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Зелені інновації, екологічне відновлення та сталий розвиток

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“TAXONOMY” FOR SUSTAINABLE DEVELOPMENT IN THE EUROPEAN UNION

Introduction. In recent years, decisive steps have been taken in the European Union to combat climate change and decarbonise the economy. It was assumed that a prerequisite for this was an increase in financial flows towards less polluting activities and at the same time a reduction in greenhouse gas emissions. There is a consensus that efforts to date in this direction have been insufficient. One of the most frequently cited reasons for this was the lack of universally accepted definitions of projects and assets that can be considered sustainable[1]. Against this background, a ‘taxonomy’ regulations has been adopted in the EU. The aim of this text is to highlight the most important issues related to the ‘taxonomy’ system, as well as to evaluate it. A critical analysis of the literature and legislation as well as a comparative approach have been used in the preparation of this text.

Keywords: sustainable growth, taxonomy, European Green Deal.

1. The essence of the ‘taxonomy’ and its regulation

At the European level, already in 2018. European Union has published a so-called roadmap, known as the ‘Action Plan: financing sustainable growth’[2], which points to the need for a taxonomy. The current key regulation on the matter is Regulation (EU) 2020/852 of the European

Parliament and of the Council of 18 June 2020[3]. This regulation concerns a classification system for environmentally sustainable economic activities referred to as a 'taxonomy' for short. The primary objective of the regulation is to increase sustainable investments and to combat 'greenwashing' of financial products that are promoted by their issuers as environmentally sustainable, which is often not true. This phenomenon is referred to as 'greenwahsing'. Related regulations to the above regulation are:

- Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 concerning the technical eligibility criteria for determining the conditions under which an economic activity qualifies as making a significant contribution to climate change mitigation or adaptation and whether that economic activity does not cause serious harm to any other environmental objective[4];

- Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 clarifying the content and presentation of information on environmentally sustainable business activities to be disclosed by companies[5];

- Commission Notice providing technical guidance on the application of the 'do no serious harm' principle under the Regulation establishing the Instrument for Reconstruction and Increasing Resilience[6].

A content analysis of the aforementioned regulations leads one to believe that 'taxonomy' can mean many benefits for investors. Firstly, it improves market integrity by reducing the risk of 'greenwashing', i.e. it reduces the risk of investing in questionably sustainable financial assets or unfair competition from issuers. Secondly, it increases market transparency, which reduces the cost of preparing investor projects. "Taxonomy" furthermore provides an opportunity for investors to demonstrate the sustainability of their portfolios, including labelling sustainable investment products more effectively. A distinctive feature is that the EU 'taxonomy' is also characterised by a high degree of detail in the technical criteria and, by defining the required quantitative thresholds, unifies the metrics used by investors when assessing the sustainability of their portfolios. It should also be emphasised that the 'taxonomy' aims to

facilitate investor information by extending the disclosure obligations of companies covered by the Sustainability Reporting Directive[7].

The first experience with the application of the taxonomy regulations reinforces the belief that this instrument can be a very important catalyst for financial flows towards a sustainable economy. It should be emphasised that the existing EU "taxonomy" regulations fit well into a coherent systemic vision of sustainability in the EU; they provide a uniform system for all member states. This avoids the coexistence of different national definitions of sustainability in the EU, which could lead to market fragmentation or be a barrier to European cross-border investments and leave open the possibility of regulatory arbitrage, in which investors and companies would apply non-transparent national rules for labelling their products as sustainable. This is all the more important given the benefits of using ‘taxonomy’, as investment banks, but also the governments of some countries (e.g. China, Canada, Japan) have already started to develop their own solutions in this regard.

2. Conclusions

"The EU ‘taxonomy’ is designed to promote the deployment of capital to finance sustainable growth and decarbonisation of the European economy to contribute to the EU’s climate goals and the achievement of the Paris Agreement and the United Nations Sustainable Development Goals.

However, the European ‘taxonomy’ faces a number of challenges that it needs to overcome in order to be widely implemented. Its most important advantage: an inclusive vision of sustainability and the high level of detail and rigour of the technical criteria applied are at the same time its weaknesses. In particular, it can be particularly costly to verify compliance with the criteria of no significant harm and minimum guarantees in the area of social and environmental standards, especially for non-EU or small companies. Furthermore, the lack of data or its poor quality makes it extremely difficult to verify the technical criteria, which at best means using estimates and at worst not classifying an investment or activity as sustainable due to a lack of information. This lack of data is linked to the insufficient quality of non-financial disclosure by companies.

Obviously, seeking to counteract this weakness can, and in fact certainly will, increase companies' costs of collecting and processing data and implementing the disclosure process as required by the taxonomy.

References:

1. G-20 Green Finance Synthesis Report, G20 Green Finance Study Group, 15 July 2016, http://www.g20.utoronto.ca/2016/green-finance-synthesis.pdf, access 5.09.2022.

2. Action Plan: Financing Sustainable Growth, https://climate-adapt.eea.europa.eu/en /metadata/publications/action-plan-on-financing-sustainable-growth, access 1.09.2022.

3. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) L 198/13.

4. Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (Text with EEA relevance). C/2021/2800.

5. Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (Text with EEA relevance), C/2021/4987.

6. Commission Notice Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation 2021/C 58/01,C/2021/1054.

7. Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance), PE/35/2022/REV/1.