification, and the third stage involved the selection of priority sectors that would significantly contribute to carbon emission reduction or sequestration.

The second stage also involved evaluating the detailed description and technical screening criteria for each line to ascribe each with a scenario based on their overlap, as follows:

- Scenario 1: ‘Areas with clear overlaps’ covers activities which have overlaps and can be considered comparable within the scope/for the purpose of the CGT report.
- Scenario 2: ‘EU criteria are more stringent and/or detailed’ was assigned to activities where the EU screening criteria were either narrower in scope or more stringent and/or detailed than Chinese criteria. In this case, the EU criteria were described in the CGT in greater detail.
- Scenario 3: ‘China criteria are more stringent and/or detailed’ was assigned to activities where the China criteria were either narrower in scope or more stringent and/or detailed than EU criteria. In this case, the China criteria were described in the CGT in greater detail.
- Scenario 4: ‘Identifiable overlap’ was assigned to activities that have some alignment in scope of activities and could be defined by utilising both sets of eligibility criteria.
- Scenario 5/6: ‘Unclear overlap’ or ‘obvious differentiation’: Scenario 5 was assigned to activities that were very difficult to map in the other taxonomy. Scenario 6 was assigned to activities where there was obvious differentiation.

- The Common Ground Taxonomy analysed 80 activities across six sectors in the International Standard Industrial Classification of All Economic Activities (ISIC), Rev. 4:
  - Agriculture, forestry and fishing
  - Manufacturing
  - Electricity, gas, steam and air conditioning supply
  - Water supply; sewage, waste management and remediation activities
  - Construction
  - Transportation and storage

## **2. IIGCC's final positions**

This section sets out IIGCC's final position on each of the questions, based on previous IIGCC positions and feedback from members.

### **Question 1. Does the current CGT provide a useful reference for you/your organisation? Please explain and detail your answer. Maximum 5000 characters**

IIGCC acknowledges that the present CGT table is the initial phase of work which is pending further analysis and may be complemented with additional activities and/or clarification. As such, while we support the principles that underpin the CGT, the extent of this support will depend on whether the CGT upholds a rigorous, science-based approach to classifying activities as sustainable (including in relation to climate adaptation) in line with the objective of net zero by 2050 or sooner. The table as an initial comparison exercise provides some clarity and transparency about the commonalities and differences between the EU and China's taxonomy. However, as the [Instruction report on the Common Ground Taxonomy – Climate Change Mitigation](#) notes: the methodology underpinning the CGT is a key part of the value of this work. The underlying methodology will have some value for investors but clearer conclusions and signposting to these conclusions from the comparison exercise would be welcomed.

### **Question 2. How can the CGT be taken forward to enhance comparability and interoperability of sustainable finance taxonomies globally? Please explain and detail your answer. Maximum 5000 characters**

IIGCC acknowledges that any CGT needs to remain a dynamic tool for effectively achieving comparability and interoperability of sustainable finance taxonomies globally in order to support investment decision-making and cross-border capital flows. Complete harmonisation of taxonomies is likely unachievable, and even undesirable, given the need for a degree of tailoring to account for the specifics of jurisdictional markets. The interoperability of taxonomies should therefore focus on how different taxonomies interact and are compatible with one another, rather than requiring them to be identical. IIGCC recommends that the CGT strikes the right balance between a core of consistent definitions of sustainable activities and principles, and providing clarity on commonalities and differences between regional taxonomies. The CGT should also support the development of mutually compatible tools, investment products and labels, which recognises investors' global investment horizons and promotes cross-border comparability. This would contribute substantially to the development of a truly global sustainable finance ecosystem.

IIGCC therefore believes that a common baseline approach, complemented by additional ‘building blocks’ that account for local market contexts, would be an optimal outcome for the industry. This approach would support the flow of cross-border capital towards projects and activities that will drive the transition by establishing common understandings of what is green/sustainable and underpin standards to be applied to green/sustainable investment products. To ensure a consistent baseline approach to assessing the sustainability of activities, IIGCC proposes that the CGT should consider the common design principles for international harmonisation and mutual recognition established by the EU’s Technical Expert Group on Sustainable Finance:

- Specific environmental goals, including climate mitigation and climate adaptation, which align with international agreements and specifically the Paris Agreement’s objective of achieving net zero by 2050 or sooner
- A clear sector and economic activity classification scheme, which should prioritise activities/sectors that are most essential for reaching net zero
- Clear, measurable performance metrics which incorporate life-cycle impacts<sup>1</sup>
- Performance thresholds, based on technical screening criteria, which can be qualitative or quantitative in nature but must be science-based and compatible with net zero objectives. Thresholds should differentiate between activities which reduce harm/don’t make a direct contribution to environmental goals, and those which directly contribute to the goals of the CGT.

**Question 3. What could be other pathways/methods to identify additional globally eligible activities? Please explain and detail your answer. Maximum 5000 characters**

IIGCC decided not to respond to this consultation question.

**Question 4. What other eligible activities would be useful to you/your organisation if included? Please explain and detail your answer. Maximum 5000 characters**

IIGCC recommends that the CGT should prioritise inclusion of activities that can make the greatest contribution to emissions reductions, enable the development of climate solutions and support the objective of net zero by 2050. Eligibility should be defined on the basis of technical screening criteria, which enables the assessment of an activity’s sustainability credentials against strict, science-based thresholds, as well as whether an activity causes significant harm. Such an approach should also uphold the principle of technological neutrality by ensuring all activities capable of making substantial contributions to environmental objectives can be included for consideration. This is in contrast to China’s Taxonomy, which adopts a ‘white list’ approach to assessing eligibility that prioritises ‘best in class’ technological solutions in the domestic market.

In addition, the inclusion of transitional and enabling activities within the scope of the CGT would also be helpful. Recognition of these activities is essential in order to support capital flows towards a broader

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<sup>1</sup> The common design principles as outlined in the ‘Taxonomy: Final report of the Technical Expert Group on Sustainable Finance March 2020’, available here: [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf)

range of activities that, while not directly contributing to sustainability objectives, are still able to support the low carbon transition. However, these activities must remain compatible with the objectives of the Paris Agreement in order to uphold any taxonomy's credibility. IIGCC would therefore not support the inclusion in the CGT of activities that are unable to align with this core objective, such as natural gas without abatement, which is incompatible with limiting temperature rises to 1.5c above pre-industrial levels.

**Question 5. What is your expectation for future developments of the CGT e.g. inclusion of: other taxonomy features, other environmental objectives, other jurisdictions' taxonomies etc.? Please explain and detail your answer. Maximum 5000 characters**

IIGCC supports the inclusion of climate adaptation, and eligibility features such as Do No Significant Harm and minimum safeguards in the CGT to strengthen the comparison and interoperability between jurisdictions.

It would be beneficial for other jurisdictions' taxonomies to be included in the scope of the CGT. However, this should only be the case if the taxonomies are science-based and have been developed by an appropriate authority such as a technical working group mandated by public authority, government departments and/or industry experts.

A well-designed CGT should also support improved quality and consistency of data to enable investors to compare the relative sustainability performance of companies and to inform investment decision-making. To this end, the CGT should support:

- A global baseline of standardised, decision-useful reporting by corporates on the impact of their activities on the climate and environment
- Enhanced data on the geographical distribution/footprint of corporates' taxonomy-aligned revenues and capex
- The development of sector/industry-specific metrics to enhance impact measurement
- Disclosure of forward-looking information by companies to support assessment of alignment potential.

This, in turn, would allow investors to operationalise their approaches for sustainable investment, manage risk, and develop sustainable products. Increased interoperability and comparability of taxonomies, global coherence between these taxonomies, and baseline levels of standardised disclosures by companies on the activities they undertake will be essential to enhancing sustainability data and promoting the growth of sustainable investment.

**Question 6. How could the presentation of CGT be improved to meet your expectations? Please explain and detail your answer. Maximum 5000 characters**

IIGCC recognises the table format that has been used to present the number, name, description, criteria, association with relevant EU or China activities as helpful for this initial first phase of work.

The overlap scenarios explained on page 2 of the table are essential for the comparison exercise. Additional scenario categories could be introduced which set out the degree to which EU/China criteria are more stringent such as "significantly more stringent" and "slightly more stringent". It would also be

helpful to see the list of activities from scenarios 5 and 6 that were excluded from the CGT for transparency.