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[...]

Accompanying the document

COMMISSION DELEGATED REGULATION (EU) .../...

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 the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities

and the

COMMISSION DELEGATED REGULATION (EU) .../...

amending Delegated Regulation (EU) 2021/2139 by establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives

[...]

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GLOSSARY

| Term or acronym | Meaning or definition |
|-----------------|--|
| BATs | Best Available Techniques |
| CAP | Common Agricultural Policy |
| CapEx | Capital Expenditure |
| CEAP | Circular Economy Action Plan |
| CFP | Common Fisheries Policy |
| CORSIA | Carbon Offsetting and Reduction Scheme for International Aviation |
| CSRD | Corporate Sustainability Reporting Directive |
| DMA | District Metering Area |
| DNSH | Do No Significant Harm |
| DPSIR | Driver, Pressure, State, Impact, Response |
| EAP | Environmental Action Programme |
| ESG | Environmental, social and governance factors |
| GHG | Greenhouse gas |
| IED | Industrial Emissions Directive |
| KPI | Key Performance Indicator |
| MSEG | Member States Expert Group |
| MSFD | Marine Strategy Framework Directive |
| NACE | Nomenclature statistique des Activités économiques |
| NFRD | Non-Financial Reporting Directive |
| OpEx | Operational Expenditure |
| PPWD | Packaging and Packaging Waste Directive |
| PSF | Platform on Sustainable Finance |
| REACH | Registration, Evaluation, Authorisation and Restriction of Chemicals |

| | |
|------|---|
| SAF | Sustainable Aviation Fuels |
| SC | Substantial Contribution |
| SDGs | Sustainable Development Goals |
| SFDR | Sustainable Finance Disclosure Regulation |
| ST | Sector Team |
| TEG | Technical Expert Group on Sustainable Finance |
| TSC | Technical Screening Criteria |
| TWG | Technical Working Group |
| WFD | Water Framework Directive |

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INTRODUCTION

This staff working document accompanies the adoption of the Taxonomy Environmental Delegated Act of the EU Taxonomy, which sets out technical screening criteria for substantial contribution to the four environmental objectives of the Taxonomy and for ‘do no significant harm’ to all environmental objectives against the requirements of the Taxonomy Regulation¹. In addition, the Taxonomy Environmental Delegated Act amends the Taxonomy Disclosures Delegated Act² that reflects the reporting obligations for users laid down in the Taxonomy Environmental Delegated Act and in changes to the Climate Delegated Act³.

In parallel to the adoption of the Taxonomy Environmental Delegated Act, the Commission aims to undertake targeted amendments to the Climate Delegated Act to add further activities that can make a substantial contribution to climate change mitigation or adaptation, and to correct clerical mistakes in the Delegated Act. This document builds on the impact assessment that was published with the adoption of the Climate Delegated Act in June 2021⁴. It does not introduce new obligations for users. It is limited to providing an overview of the technical substance, uses and impacts of the Taxonomy Environmental Delegated Act in an indicative way.

This staff working document accompanies and explains the context, purpose, content and impacts of the Taxonomy Environmental Delegated Act. It focuses mainly on the four environmental objectives under the EU Taxonomy in order not to repeat what has already been included in the impact assessment of the Climate Delegated Act. Only for the presentation of the technical screening criteria of the activities to be added in this Delegated Act to amend the Climate Delegated Act, will the document go more into details on the climate objectives.

As such, the document is divided into six sections.

Section 1 outlines the legal and policy context, as well as the purpose of the delegated act.

Sections 2 and 3 present the process and key methodological choices that were taken to select the activities presented in the delegated act and develop their technical screening criteria.

¹ 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, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32020R0852>.

² 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, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2178&from=EN>.

³ 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, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139&from=EN>.

⁴ Commission Staff Working Document, Impact Assessment Report Accompanying Delegated Regulation 2021/2139, SWD(2021) 152 final, available at: https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-impact-assessment_en.pdf.

Section 4 then provides an overview of the technical screening criteria that have been published by the Platform on Sustainable Finance in March and November 2022. The section does not only cover the technical screening criteria for activities making a substantial contribution to the four environmental objectives, but also the proposed criteria for activities to be added to the Climate Delegated Act. These criteria were subject to a public consultation in the summer of 2021 that has resulted in changes in the criteria as summarised in Annex 0 to this report. Furthermore, section 4 includes an assessment of the deviations in the draft delegated act from the recommendations of the Platform on Sustainable Finance. The assessment shows why the proposed deviations achieve a better balance between the Regulation's requirements compared to the criteria proposed by the Platform and how these deviations are supported by additional evidence.

Section 0 includes an indicative estimation of the magnitude of the costs and benefits connected to the technical screening criteria of the Taxonomy Environmental Delegated Act.

Section 0 outlines the monitoring and evaluation of the Delegated Act.

1. CONTEXT AND PURPOSE OF THE INITIATIVE

The European Green Deal sets the growth strategy for the European Union and its citizens. The strategy aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy, where there are no net emissions of greenhouse gases in 2050. It also aims to protect, conserve and enhance the EU's natural capital, and protect the health and well-being of citizens from environmental-related risks and impacts. This is to implement the Union's commitment to the Paris Agreement and the United Nations Sustainable Development Goals (SDGs).

To implement the priorities set out by the Green Deal, the 8th Environmental Action Programme (EAP) 2021-2030⁵ aims to support the Union's common commitment to a green recovery. The EAP emphasises that social inequalities resulting from climate- and environmental-related impacts and policies should be minimised and that measures that are taken to protect the environment and climate should be carried out in a socially fair and inclusive way.

To achieve the ambition set by the Green Deal, there are significant investment needs that require the mobilisation of both the public and private sector. Between 2014 and 2020, the investment needs amounted to 203 billion € per year, with a gap of 110 billion € per year. Looking at the 2030 horizon, additional 130 billion € per year are foreseen to achieve the EU's environmental objectives.⁶ The private sector is key to finance the green transition, covering 47% of the total investments across Europe between 2014 and 2020. To provide long-term signals to direct financial and capital flows to green investment, Regulation 2020/852 (the EU Taxonomy Regulation) – operationalised through Delegated Acts – was adopted on 18 June 2020 to classify environmentally sustainable activities.

1.1. Legal context

The Taxonomy Regulation is an important piece of legislation in the EU's sustainable finance framework to encourage a reorientation of capital flows towards sustainable investment and ensure market transparency. Notably, by providing companies, investors and policymakers with definitions of the economic activities that can be considered as environmentally sustainable, it is expected to add market transparency and help shift investments to economic activities where they are most needed for the green transition. The Taxonomy Regulation aims to help channel capital towards activities that substantially contribute to reaching the objectives of the European Green Deal, such as climate neutrality and resilience, zero pollution, preservation of biodiversity, the transition to a circular economy and a sustainable use of water resources. This framework will help mitigate the risk of 'greenwashing' and avoid the market fragmentation that can be caused by a lack of common understanding on environmentally sustainable economic activities.

⁵ Decision (EU) 2022/591 of the European Parliament and of the Council of 6 April 2022 on a General Union Environment Action Programme to 2030, available at: <https://eur-lex.europa.eu/eli/dec/2022/591/oj>.

⁶ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (2022) Environmental Implementation Review 2022. Turning the tide through environmental compliance. COM(2022) 438 final, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=comnat:COM_2022_0438_FIN.

The Taxonomy Regulation establishes four overarching conditions for environmental sustainability:

1. it contributes substantially to one or more of the six environmental objectives set out in the Taxonomy Regulation⁷;
2. it does not significantly harm any of the other environmental objectives;
3. it is carried out in compliance with minimum (social) safeguards set out in the Taxonomy Regulation⁸; and
4. it complies with the “technical screening criteria” that are established by the European Commission through delegated acts. The technical screening criteria specify the conditions under which an economic activity meets criteria (i) and (ii).

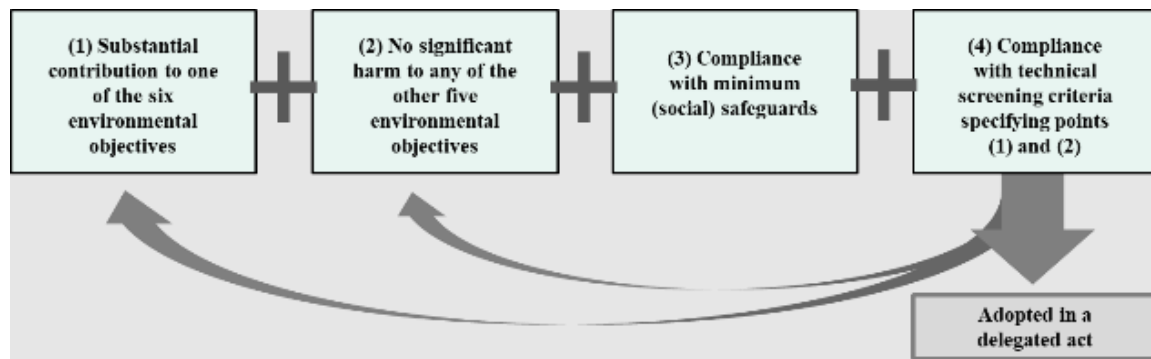


Figure 1: The four basic conditions for economic activities in the Taxonomy Regulation

The Taxonomy Regulation acknowledges different means for an activity to make a substantial contribution for each objective. Across all objectives, it is recognised that activities may not only qualify due to their own performance, but also by enabling another activity or activities to substantially contribute.

The technical screening criteria that are set in the delegated acts are performance criteria for a specific economic activity that determine under what conditions i) the activity makes a substantial contribution to a given environmental objective (where relevant); and ii) it does not significantly harm the other objectives.

The Climate Delegated Act establishing the activities and technical screening criteria regarding the climate objectives was adopted on 4 June 2021 and published in the Official Journal of the European Union on 9 December 2021. It entered into application on 1 January 2022. To complement the activities included in the first delegated act, a complementary delegated act covering the energy sectors of gas and nuclear amended the Climate Delegated Act (adoption by the Commission on 2 February 2022 and publication in the Official Journal on 15 July 2022). In addition, a second delegated act establishing the key performance indicators that companies need to disclose under Article 8 of the Taxonomy Regulation

⁷ The environmental objectives as set out in Article 9 of the Taxonomy Regulation are: Climate change mitigation, climate change adaptation, pollution prevention and control, water and protection of marine resources, a circular economy, resource efficiency and recycling, and protection of ecosystems.

⁸ Article 18 of the Taxonomy Regulation specifies: the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO), the eight fundamental conventions of the ILO and the International Bill of Human Rights.

(Taxonomy Disclosures Delegated Act) was adopted on 6 July 2021 and published in the Official Journal on 10 December 2021. It entered into application on 1 January 2022.

This third delegated act sets out the activities and technical screening criteria for the remaining four environmental objectives under the Taxonomy Regulation. The initiative is based on the empowerments set out in Articles 12(2), 13(2), 14(2) and 15(2) of the Taxonomy Regulation. The technical screening criteria are set in accordance with the requirements of Article 19 of that Regulation. In accordance with Article 31 of the Inter-institutional Agreement of 13 April 2016 on Better Law-Making, this Delegated Regulation combines in a single act four interrelated empowerments of the Taxonomy Regulation. These are namely Articles 12(2), 13(2), 14(2) and 15(2) on the technical screening criteria for the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems respectively.

It forms a package with a Delegated Act with targeted amendments to the Climate Delegated Act. The amendments add a limited number of activities to the existing Climate Delegated Act which can help make an important contribution to the objective of climate change mitigation (Annex I) and climate change adaptation (Annex II). The former concerns notably some key manufacturing activities, which can be applied to achieve greenhouse gas emissions savings in other target activities, as well as some transitional activities in the transport sector where zero-carbon solutions are not yet sufficiently advanced, and where their inclusion represents a pragmatic way to incentivise improvements against the status quo. The latter includes some key emergency and civil protection activities to help communities cope with ever-increasing impacts of climate change, as part of ongoing efforts to help boost resilience and reduce vulnerability against climate disasters, consistent with the objectives of the European Climate Law (Article 4), the 2021 Strategy on adaptation to climate change, and the Paris Agreement. The amendments also correct a small number of technical mistakes in the existing delegated act.

Finally, the Disclosures Delegated Act is amended to cater for the timing and content of reporting by relevant non-financial and financial undertakings of economic activities included in the Environmental Delegated Act and in the amendments to the Climate Delegated Act. The amendments also correct a small number of technical mistakes in the existing Disclosures Delegated Act.

1.2. Policy context

The four environmental objectives under the EU Taxonomy Regulation will support reaching the goals of the European Green Deal. The development of technical screening for the Delegated Act is therefore closely related to the EU environmental legislation and initiatives in the field of water, circular economy, pollution and biodiversity.

1.2.1. Sustainable use and protection of water and marine resources

Water and the marine environment are essential for EU citizens and the economy⁹, but climate change and environmental degradation are putting pressure on these precious resources.

The sustainable management of water quality and quantity draws on the existing legislative framework while playing a pivotal role in the implementation of the European Green Deal and its subsequent initiatives. The Water Framework Directive (WFD)¹⁰ and the related legislative instruments¹¹ provide the main framework and the overall objectives for water policy in Europe, and for the attainment of good status of all surface and ground-waters.

With regard to flood risk prevention and management, the Floods Directive¹² establishes flood risk management plans, which started being implemented in 2016. Whilst the Directive has improved flood risk management, further efforts are needed to strengthen awareness and secure better and more coordinated flood prevention and response.

For the protection and use of marine resources, the Marine Strategy Framework Directive (MSFD)¹³ aims to achieve Good Environmental Status of the EU's marine waters by 2020 and to protect the resource base upon which marine-related economic and social activities depend. Since its adoption in 2008, the European Commission produced a set of detailed criteria and methodological standards to help Member States implement its provisions.

According to the 2021 Report on the implementation of the WFD and Floods Directive¹⁴, most Member States have made some progress in identifying the gap to good status for each significant pressure, and the level of implementation of measures required to achieve good status of water bodies. Significant progress on implementing measures could be identified particularly in relation to tackling pollution as well as abstraction and water efficiency. However, the distance to be covered to full compliance with the WFD objectives is still considerable. In this context several obstacles are reported as keeping Member States from implementing their measures at speed, chiefly a lack of adequate finance

With the present and future impacts of climate change, the challenge of water quantity management is becoming ever more urgent across Europe, affecting the achievement of the

⁹ 'The EU's water-dependent sectors generate EUR 3.4 trillion or 26% of the EU's annual Gross Value Added (2015)', see Ecorys, The Economic Value of Water – Water as a Key Resource for Economic Growth in the EU, 28 December 2018, available at: https://ec.europa.eu/environment/blue2_study/pdf/BLUE2%20Task%20A2%20Final%20Report_CLEAN.pdf#:~:text=The%20Economic%20Value%20of%20Water%20-%20Water%20as,and%20on%20the%20costs%20of%20its%20non-%20implementation%E2%80%9D.

¹⁰ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32000L0060>.

¹¹ These include the Environmental Quality Standards Directive and the Groundwater Directive.

¹² Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on the assessment and management of flood risks, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=comnat:COM_2022_0438_FIN.

¹³ Directive 2008/56/EC of the European Parliament and of the Council of 17 June 2008 establishing a framework for community action in the field of marine environmental policy (Marine Strategy Framework Directive), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32008L0056>.

¹⁴ Commission Staff Working Document, European Overview – Implementation of planned Programmes of Measures and New Priority Substances, SWD(2021) 970, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021SC0970>.

objectives of the water legislation. With the Floods Directive, the EU has a legal framework that is fit for purpose. Reducing flood risk, however, requires sustained attention over a long period and cooperation across borders. Dealing with too little water is a matter of similar urgency. Unsustainable patterns of water use across Europe are compounded by climate change, generating higher levels of evaporation and longer periods of extreme droughts which add to already existing water scarcity in increasingly large parts of Europe.

Based on the implementation report issued in 2020, the MSFD is currently under revision to address the challenge faced in the first cycle and propose a forward-looking approach for the decade to come.

1.2.2. Transition to a circular economy

The EU's transition to a circular economy aims to reduce pressure on natural resources and create sustainable growth and jobs. It is also a prerequisite to achieve the EU's 2050 climate neutrality target and to halt biodiversity loss.

In March 2020, the European Commission adopted the new Circular Economy Action Plan (CEAP)¹⁵, with the aim to help modernise the EU's economy and draw benefit from the opportunities of the circular economy domestically and globally. The key aim of the new CEAP is to stimulate the development of lead markets for circular products, in the EU and beyond.

The Circular Economy Action Plan includes a Sustainable Product Policy, which has the potential to reduce waste significantly. In March 2022, the European Commission adopted the Sustainable Products Initiative¹⁶, including the proposal for a new Ecodesign for Sustainable Products Regulation. This aims to address the key aspect of product design, which determines up to 80% of a product's lifecycle environmental impact. It builds on the existing Ecodesign Directive, establishing a wider framework to set Ecodesign requirements beyond energy-related products. The Commission also considered necessary to boost the market of secondary raw material with mandatory recycled content. Increasing the availability of secondary raw materials is a strategic priority to reduce the European Union's dependence on imported primary raw materials and accelerate the deployment of clean technologies, digital, space and defence applications.

In addition, action focuses on resource-intensive sectors such as textiles, construction, electronics and plastics. The European Commission followed up to the 2018 Plastics Strategy¹⁷ by focusing on measures to tackle intentional releases of micro plastics and unintentional releases of plastics. The Commission also published an EU strategy for sustainable and circular textiles that aims at creating a greener and more competitive sector

¹⁵ Communication from the commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A new Circular Economy Action Plan For a cleaner and more competitive Europe, COM/2020/98 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1583933814386&uri=COM:2020:98:FIN>.

¹⁶ European Commission, About sustainable products, available at: https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/sustainable-products/about-sustainable-products_en.

¹⁷ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A European Strategy for Plastics in a Circular Economy, SWD (2018) 16 final, available at: <https://ec.europa.eu/environment/circular-economy/pdf/plastics-strategy.pdf>.

by increasing the durability of textile products and incentivising reuse, repair and recycling. The Commission is developing a proposal to revise the Packaging and Packaging Waste Directive (PPWD) to ensure that all packaging in the EU market is reusable or recyclable in an economically viable manner by 2030. In addition, the Commission is developing a regulatory framework for biodegradable and bio-based plastics, and it will strengthen the implementation of the Directive on Single-use Plastics¹⁸.

The construction sector is responsible for more than a third of the waste generated in the EU¹⁹. To address these challenges, in October 2020 the Commission published the Renovation Wave Communication²⁰, with the aim to at least double the annual energy renovation rate of residential and non-residential buildings by 2030 and to foster deep energy renovations. The Commission aims to enforce the legislation related to the energy performance of buildings. In addition, in March 2022 the Commission proposed a review of the Construction Products Regulation²¹ by ensuring that the design of new and renovated buildings at all stages is in line with the needs of the circular economy. The Commission also launched the flagship New European Bauhaus initiative to guide the construction industry towards a sustainable and inclusive future²².

1.2.3. Pollution prevention and control

Pollution to water, air and soil is the largest source of health problems and one of the main reasons for the loss of biodiversity. It also reduced the ability of ecosystems to provide services such as carbon sequestration and decontamination.

To pave the way towards a toxic-free environment, in May 2021 the European Commission adopted the action plan ‘Towards Zero Pollution Action Plan for Air, Water and Soil’²³. The main objective of the action plan is to provide a compass for including pollution prevention in all relevant EU policies, maximising synergies in an effective and proportionate way, stepping up implementation and identifying possible gaps or trade-offs. To steer the EU towards the vision of having air, water and soil pollution reduced to levels not harmful to health and ecosystems for all in 2050, the action plan sets quantitative targets for 2030 to speed up pollution reduction.

¹⁸ Directive (EU) 2019/904 of the European Parliament and of the Council of 5 June 2019 on the reduction of the impact of certain plastic products on the environment, available at: <https://eur-lex.europa.eu/eli/dir/2019/904/oj>.

¹⁹ European Commission, Construction and demolition waste, available at: https://environment.ec.europa.eu/topics/waste-and-recycling/construction-and-demolition-waste_en.

²⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Renovation Wave for Europe - greening our buildings, creating jobs, improving lives, SWD(2020) 550 final, available at: https://eur-lex.europa.eu/resource.html?uri=cellar:0638aa1d-0f02-11eb-bc07-01aa75ed71a1.0003.02/DOC_1&format=PDF.

²¹ European Commission, Review of the Construction Products Regulation, available at: https://single-market-economy.ec.europa.eu/sectors/construction/construction-products-regulation-cpr/review_en.

²² European Commission, New European Bauhaus, available at: https://new-european-bauhaus.europa.eu/index_en.

²³ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Pathway to a Healthy Planet for All EU Action Plan: 'Towards Zero Pollution for Air, Water and Soil', available at: https://ec.europa.eu/environment/pdf/zero-pollution-action-plan/communication_en.pdf.

With regards to restoring the natural functions of groundwater and surface freshwater, the Farm to Fork Strategy²⁴ aims, among others, to reduce pollution from excess nutrients in agriculture. Through the use of both regulatory and non-regulatory initiatives, the Strategy identified the Common Agriculture Policy (CAP) and the Common Fisheries Policy (CFP) as enabling tools.

For air pollution, the Commission proposed strengthened provisions on monitoring, modelling and air quality plans to help local authorities achieve cleaner air. In addition, the Commission proposed revising air quality standards to align them more closely with the World Health Organisation recommendations.

The Industrial Emissions Directive (IED)²⁵ aims to achieve a high level of protection of human health and the environment by reducing harmful industrial emissions across the EU, especially through the application of Best Available Techniques (BATs). Approximately 50,000 installations undertaking the industrial activities set out by the IED are required to operate in accordance with a permit, which sets out specific conditions. With the aim of progressing towards the EU's zero pollution ambition for a toxic-free environment, in April 2022 the Commission adopted a proposal for a revised IED²⁶ with the aim to (i) strengthen the implementation across Member States, (ii) increase investments in cleaner technologies, and (iii) include additional intensive farming and industrial activities.

Finally, in addition to the extensive REACH Regulation²⁷ and the Classification, Labelling and Packaging Regulation²⁸, to ensure a toxic-free environment, in October 2020 the European Commission published a Chemicals Strategy for Sustainability²⁹ that announces the Commission's intention to (i) ban the most harmful chemicals in consumer products, though allowing their essential use; (ii) boost the investment and innovative capacity for production and use of chemicals that are safe and sustainable by design and throughout their life cycle; and (iii) establish a simpler 'one substance one assessment' process for the risk and hazard of chemicals.

²⁴ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system, COM/2020/381 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0381>.

²⁵ Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (integrated pollution prevention and control) (recast), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32010L0075>.

²⁶ European Commission, Revision of the Industrial Emissions Directive (IED), available at: <https://ec.europa.eu/environment/industry/stationary/ied/evaluation.htm#:~:text=On%20April%202022%2C%20the%20create%20the%20Industrial%20Emissions%20Portal>.

²⁷ Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32006R1907>.

²⁸ Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006, available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32008R1272>.

²⁹ European Commission, Chemicals strategy for sustainability, available at: <https://circabc.europa.eu/ui/group/8ee3c69a-bccb-4f22-89ca-277e35de7c63/library/dd074f3d-0cc9-4df2-b056-dabcacfc99b6/details?download=true>.

Following the Chemicals Strategy for Sustainability, the Commission intends for the EU to play a leading role globally by promoting high standards and not exporting chemicals banned in the EU.

1.2.4. Protection and restoration of biodiversity and ecosystems

Ecosystems provide essential services such as food, fresh water, clean air and shelter. Biodiversity loss and ecosystem collapse are one of the biggest threats facing humanity in the next decade. They also threaten the foundations of our economy, and the costs of inaction are high. The world lost an estimated €3.5-18.5 trillion per year in ecosystem services from 1997 to 2011 owing to land-cover change, and an estimated €5.5-10.5 trillion per year from land degradation. Specifically, biodiversity loss results in reduced crop yields and fish catches, increased economic losses from flooding and other disasters, and the loss of potential new sources of medicine.³⁰

To ensure the protection and restoration of ecosystems, the Commission presented a Biodiversity Strategy in March 2020³¹. The strategy aims to put Europe's biodiversity on the path to recovery by 2030 by (i) establishing a larger EU-wide network of protected areas on land and at sea; (ii) launching an EU nature restoration plan; and (iii) introducing measures to support the implementation efforts further, such as improved financing and investments. In June 2022, the European Commission has adopted a proposal for a Nature Restoration Law³², which is under review by the co-legislators.

All EU policies should contribute to preserving and restoring Europe's natural capital. In May 2020, the Farm to Fork Strategy was presented to significantly reduce the use and risk of chemical pesticides and the use of fertilisers in agriculture. In addition, work has continued under the CFP to reduce the adverse impacts that fishing can have on ecosystems, especially in sensitive areas. Equally, the Commission supports more connected and well-managed marine protected areas through the revised MSFD.

As forest ecosystems are under increasing pressure, the EU's forested area needs to improve, both in quality and in quantity. Building on the Biodiversity Strategy, the new EU Forest Strategy³³, published in July 2021, aims to create the conditions for effective afforestation and forest preservation and restoration in Europe. This helps to increase the absorption of CO₂, reduce the incidence and extent of forest fires, and promote the bio-economy.

Equally, the Common Agricultural Policy – more specifically the National Strategy Plans to be set out by Member States – have the objective to provide forest managers with incentives to preserve, grow and manage forests sustainably. Building on the Commission on Stepping Up EU Action to Protect and Restore the World's Forests, a provisional political agreement

³⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM/2020/380 final, EU Biodiversity Strategy for 2030 Bringing nature back into our lives, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590574123338&uri=CELEX%3A52020DC0380>.

³¹ Ibid.

³² European Commission, Nature restoration law, available at: https://environment.ec.europa.eu/topics/nature-and-biodiversity/nature-restoration-law_en.

³³ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM/2021/572 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021DC0572>.

was reached between the European Parliament and the Council on an EU Regulation on deforestation-free supply chains in December 2022³⁴.

1.3. Purpose of the Delegated Act

The EU Taxonomy was created to mainstream financial risks stemming from sustainability issues and foster transparency in financial and economic activity on sustainability, ultimately allowing for a reorientation of capital flows towards sustainable investment.

In an impact assessment of 2018³⁵, the Commission identified two underlying problems that prevent this re-orientation of capital from a financial institution, as well as from an investor perspective. On the one hand, the impact assessment showed that relevant financial undertakings did not sufficiently consider environmental, social and governance factors (ESG) in their investment processes due to a lack of incentives. On the other hand, end-investors did not take these factors into account due to the high search costs they faced regarding what sustainable economic activities are and how ESG factors are integrated in investment and advisory processes. These problems were attributed to five main drivers, namely: (i) a lack of clarity and coherence of EU rules on duties towards investors/beneficiaries with respect to ESG integration in the investment and advisory process; (ii) a lack of disclosure regarding the level of ESG integration in the investment process; (iii) a lack of clarity on what can be considered a sustainable economic activity; (iv) the lack of comparable and readily available ESG information from firms and issuers and (v) short-termism.

The Commission presented a second impact assessment accompanying the Taxonomy Climate Delegated Act in 2021. The document explained that the establishment of technical screening criteria for the climate objectives was necessary to counter the lack of clarity and uncertainty that investors face given the fragmentation of definitions of what constitutes an environmentally sustainable economic activity. This absence of clear information leads to a sub-optimal capital allocation with regards to their environmental impact.

This staff working document follows the arguments presented in the impact assessment of 2021 in that the Taxonomy Environmental Delegated Act is a precondition for the establishment of the EU Taxonomy as a classification system for environmentally sustainable economic activities.

The Taxonomy Environmental Delegated Act therefore supports the implementation of two out of the three general objectives presented: reorienting capital flows towards sustainable investments and fostering transparency in financial and economic activity on sustainability by reducing investor search costs in identifying sustainable economic activities.

³⁴European Commission, Deforestation-free products, available at: https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en.

³⁵ Commission Staff Working Document, Impact Assessment Accompanying the document Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment and Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 and Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks, SWD/2018/264 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2018:264:FIN>.

Amendments to the Taxonomy Disclosures Delegated Act

In order to guide undertakings with their disclosures regarding the activities included in the Taxonomy Environmental Delegated Act, and help markets adapt to the flow of data to achieve the objectives above, it is necessary to complement the Taxonomy Disclosures Delegated Act with a number of technical adjustments. These relate largely to the time sequence of the reporting, the modalities for the reporting of activities that may contribute to more than environmental objective and adapting some of the reporting templates for financial undertakings, which until now only included data fields for disclosures in relation to activities in the Taxonomy Climate Delegated Act, in order to accommodate reporting for activities included in the Taxonomy Environmental Delegated Act, where relevant. The amendments also correct a small number of technical mistakes and inconsistencies in the existing Taxonomy Disclosures Delegated Act.

2. PROCESS FOLLOWED FOR PREPARING THE DELEGATED ACT

The Taxonomy Regulation defines the framework of the EU Taxonomy, including the requirements and scope of its delegated acts. When drafting the Taxonomy Climate Delegated Act, the Commission followed a multi-staged process to adopt technical screening criteria that are in line with the specific requirements of the Taxonomy Regulation. To ensure coherence, a similar process was followed in the drafting of the Taxonomy Environmental Delegated Act, as illustrated in Figure 2.

The work of the Platform on Sustainable Finance (or ‘the Platform’), an independent Commission expert group, was instrumental in the drafting process of the technical screening criteria. The Platform is mandated by Article 20 of the Taxonomy Regulation to advise the Commission on the technical screening criteria for the four environmental objectives of the EU Taxonomy.

For this, a Technical Working Group (TWG) was set up as a subgroup of the Platform, composed of 32 experts and 3 observers. The TWG was again divided into 10 Sector Teams that were in charge of developing the technical screening criteria for activities in a specific sector. Table 1 provides an overview of the Sector Teams and the sectors they covered.

| Sector Team | Sectors covered |
|-------------|---|
| ST1 | Agriculture, forestry and fishing |
| ST2 | Mining and processing sectors |
| ST3 | Manufacturing (chemicals, plastics, pharmaceuticals) |
| ST4 | Manufacturing (machinery and equipment) |
| ST5 | Manufacturing (textiles, wearing apparel, leather, food and beverages) |
| ST6 | Energy |
| ST7 | Construction and renovation, Information and Communication Technology (ICT), emergency services, flood risk prevention, civil engineering |
| ST8 | Transport |

| | |
|------|---|
| ST9 | Restoration and remediation, tourism |
| ST10 | Water supply, sewerage and waste management |

Table 1: Technical Working Group Sector Teams

In addition, in May 2022, the Platform set up an Enabling Task Force composed of 27 experts from the industry, NGOs and the European agencies. The Task Force was tasked to develop a horizontal framework to determine the concept and scope of enabling activities and to review the draft enabling activities developed by the TWG on the basis of that framework.

The TWG was led by two rapporteurs and the Chair of the Platform that had the ultimate decision-making power. They worked closely together with the Secretariat of the Platform that was composed of DG FISMA, JRC, DG ENV, DG CLIMA and with the technical coordination group consisting of a larger group of DGs, i.e. FISMA, ENV, CLIMA, JRC, AGRI, CNECT, DEFIS, ECHO, ENER, GROW, MARE, MOVE, RTD. Based on clear work parameters from the Commission, the Platform contributed to stages 2 and 3 of the 4 stage process outlined in Figure 2, to deliver draft criteria recommendations to the Commission in March³⁶ and October 2022³⁷.

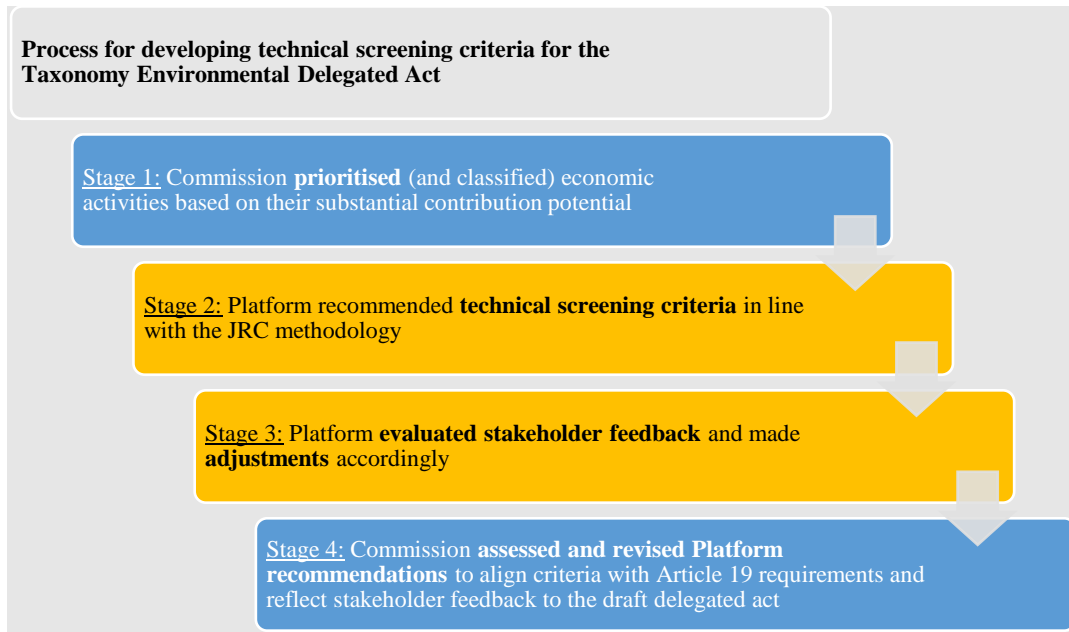


Figure 2: Process for developing technical screening criteria for the Taxonomy Environmental Delegated Act

Firstly, building on the NACE (Nomenclature statistique des Activités économiques) classification system for economic activities, a prioritisation exercise was performed to identify the economic activities that could be relevant to make a substantial contribution to

³⁶ The Platform on Sustainable Finance published a first set of recommendations in March 2022. The report is available at: https://finance.ec.europa.eu/system/files/2022-04/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf and the annex at: https://finance.ec.europa.eu/system/files/2022-03/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy-annex_en.pdf.

³⁷ In November 2022, the Platform on Sustainable Finance published a second set of recommendations that could not be finalised in March. The final report is available at: https://finance.ec.europa.eu/system/files/2022-11/221128-sustainable-finance-platform-technical-working-group_en.pdf.

one of the four environmental objectives of the EU Taxonomy. Based on this prioritisation exercise, a systematic approach was developed to establish on which grounds economic activities could make a substantial contribution to one of the four objectives and could therefore be included (or not) in the Taxonomy. As a result, a number of activities were selected for potential inclusion in the Taxonomy. This is further explained in Section 3.1.

Secondly, to ensure that the provisions of the Taxonomy Regulation were translated into the technical screening criteria, the Joint Research Centre of the European Commission (JRC) further developed the methodology for drafting technical screening criteria defined in the impact assessment to the Taxonomy Climate Delegated Act. This new methodology is described in the JRC report ‘*Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6*’³⁸, and further explained in section 3.2.

Thirdly, the draft technical screening criteria proposed by the Platform were published for stakeholder feedback from August to September 2021 (Annex 7.2.1). The criteria were also discussed with the Member States Expert Group (MSEG) of the Commission on X occasions on XX (Annex 7.2.2). The feedback provided by stakeholders and Member States was carefully considered by the Platform before the publication of its final recommendations in March and November 2022 (see Section 4 in this report for a full list of the Platform’s recommended activities).

Lastly, the Commission carefully considered the recommended technical screening criteria proposed by the Platform and conducted further work to ensure that the criteria meet the requirements set out in Article 19 of the Taxonomy Regulation. The draft criteria were shared with the MSEG on X to X 202X (Annex 7.2.4) and published again for a four-week public consultation for stakeholder feedback from X to X 202X (Annex 7.2.3). The Commission took the feedback from Member States and external stakeholders into account when finalising its draft Delegated Act.

3. KEY METHODOLOGICAL CHOICES

3.1. Prioritisation, selection and classification of economic activities

The European Commission developed a methodology to select and prioritise economic activities for potential inclusion in the Taxonomy Environmental Delegated Act. This methodology followed a similar approach as developed by the Technical Expert Group on Sustainable Finance (TEG) in 2020, which determined the prioritisation of activities that could make a substantial contribution to climate change mitigation and adaptation. At that time, the TEG first selected priority macro-sectors based on their aggregate levels of greenhouse gas emissions using gCO₂e (grams of carbon dioxide equivalent) as an indicator. From this, the TEG developed a list of prioritised macro-sectors and economic activities within these sectors that had the highest potential to reduce greenhouse gas emissions (improvement potential). The majority of these prioritised economic activities were included in the Taxonomy Climate Delegated Act that was adopted in July 2021. The impact

³⁸ Canfora, P., Arranz Padilla, M., Polidori, O., Pickard Garcia, N. Ostojic, S., and Dri, M., Development of the EU Sustainable Finance Taxonomy - A framework for defining substantial contribution for environmental objectives 3-6, available at: <https://publications.jrc.ec.europa.eu/repository/handle/JRC126045>.

assessment accompanying the delegated act provided a summary of the extent to which prioritised activities were included, as well as a reasoning for any deviations³⁹.

In order to select activities for the Taxonomy Environmental Delegated Act, the methodology was adapted to fit the requirements for assessing economic activities in the context of the four environmental objectives.

As such, instead of determining the reduction potential of an activity’s greenhouse gas emission, the Commission identified a variety of indicators to assess the current environmental impact of an economic activity in relation to the four environmental objectives, as well as the potential to reduce this impact in the future (‘improvement potential’). The indicators per environmental objective are summarised in Table 2 to Table 5.

| Sustainable use and protection of water and marine resources | |
|---|--|
| Chemical pressures / Pollution | Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form) |
| | Synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, PCBs, solvents, PAHs, and VOCs,) |
| | Oil |
| | Pathogens (viruses, bacteria) |
| | Inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.) |
| Physical pressures | Water Footprint (life cycle approach) |
| | Groundwater (drinking water, agriculture, mining activities, etc.) |
| | Surface water |
| | Hydro-morphological elements of water bodies (river continuity, morphological conditions, seafloor integrity) |
| | Other physical pollutants (thermal pollution, radioactive pollutants, light pollution, and noise/vibration, suspended solids and sediments) |
| | Microplastics and marine litter |
| Biodiversity & ecosystems | Marine habitats |
| | Marine plants |
| | Marine animals (except birds) |
| | Freshwater habitats |
| | Freshwater fishes |

Table 2: Indicators for the objective water and marine resources

| Transition to a Circular Economy | |
|---|---------------------------------------|
| Raw Material Consumption (RMC) impact | Hazardous waste generation impact |
| Production impact | Non-hazardous waste generation impact |

³⁹ Commission Staff Working Document, Impact Assessment Report Accompanying Delegated Regulation 2021/2139, SWD(2021) 152 final, available at: https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-impact-assessment_en.pdf.

| | |
|------------------|--------------------|
| Use phase impact | Landfilling impact |
|------------------|--------------------|

Table 3: Indicators for the objective circular economy

| Pollution Prevention and Control | |
|---|---|
| Pollution of air | SOx (sulphur oxides) |
| | NOx (nitrogen oxides) |
| | CO (carbon monoxide) |
| | PM (particulate matter) |
| | Heavy metals |
| | POPs (persistent organic pollutants) |
| | VOCs (volatile organic compounds) |
| | ODS (ozone depleting substances) |
| | NH3 (ammonia) |
| | Other (hazardous) chemicals regulated by REACH and CLP and their compounds (e.g. SVHC, chlorine, fluorine, bromine, iodine, asbestos, cyanides, other CMRs, PBTs, EDCs) |
| Other physical pollutants (heat, noise, light, radiation, odour) | |
| Pollution of water | Oxygen demanding pollutants and nutrients (bio-degradable organic compounds in suspended, colloidal, or dissolved form) |
| | Synthetic organic compounds (pesticides, detergents, food additives, pharmaceuticals, insecticides, paints, fibres, PCBs, solvents, PAHs, and VOCs,) |
| | Oil |
| | Pathogens (viruses, bacteria) |
| | Inorganic pollutants (heavy metals, mineral acids, inorganic salts, other metals, complexes of metals with organic compounds, cyanides, sulphates, etc.) |
| | Microplastics and plastic particles |
| Pollution of soil | Other physical pollutants (heat, radiation, light, noise/vibration, suspended solids and sediments) |
| | Inorganic pollutants |
| | Organic compounds, including POPs, pesticides, pharmaceuticals and antibiotics |
| | Nitrogen and phosphorous compounds |
| Other (physical) pollutants (vibrations, microplastics and plastic particles) | |

Table 4: Indicators for the objective pollution prevention and control

| Protection and restoration of biodiversity and ecosystems | |
|---|--|
| Marine habitats | Freshwater fishes |
| Marine animals (except birds) | Terrestrial habitats |
| Marine plants | Terrestrial plants (including freshwater plants) |
| Freshwater habitats | Terrestrial animals (including freshwater animals) |

| | |
|--|--------------------------|
| | except fishes and birds) |
|--|--------------------------|

Table 5: Indicators for the objective biodiversity and ecosystems

On the basis of the identified indicators, the Commission contracted a consultancy company⁴⁰ to assist with the data collection and interpretation. This task included four main steps.

First, the contractor collected the relevant data for these indicators from Eurostat at an activity level (NACE group or class).

Second, for each of the indicators, the contractor attributed two scores to each activity capturing the magnitude of its environmental impact and improvement potential. The two scores were then multiplied to obtain a combined score for each indicator.

Third, the contractor created a final list of prioritised activities. While activities with the highest environmental impact were identified as relevant, the improvement potential was the most important factor. This is because an activity with a high impact, but a low reduction potential would not qualify for making a substantial contribution to one of the four environmental objectives. In addition, the contractor recognised that performing an activity in a different way is not the only way to improve its environmental performance, as the activity could also be substituted by a different activity. Therefore, in some cases, an activity was de-prioritised by the contractor to include the substitution activity instead.

Lastly, the contractor took into account that the Taxonomy not only covers economic activities that have a significant environmental impact, but also activities that significantly contribute to directly improving the state of the environment (activities “healing the environment”) or activities that directly enable other economic activities to achieve their improvement potential. As quantitative data on these aspects was limited, the contractor only identified relevant activities for each objective, relying on qualitative assessments and expert judgment.

As a result, 67 prioritised activities were identified for the development of technical screening criteria and potential inclusion in the Taxonomy Environmental Delegated Act (see Annex 7.1 for an overview of the prioritised activities).

The list of prioritised activities was revised by the Platform. For some of the activities, the Platform modified their scope in line with their findings, and hence their name, or decided not to develop technical screening criteria due to a lack of data or evidence, a lack of expertise within the Platform or due to diverging views of Platform members. These deprioritised activities were noted by the Platform for consideration for the development of future Delegated Acts under the EU Taxonomy.

3.2. Setting technical screening criteria in line with the JRC methodology

One of the requirements stated in Article 19 of the Taxonomy Regulation for an economic activity to count as environmentally sustainable is making a substantial contribution to at least one of the six environmental objectives. However, the Taxonomy Regulation itself does not define what counts as a substantial contribution, nor does it specify how to define it.

The European Commission’s Joint Research Centre (JRC) developed a framework to assess under which conditions an economic activity makes a substantial contribution to an

⁴⁰ The contract “Sustainable Finance Taxonomy: data collection for environmental objectives (SI2.826904)” was awarded to the consultancy company Ramboll (Framework Contract ENV.F.1/FRA/2019/0001).

environmental objective. It includes a step-by-step methodology (Figure 3) to establish robust, scientific, and evidence-based technical screening criteria (or ‘TSC’) for defining substantial contribution. This methodology is described in the JRC report ‘*Development of the EU Sustainable Finance Taxonomy – A framework for defining substantial contribution for environmental objectives 3-6*’⁴¹. An earlier version of the methodology was shared with the Platform at the beginning of their mandate. However, important conceptual and legal discussions since have helped to develop certain aspects. Extracts of the updated methodology as published in the JRC report are included in section 3.2 of this document.

While the steps in the methodology are presented sequentially, in practice setting TSC requires following the methodological steps iteratively, as through increased background knowledge and understanding of the economic activity, prior steps would most likely need to be revised.

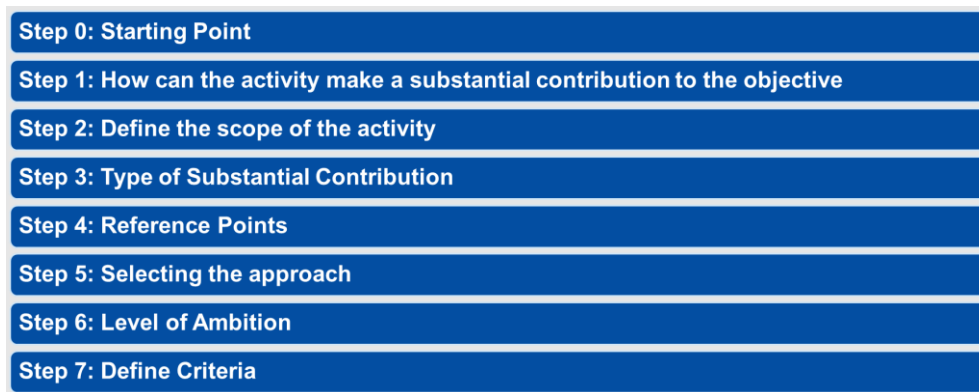


Figure 3: Steps to establish robust, scientific, and evidence-based technical screening criteria for substantial contribution as illustrated in the JRC methodology⁴²

Step 0: Starting point

Step 0 describes the starting point for setting technical screening criteria. This consisted at least of a name or NACE code of an activity and an environmental objective the activity would be considered for.

Step 1: How can the activity make a substantial contribution to the objective

The aim of step 1 was to develop an understanding on how the activity could make a substantial contribution. The subsequent guiding questions were used to determine and map out the potential ways to make a substantial contribution.

1. How does the activity impact/ help the given environmental objective? Does the activity have the potential to reduce pressure on the environment, improve the status of the environment, or enable any of the two? How?
2. Which are the most relevant environmental hotspots or contributions to the given objective along its value-chain on the basis of life cycle considerations?

⁴¹ Canfora, P., Arranz Padilla, M., Polidori, O., Pickard Garcia, N. Ostojic, S., and Dri, M., Development of the EU Sustainable Finance Taxonomy - A framework for defining substantial contribution for environmental objectives 3-6, available at: <https://publications.jrc.ec.europa.eu/repository/handle/JRC126045>.

⁴² Canfora, P., Arranz Padilla, M., Polidori, O., Pickard Garcia, N. Ostojic, S., and Dri, M., Development of the EU Sustainable Finance Taxonomy - A framework for defining substantial contribution for environmental objectives 3-6, available at: <https://publications.jrc.ec.europa.eu/repository/handle/JRC126045>.

3. Can the activity be performed in a way that is low impact vis-à-vis the environmental impact of such hotspots?
4. If not, is there a low-impact replacement activity that the Taxonomy could recognise instead?
5. Is there a key activity that enables such substantial contribution?

The guiding questions did not necessarily need to be answered individually. These only served to give guidance on determining possible substantial contributions for a specific activity and environmental objective. However, Step 1 was a crucial assessment step to identify all possibly relevant economic activities at a more granular level, as well as the potential ways of substantial contribution in broad terms to ensure that are properly considered in the following steps.

Step 2: Define the scope of the activity

Step 2 was about selecting the right level of granularity for the activity or activities considered. The right level of granularity was defined as the level at which homogeneous and consistent criteria were possible to be set. In general, a broader activity scope that would require different cases or approaches within the technical screening criteria was avoided.

The scope of the activity was thus redefined, providing a clear description, setting the boundaries of what was included (and excluded, where appropriate) as part of the activity. The description could include indicative NACE codes, with additional specifications in the cases where NACE categories were not adequate (e.g., too broad or narrow). The ad-hoc definition always prevailed.

Step 3: Type of substantial contribution

In Step 3, the relevant types of substantial contributions were determined for the analysed activity and environmental objective. These types of substantial contribution are presented and explained in Section 3.2.1.

Step 4: Reference points

In Step 4, two types of reference points were identified: forward-looking/end-state reference points and state-of-the-art reference points. The identification and analysis of forward-looking/end-state reference points (in EU policies, scientific reports, etc.) were useful to set the level of ambition. Although most EU environmental-related policies set objectives and targets or, more broadly, levels of ambition, for the overall state of the environment or at the national/regional level rather than at the activity level. Identifying these reference points was crucial to guide their translation to the specific activity analysed.

The identification of the state-of-the-art reference points also helped to define the elements that could and could not be included in the Taxonomy criteria as the Taxonomy recognises activities/ levels of performance that can be invested in and, thus, are commercially available (i.e., TRL above 8).

Step 5: Selecting the approach

Step 5 was about selecting the most suitable approaches, as explained in Section 3.2.2. For selecting the most suitable approach, all relevant approaches identified were assessed against the requirements in Article 19 of the Taxonomy Regulation. Guidance indicating which approaches were likely or unlikely to be suitable for the specific substantial contribution types identified for a certain environmental objective was provided in the JRC report²⁶.

An approach could not be selected without verification that a relevant level of ambition could be defined accordingly (Step 6). Therefore, steps 5 and 6 were carried out in parallel.

Step 6: Level of ambition

Drawing from available reference points (Step 4) and considering the approach selected to set the technical screening (Step 5), in this step, the level of ambition for the specific activity was defined. In addition, the level of ambition of the technical screening criteria was drafted to be aligned with the headline level of ambition of each environmental objective defined by the Platform on Sustainable Finance. Those headline levels of ambition are described in Section 3.5.

Step 7: Define criteria

The technical screening criteria for substantial contribution for the specific activity were defined by bringing the outcomes from the previous steps together. The technical screening criteria were drafted to strike the best balance between the different requirements in the Taxonomy Regulation (Article 19) and fulfilling the overall Taxonomy aims.

[placeholder for FISMA Climate DA team to add more on relation with Climate Law]

3.2.1. Defining types of substantial contribution

There are **three main ways** in which an activity can **make a substantial contribution to an environmental objective**, here referred to ‘substantial contribution types’ (or ‘SC types’):

- (1) *reducing pressure on the environment,*
- (2) *directly improving the state of the environment (activities ‘healing the environment’), or*
- (3) *directly enabling either of the two previous types.*

It is worth noting that the types of substantial contribution vary in their applicability to the different environmental objectives.

The term ‘**own performance** activities’ is used to indicate collectively the first two classes above, because such activities are considered to make a substantial contribution by how they are performed, while the third class is about **enabling** other activities to make a substantial contribution. This classification is illustrated in the following graph:

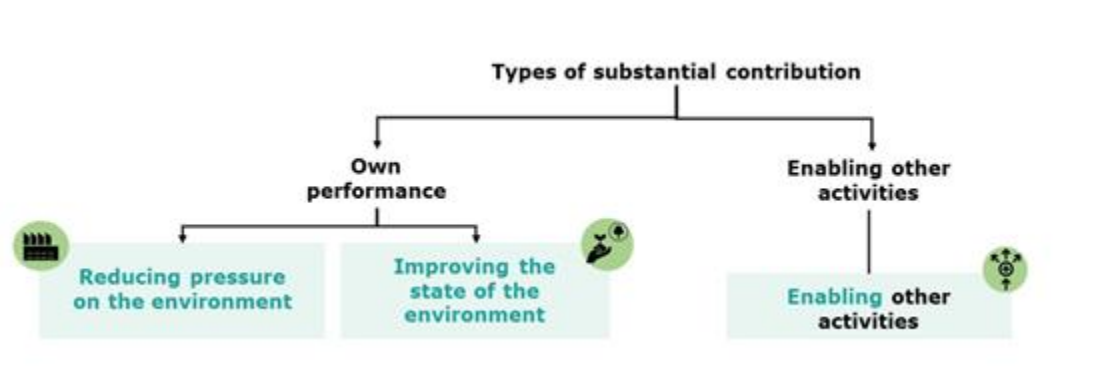


Figure 4: Types of substantial contribution

Activities reducing pressure on the environment:

The **reduction of the pressures on the environment** must take place in relation to a baseline (i.e. the likely alternative scenario). In other words, the activity may have a negative environmental impact (by worsening the state of the environment) compared to no activity taking place. However, this negative impact is much smaller than that of the activities that would likely take place if the activity assessed was not carried out. By **substituting activities which exert higher environmental pressures**, the activity leads overall to a substantial reduction of environmental pressures.

The following cases can be distinguished:

- Economic activities that generally are responsible for a significant pressure on the environment vis-à-vis the relevant environmental objective, but with **high improvement potential**. They make a substantial contribution if performed in a way that reduces the pressure on the environment compared to the baseline (i.e., the likely alternative scenario). The undertaking of the activity compared to a no activity taking place scenario would be a negative impact on the environment. However, the impact will be significantly lower compared to the activity that would likely be carried out instead. As a result, by substituting activities exerting higher environmental pressures there is a **substantial reduction of the environmental pressure**. The technical screening criteria that define substantial contribution must restrict alignment only to activities carried out in such a way that results in substantial reductions of pressures. This type of approach is applicable only to a limited extent for the Water Protection and Biodiversity objectives.
- Activities that have a low **environmental impact** and are **helping to substantially reduce the pressure that other activities are exerting on the environment**. The environmental benefits achieved from reducing the environmental impact of other activities must substantially outweigh the impact the activities exert themselves on the environment.
- Activities that have a **low environmental impact** and have the potential to **substitute high impact activities**, therefore, significantly reducing the overall pressure that is exerted on the environment. This needs to be justified on a life cycle consideration basis. A substantial contribution in this context is not possible by shifting the environmental burden to another life cycle stage. While many activities across the economy have a low environmental impact (education for example), not all of them replace high impact activities.

Activities directly improving the state of the environment:

This substantial contribution type implies that the economic activity leads to a direct improvement in the state of the environment, i.e. healing the environment. In the case of biodiversity and ecosystem services, this substantial contribution type might include activities that significantly contribute to mitigating the damage caused by an activity that was previously carried out (eg. building wildlife passages on a road).

Enabling activities

The Platform on Sustainable Finance set up an Enabling Task Force with the aim to develop a horizontal framework for enabling activities. With the framework, the Task Force aimed to provide advice to the European Commission and future Platforms in following a coherent

interpretation of Article 16 of the Taxonomy Regulation when setting technical screening criteria for enabling activities.

The main findings of the horizontal framework build on the definition of enabling activities in Article 16 of the Taxonomy Regulation, which highlights a number of important characteristics of enabling activities.

First, the framework follows the logic of Article 16 that for an activity to be considered enabling, it must directly enable another activity to make a substantial contribution to one or more of the six environmental objectives. That is, there is a clear link between the enabling activity and the target activity, resulting in a substantial positive environmental impact of the (“enabled”) target activity, whilst considering life cycle impacts of the enabling activity on all six environmental objectives. The Platform interpreted that the enabled substantial positive environmental impact should relate to the objective, for which a substantial contribution is targeted, rather than enabling an activity to meet DNSH requirements for other objectives.

Where the activity enables a broader objective rather than another economic activity, which is the case for activities making a substantial contribution to adaptation, the conditions of Article 16 of the Taxonomy Regulation apply to the identified “beneficiaries” of the enabling effect, e.g.a specific community or natural area.

Second, the horizontal framework of the Platform follows the logic of Article 16 in that an enabling activity should not lead to a lock in of assets that could be detrimental to long-term environmental goals. In some cases, an enabling activity may benefit some end uses without lock in, but may cause lock in effects elsewhere. For example, in adaptation, safeguards against maladaptation need to be in place to not inadvertently “increase the risk of an adverse impact on other people, nature or assets” while having a positive effect elsewhere.

Third the Platform recognized in their horizontal framework that enabling activities may include not only upstream activities from the target, but also horizontal activities that are closely related to the enabling activity. For example the activity “Manufacture, installation and associated services for leakage control systems enabling leakage reduction and prevention in water supply” includes not only the manufacturing of the leakage control systems, but also their installation, maintenance and repair. Where value chain activities are closely related, they may be summarised in one taxonomy activity and, where appropriate, be subject to one set of SC and DNSH criteria. However, each activity has to pass the test steps for enabling activities – as outlined below – by itself. Where activities require different criteria, separate taxonomy activities should be established

Lastly, through the framework, the Platform aimed at making a distinction between enabling activities and own performance activities. They explained that economic activities should only be classified as enabling if own performance criteria for the environmental objective being targeted do not exist. If the analysis of an activity’s life cycle impacts suggests that rather than being classified as enabling, it should be included in the Taxonomy based on own performance criteria, this path should be given priority and considered for future work of the Platform’s Technical Working Group. This applies to all environmental objectives, except for climate change adaptation, for which activities may also be included with own performance and enabling criteria at the same time (so called “adapted-enabling” activities)⁴³.

⁴³ ‘Adapted-enabling activities’ are marked in the Taxonomy Climate Delegated Act of the EU Taxonomy with the following sentence in their descriptions: “Where an economic activity in this category complies with the substantial contribution criterion specified in point 5, the activity is an enabling activity as referred to in Article

To make these considerations more accessible to readers, the Platform summarized its horizontal framework through the below decision tree outlining the steps that are required to assess whether an enabling activity should be included in the EU Taxonomy.

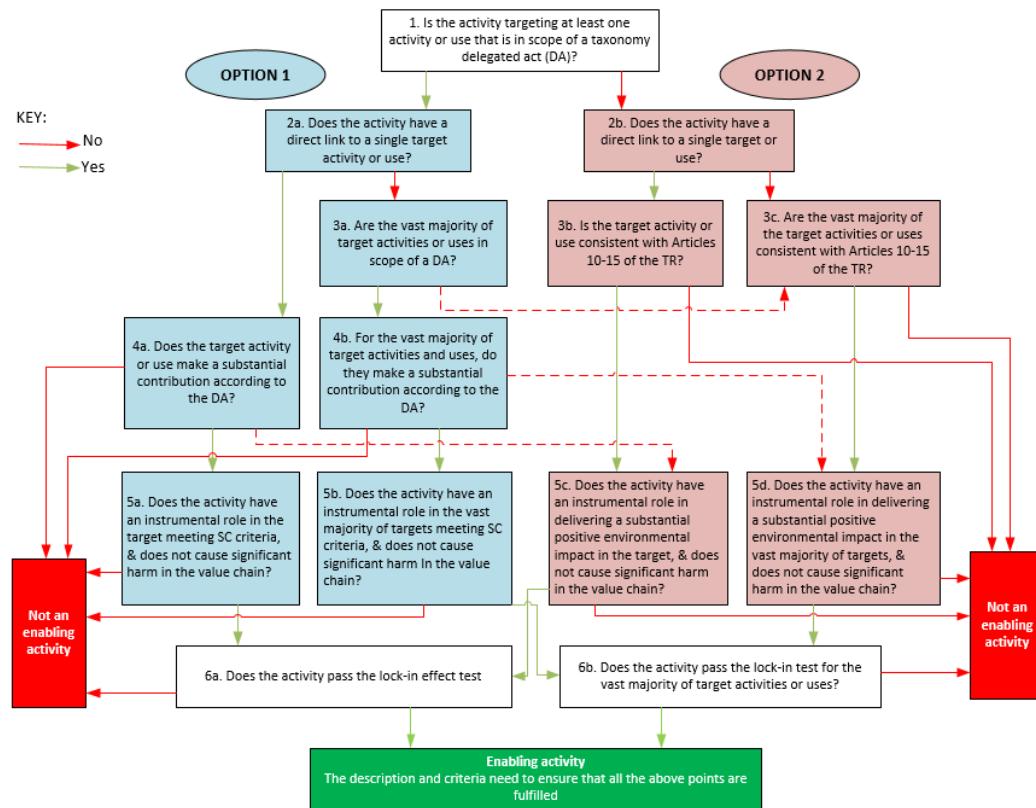


Figure 5: Enabling Task Force decision tree

On the basis of the horizontal framework, the Enabling Task Force re-assessed the scope and draft criteria for enabling activities that were developed by the Technical Working Group and published during the public consultation in August 2021. The assessment showed that some activities did not fit with the enabling framework, which led to the change of scope or adjustment of the technical screening criteria of the activities. In certain cases, the Task Force did not have the necessary expertise to adjust the criteria, leading to a de-prioritisation of the activities, which were included in a handover to the next Platform for future consideration. As a result, five enabling activities were adopted by the Platform in October 2022 (listed in Table 7).

Types of substantial contribution by environmental objective

It is worth noting that the types of substantial contribution vary in their applicability to the different environmental objectives.

Based on Articles 12 to 15 of the Taxonomy Regulation, that describe how an economic activity can make a substantial contribution for each environmental objective, substantial

11(1), point (b), of Regulation (EU) 2020/852, provided that it meets the technical screening criteria set out in this Section”.

contribution types (or ‘SC types’) have been defined for the four remaining environmental objectives as summarised below⁴⁴.

*Sustainable use and protection of water and marine resources*⁴⁵:

- **An activity with positive impact.**
- **An activity leading to an improvement in another activity (enabling activity).** It relates to an activity leading to an improvement in another activity by the improvement of measures, upgrades, etc. An activity can make a substantial contribution by improving the environmental performance of another activity.
- **An activity dealing with pressures from other activities.** An activity can make a substantial contribution by capturing pressures from other activities and mitigating them.

An activity with pressures substantially lower than sector average. An activity which is responsible for some pressures can make a substantial contribution by having lower pressures than the average of other activities within the same sector.

Regarding the last type, its application for the water objective is limited, as activities with the level of pressures lower than sector average are to be treated differently based on the water body they affect (i.e. their location), as the situation of a body of water of good status is not comparable to the situation of a body of water of bad status below.

| | <i>The water body does not have good status</i> | <i>The water body has good status</i> |
|---|---|---|
| <i>Activity directly replaces another activity with higher pressures on the same water body</i> | Contributes to achieving good status ⁴⁶ (subject to compliance with TSC) | Contributes to preventing deterioration (subject to compliance with TSC) |
| <i>Activity does not directly replace another activity</i> | <i>Does not</i> contribute to achieving good status | Contributes to preventing deterioration (subject to compliance with TSC and depending in particular on level of pressure exerted by the activity) |

Table 6: Summary of cases for type 4 activities

Transition to a circular economy:

- **Circular Design & Production.** Design and produce products and materials with the aim of long-term value retention and waste reduction; promote dematerialisation by making products redundant or replacing with radically different product or service.

⁴⁴ A complete and more detailed definition of substantial contribution types for each environmental objectives can be found in the JRC report in the sections D to G.

⁴⁵ The substantial contribution types for sustainable use and protection of water and marine resources have been informed by a legal analyses of Article 12 of the Taxonomy Regulation and discussions with the Platform on Sustainable Finance experts.

⁴⁶ This could also cover cases of a water body in good *potential*, in view of bringing it to good *status*.

- **Circular Use.** Life extension and optimised use of products and assets during use phase with the aim of resource value retention and waste reduction to support better usage and supporting service.
- **Circular Value Recovery.** Capture value from products and materials in the after-use phase.

Pollution prevention and control:

- **Preventing or, where that is not practicable, reducing direct emissions of pollutants to air, water and land.** Activities with high direct pollution emissions can reduce the pressure they directly exert on the environment compared to the baseline.
- **Designing out indirect pollution.** Activities manufacturing products or providing services with high emissions over their life-cycle can reduce the overall pressure exerted on the environment by designing the product or service in such a way to reducing or eliminating these emissions.
- **Cleaning up pollution.** Activities performing remediation may directly improve the state of the environment. For instance, the remediation of a former industrial site where land is polluted with chemicals or technologies cleaning litter pollution from the ocean.

Error! Bookmark not defined. *Protection and restoration of biodiversity and ecosystems*⁴⁷:

- **Conserving the state of semi-natural or natural ecosystems.** An activity directly maintaining or protecting the good ecological condition of specific semi-natural or natural ecosystem(s).
- **Improving the state of semi-natural or natural ecosystems.** An activity directly and substantially improving the condition of a semi-natural or natural ecosystem compared to its current condition.
- **Maintaining sustainable use of managed ecosystems.** An activity achieving a sustainable use of a managed ecosystems.
- **Reducing the pressure on managed ecosystems.** An activity or measure leading to a reduction of the existing pressure on a managed ecosystem, contributing to reaching and maintaining a sustainable use level.
- **Mitigating previous impacts.** An activity or measure significantly contributing to mitigating⁴⁸ the damage/impact caused by a previous activity/measure ('legacy impact'). This includes any intervention/measure that can reduce the operational impacts on biodiversity of an existing infrastructure (e.g. wildlife passages on a road, etc.) or remediating/addressing a legacy impact caused by a previous economic activity, thereby reducing the pressure and achieving measureable and demonstrable conservation outcomes.

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⁴⁷ The substantial contribution types for protection and restoration of biodiversity and ecosystems reflect significant developments based on the work of the Platform. As such, the substantial contribution types are based on the proposal included in the Platform's draft recommendations report, available at: https://finance.ec.europa.eu/system/files/2022-04/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf.

⁴⁸ The EU Guidance on Integrating Ecosystems and their Services into Decision-Making Summary for Policymakers in Government and Industry adopted by the European Commission also explicitly discusses the mitigation hierarchy and conditions applicable to mitigation activities, available at: https://ec.europa.eu/environment/nature/ecosystems/pdf/8461_Summary%20EU_Guidance_Draft_02_17.07.2020.pdf.

3.2.2. Approaches to define substantial contribution

The requirements of Article 19 of the Taxonomy Regulation provide guidance on how to define substantial contribution. However, a robust framework around the choice of approaches⁴⁹ is needed to fulfil these requirements. Seven ‘generic’ approaches to defining EU Taxonomy criteria were presented in the JRC methodology. They have intrinsic strengths and weaknesses as presented below, notably with regards to the requirements set by the Taxonomy Regulation. However, **the choice of one approach over the others mostly depended on the environmental objective and the activity or sector covered**: the nature of the activity, the availability of data, etc., which were key in the selection of the most suitable approach. It is important to note that all approaches should be applied to develop criteria at activity level, and not at entity level.

The seven generic approaches developed are the following:

1. **Impact-based approach**: Criteria that are set within this approach require a certain level of *impact* of the activity on the environmental objective considered. The impact of an activity depends on the *pressures* that the activity exerts (e.g., water abstraction, GHG emissions) but also on the *context* in which an activity takes place (e.g. water availability in the area where the activity is located). Activities qualify if they operate above or below a given threshold.
2. **Performance in relation to the environmental target**: Criteria that are set within this approach require a certain level of performance defined in terms of the *pressure* that the activity exerts on the environment (e.g. GHG emissions, water abstraction, etc.). This pressure is measured with a specific performance metric (direct or proxy) relating to the environmental objective considered. Activities qualify if they achieve a certain level of performance derived from environmental considerations (EU policy, scientific literature). This performance-based approach is independent of the context where the activity takes place and only relies on the *intrinsic* performance of the activity.
3. **Best-in-class performance**: Like for the previous approach, the criteria require a certain level of performance of the activity, defined as a pressure, and measured under the relevant metric. Activities qualify if they operate above a threshold based on the performance currently achieved by best performers (e.g. the threshold can be the average level of performance achieved by the top 10% best activity operators in the EU).
4. **Relative improvement**⁵⁰: In this approach, the criteria require a minimum evolution of a metric over time. This can be the performance improvement of an underlying activity or asset (e.g. improving the energy performance of a building for a renovation activity) or the improvement of the state of the environment (e.g. reducing the amount of water pollutants by X% for a cleaning activity). Activities qualify if they are responsible for an improvement by at least a defined relative threshold, for instance, an energy efficiency improvement of at least 20% compared to a previous point in time.

⁴⁹ The term ‘approach’ refers to one of the ways to set criteria. The approach covers the way in which (1) the environmental performance of an activity is measured or assessed (e.g., quantitative vs. qualitative, units used) and (2) how the required level of environmental performance can be defined (e.g., implementation of certain practices, baseline or comparison group).

⁵⁰ It is important to note that, to keep within the Taxonomy’s methodology of activity-level criteria, the relative improvement should occur at activity-level rather than at entity-level.

5. **Practice-based:** This qualitative approach relies on a set of precise practices reducing the pressure or improving the state of the environment. These practices describe *how* the activity must be performed. Activities qualify if they adopt those practices. An example could be the approach for the activity “collection and transport of non-hazardous and hazardous waste” contributing to the circular economy objective.
6. **Process-based:** The criteria define a number of qualitative process-based steps to determine how to reduce the pressure or enhance the status of the environment. Activities qualify if they follow those steps and implementing the actions resulting from following them.
7. **Nature of the activity:** The criteria define the exact scope and description of the activity. Activities qualify if they fall within this scope/description independent of their performance. Such activities are then automatically eligible⁵¹ without any quantitative or qualitative requirements. These criteria can be used for a whole generic activity or for only a part of the activity.

These seven generic approaches are divided into three major classes, depending on how the criteria are measured, as shown below:

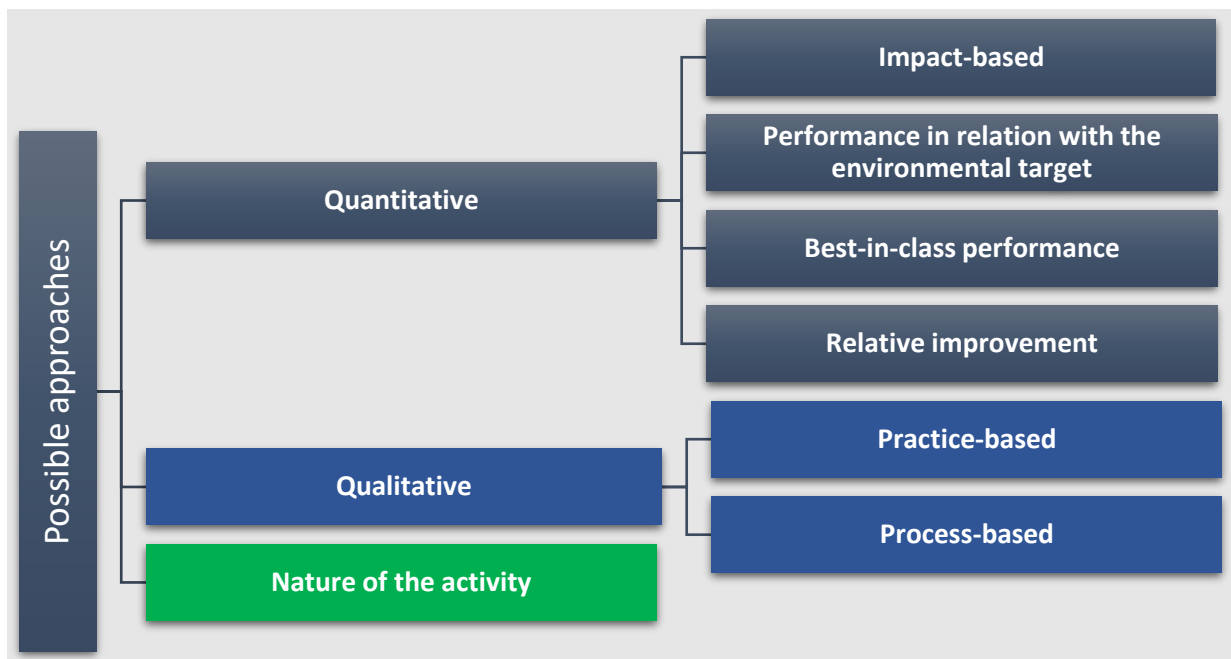


Figure 6: Seven generic approaches for technical screening criteria

Selecting the most suitable approach

Article 19 of the Taxonomy Regulation defines four broad requirements that need to be complied with in the setting of technical screening criteria:

- **policy coherence:** the approach allows to build on EU legislation, approaches and policy goals;
- **environmental ambition and integrity:** the approach allows to follow scientific evidence and take into account life cycle considerations;

⁵¹ Provided that the DNSH and minimum safeguards are met.

- **level playing field:** the approach allows fair treatment of activities within the same sector;
- **usability of the criteria:** the approach allows to develop criteria that are of easy and unambiguous implementation and verification.

Although the degree of compliance of each approach with each requirement depends on the environmental objective, on the type of substantial contribution and on the sector and activity considered, we identify some findings that are valid across the board. For certain environmental objectives, the JRC publication provides a systematic screening methodology to select the most suitable approach. In order to do so, for any individual economic activity, the alignment of each of the seven general approaches was evaluated against each of the four broad requirements defined in Article 19 of the Taxonomy Regulation.

It is recommended to use such systematic screening methodology to select the most suitable approach. When a systemic screening methodology is not available, at least the following three guiding considerations should be followed:

1. Prefer quantitative approaches over qualitative ones. Article 19 of the Taxonomy Regulation dictates that the Technical Screening Criteria shall ‘be quantitative and contain thresholds to the extent possible, and otherwise be qualitative’. The first step is to identify for the activity assessed whether there are quantitative indicators that are usable and relevant. Supposing this is the case, quantitative approaches are to be preferred. Only if there is no relevant or usable quantitative indicator may one opt for a qualitative approach (i.e. practice and process-based approaches).
2. Check for major misalignment with the four broad requirements. In particular, the level playing field requirement can prove challenging to meet for the relative improvement approach or for some context-specific activities. The best-in-class approach can also contradict with the environmental integrity and policy coherence when setting a criteria too stringent for activities with low to no impacts on the environment. Keeping in mind the different dimensions of the requirements in Article 19 while setting the criteria may help to deal with potential trade-offs in a transparent and accountable manner and help to justify why priority is given in a certain case to one requirement over another.
3. A combination of approaches can be used. One approach may not be enough to cover the complexity of one activity. For that reason, the selection and combination of several approaches can lead to the formulation of more robust criteria. For example, the activity “renovation of existing buildings” is by nature contributing to the objective of transitioning to a circular economy as it retains parts of the buildings and is therefore less material intensive than the construction of new buildings. However, not all renovation projects necessarily make a substantial contribution to circular economy. Therefore, the substantial contribution criteria set performance metrics that the renovation project should achieve relating to the environmental objective considered. The combination of approaches can also be context-specific: the selection of one approach can be relevant under certain context-specific conditions, while another criterion based on another approach may be relevant in other situations. For instance, activities consuming water may have to meet different criteria (developed following a different approach) whether they are operated in water scarce or water abundant areas. The seven approaches defined are generic and have been identified based on the TEG’s technical work, but they should not preclude the use of other approaches that may be developed in the future. Finally, a combination of

approaches is more likely to be used in the case of activities with a wide variety of different footprints.

[placeholder for FISMA Climate DA team to add more on Climate Law]

3.3. Ensuring consistency across economic activities

An important step of the criteria development process was the carrying out of consistency checks to determine whether the criteria developed were consistent with the still evolving methodological framework. As the methodological framework kept evolving during the TWG's mandate (for instance as regards to enabling activities), consistency checks were carried out in several instances to take into account following considerations:

1. Activity descriptions and scope: This check served to assess whether the TWG's Sector Teams had properly respected the methodology for defining the relevant scope of the activity. Particular attention was paid to ensuring that the activity descriptions did not integrate features that relate to technical screening criteria (e.g. setting a threshold in the description) as it could create additional complexity to the assessment of taxonomy eligibility and alignment. In addition, the Commission assessed whether and how similar activities may be covered under different objectives (i.e. overlap issue). It should be noted that while the coverage of an activity for several objectives isn't a problem per se, overlaps may cause issues of for example criteria shopping⁵² if coverage isn't properly analysed.
2. Level of ambition: The consistency checks carried out aimed at assessing whether the criteria fit with the headline ambition levels of each environmental objectives as set out in the Taxonomy Regulation and further refined in the reports of the Technical Expert Group⁵³ and the Technical Working Group of the Platform on Sustainable Finance⁵⁴. In particular, it allowed to identify cases in which criteria ran against the Commission's guidance on article 12 and the TWG's guidance on Biodiversity (which both followed the same logic).
3. Criteria shopping: To the extent possible, consistency checks attempted to identify and solve cases of criteria shopping. This task is eminently related to points 1 and 2.
4. Usability check: Finally, the consistency check was treated as an opportunity to analyse the overall usability of the criteria developed. Following the recommendations of the Data and Usability Subgroup's September 2022 Report, the Commission ensured to the extent possible during the criteria development process that compliance with the criteria could be assessed objectively with a Yes/No question.

⁵² Criteria shopping refers to the case where the substantial contribution criteria of an activity that can make a substantial contribution to two or more environmental objectives, are not aligned in their level of ambition. This may create the case where users can opt for the substantial contribution criteria that are easier to meet (e.g. connected to less administrative burdens) for their taxonomy alignment assessment.

⁵³ Technical Expert Group on Sustainable Finance (2020), Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, https://finance.ec.europa.eu/system/files/2020-03/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

⁵⁴ Technical Working Group (TWG) of the Platform on Sustainable Finance (2022): Part A – Methodological report, https://finance.ec.europa.eu/system/files/2022-04/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf

3.4. Assessment of compliance with Article 6(4) of the European Climate Law

The Commission assessed in particular the consistency of the Taxonomy Environmental Delegated Act with the climate-neutrality objective set out in Article 2(1) European Climate Law⁵⁵ and with ensuring progress on adaptation as referred to in Article 5 of that Law.

In accordance with the requirements set out in Article 17 of the Taxonomy Regulation, the Commission calibrated the technical screening criteria for ensuring that economic activities that contribute substantially to one of the environmental objectives do not cause significant harm (DNSH) to climate change mitigation so as to ensure that no activity that leads to significant greenhouse gas emissions (GHG) can be considered as environmentally sustainable. The potential of leading to high GHG emissions and thus significantly harming the climate change mitigation objective has been considered for each economic activity. For activities which present such potential, the DNSH to mitigation criteria were developed. For activities which present a low risk of high GHG emissions, no criteria were proposed. Wherever possible and appropriate, these DNSH to mitigation criteria cross-reference compliance with minimum requirements set out in EU law. Where EU legislation does not prescribe specific minimum performance related to the environmental ambition, the quantitative metrics in the legislation were used, such as EU Emission Trading System (ETS) installations data. The criteria can be both quantitative, such as GHG emissions, and qualitative, such as a requirement to have a methane leakage monitoring plan.

Similarly, the Commission calibrated the technical screening criteria to ensure that economic activities that contribute substantially to one of the environmental objectives do not cause significant harm to climate change adaptation so as to ensure that no activity that leads to an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets can be considered as environmentally sustainable.

The approach taken to set out the DNSH to adaptation reflects the idea that adaptation is everyone's responsibility and that all levels of governance should climate-proof their decisions and operations, down to the private individual or economic operator. The DNSH to adaptation is based on whether the activity is climate-proof, i.e. whether any existing and future impacts that are material to the activity are identified and solutions are found to minimise or avoid possible losses or impacts on business continuity. The DNSH criteria set out a process-based requirement that is the same across all economic activities. This process-based criterion is proposed for all activities following the approach that climate change will affect the whole economy.

A similar assessment was carried out with respect to the amendments to the Taxonomy Climate Delegated Act to cover additional activities making substantial contribution to climate change mitigation and climate change adaptation.

[Placeholder for FISMA Climate Delegated Act team to complement]

3.5. Level of ambition for technical screening criteria

To define when an economic activity makes a substantial contribution to one of the environmental objectives under the EU Taxonomy, the Platform defined **headline ambition**

⁵⁵ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law'), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1119>.

levels for each objective. These levels demonstrated the desired end-state targets that would need to be achieved in order to be in line with the objectives under the European Green Deal.

The headline ambitions were set by using the **DPSIR (Driver, Pressure, State, Impact, Response) framework** as a starting point. The DPSIR is a systems analysis view showing the causal links between economic and social activities on the environment. In specific, the EEA explains that according to this framework “*social and economic developments exert Pressure on the environment and, as a consequence, the State of the environment changes, such as the provision of adequate conditions for health, resources availability and biodiversity. Finally, this leads to Impacts on human health, ecosystems and materials that may elicit a societal Response that feeds back on the Driving forces, or on the state or impacts directly, through adaptation or curative action.*”⁵⁶

By applying the DPSIR framework, the Platform showed that all four environmental objectives under the EU Taxonomy are interrelated, in terms of the means by which the objective is obtained and the effect it has of obtaining another objective. For instance, while pollution exerts pressure on the environment, affecting the state of biodiversity and ecosystems and water and marine resources, circular economy can be seen as a response to reduce pressure in both.

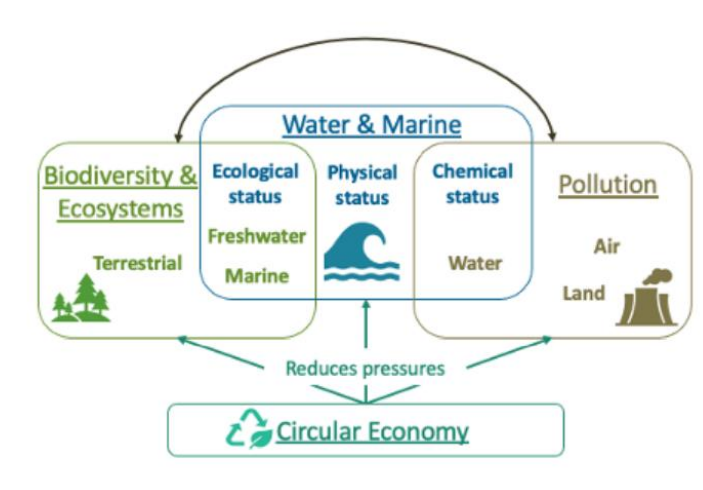


Figure 7: DPSIR framework

As such, the headline ambition level for each environmental objectives were set to reflect their positions in the DPSIR framework, while following the three principles enshrined in the Taxonomy Regulation:

- Be science-based
- Be based on international agreements that EU supports
- Reflect EU’s response to international agreements or EU’s leadership on an objective

The sections below provide a summary headline level of ambition for the four environmental objectives of the EU Taxonomy Regulation. It is drawn from work of the Platform with inputs from the relevant European Commission services.

⁵⁶ European Environment Agency (EEA), Technical report No 25/1999, available at: <https://www.eea.europa.eu/publications/TEC25>.

3.5.1. The sustainable use and protection of water and marine resources

To ensure at least good status for all water bodies by 2027, and good environmental status for marine waters as soon as possible⁵⁷; and to prevent the deterioration of bodies of water that already have good status or marine waters that are already in good environmental status.

3.5.2. The transition to a circular economy

By 2030 economic growth is decoupled from extraction of non-renewable resources and depletion of the stock of renewable resources is reversed, and by 2050 economic activity is largely decoupled from resource extraction, through environmental design for a circular economy to eliminate waste and pollution, keep materials and products in use at their highest value, and to regenerate ecosystems.

This ambition builds on a reduction of the EU27 material footprint (RME) by 50% by 2030 and by 75% by 2050 (compared to a 2015 baseline of 14t/capita) and raising the circular material use rate of all materials to increase the average to at least 25% by 2030, by increasing the durability, reparability, upgradability, reusability or recyclability of products, and by remanufacturing, preparing for reuse and recycling of used materials and products; and on cultivating 25% of total agricultural land and production forestry by 2030, and 100% by 2050, using regenerative production methods, such as agro-ecology and silvo-pasture.

3.5.3. Pollution prevention and control

By 2030, pollution⁵⁸ sources, sinks and pathways due to human activities have been fully identified and measures have been applied that prevent and eliminate pollution across air, water, soil, living organisms and food resources. By 2030, the production and use of substances, materials and products is safe and taxonomy-aligned.

- Substances of concern⁵⁹ have been substituted and their production and use have been minimized, as far as possible. Where substances of concern are still being used, their use, presence in products and articles and quantities is being tracked to ensure adequate risk management throughout their life cycle.
- The sub-group of the most harmful substances⁶⁰ (incl. ozone depleting substances) are phased out from products for consumer or professional use, except when their use has been proven to be essential for society⁶¹.

⁵⁷ [placeholder, for a deadline by the revised Marine Strategy Framework Directive]

⁵⁸ For a definition of “pollution” and “pollutants”, see Article 2 points (10) and (12) of the Taxonomy Regulation (EU) 2020/852, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32020R0852>.

⁵⁹ Substance of concern cover substances having a chronic effect for human health or the environment (Candidate list in REACH and Annex VI to the CLP Regulation), those which hamper recycling for safe and high quality secondary raw materials and the most harmful substances as listed in the Chemicals Strategy for Sustainability.

⁶⁰ Most harmful substances (as listed in the chemicals strategy for sustainability) are: carcinogenic, mutagenic or reprotoxic substances (CMRs); persistent, bioaccumulative and toxic substances (PBTs); very persistent and very bioaccumulative substances (vPvBs); endocrine disrupting substances (EDs); immunotoxicants; neurotoxicants, respiratory sensitizers; substances having specific organ toxicity (STOT) with chronic effects; persistent, mobile and toxic substances (PMTs) and very persistent and very mobile substances (vPvMs).

Legacy pollution is safely remediated and pollutants are destroyed or irreversibly transformed into safe materials. By 2030, pollution resulting from heat, noise, light and vibration has been identified and reduced to prevent, or if prevention is not practicable, minimize any adverse impact on human health and the environment.

3.5.4. The protection and restoration of biodiversity and ecosystems

To ensure that by 2050 all of the world's ecosystems and their services⁶² are restored to a good ecological condition⁶³, resilient, and adequately protected. The objectives of the EU Biodiversity Strategy will be achieved at latest by 2030. From today the world's biodiversity needs to be put on the path to recovery and no deterioration in conservation trends and status of all protected habitats and species by 2030 will be ensured.

4. TECHNICAL SCREENING CRITERIA FOR THE ENVIRONMENTAL OBJECTIVES

On 3 August 2021, the Technical Working Group published its draft report for a call for feedback on preliminary recommendations on technical screening criteria for the four environmental objectives of the EU taxonomy. The public call for feedback ran from 3 August to 28 September 2021.

On 30 March 2022, the Technical Working Group presented a report on the final recommendations for 51 activities that could make a substantial contribution to one of the four environmental objectives of the EU Taxonomy, as well as four activities that could make a substantial contribution to climate change mitigation and nine activities that could make a substantial contribution to climate change adaptation.⁶⁴

A complementary report was published on 28 November 2022, which included technical screening criteria for 24 additional activities, including ten activities that could make a substantial contribution to climate change mitigation (seven of them reviewing the criteria for certain transport activities already covered in the Taxonomy Climate Delegated Act, marked in **bold** in the table below) and two activities for climate change adaptation. The

⁶¹ Essential use is aimed to be defined within the commitment of the Chemicals Strategy for sustainability where it is stated essential use criteria will ensure that the most harmful chemicals are only allowed if their use is necessary for health, safety or is critical for the functioning of society and if there are no alternatives. The basis of this being the Montreal protocol decision IV/25.

⁶² See: European Commission, EU Guidance on integrating ecosystems and their services in decision-making, 2019, available at: https://ec.europa.eu/environment/nature/ecosystems/pdf/8461_Summary%20EU_Guidance_Draft_02_17.07.2020.pdf.

⁶³ Compared to the baseline of 2020.

⁶⁴ Technical Working Group (TWG) of the Platform on Sustainable Finance (2022): Part A – Methodological report, March 2022, available at: https://finance.ec.europa.eu/system/files/2022-04/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf and its annex, available at: https://finance.ec.europa.eu/system/files/2022-03/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy-annex_en.pdf.

complementary report also included the enabling framework developed by the Enabling Task Force of the Platform on Sustainable Finance, as well as five enabling activities.⁶⁵

The table below provides an overview of the activities (enabling activities in *italics*) covered in the final reports of the Platform on Sustainable for each of the four environmental objectives, as well as the two climate objectives.

| Activities recommended by the Platform on Sustainable Finance | | | | | |
|--|-----------------------------|---|---|--|-----------------------------|
| Climate change mitigation | Climate change adaptation | Water and marine resources | Transition to a circular economy | Pollution prevention and control | Biodiversity and ecosystems |
| Total: 14 activities | Total: 11 activities | Total: 7 activities | Total: 25 activities | Total: 11 activities | Total: 9 activities |
| <i>Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable substantial contribution to climate change mitigation</i> | Restoration of ecosystems | <i>Manufacture and installation of, and associated services for leakage control systems enabling a substantial contribution to the sustainable use and protection of water and marine resources</i> | Manufacture of plastic packing goods | Manufacture of chemicals | Animal production |
| Manufacture of copper | Desalination | Nature based solutions (Nbs) for flood and drought risk prevention and protection for both inland and coastal waters | Manufacture of electrical and electronic equipment | Manufacture of chemical products | Crop production |
| Manufacture of low carbon technologies for transport | Civil engineering | Remediation activities enabling restoration of waterbodies | Furniture: manufacturing, repairing/refurbishing/remanufacturing and sale of spare parts, sale of second-hand, product-as-a service and other circular use- and | Manufacture of basic pharmaceutical products | Fishing |

⁶⁵ Technical Working Group (TWG) of the Platform on Sustainable Finance (2022): Supplementary: Methodology and Technical Screening Criteria, October 2022, available at: https://finance.ec.europa.eu/system/files/2022-11/221128-sustainable-finance-platform-technical-working-group_en.pdf.

| | | | | | |
|--|--|---|--|---|--|
| | | | result-oriented service models | | |
| Inland passenger water transport | Emergency services – Emergency health services | Water supply | Wearing apparel, except articles of fur and leather: manufacturing, repairing/refurbishing/remufacturing and sale of spare parts, sale of second-hand, product-as-a-service and other circular use- and result-oriented service models | Manufacture of basic pharmaceutical preparations | Environmental refurbishment of facilities that produce electricity from Hydropower |
| Inland freight water transport | Emergency services – Disaster response coordination | Urban Wastewater Treatment | Footwear and leather goods: manufacturing, repairing/refurbishing/remufacturing, sale of second-hand, product-as-a-service and other circular use- and result-oriented service models | Finishing of textiles | Manufacture of food products and beverages |
| Retrofitting of inland water and freight transport | Emergency services – Disaster relief | Sustainable urban drainage systems (SUDS) | Manufacture of food products and beverages | Tanning of leather | Conservation of habitats and ecosystems |
| Sea and coastal freight water transport, vessels for port operations and auxiliary activities | Emergency services – Search and rescue | <i>Provision of IT/OT data-driven solutions that provide a substantial contribution to the use and protection of water and marine resources</i> | Repair, refurbishment and remanufacturing, and sale of spare parts | Urban and suburban passenger land public transport | Restoration of biodiversity and ecosystems |
| Sea and coastal passenger water transport | Emergency services – Hazardous materials response | | Preparation for re-use of end-of-life products | Remediation activities for pollution prevention and control | Remediation activities enabling restoration of ecosystems |
| Retrofitting of sea and coastal freight and passenger | Emergency services – Firefighting | | Sale of second-hand goods | Collection and transport of hazardous waste | Hotels, holiday, camping grounds and similar accommodation |

| | | | | | |
|--|---|--|--|--|--|
| water transport | | | | | |
| Urban and suburban passenger land public transport | Emergency services – Technical protection response and assistance | | Product-as-a-service and other circular use- and result-oriented service models | Treatment of hazardous waste as a means for pollution prevention and control | |
| Manufacturing of aircraft | Flood risk prevention and protection infrastructure | | <i>Marketplace for the trade of second-hand goods for reuse</i> | Remediation of legally non-conforming landfills and abandoned or illegal waste dumps | |
| Leasing of aircraft | | | Construction of new buildings | | |
| Passenger and freight air transport | | | Renovation of existing buildings | | |
| Air transportation ground handling operations | | | Demolition and wrecking of buildings and other structures | | |
| | | | Maintenance of roads and motorways | | |
| | | | Use of concrete in civil engineering works | | |
| | | | Remediation activities for the transition to a circular economy | | |
| | | | Phosphorus recovery from waste water | | |
| | | | Production of alternative water resources | | |
| | | | Collection and transport of non-hazardous and hazardous waste as a means for material recovery | | |
| | | | Treatment of hazardous waste as a means for | | |

| | | | | | |
|--|--|--|---|--|--|
| | | | material recovery | | |
| | | | Recovery of bio-waste by anaerobic digestion and/or composting | | |
| | | | Depollution and dismantling of end-of-life products for material recovery | | |
| | | | Sorting and material recovery of non-hazardous waste | | |
| | | | <i>Provision of IT/OT data-driven solutions that provide a substantial contribution to circular economy</i> | | |

Table 7: List of activities recommended by the Platform on Sustainable Finance

The Commission revised the recommendations of the Platform from November 2022 to March 2023 to prepare for the drafting of the Taxonomy Environmental Delegated Act and the amendment to the Taxonomy Climate Delegated Act. During this revision phase, the Commission decided to take a two-step approach in developing the Taxonomy Environmental Delegated Act, whereas:

- A first set of activities, for which the proposed technical screening criteria were considered more advanced, was prioritised for adoption in June 2023.
- A second set of activities, for which the proposed technical screening criteria required more time for further assessment in order to comply with the requirements of Article 19 of the Taxonomy Regulation, was postponed for adoption at a later stage.

As a result, the list of activities included in the Taxonomy Environmental Delegated Act and amendment to the Taxonomy Climate Delegated Act differed in scope from the Platform's recommendations.

The following sections provide an overview of the macro sectors and related activities that have been included in the first set of activities for the Taxonomy Environmental Delegated Act, as well as in the amendment to the Taxonomy Climate Delegated Act, per environmental objective.

For each environmental objective, the sections explain why a given macro sector was chosen for making a substantial contribution to the respective environmental objective, which activities are covered and what type of substantial contribution the criteria follow (see Section 3.2.1 for an overview of the different types of substantial contribution). In addition, the sections present for each sector and activity the changes that the Commission has made to the Platform's recommendations on the scope or technical screening criteria of the activities.

The changes were made to improve the usability of the activity, ensure coherence of the criteria with other activities in the proposed Taxonomy Environmental Delegated Act to allow for consistency with the activities already included in the Taxonomy Climate Delegated Act. In addition, where an activity recommended by the Platform was not further developed or its adoption of was postponed to the second set of activities, the sections outline the reasons for removing the activity or its de-prioritisation. Similarly, the sections explain the reasons why an additional activity not previously recommended by the Platform was added by Commission Services.

At the end of each section, tables have been included to summarise the types of approach that were chosen for each of the activities (see Section 3.2.2 for the types of approaches to define substantial contribution), as well as an assessment of how the proposed technical screening criteria per activity meet the requirements of Article 19 of the Taxonomy Regulation (policy coherence, environmental integrity, level playing field and usability of the criteria).

4.1. Substantial contribution to the sustainable use and protection of water and marine resources

For the objective of sustainable use and protection of water and marine resources, a total of 6 activities are covered in the Taxonomy Environmental Delegated Act capturing the macro-sectors of manufacturing, disaster risk management, remediation and water, and Information and Communication Technology (ICT).

One activity recommended by the Platform was not further developed, namely the activity Remediation activities enabling restoration of waterbodies. The activity is marked in *italics* in the table below.

| Sustainable use and protection of water and marine resources | |
|--|--|
| Macro sector | Proposed activities |
| Manufacturing | Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems |
| Water supply, sewerage, waste management and remediation | Water supply Urban Wastewater Treatment Sustainable urban drainage systems (SUDS) <i>Not developed: Remediation activities enabling restoration of waterbodies.</i> |
| Disaster risk management | Nature based solutions for flood and drought risk prevention and protection |
| ICT | Provision of IT/OT data-driven solutions for leakage reduction |

Table 8: Activities for the objective of sustainable use and protection of water and marine resources

4.1.1. Manufacturing

Why is manufacturing covered:

Manufacturing activities are relevant for this objective in particular in case where they can be considered as enabling substantial contribution to the sustainable use and protection of water and marine resources.

Which activities would be covered: One activity is proposed to be covered for manufacturing: Manufacture, and installation of, and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems. Manufacture of leakage control technologies was prioritised, as a critical element to control water supply system losses and thus enhance the water management and efficiency.

What type of substantial contribution was chosen:

The substantial contribution criteria focus on the need for the technologies provided to be aimed at controlling the pressure in district metering areas (DMAs) of the water supply system to a minimum pressure.

Changes to the Platform proposal

The Platform proposed to only include technologies aiming at reaching the leakage threshold value ILI lower than or equal to 2.0 for existing water supply systems 1.5 for new water supply systems and 1.5 for the rehabilitation of water supply systems. However, the manufacturer or installer cannot guarantee that a specific leakage threshold can be achieved through the use of technologies manufactured or installed, as the leakage threshold of the water supply system is a result of a whole range of solutions and technologies implemented in the system under the control of the water supply system operator. The direct reference to a specific leakage threshold value have therefore been removed. The technical screening criteria focus on the need for the technologies to be aimed at controlling the pressure in district metering areas (DMAs). Minimum requirements to identify and avoid environmental degradation risks related to preserving water quality and avoiding water stress have also been inserted to address possible pressures from the activity.

4.1.2. Water supply, sewerage, waste management and remediation

Why are water supply, sewerage, waste management and remediation covered:

[placeholder]

Which activities would be covered: Three activities are proposed to be covered for water supply, sewerage, waste management and remediation: Water supply, Urban Wastewater Treatment, and Sustainable Urban Drainage systems (SUDS).

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[placeholder to explain why the activity “remediation activities enabling restoration of waterbodies is not included in this Delegated Act]

4.1.3. Disaster risk management

Why is disaster risk management covered:

[placeholder]

Which activities would be covered: One activity is proposed to be covered for disaster risk management: Nature based solutions for flood and drought risk prevention and protection.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.1.4. ICT

Why is ICT covered:

[placeholder]

Which activities would be covered: One activity is proposed to be covered for ICT: Provision of IT/OT data-driven solutions for leakage reduction.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.1.5. Assessment of the proposed activities/criteria to be included in the Taxonomy Environmental Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|--|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Manufacture, and installation of, and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| Water supply | | | | | |
| Urban Wastewater Treatment | | | | | |
| Sustainable urban drainage systems (SUDS) | | | | | |
| Nature based solutions for flood and drought risk prevention and protection | | | | | |
| Provision of IT/OT data-driven solutions for leakage reduction | | | | | |

Table 9: Assessment of activities for the objective sustainable use and protection of water and marine resources

4.2. Substantial contribution to the transition to a circular economy

For the objective of transitioning to a circular economy, a total of 25 activities are covered in the Taxonomy Environmental Delegated Act capturing the macro-sectors of manufacturing, construction and civil engineering, remediation and water, and ICT.

Four activities in the manufacturing sector were delayed to the second set of activities, namely: Furniture, Wearing apparel, Footwear and leather goods and Manufacture of food products and beverages. In addition, one activity was not developed in the water and waste management sector, namely Remediation activities for the transition to a circular economy. These activities are marked in *italics* in the table below.

| Transition to a circular economy | |
|--|---|
| Macro sector | Proposed activities |
| Manufacturing | Manufacture of plastic packaging goods Manufacture of electrical and electronic equipment <i>Delayed: Furniture, Wearing apparel, Footwear and leather goods, Manufacture of food products and beverages</i> |
| Water supply, sewerage, waste management and remediation | Phosphorus recovery from waste water Production of alternative water resources for purposes other than human consumption Collection and transport of non-hazardous and hazardous waste Treatment of hazardous waste Recovery of bio-waste by anaerobic digestion or composting Depollution and dismantling of end-of-life products Sorting and material recovery of non-hazardous waste <i>Not developed: Remediation activities for the transition to a circular economy.</i> |
| Construction and civil engineering | Construction of new buildings Renovation of existing buildings Demolition and wrecking of buildings and other structures |

| | |
|----------|---|
| | Maintenance of roads and motorways Use of concrete in civil engineering works |
| ICT | Provision of IT/OT data-driven solutions and software |
| Services | Repair, refurbishment and remanufacturing Sale of spare parts Preparation for re-use of end-of-life products and product components Sale of second-hand goods Product-as-a-service and other circular use- and result-oriented service models Marketplace for the trade of second-hand goods for reuse |

Table 10: Activities for the objective transition to a circular economy

4.2.1. Manufacturing

Why is manufacturing covered:

[placeholder]

Which activities would be covered: Two activities are proposed to be covered under manufacturing: Manufacture of plastic packaging goods, and Manufacture of electrical and electronic equipment.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[Placeholder to explain why Furniture, Wearing apparel, Footwear and leather goods, Manufacture of food products and beverages are not included in this Delegated Act]

4.2.2. Water supply, sewerage, waste management and remediation

Why are water supply, sewerage, waste management and remediation covered:

[placeholder]

Which activities would be covered: Seven activities are proposed to be covered for water supply, sewerage, waste management and remediation: Phosphorus recovery from waste water, Production of alternative water resources for purposes other than human consumption, Collection and transport of non-hazardous and hazardous waste, Treatment of hazardous waste, Recovery of bio-waste by anaerobic digestion or composting, Depollution and dismantling of end-of-life products and Sorting and material recovery of non-hazardous waste.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[Placeholder to explain why remediation activities for the transition to CE is not covered]

4.2.3. Construction and civil engineering

Why are construction and civil engineering covered: Construction and civil engineering have the highest raw material consumption when considering all types of materials together, mainly coming from non-metallic minerals (1.8 billion tons)⁶⁶.

While around 80% of investment in construction goes into buildings, it is assumed that around 40% of these go into renovation works. Civil engineering, on the other hand, represents around 20% of investment in construction⁶⁷.

Construction is also responsible for 37.1% the EU's total waste generated⁶⁸. However, only 8.6% of the built environment is considered as being "circular"⁶⁹. In addition, of the buildings that exist today, around 85% to 95% are expected to still be standing in 2050⁷⁰ and their renovation will generate large amounts of waste. The circular economy aspects, in particular implementing the practices of recycling and reuse of materials in the construction and civil engineering sectors will be crucial to achieve the transition to a circular economy.

Which activities would be covered: Three economic activities are proposed to be covered for construction and two for civil engineering: construction of new buildings, renovation of existing buildings, demolition or wrecking of buildings and other structures, maintenance of roads and motorways, and use of concrete in civil engineering works.

What type of substantial contribution was chosen: For construction and renovation, the Platform proposed substantial contribution criteria aimed at a circular design and production by minimising the generation of waste during the construction process and the lifetime of the built asset. First, the criteria aim to ensure that the construction and demolition waste that is generated is being prepared for reuse or recycling. Second, the design of the buildings is to incorporate the concepts of efficiency, adaptability, flexibility and easy dismantling to enable a reuse or recycling when the building is deconstructed. Third, the Platform proposed a threshold of 50% to ensure that the materials used for the construction or renovation work would largely come from recycled or reused materials. In addition, it required an assessment of the building's lifecycle Global Warming Potential and disclosing it to stakeholders.

The demolition or wrecking of buildings and other structures activity follows a circular value recovery types of substantial contribution criteria. That is, it defines the administrative points

⁶⁶ [placeholder for Eurostat source]

⁶⁷ FIEC, Statistical report 2021, available at: <https://fiec-statistical-report.eu/2021/>.

⁶⁸ Eurostat, Waste statistics, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Waste_statistics#Total_waste_generation.

⁶⁹ CIRCLE Economy, The Circularity Gap Report 2021, available at: <https://www.circularity-gap.world/2021#downloads>.

⁷⁰ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Renovation Wave for Europe – greening our buildings, creating jobs, improving lives 2020, available at: https://eur-lex.europa.eu/resource.html?uri=cellar:0638aa1d-0f02-11eb-bc07-01aa75ed71a1.0003.02/DOC_1&format=PDF.

that the operator of the activity needs to undertake prior to the demolition (e.g. a pre-demolition audit), and criteria on the reuse and recycling of the demolition waste generated in order to capture value from the products and materials after their use phase.

The activity use of concrete in civil engineering also follows a circular design and production type of substantial contribution to the transition to a circular economy. Its substantial contribution criteria are in line with those defined for construction and renovation to ensure that the built asset is efficient, adaptable, flexible and easy to dismantling, and that the construction and demolition waste is prepared for reuse or recycling. Moreover, the Platform set a threshold of 60% of the concrete coming from reused or recycled sources, while ensuring that the transport of these secondary materials has a limited effect on CO2 emissions as compared to what the use of primary raw materials would have had.

For the maintenance of roads and motorways, the Platform set criteria in line with the objective of circular use, extending the life of the roads during its use phase with the aim of resource value retention and waste reduction. The substantial contribution criteria therefore aim to ensure that where road elements are removed, they are being prepared for recycling and reuse, and that at least 50% of the road elements used in the maintenance come from recycled or reused materials. The Platform included two deviations to this target. First, it proposed to give national authorities that don't permit recycled content in construction products or where they might be subject to a maximum value (%), two years from the adoption of the delegated act to review and revise national regulations and standards where possible. Second, it included a possible deviation from the target where the transport of the recycled or reused materials would lead to more CO2 emissions than the transport of virgin raw materials.

Changes to the Platform proposal

The substantial contribution criteria of the construction and renovation activities were changed to align the level of ambition with relevant EU policies, and to improve the usability of the criteria.

First, certain proposed substantial contribution criteria were removed as they were considered as being redundant. For instance, the criteria on asbestos and the REACH regulation were removed as they were already covered in the Do No Significant Harm criteria for pollution prevention and control.

Second, other criteria were streamlined to ensure consistency with the Taxonomy Climate Delegated Act. The wording of the proposed criterion on the lifecycle assessment of the building, for example, was changed to be in line with the criteria in the Taxonomy Climate Delegated Act. However, more details were added to the footnote of the criterion to explain to users that the Global Warming Potential indicator should be reported as GWP fossil, GWP biogenic, GWP land use and land use change, as well as GWP overall, as is presented in indicator 1.2 in the Level(s) framework.

Third, changes were also introduced to improve the usability of the criteria. Most notably, the Platform proposed substantial contribution criteria to ensure that at least 50% of the materials used during the construction or renovation process should come from recycled, reused or renewably sources materials, with sub- of 15% for recycling and reuse. These thresholds

were exchanged with thresholds that follow a material-based approach, in which users would only be required to report on the three heaviest material categories used. The new approach addressed concerns expressed by Member States and stakeholders (see Member States' comments in Annex 7.2.2). There are numerous benefits of the new material-based approach:

- It provides more clarity to the market as to what should be considered in the reuse/recycling threshold;
- It accounts for the fact that different materials have different maximum/optimal recycled content thresholds;
- It aligns the criteria with the ongoing work on construction and demolition waste and revision of the Waste Framework Directive;
- It offers more flexibility to operators on how to achieve the thresholds by giving them the option to only report on the three heaviest materials use;
- It incentivizes the use of less materials rather than additional reused/recycled materials being used to meet the overall thresholds;
- It improves the usability of the criteria by also providing operators with an Excel template for the Level(s) indicator 2.1 that can be used for reporting purposes.

For the activity maintenance of roads and motorways, the Commission decided to extend the scope of the activity to also cover other vehicular and pedestrian ways, surface work on streets, roads, highways, bridges or tunnels (only the roads that run on the bridge or through the tunnel), aerodrome runways, taxiways and aprons. In addition, it removed the Platform's proposal to allow national authorities two years to revise their regulations in the context of reaching the 50% recycling/reuse target, as not sufficient evidence could be found that multiple Member States would have such restrictions in place. Lastly, the Commission introduced an additional substantial contribution criterion for the recycling of metals to ensure that also the steel barriers that are often part of the maintenance activity come from recycled or reused materials.

The Commission Services also introduced changes to the substantial contribution criteria of the activity use of concrete in civil engineering, mainly in order to align them with the criteria proposed in other activities in this sector. In addition, while the Platform proposed that at least 60% of the concrete should come from recycled or reused materials, the Commission changed the threshold to 70% of materials coming from primary raw materials (i.e. 30% of concrete coming from recycled or reused materials).

For the activity demolition or wrecking of buildings and other structures, there were no changes to the substance of the criteria proposed by the Platform. The Commission Services only made drafting changes to align the criteria with those included for other activities in the sector (mainly construction and renovation).

4.2.4. ICT

Why is ICT covered:

[placeholder]

Which activities would be covered: One activities is proposed to be covered for ICT: Provision of IT/OT data-driven solutions and software.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.2.5. Services

Why are services covered:

[placeholder]

Which activities would be covered: Six activities are proposed to be covered under manufacturing: Repair, refurbishment and remanufacturing, Sale of spare parts, Preparation for re-use of end-of-life products and product components, Sale of second-hand goods, Product-as-a-service and other circular use- and result-oriented service models, and Marketplace for the trade of second-hand goods for reuse.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.2.6. Assessment of the proposed activities/criteria to be included in the Taxonomy Environmental Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|---|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Manufacture of plastic packing goods | | | | | |
| Manufacture of electrical and electronic equipment | | | | | |
| Remediation activities for the transition to a circular economy | | | | | |
| Phosphorus recovery from waste water | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| Production of alternative water resources | | | | | |
| Collection and transport of non-hazardous and hazardous waste | | | | | |
| Treatment of hazardous waste | | | | | |
| Recovery of bio-waste by anaerobic digestion or composting | | | | | |
| Depollution and dismantling of end-of-life products | | | | | |
| Sorting and material recovery of non-hazardous waste | | | | | |
| Construction of new buildings | Performance in relation to the environmental target | | | | |
| Renovation of existing buildings | Nature of the activity and performance in relation to the environmental target | | | | |
| Demolition or wrecking of buildings and other structures | Performance in relation to the environmental target | | | | |
| Maintenance of roads and motorways | Performance in relation to the environmental target | | | | |
| Use of concrete in civil engineering | Performance in relation to the environmental target | | | | |
| Provision of IT/OT data-driven solutions and software | | | | | |
| Repair, refurbishment | | | | | |

| | | | | | |
|---|--|--|--|--|--|
| and remanufacturing | | | | | |
| Preparation for re-use of end-of-life products and product components | | | | | |
| Sale of second-hand goods | | | | | |
| Product-as-a-service and other circular use- and result-oriented service models | | | | | |
| Marketplace for the trade of second-hand goods for reuse | | | | | |

Table 11: Assessment of activities for the objective transition to a circular economy

4.3. Substantial contribution pollution prevention and control

For the objective of pollution prevention and control, a total of 9 activities are covered in the Taxonomy Environmental Delegated Act capturing the macro-sectors of manufacturing, transport, and water supply, sewerage, waste management and remediation.

Four activities in the manufacturing sector were delayed to the second set of activities, namely: Manufacture of chemical substances, Manufacture of chemical products, Finishing of textiles and Tanning of leather, as well as one activity in the transport sector namely Urban and suburban passenger land public transport. These activities are marked in *italics* in the table below.

| Pollution prevention and control | |
|--|--|
| Macro sector | Proposed activities |
| Manufacturing | Manufacture of active pharmaceutical ingredients (API) or drug substances Manufacture of basic pharmaceutical products <i>Delayed: Manufacture of chemicals, Manufacture of chemical products, Finishing of textiles, Tanning of leather</i> |
| Water supply, sewerage, waste management and remediation | Collection and transport of hazardous waste Treatment of hazardous waste Remediation of legally non-conforming landfills and abandoned or illegal waste dumps Remediation of contaminated sites and areas |
| Transport | <i>Delayed: Urban and suburban passenger land public transport</i> |

Table 12: Activities for the objective pollution prevention and control

4.3.1. Manufacturing

Why is manufacturing covered: [placeholder]

Which activities would be covered: Four activities are proposed to be covered for manufacturing: Manufacture of chemical substances, Manufacture of chemical products, Manufacture of active pharmaceutical ingredients (API) or drug substances, and Manufacture of basic pharmaceutical products.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[placeholder to explain why Manufacture of chemicals, Manufacture of chemical products, Finishing of textiles and Tanning of leather are not included in this Delegated Act]

4.3.2. Water supply, sewerage, waste management and remediation

Why are water supply, sewerage, waste management and remediation covered:

[placeholder]

Which activities would be covered: Four activities are proposed to be covered for water supply, sewerage, waste management and remediation: Collection and transport of hazardous waste, Treatment of hazardous waste, Remediation of legally non-conforming landfills and abandoned or illegal waste dumps, and Remediation of contaminated sites and areas.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.3.3. Transport

[placeholder to explain why Urban and suburban passenger land public transport is not included in this Delegated Act]

4.3.4. Assessment of the proposed activities/criteria to be included in the Taxonomy Environmental Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|--------------------------------------|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Manufacture of active pharmaceutical | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| ingredients (API) or drug substances | | | | | |
| Manufacture of basic pharmaceutical products | | | | | |
| Collection and transport of hazardous waste | | | | | |
| Treatment of hazardous waste | | | | | |
| Remediation of legally non-conforming landfills and abandoned or illegal waste dumps | | | | | |
| Remediation of contaminated sites and areas | | | | | |

Table 13: Assessment of activities for the objective pollution prevention and control

4.4. Substantial contribution to the protection and restoration of biodiversity and ecosystems

For the objective of pollution prevention and control, a total of 2 activities are covered in the Taxonomy Environmental Delegated Act capturing the macro-sector of environmental protection and restoration activities.

A total of six activities were delayed by Commission Services for adoption in a second set of activities, namely Animal production, Crop production, Fishing, Forestry, Environmental refurbishment of facilities that produce electricity from hydropower, Manufacture of food products and beverages. In addition, one activity was not developed, namely Remediation activities enabling restoration of ecosystems. The activities are marked in *italics* in the table below.

| Protection and restoration of biodiversity and ecosystems | |
|---|--|
| Macro sector | Proposed activities |
| Environmental protection and restoration activities | Conservation, including restoration, of habitats, ecosystems and species Hotels, holiday, camping grounds and similar accommodation |
| Agriculture and Fisheries | <i>Delayed: Animal production, Crop production, Fishing</i> |
| Forestry | <i>Delayed: Forestry</i> |
| Energy | <i>Delayed: Environmental refurbishment of facilities that produce electricity from hydropower</i> |
| Manufacturing | <i>Delayed: Manufacture of food products and beverages,</i> |

| | |
|--|---|
| Water supply, sewerage, waste management and remediation | <i>Not developed: Remediation activities enabling restoration of ecosystems</i> |
|--|---|

Table 14: Activities for the objective protection and restoration of biodiversity and ecosystems

4.4.1. Environmental protection and restoration activities

Why are environmental protection and restoration activities covered:

[placeholder]

Which activities would be covered: Two activities are proposed to be covered for environmental protection and restoration: Conservation of habitats and ecosystems, and Restoration of biodiversity and ecosystems, and Hotels, holiday, camping grounds and similar accommodation.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[placeholder to explain why conservation and restoration were merged]

4.4.2. Agriculture and Fisheries

[placeholder to explain why Animal production, Crop production, Fishing, are not included in the Environmental DA]

4.4.3. Forestry

[placeholder to explain why Forestry is not included in the Environmental DA]

4.4.4. Energy

[placeholder to explain why Environmental refurbishment of facilities that produce electricity from hydropower are not included in the Environmental DA]

4.4.5. Manufacturing

[placeholder to explain why Manufacture of food products and beverages is not included in the Environmental DA]

4.4.6. Water supply, sewerage, waste management and remediation

[placeholder to explain why Remediation activities enabling restoration of ecosystems are not included in the Environmental DA]

4.4.7. Assessment of the proposed activities/criteria to be included in the Taxonomy Environmental Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|--|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Conservation, including restoration, of habitats, ecosystems and species | | | | | |
| Hotels, holiday, camping grounds and similar accommodation | | | | | |

Table 15: Assessment of activities for the objective protection and restoration of biodiversity and ecosystems

4.5. Substantial contribution to climate change mitigation

The Taxonomy Environmental Delegated Act forms a package with a Delegated Act with amendments to the existing Taxonomy Climate Delegated Act by adding a number of further activities that could make a substantial contribution to climate change mitigation and adaptation, or complementing the criteria for a limited number of existing activities.

For climate change mitigation, the Platform made recommendations for 14 activities capturing the macro-sectors of manufacturing and transport.

The Commission delayed one activity in the manufacturing sector, namely manufacture of copper in order to consider this activity more fully with other upstream mining and metals refining activities, in line with evolving EU policy. The activity is marked in *italics* in the table below.

In addition, the Commission added two activities for climate change mitigation that had not been developed by the Platform namely, Manufacture of automotive and mobility components, and Manufacture of rail constituents, as signalled in the Commission's December 2022 Draft Notice on Frequently Asked Questions regarding Taxonomy criteria⁷¹. The activities are marked in **bold** in the table below.

| Climate Change Mitigation | |
|---------------------------|--|
| Macro sector | Proposed new activities (in bold) or amendments to existing activities |

⁷¹ Draft Commission Notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Climate Delegated Act establishing technical screening criteria for economic activities that contribute substantially to climate change mitigation or climate change adaptation and do no significant harm to other environmental objective, December 2022, available at: <https://ec.europa.eu/finance/docs/law/221219-draft-commission-notice-eu-taxonomy-climate.pdf>.

| | |
|---------------|--|
| Manufacturing | <p>Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable substantial contribution to climate change mitigation.</p> <p><i>Delayed: Manufacture of copper</i></p> |
| Transport | <p>Manufacture of low carbon technologies for transport</p> <p>Manufacture of automotive and mobility components</p> <p>Manufacture of rail constituents</p> <p>Inland passenger water transport</p> <p>Inland freight water transport</p> <p>Retrofitting of inland water and freight transport</p> <p>Sea and coastal freight water transport, vessels for port operations and auxiliary activities</p> <p>Sea and coastal passenger water transport</p> <p>Retrofitting of sea and coastal freight and passenger water transport</p> <p>Infrastructure for rail transport</p> <p>Infrastructure enabling low carbon water transport</p> <p>Manufacturing of aircraft</p> <p>Leasing of aircraft</p> <p>Passenger and freight air transport</p> <p>Air transportation ground handling operations</p> |

Table 16: Activities for the objective climate change mitigation

4.5.1. Manufacturing

Why is manufacturing covered: The manufacturing of various types of electrical equipment can play a crucial role in ensuring the functioning and uptake of a sustainable low-carbon economy solutions, and supporting these other activities as necessary components, for example in the deployment of charging stations for zero-emission vehicles. In order to ensure that their role is recognised in the Taxonomy, appropriate technical screening criteria for the manufacturing of those components and equipment are included to recognize them as a distinct activity where they help enable solutions for low carbon emissions in various target activities.

Which activities would be covered: one activity is covered for manufacturing: manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable substantial contribution to climate change mitigation.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

Limited changes have been made in order to clarify certain aspects, refer to relevant legislation and applicable standards or ensure coherence of criteria between the different activities.

[placeholder to explain why Manufacture of copper is not included in the DA]

4.5.2. Transport

Why is transport covered:

a) Air transport

The air transport sector accounts for 3% of GHG emissions in the EU27 and for 18% of GHG emissions in the transport sector as a whole. Emissions reductions in this sector continue to be vital for decarbonisation and the transition to a net-zero emissions economy. In accordance with the Green Deal objectives, all modes of transport, including air transport, will have to contribute to reductions in emissions in order to achieve the goal of climate neutrality by 2050, with a 90% reduction needed compared to 1990 levels⁷².

b) Post-2025 waterborne transport

The Taxonomy Climate Delegated Act sets out that after 2025 only zero emissions waterborne vessels could be eligible under the Taxonomy. This has proven to be economically and technically challenging. Therefore, adjusted post-2025 criteria are needed for maritime freight and passenger transport with a view to adapt the technical screening criteria to both developments in the international ship energy efficiency and EU Fitfor55/FuelEU frameworks.

First, the Energy Efficiency Design Index (EEDI) will increase stringency with 'Phase 3' criteria as of 1st January 2025, and it is important to ensure that criteria in the Taxonomy Climate Delegated Act remain relevant and fit-for-purpose.

Second, still in the field of ship energy efficiency, the Energy Efficiency of Existing Ships Index (EEXI) entered into force on 1 January 2023, and it is important to incorporate this development as criteria for the purposes of investment in purchase or leasing of ships.

Finally, with a view to adapt the technical screening criteria to the Fitfor55/FuelEU developments, an additional criterion for the greenhouse gas intensity for the energy used onboard is introduced, defined on the basis of overcompliance with the targets defined in FuelEU. For inland waterways transport the same logic was applied.

c) IWT infrastructure

The IWT infrastructure scope in the criteria of the Taxonomy Climate Delegated Act for climate change mitigation was previously quite limited (covering only recharging stations and transshipment infrastructure) e.g. compared to rail. Recital 34 of the Taxonomy Climate Delegated Act signalled the need to increase the scope to cover infrastructure more broadly to further facilitate navigability and meet the Green Deal target of modal shift to IWT.

d) Components

⁷² Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal, COM/2019/640 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>.

The manufacturing of vehicles and rolling stock that are EU Taxonomy eligible or aligned depends on necessary components that play a key role in reducing GHG emissions but are often manufactured by third parties in highly cross-integrated value chains. These components play a crucial role in ensuring the functioning and uptake of the final sustainable low-carbon economy solutions and supporting these target activities as integral components, for example for accelerating the take-off of zero-emission vehicles. In order to ensure that their role in helping enable decarbonisation of transport is recognised in the Taxonomy, appropriate technical screening criteria for the manufacturing of those components are included as distinct activities.

Which activities would be covered: Four activities are proposed to be covered for air transport: Manufacturing of aircraft, Leasing of aircraft, Passenger and freight air transport, Air transportation ground handling operations. In addition, seven activities that were already included in the Taxonomy Climate Delegated Act are proposed to be updated: Infrastructure enabling low carbon water transport, Manufacture of low carbon technologies for transport, Inland passenger water transport, Retrofitting of inland water and freight transport, Sea and coastal freight water transport, vessels for port operations and auxiliary activities, Sea and coastal passenger water transport and Retrofitting of sea and coastal freight and passenger water transport. Lastly, the Commission added two new activities for transport: Automotive and railway components.

What type of substantial contribution was chosen:

a) Air transport

For aircraft manufacturing, leasing and operation, the Platform proposed substantial contribution criteria to climate mitigation by covering zero direct CO₂ emissions aircraft and the latest generation aircraft technology providing a significant performance improvement in terms of fuel efficiency and related GHG emissions reduction compared to the previous generation of aircraft. The air transport criteria aim, first, to accelerate the development and market introduction of zero direct CO₂ emission aircraft. Second, to incentivise the market uptake and replacement of previous generation, less fuel-efficient aircraft with the latest generation of fuel-efficient ones without contributing to fleet expansion. Third, to incentivise the replacement of fossil jet fuel with sustainable aviation fuels (SAF), including the technical readiness of the aircraft fleet to operate with 100% SAF.

The Platform proposed as an approach that the manufacturing, leasing or operation of the latest generation aircraft do not contribute to increasing aircraft fleets that could result in the growth of absolute emissions until the aircraft is operated with sustainable aviation fuels. The latest generation aircraft are identified in function of fuel efficiency and related GHG performance of the aircraft in function of the margins to the International Civil Aviation Organisation new type (NT) CO₂ standard differentiated by three aircraft classes according to their maximum take-off mass. The aircraft not meeting the margins represent the previous generation aircraft that are significantly less fuel efficient. The replacement of the previous generation aircraft with the new generation aircraft leads to around 20-25% of GHG improvements. This margin was set taking into account the input of European Aviation

Safety Agency (EASA), which is the competent authority in Europe for certifying aircraft types against the ICAO standards. The aircraft manufacturer will need to demonstrate that the performance of the aircraft complies with the margins to the ICAO standard, based on a certificate or in the transitional period of three years, based on manufacturer's declaration substantiated by the reference data. Business aviation⁷³ is excluded considering its per passenger kilometer CO2 footprint compared to available alternatives.

For the purpose of usability, in certain cases, the Platform proposed that the aircraft replacement approach is implemented by the introduction of the replacement ratio that represents the share of aircraft permanently removed from the use. The ratio limits the share of Taxonomy compliance of revenues of eligible aircraft based on the proportion of aircraft permanently withdrawn from use to aircraft delivered at the global level. It is averaged over the preceding 10 years to provide long-term stable indicator, minimizing yearly variations. Such a ratio allows to reflect the extent to which the uptake of new technology results in the permanent withdrawal of the previous generation models. The data can be accessible from independent data providers, which the Commission, with the help of EASA, may also consider publishing to facilitate the disclosures. Such ratio is notably applied to latest generation aircraft manufacturing as well as leasing and operation in case of an aircraft purchased before the criteria entered into application or when the non-compliant aircraft was removed from the fleet. Lessors and air transport operators can claim full taxonomy eligibility related to the latest generation aircraft only when the non-compliant aircraft of previous generation was permanently withdrawn from use.

To ensure the GHG reductions, the aircraft being withdrawn should fulfil several requirements in order to ensure that a fleet replacement results in an effective and significant performance improvement and related GHG reductions at aircraft level. First, the withdrawn aircraft fuel efficiency and related GHG emissions represent previous generation aircraft. Second, the replacement should concern the aircraft of similar or greater category of at least 80% of maximum take-off weight of the compliant aircraft. Third, to eliminate aircraft already parked in long term storage facilities, the withdrawn aircraft needs to have a proof of airworthiness dating back less than 6 months prior to the delivery of the compliant aircraft.

Furthermore, the Platform proposed that the taxonomy compliant aircraft is compatible with the 100% use of sustainable aviation fuel by 2028. The current technology and international fuel standards⁷⁴ allow for the maximum use of SAF of up to 50%. The fuel standardisation work is on-going to raise this level/restriction, which will allow to adapt and retrofit aircraft for technical compatibility with 100% SAF use by 2028. This requirement ensures that the aircraft can support the use of 100% SAF in the future once the SAF are available in sufficient quantities to allow for flight fully operated on such sustainable fuel. For air transport operators, it is additionally required that the aircraft acquired for the replacement of the previous generation model is operated with the blend of SAF corresponding to 10% in 2030 and increased by 2 percentage points annually thereafter. This incentivises the

⁷³ Business aviation can be considered the operation or use of aircraft by companies or individuals for the carriage of passengers or goods as an aid to the conduct of their business, flown for purposes generally considered not for public hire and piloted by individuals having, at the minimum, a valid commercial pilot license with an instrument rating.

⁷⁴ ASTM (American Society for Testing and Materials).

progressive replacement of fossil jet fuel with sustainable aviation fuels to operate with increasingly high fuel blending ratios.

The Platform also proposed that the aircraft is taxonomy compliant when it is operated with sustainable aviation fuels, corresponding to 5% SAF used in 2022, with the percentage of SAF increasing by 2 percentage points annually thereafter. The SAF use reflects the fuel consumption by the aircraft on all its flights performed, which also include flights departing outside the European Union. The SAF production and use is currently extremely limited, accounting for less than 0,1% of aviation fuel, and most of the SAF technologies are not yet commercially mature. The ReFuelEU Aviation regulatory proposal introduced the mandatory blending mandates on fuel suppliers that will allow to scale up the SAF production and supply in the EU. Over the time, with the SAF technology maturity and increased quantities, SAF will be progressively available throughout Europe. Until then, aircraft operators may access SAF only in few selected hubs and not all the connections they perform. For the purpose of usability, and in view of the SAF supply contains, aircraft operators can prove compliance with the use of the minimum quantity of SAF with the proof of SAF quantities purchased for the use by its fleet. Such approach will also avoid that the taxonomy incentivises excessive fuel tankering or transport of SAF to distribute in remote airports from which an aircraft operates that can generate extra GHG emissions. The verification of such data will be supported by the reporting requirements established under ReFuelEU Aviation regulation and established under the EU ETS and the international framework of CORSIA. The level of SAF use percentages proposed by the Platform takes account of the SAF market and regulatory developments, while it goes beyond the SAF quantities proposed to be mandated on fuel suppliers in the EU under the ReFuelEU Aviation regulation.

For the air transport ground handling activity, the Platform proposed that only zero direct CO2 vehicles and devices and equipment with zero direct CO2 motor are eligible.

b) Post-2025 waterborne transport

The post -2025 technical screening criteria for waterborne vessels, with a declining GHG emissions trajectory, are covered as transitional alternatives to zero-emissions vessels.

c) IWT infrastructure

The new criteria includes the modernization of the IWT infrastructure (excluding dredging) under the condition that this modernization meets the guidelines of climate proofing adopted by the Commission in July 2021. The DNSH is adapted and reflects now the extended scope of the criteria.

d) Components

Two other activities are added: manufacture of automotive and mobility components, (including components for personal mobility devices with a propulsion that comes from the physical activity of the user, from a zero-emissions motor, or a mix of zero-emissions motor and physical activity such as bikes and e-bikes) and manufacture of rail constituents.

Changes to the Platform proposal

a) Air transport

The substantial contribution criteria for aircraft manufacturing, leasing and operation were changed to improve the usability of the criteria. An additional condition was introduced as concerns the aircraft to be withdrawn and replaced with the latest generation aircraft in order to avoid that taxonomy incentivizes increase in trading of such aircraft, whereby the aircraft to be withdrawn should have remained in the fleet within at least 12 months prior to its withdrawal.

The do no significant harm on pollution control and prevention were modified by reducing the margins to noise ICAO standard in order to reflect the level of technological improvement.

b) Post-2025 waterborne transport

Compared to the Platform proposal, the following changes were introduced:

- Removal of the criteria meriting investments based on the use of energy onboard with more than 80% of GHG intensity reduction, on a Well-to-Wake basis, on the justification that some liquid biofuels or biogases could be used to meet this objective without any substantial change to ships energy systems. This would not represent incentive for new designs of intrinsically better ships (nor deployment of innovative energy systems).
- For maritime transport, energy efficiency criteria were substantially modified by 1) increase of the ambition for Energy Efficiency Design Index (EEDI) criteria for post 2025, so as to adapt to the entry into force of IMO EEDI Phase 3; 2) introduction of Energy Efficiency for Existing Ships Index (EEXI), following the entry into force of this international framework on 1 January 2023 and 3) addition of energy efficiency criterion to the proposed criteria on GHG intensity of the energy used onboard. For IWT, new engine with higher energy efficiency are already required in the DNSH.

c) IWT infrastructure

The Platform on Sustainable Finance did not work on the criteria. These were developed based on the Platina III project.

d) Components

The technical screening criteria and DNSH criteria are not based on Platform proposals but are drawn up considering existing comparable criteria and the concerned target activities in transport.

4.5.3. Assessment of the proposed criteria to be included in the Taxonomy Climate Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|---------------|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Manufacturing | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| of aircraft | | | | | |
| Leasing of aircraft | | | | | |
| Passenger and freight air transport | | | | | |
| Air transportation ground handling operations | | | | | |
| Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution | | | | | |
| Manufacture of low carbon technologies for transport | | | | | |
| Manufacture of automotive and mobility components | | | | | |
| Manufacture of rail constituents | | | | | |
| Waterborne transport / infrastructure | | | | | |

Table 17: Assessment of the activities for the objective climate change mitigation

4.6. Substantial contribution to climate change adaptation

For climate change adaptation, the Platform made recommendations for 11 activities capturing the macro-sectors of water supply, sewerage, waste management and remediation, construction and civil engineering, and disaster risk management. One activity recommended by the Platform was not further developed, namely the activity Restoration of ecosystems. The activity is marked in *italics* in the table below.

The Commission added two activities for climate change adaptation namely, Software enabling climate risk management and Consultancy for climate risk management. These activities are marked in **bold** in the tables below.

| Climate Change Adaptation | |
|---------------------------|---------------------|
| Macro sector | Proposed activities |

| | |
|--|---|
| Environmental protection and restoration activities | <i>Not developed: Restoration of ecosystems</i> |
| Water supply, sewerage, waste management and remediation | Desalination |
| Construction and civil engineering | Civil engineering |
| Disaster risk management | Emergency services Flood risk prevention and protection infrastructure |
| Information and communication | Software enabling climate risk management |
| Professional, scientific and technical activities | Consultancy for climate risk management |

Table 18: Activities for the objective climate change adaptation

As climate change is likely to affect all sectors of the economy, all sectors of the economy will need to be adapted to the adverse impact of the current climate and the expected future climate. The Taxonomy Climate Delegated Act therefore established technical screening criteria for climate change adaptation for all sectors and economic activities that were covered by the technical screening criteria for climate change mitigation. Due to time constraints, the Platform and the Commission were not able at this stage to develop adaptation criteria also for the activities included in the Taxonomy Environmental Delegated Act to make them adapted to climate change.

4.6.1. Environmental protection and restoration activities

[placeholder to explain why Restoration of ecosystems is not covered in the Climate DA]

4.6.2. Water supply, sewerage, waste management and remediation

Why are water supply, sewerage, waste management and remediation covered:
[placeholder]

Which activities would be covered: One activity is proposed to be covered for water supply, sewerage, waste management and remediation: Desalination.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.6.3. Construction and civil engineering

Why are construction and civil engineering covered: [placeholder]

Which activities would be covered: One activity is proposed to be covered for construction and civil engineering: Civil engineering.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

4.6.4. Disaster risk management

Why is manufacturing covered: [placeholder]

Which activities would be covered: Two activities are proposed to be covered for disaster risk management: Emergency services, and Flood risk prevention and protection infrastructure.

What type of substantial contribution was chosen:

[placeholder]

Changes to the Platform proposal

[placeholder]

[placeholder to explain why Emergency Services was merged]

4.6.5. Information and communication

Why is ICT covered: [placeholder]

Which activities would be covered: One activity is proposed to be covered for information and communication: Software enabling climate risk management]

What type of substantial contribution was chosen:

[placeholder]

[placeholder to explain why the activity was developed by the Commission]

4.6.6. Professional, scientific and technical activities

Why are professional, scientific and technical activities covered:

[placeholder]

Which activities would be covered: One activity is proposed to be covered for professional, scientific and technical activities: Consultancy for climate risk management.

What type of substantial contribution was chosen:

[placeholder]

[placeholder to explain why the activity was developed by the Commission]

4.6.7. Assessment of the proposed criteria to be included in the Taxonomy Climate Delegated Act

| Activity | Type of SC approach | Policy coherence | Environmental integrity | Level playing field | Usability of the criteria |
|---|---------------------|------------------|-------------------------|---------------------|---------------------------|
| Desalination | | | | | |
| Civil engineering | | | | | |
| Emergency Services | | | | | |
| Flood risk prevention and protection infrastructure | | | | | |
| Software enabling climate risk management | | | | | |
| Consultancy for climate risk management | | | | | |

Table 19: Assessment of the activities for the objective climate change adaptation

5. EXPECTED COSTS AND BENEFITS OF APPLYING THE TAXONOMY ENVIRONMENTAL DELEGATED ACT UNDER THE EU TAXONOMY

5.1. Expected benefits

The Taxonomy Environmental Delegated Act, which focuses on substantial contribution to the four environmental objectives⁷⁵, is expected to have important benefits for investors, businesses and society at large. It is a common tool for classifying economic activities as environmentally sustainable and as such is expected to lower search costs for investors, in particular in areas where such consensus has not formed yet such as biodiversity. The EU Taxonomy is also expected to support investor and stakeholder engagement and translate long-term environmental objectives into more tangible and credible transition paths that companies can commit to. From a societal perspective, the EU Taxonomy is expected to encourage the scaling up of investments needed to make the EU economy more sustainable and can also be a tool to hold companies accountable.

At this point it is too early to provide quantitative figures that could estimate the expected benefits stemming from the use of the Taxonomy Environmental Delegated Act. The following table therefore presents a qualitative overview of the expected benefits. It distinguishes between benefits that can be expected to directly arise from obligations under

⁷⁵ The sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

the Taxonomy Regulation (direct) and those expected to arise as a result of the uses of the EU Taxonomy, including possible second-order effects of these obligations and uses (indirect).

| I. Overview of Benefits | | |
|--|---|--|
| <i>Description</i> | <i>Amount</i> | <i>Comments</i> |
| Direct benefits | | |
| Science-based definitions and criteria on an economic activity level | Through the technical screening criteria of the Taxonomy, investors are able to easily compare the climate and environmental performance of different economic activities with the assurance that their assessment is backed by science. | Stakeholders expected to benefit: companies, retail investors, researchers, civil society |
| Lower search costs for sustainable economic activities | The EU Taxonomy is a common tool for classifying economic activities as environmentally sustainable. This is expected to reduce investors' search costs for prospective companies likely to benefit from the transition to a more sustainable economy (indirect). It is also expected to reduce the expenses that institutional investors would spend on developing and updating their own classifications. | Stakeholders expected to benefit: financial intermediaries, institutional investors, retail investors and civil society. |
| Compass for the green transition | The EU Taxonomy translates long-term environmental objectives (e.g. on biodiversity) into more tangible activity-level criteria, providing an end goal that companies can use as a reference for their green transition. | Stakeholders expected to benefit: companies, financial intermediaries and institutional investors. |
| Monitoring progress and capital flows | The EU Taxonomy will make it easier to monitor capital flows towards green investments and thus keep track of the progress towards long-term environmental objectives. | Stakeholders expected to benefit: public authorities, researchers and the broader public. |
| Collection of environmental information and data | Through the disclosure requirements, the Taxonomy will make climate and environmental information more available for relevant authorities, researchers and the broader public. For instance, it will support the data collection for the European Single Access Point (ESAP), which will provide centralised access to publicly available information of relevance to financial services, capital markets and sustainability. | Stakeholders expected to benefit: companies, retail investors, financial intermediaries, institutional investors, researchers and civil society. |
| Indirect benefits | | |
| Enabling integration of environmental factors into financial products and portfolios | The activity-level approach that the EU Taxonomy follows, can also help in designing new financial products (e.g. using Taxonomy exposure as a factor to add an environmental tilt to their portfolios). It could thus enable them to tap into relevant investment opportunities. | Stakeholders expected to benefit: financial intermediaries and institutional investors, ultimately also households buying financial products. |
| Supporting investor and stakeholder engagement | The criteria and relevant disclosures are likely to help investors find a common language with investee companies. | Stakeholders expected to benefit: financial intermediaries and institutional investors, companies and civil society. |
| Attracting capital for companies with sustainable economic activities | With the EU Taxonomy in place, companies have the possibility to attract new capital and investors with sustainability preferences by credibly signalling their taxonomy alignment. | Stakeholders expected to benefit: companies, retail and institutional investors. |

| | | |
|--|--|---|
| Attracting customers to sustainable economic activities | Alignment with the EU Taxonomy can boost a company's reputation with their customers. | Stakeholders expected to benefit: companies. |
| Reflecting sustainability in business strategy | The better identification of a firms' green assets (and transition risks) can be used as relevant information in a long-term business strategy. | Stakeholders expected to benefit: companies, financial intermediaries, institutional investors and civil society. |
| Enhancing confidence in financial products | By reducing the potential for greenwashing, the EU Taxonomy is expected to help increase confidence in sustainable financial products over time (subject to alignment with the relevant legislation) and thus attract more end investors. It could also make it easier to compare financial products on environmental characteristics through the disclosed information or possible product labels /standards for financial instruments (e.g. the European Green Bond Standard). | Stakeholders expected to benefit: retail investors, financial intermediaries and civil society. |
| Holding companies accountable and reducing externalities | Information on the EU Taxonomy alignment (which implicitly includes compliance with DNSH and minimum safeguards) could help civil society to transparently assess companies' impact on the environment and society ⁷⁶ . This information as part of corporate disclosures could also help to reduce externalities over time. | Stakeholders expected to benefit: civil society and public. |
| Improvements in the assessment of risks | The DNSH criteria of the Taxonomy define significant harm thresholds per activity that can be used as risk management signals by financial institutions. | Stakeholders expected to benefit: retail investors and financial intermediaries. |

Table 20: Overview of benefits

5.2. Expected costs

The EU Taxonomy is not a mandatory list to invest in. Actors in the market remain free to decide whether to align their activities, issuances, financial products, and investments to the EU Taxonomy, and the degree to which to do so. Some undertakings or financial intermediaries can choose to strive for high alignment of their activities and financial products. Others may simply report low levels of alignment or even zero alignment if their economic activities are not eligible or if they do not fulfil the relevant technical screening criteria. Some sectors covered by the EU Taxonomy may see more market pressure towards upward-alignment, some less.

The information to be disclosed with regards to this Taxonomy Environmental Delegated Act will substantiate two disclosure obligations included in the Taxonomy Regulation in order to improve transparency. First, **companies under the scope of the Corporate Sustainability Reporting Directive (CSRD)** will have to disclose the Taxonomy-aligned percentage of

⁷⁶ While EU Taxonomy focuses on best environmental performance, a low degree of alignment from a company with activities that would be expected to meet the Substantial Contribution criteria could indicate that the company may not sufficiently safeguard potential harm to other environmental objectives or does not uphold minimum social safeguards.

their turnover and expenditures (CAPEX and OPEX). In this regard, Key Performance Indicators (KPIs) and reporting templates have been specified through a Delegated Act supplementing Article 8 of the Taxonomy Regulation⁷⁷. For non-financial entities, these requirements imply mapping their operations against relevant economic activities, collecting relevant sustainability information and linking them with data on revenues, CAPEX/OPEX at an appropriate economic activity level.⁷⁸

Second, **financial market participants**⁷⁹ will have to disclose the degree to which their financial products are aligned with the EU Taxonomy. This disclosure obligation is governed by Articles 5 to 7 of the Taxonomy Regulation and the Delegated Act specifying the content, methodology and presentation of the information to be disclosed by financial market participants under the Sustainable Finance Disclosure Regulation (SFDR).⁸⁰

Varying levels of data coverage and knowledge of the four environmental objectives of the EU Taxonomy among companies could lead to discrepancies in reporting. Similar to the Taxonomy Climate Delegated Act, economic operators will need some time to gather the necessary data to report on taxonomy alignment. New processes will need to be put in place to gather the data from different departments of the company or stakeholders along the value chain. Furthermore, companies and investors will need to build knowledge of and familiarity

⁷⁷ 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, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2178&from=EN>.

⁷⁸ Note that Article 449a of the Capital Requirements Regulation (CRR) requires banks to disclose their ESG risks as part of their Pillar 3 disclosures. The European Banking Authority (EBA) delivered to the Commission the draft implementing technical standards (ITS, proposal to the Commission) laying down the templates for such disclosures. The EBA draft ITS include the main Green Asset Ratio (GAR, defined as in the Article 8 Delegated Act) and a second ratio with exposures of Small and Medium sized Enterprises in the numerator, named the 'banking book taxonomy alignment ratio' (BTAR). For a specific assessment of this proposal, see EBA, Final Report, Final draft implementing technical standards on prudential disclosures on ESG risks in accordance with Article 449a CRR, available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Draft%20Technical%20Standards/2022/1026171/EBA%20draft%20ITS%20on%20Pillar%203%20disclosures%20on%20ESG%20risks.pdf.

⁷⁹ The Disclosure Regulation (Article 2) defines financial market participant as (a) an insurance undertaking which makes available an insurance-based investment product (IBIP); (b) an investment firm which provides portfolio management; (c) an institution for occupational retirement provision (IORP); (d) a manufacturer of a pension product; (e) an alternative investment fund manager (AIFM); (f) a pan-European personal pension product (PEPP) provider; (g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; (h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013; (i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or (j) a credit institution which provides portfolio management.

⁸⁰ Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L.2022.196.01.0001.01.ENG&toc=OJ%3AL%3A2022%3A196%3ATO> C.

with the technical screening criteria under the Taxonomy Environmental Delegated Act over time. In the short and medium term, it is likely that investors would face certain implementation challenges (e.g. limited access to data and possible need for further clarification)⁸¹. These factors would likely cause the costs to be higher in the first year(s) of implementation, beyond the typical recurring level.

Non-financial entities

Companies falling under the scope of the CSRD (former NFRD) are expected to bear administrative costs of disclosures against the EU Taxonomy. These would be notably the incremental costs of collecting relevant environmental data, matching them with financial data at activity level and disclosing on the resulting EU Taxonomy alignment. These costs have to be distinguished from substantive compliance costs / adjustment costs, which refer to costs incurred to meet the technical screening criteria of a particular activity, which will be defined in the Taxonomy Environmental Delegated Act. As the EU Taxonomy is a voluntary tool, companies will choose themselves to which degree they want to adjust their activities and processes to increase their alignment with the EU Taxonomy, depending on where this is possible and where this is in their interest considering the expected balance of costs and benefits including a reduction of relevant risks and reputational benefits. Hence, these costs depend largely on different starting points and decisions of companies and their investors, which would not be feasible to estimate. Some activities in the Taxonomy Environmental Delegated Act include technical screening criteria that require verification / certification and hence may imply further adjustment costs. Therefore, due to the limited possibility to estimate the adjustment costs, **this assessment focuses on the costs of disclosure (administrative costs).**

The **costs of disclosure** related to the EU Taxonomy continue to be challenging to estimate at this stage. This preliminary assessment is hence subject to feedback and further collection of evidence from entities with experience of disclosing information on the basis of the Taxonomy Climate Delegated Act.

This estimation starts from the assessment of costs that was included in the Impact assessment accompanying the Taxonomy Climate Delegated Act⁸². The original assessment drew from a survey that was run by the Centre for European Policy Studies (CEPS) in spring 2020 to support the review of the NFRD (CEPS, 2021). As part of its survey, CEPS asked several questions to companies in relation to costs of Taxonomy-related disclosures. Only 13 non-financial companies provided estimates of administrative costs in the survey, with only

⁸¹ As described for instance in this collection of case studies by UN PRI: [Testing the taxonomy: insights from the PRI Taxonomy Practitioners Group | Technical guide | PRI \(unpri.org\)](#).

⁸² Commission Staff Working Document, Impact Assessment Report Accompanying Delegated Regulation 2021/2139, SWD(2021) 152 final, available at: https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-impact-assessment_en.pdf.

two of them providing estimates for all three cost categories that were listed⁸³. The Commission substantiated this information further through targeted outreach with companies and data providers.

The expected approximate magnitude of costs per company for large companies under the scope of the NFRD, including companies brought under the NFRD due to national transposition of the Directive⁸⁴, for the criteria captured in the Taxonomy Climate Delegated Act were estimated to be as follows:

- one-off costs approximately in the range of 40 000 – 125 000 EUR per company⁸⁵; and
- recurring costs in the range of 20 000 – 50 000 EUR per company per year.

The impact assessment accompanying the Taxonomy Climate Delegated Act acknowledged important data limitations and uncertainty when attempting to extrapolate this to arrive at an estimate of total costs. Assuming that the above cost ranges can be applied to each of the approximately 11 700 companies that were subject to the NFRD, and taking account of how Member States have transposed the Directive⁸⁶, it established an approximate magnitude of aggregate Taxonomy-related disclosure costs in the range of 280 – 875 million EUR for one-off costs in total and recurring costs in the range of 140 – 350 million EUR per year. Based on the scope extension⁸⁷ under the CSRD as initially proposed by the Commission on 21 April 2021, while keeping the same assumptions, the impact assessment estimated that the total costs would amount to approximately EUR 1 200 – 3 700 million one-off costs in total and EUR 600 – 1 500 million recurring costs per year.⁸⁸ Again, there is a large level of uncertainty around this estimate. For example, it was assumed that 40% of the companies falling under the CSRD would likely not face additional costs, as they would not have any Taxonomy-eligible revenues⁸⁹. Moreover, the experience of applying the EU Taxonomy is

⁸³ The cost categories that were listed by CEPS were i) cost of adapting accounting systems to an appropriate NACE activity level, ii) one-off cost of collecting missing information and iii) recurring cost of data collection.

⁸⁴ In total, there are around 11 700 companies in the current scope of NFRD. Technically, it could be possible that Member States would modify their rules to exempt these companies from Taxonomy-related disclosures, but there is no indication whether this can be expected and we rather take a conservative assumption that these companies will also face Taxonomy-related disclosures costs.

⁸⁵ These values are based on a range around the median response that excludes outliers, with the estimate for one-off costs being a combination of the costs for adjusting accounting systems and cost of one-off collection of missing data.

⁸⁶ Not taking account of national transposition, about 2 000 companies are under scope of the current NFRD. For these companies, the expected magnitude of costs would be around 50 -150 million EUR one-off costs and around 20 – 60 million EUR recurring costs based on our illustrative estimation.

⁸⁷ CSRD extends the scope to more than 49 000 companies.

⁸⁸ Commission Staff Working Document, Impact Assessment Report Accompanying Delegated Regulation 2021/2139, SWD(2021) 152 final, available at: https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-impact-assessment_en.pdf.

⁸⁹ This assumption is calibrated based on the findings of a study developed by Nordea for Nordic capital markets. The study was shared confidentially with the drafters of the impact assessment for the Taxonomy Climate Delegated Act. The study showed that a company, which does not have any taxonomy eligible activities would bear only negligible costs of familiarising themselves with the rules (i.e. as their economic activities would not be concerned) and of disclosing zero eligibility and alignment.

still limited. Lastly, as the final agreed CSRD scope is wider than what was initially proposed by the Commission, the presented figures should be interpreted as a floor for the cost estimate.

Since the activity scope, data availability and experience with Taxonomy disclosures relevant for the Taxonomy Environmental Delegated Act can differ from the Taxonomy Climate Delegated Act, the magnitude of costs could be different as well. To better understand the expected costs and how they differ from the figures above, the Commission sought further information about costs at company level through an informal survey to the member organisations of the Platform on Sustainable Finance and their members.

The member organisations of the Platform estimated that the costs would likely depend on the size of the organisations, the number of identified Taxonomy eligible activities and the number of employees working on the Taxonomy alignment assessments. For the latter, the companies distinguished between internal and external resources, naming a variety of people that would need to be involved in the process, including controllers, technicians, lawyers and consultants. In addition, a major cost factor that was named was the development of information systems that could facilitate the collection, analysis and consolidation of data to assess Taxonomy alignment.

More specifically, for the purposes of the Taxonomy Environmental Delegated Act the costs are expected to **differ between companies** depending on a number of factors, notably:

- Complexity of the company: The number of economic activities that the company carries out overall and the number of their activities that are (already) covered by the EU Taxonomy; the number of different geographic areas in which the company operates and the number and structure of its facilities/sites.
- The degree to which the company is already collecting data on environmental impacts⁹⁰ and the degree to which it has systems in place for collecting such data.
- The degree to which the company's existing accounting system and legal structure is aligned with the NACE classification system or other industry classification systems that can be mapped to NACE⁹¹ as well as checking for compliance with both substantial contribution and DNSH criteria.
- The company's decision to internalise or externalise certain tasks and the extent to which companies will seek verification of these data.

⁹⁰ Results from the CEPS survey indicate that at this stage only 12% of respondents have sustainability information at the required level. Further 25% had information at the right level, but were missing certain pieces of information. Information shared by another data provider suggested that roughly 27% of companies overall could be fully or somewhat ready to produce the required data.

⁹¹ A large majority of those who responded to this question in the CEPS survey indicated that they currently do not have information on turnover, operating expenditure or capital expenditure at the activity levels defined in the TEG report.

An important limitation of the CEPS survey is that it did not ask about costs of investments as desk research and preliminary testing of the questionnaire with stakeholders suggested that these costs would be negligible in the NFRD context. Nevertheless, the Commission acknowledges that these could be more significant in the case of the EU Taxonomy for companies that have not yet measured environmental data in a granular way.

Companies not falling under the scope of the CSRD, such as non-listed Small and Medium sized Enterprises (SMEs) or companies outside of the EU are not obliged to report under the Taxonomy Regulation. However, those that decide to voluntarily disclose against the EU Taxonomy are expected to face additional costs of disclosure deriving from, for example, translating certain references to EU legislation into an international context. These companies could also be impacted indirectly as a result of a growing demand among market participants for better, more comprehensive and more reliable non-financial information, including on Taxonomy alignment.

Financial entities

Financial companies, depending on their size and product scope, may be obliged to disclose their Taxonomy alignment under the CSRD framework (entity-level disclosures) or under the SFDR (product-level disclosures) as specified in the relevant delegated legislation⁹².

As for the CSRD scope, responses from the CEPS survey that the impact assessment of the Taxonomy Climate Delegated Act referred to, were even fewer and much more heterogeneous, thus not allowing to draw any meaningful conclusion. This could result from the differences between the relevant portfolios and assets to which the EU Taxonomy would be applied to, but also, importantly, from the lack of clarity at that stage about relevant KPIs, which were later specified through the Delegated Act on Article 8 of the Taxonomy Regulation⁹³. In the above approximation of costs under the CSRD scope, financial companies were implicitly included, assuming for simplicity a similar magnitude of costs per company. While this assumption may not fully hold in all cases, the overall effect on the estimated magnitude of costs should not be very large as financial companies form only a small subset of companies disclosing information under the NFRD or CSRD scopes⁹⁴.

To get further estimates on the potential costs associated with the reporting of the Taxonomy Environmental Delegated Act, financial undertakings that were members of the Platform on Sustainable Finance were informally consulted. While quantitative estimates of the costs

⁹² European Commission, Sustainability-related disclosure in the financial services sector, available at: https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en.

⁹³ 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, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178>.

⁹⁴ Based on the figures from the CEPS study, they would account for less than 10% of entities (when numbers for banks, insurance companies and companies in the overlap with Sustainable Finance Disclosure Regulation are considered).

related to the reporting against this Delegated Act were not possible, financial undertakings named the collection of data and consulting services as the two major factors of one-off costs. In terms of recurring costs, they regarded the continuous data management, portfolio assessments and auditing fees as being the most important cost factors. Therefore, based on the results of the CEPS survey and responses from the members of the Platform, the following cost categories could be expected:

- i) One-off costs related to becoming familiar with the reporting obligations of the Taxonomy and hiring/training staff or seeking external advise;
- ii) One-off costs and recurring costs related to upgrading IT systems and processes;
- iii) Recurring costs related to purchasing external data from a provider (or expanding existing data subscriptions to cover the EU Taxonomy);
- iv) Recurring costs related to mapping available data against loan books and portfolio holdings and potential engagement with investee companies; and,
- v) Recurring costs related to internal and external audits.

Financial market participants

Articles 5 and 6 of the Taxonomy Regulation require financial products falling within the scope of Articles 8 and 9 of the SFDR to update their pre-contractual and periodic disclosures to include information regarding their proportion of Taxonomy-alignment. Based on available information, the process followed would be very similar as for entity-level disclosures described above, although possibly simpler, e.g. for funds with only equity or fixed income holdings, which dominate the sustainable investment fund industry.

The following table presents a draft overview of costs for different types of stakeholders, distinguishing between direct and indirect costs (following the approach explained above) and between one-off costs and recurring (which entities have to face repeatedly, either on an annual basis or other frequency).

| | | II. Overview of costs | | | | | | | |
|-----------------------------|--------------|------------------------------|-------------|---|--|---|---|--|---|
| | | Citizens/Consumers | | Financial entities and financial market participants | | Businesses | | Public administrations | |
| | | One-off | Recurrent | One-off | Recurrent | One-off | Recurrent | One-off | Recurrent |
| Taxonomy disclosures | Direct costs | None | None | One-off costs related to Taxonomy disclosure: i) developing or adapting adequate IT tools and processes (including in cases of regulatory updates); ii) familiarisation with the reporting obligations and hiring/training staff; iii) expected higher costs when collecting information for the first time (higher costs can be expected where information from investee companies would not be available). Some of these tasks could be handled through external service providers. | Taxonomy-related disclosures by financial intermediaries captured by CSRD (on entity level) or SFDR (on financial product level): i) updating the collected information, IT tools and processes, ii) acquiring relevant data to cover data gaps; iii) methodologies and expertise to assess data, iv) internal and external auditing, v) publishing the information. | Assessment and disclosures on Taxonomy alignment. Expected cost categories: i) familiarisation with the legislation and training; ii) setting up and updating internal processes and systems (including in cases of regulatory updates); iii) setting up data collection (for those who do not capture such data for other purposes); iv) matching financial and non-financial information at an appropriate economic activity level ⁹⁵ . Some of these tasks could be handled through external service providers (which would imply somewhat higher costs than when done internally). | Assessment and disclosures on Taxonomy alignment. Expected cost categories: i) updating the information, IT tools and processes; ii) publishing the information; iii) internal and external auditing. | Regulators and supervisors in the EU who have already developed their own taxonomies could face costs to adapt their system (direct/indirect depending on use relation to Article 4 of the Taxonomy Regulation). | Monitoring and enforcement of compliance with Taxonomy Regulation ⁹⁶ |
| | Indirec | | Disclosure- | | Potential pressure | | At risk of | Regulators and | |

⁹⁵ This cost category is expected to be the costliest as companies typically do not capture business segments on the basis of economic activity levels as defined in the delegated acts under the EU Taxonomy. The NACE classification system can be used as a starting point because it provides a framework to collect and present a wide range of statistics in economic fields based on economic activity. For this purpose, relevant NACE codes for each economic activity in the delegated act are listed in the respective descriptions. However, they should only be seen as indicative and sub-ordinate to the specific description of an activity.

⁹⁶ As part of existing enforcement under relevant legislation.

| | | | | | | | | | |
|--|---------|--|---|--|---|--|--|---|--|
| | t costs | | related costs faced by intermediaries could be passed on into the cost of investment products with sustainability objectives. However, this effect would likely be limited by a strong competition in the sustainable funds market. | | to provide information from institutional investors using wholesale products. | | competitive disadvantage, potential pressure to provide information by those not subject to CSRD from investors or businesses across value chains. | supervisors in the EU who have already developed their own taxonomies could face costs to adapt their system (direct/indirect depending on use relation to Article 4 of the Taxonomy Regulation). | |
|--|---------|--|---|--|---|--|--|---|--|

Table 21: Overview of costs

6. MONITORING AND EVALUATION

The initial impact assessment that accompanied the Taxonomy Regulation proposal⁹⁷ foresees to monitor success against the objective of “providing clarity at EU level on what are sustainable economic activities”. In line with the Commission’s Better Regulation agenda and the Inter-institutional Agreement on Better Law-Making⁹⁸, the Commission will monitor indicators relevant for the calibration and use of this delegated act as part of monitoring and evaluation activities for the broader Taxonomy Regulation.

Monitoring and review of the technical screening criteria

Monitoring for the delegated act will be done in close cooperation with the Platform on Sustainable Finance as established by Article 20 of the Taxonomy Regulation. The main tasks related to the Platform’s monitoring function are the following:

- i) Advise the Commission on the technical screening criteria referred to in Article 19 of the Taxonomy Regulation, and the possible need to update those criteria;
- ii) Analyse the impact of the technical screening criteria in terms of potential costs and benefits of their application;
- iii) Advise the Commission on the usability of the technical screening criteria, taking into account the need to avoid undue administrative burdens;
- iv) Assist the Commission in analysing requests from stakeholders to develop or revise technical screening criteria for a given economic activity;
- v) Monitor and report regularly to the Commission on EU and Member State level trends regarding capital flows towards sustainable investment; and
- vi) Advise the Commission on the possible need to amend the Taxonomy Regulation.

Further, the Platform in its second mandate will focus on monitoring the usability of the technical screening criteria and the data availability and quality, and advise on the possible measures to improve it, building on a range of stakeholder engagement activities. To define the mandate of the Platform, the Commission prepared relevant scoping papers that among others specify how the Platform would deliver on its monitoring role. The monitoring activities done by the Platform on Sustainable Finance will hence be a key input for the monitoring and future reviews of this policy.

⁹⁷ Inception Impact Assessment. Commission Delegated Regulation on a climate change mitigation and adaptation Taxonomy”, available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:Ares\(2020\)1680974&rid=6](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:Ares(2020)1680974&rid=6).

⁹⁸ Inter-institutional Agreement between the European Parliament, the Council of the European Union and the European Commission on Better Law-Making, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016Q0512%2801%29>.

Given the dynamic nature of the EU Taxonomy, regular monitoring and evaluation is also needed to update technical screening criteria in line with market developments⁹⁹. The updates are foreseen to be carried out approximately every five years, balancing the need to reflect the contribution of the latest market-ready technologies and the cost of adapting relevant systems to the changes in the criteria. In this regard, the Platform on Sustainable Finance will feed into this work, which will reflect available evidence and stakeholder input¹⁰⁰. In addition, the Commission has set up a Stakeholder Request Mechanism, an online tool that allows stakeholders to make suggestions on new activities to be added to the Taxonomy or to make potential changes to the technical screening criteria of existing activities.¹⁰¹ The Platform will carefully assess stakeholders' requests in view of recommending technical screening criteria for a new activity, or changes to an existing activity to the Commission.

In the case of tightening the criteria for certain economic activities, it is possible that some activities that had previously been considered Taxonomy-aligned may not qualify anymore. However, when tightening the technical screening criteria, the Platform and the Commission will be required by the Taxonomy Regulation to take into account the potential market impact, including the risk of certain assets becoming stranded as a result of the transition, as well as the risk of creating inconsistent incentives for sustainable investing. To identify potential unintended consequences and impacts of the EU Taxonomy and make its calibration faster to respond in a timely manner to potential distortions, the Commission services will reflect together with the Platform on Sustainable Finance on the collection of further data to support monitoring, such as introducing the possibility for stakeholders to suggest other changes supported by evidence for the Platform's consideration. The Platform's role in advising the Commission on Taxonomy criteria and on the potential review of the Taxonomy Regulation will ensure that the framework is flexible enough to respond to potential risks and distortions in a timely manner and adequately consider stakeholder feedback.

Beyond the timely delivery of the delegated act, the Platform on Sustainable Finance and the Commission would monitor carefully that the calibration of the list of activities and technical screening criteria continues correspond to the requirements set out in Article 19 of the Taxonomy Regulation with a view to identifying possible needs to update this calibration. The Platform and Commission would also monitor the expected results from the perspective of investors and businesses – i.e. whether the information provided by the EU Taxonomy is useful and sufficiently clear. The table below summarises the success indicators against which the delegated act could be monitored and what the expected data sources would be.

⁹⁹ A specific aspect of the updates will be the adjustment of technical screening criteria for transitional activities. These are foreseen to be set stricter over time, as we move closer to 2050 and technologies enabling the transition become more available.

¹⁰⁰ Stakeholder consultation and other activities will be specified by the Platform's stakeholder outreach strategy.

¹⁰¹ [placeholder for a hyperlink to the Stakeholder Request Mechanism (once available)]

| Type of indicator | Measurement of success | Indicator | Expected data source, frequency | Collected by | Target/direction |
|-----------------------|--|--|--|---------------------------------|---|
| Calibration of the DA | DA achieves coherence and consistency across EU legislation and objectives (requirement one) | Relevant EU rules and their changes are reflected timely in the DA ¹⁰² . | EU legislation including delegated legislation, to be monitored continuously | COM | Mapping is conducted; all relevant laws from the mapping are submitted for consideration to Platform on Sustainable Finance |
| Calibration of the DA | DA ensures environmental ambition and integrity (requirement two) | The calibration fits with the sectoral policies and pathways under the European Green Deal. The calibration is adapted according to latest scientific findings | COM communications, to be monitored continuously | COM | Mapping is conducted; any changes in environmental ambition based on published documents are considered in the following update |
| Calibration of the DA | DA promotes a level playing field (requirement three) | Relevant technology developments are considered. Platform on Sustainable Finance will consider whether it is appropriate to develop further indicator(s) for level playing field. | Dedicated Stakeholder Request Mechanism of the Platform on Sustainable Finance, collected continuously and considered before a planned update ¹⁰³ | Platform on Sustainable Finance | Feedback mechanism set up in Q1 2023 all suggestions provided are noted by the Platform on sustainable finance. |
| Calibration of the DA | DA is usable (requirement four) | N/A (this aspect will be monitored indirectly with regards to the expected result) | - | - | - |

¹⁰² Changes and in particular rules newly introduced would be monitored on a continuous basis and submitted to the Platform on sustainable finance for consideration promptly, with adequate time to be considered ahead of a planned update.

¹⁰³ Within the boundaries set by the Taxonomy Regulation, the Platform on sustainable finance could also recommend to update the criteria earlier than foreseen, when a new technology expected to deliver on both SC and DNSH criteria appears.

| | | | | | |
|------------------|---|--|-----------------|---|---|
| Result indicator | Information considered relevant by investors | Surveyed investors consider the contents of the DA relevant and credible | Survey (annual) | Platform on Sustainable Finance via COM website | TBD (e.g. majority of respondents, and increasing over time) |
| Result indicator | Information sufficiently clear for businesses | Surveyed companies consider the contents of the DA sufficiently clear | Survey (annual) | Platform on sustainable finance via COM website | TBD (e.g. half of respondents or more, increasing over time). |

Table 22: Measuring success of the EU Taxonomy for climate change mitigation and adaptation as established by the delegated act

Companies from different sectors expressed concerns whether or not they will meet the criteria set out in this DA. Commission services have reflected on the inclusion of sectoral indicators in the table above, but concluded that indicators based on sectoral or activity alignment share would ultimately measure the approximate readiness of different sectors for environmental sustainability, treating the EU Taxonomy as a roadmap, rather than considering whether the EU Taxonomy has been well calibrated with regards to the level-playing field. Such information may nevertheless be collected as a contextual indicator. Ongoing close cooperation with the Platform as well as Member States Expert Group on Sustainable Finance and other stakeholders is expected to help detect potential further unintended consequences, shall they arise.

7. ANNEX

7.1. List of prioritised activities by the contractor

Ahead of the start of work of the Platform on Sustainable Finance, the Commission contracted the consultancy company Ramboll¹⁰⁴ to assist with the identification of relevant economic activities that could make a substantial contribution to one of the four environmental objectives under the EU Taxonomy. Based on a thorough methodology that is outlined in Section 3.1 of this staff working document, the contractor identified 67 activities across the four environmental objectives.

| Sustainable use and protection of water and marine resources | Transition to a circular economy | Pollution prevention and control | Protection and restoration of biodiversity and ecosystems |
|---|--|---|--|
| Total: 16 activities | Total: 20 activities | Total: 17 activities | Total: 14 activities |
| Growing of non-perennial crops | Manufacture of rubber and plastic products | Crop production (including support activities for crop production) | Crop production |
| Growing of perennial crops | Manufacture of computer, electronic and optical products | Manufacture of chemicals and chemical products | Animal production |
| Manufacture of chemicals and chemical products | Manufacture of electrical equipment | Other passenger land transport; freight transport by road and removal services; individual traffic | Tourism, sports and leisure activities |
| Inland passenger water transport | Manufacture of textiles | Manufacture of fabricated metal products + electrical and electronic equipment + motor vehicles and transport equipment | Forestry and logging |
| Inland freight water transport | Manufacture of wearing apparel | Manufacture of basic pharmaceutical products and pharmaceutical Preparations | Construction including conversion from other land uses |
| Sea and coastal passenger water transport | Construction of buildings | Electric power generation, transmission and distribution | Passenger or freight land transport |
| Sea and coastal freight water transport | Manufacture of leather and related products | Manufacture of textiles + Manufacture of wearing | Hydropower (dams, weirs, run-off-the-river) |

¹⁰⁴ Service contract: Data collection for environmental objectives (ST2.826904) under Framework Contract ENV.F.1/FRA/2019/0001.

| | | | |
|--|---|---|---|
| | | apparel | |
| Manufacture of rubber and plastic products | Manufacture of food products | Manufacture of soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations | Marine fishing |
| Manufacture of fabricated metal products + machinery and (electrical) equipment | Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | Manufacture of cement, lime and plaster | Water transport |
| Manufacture of leather and leather related products | Civil engineering | Water transport | Wind, wave and tidal power |
| Water collection, treatment and supply | Manufacture of chemicals and chemical product | Animal production | Manufacture of food and beverage products |
| Sewerage | Water collection, treatment and supply | Water collection, treatment and supply | Conservation or restoration of habitats (sometimes in connection with low impact tourism) |
| Waste collection, treatment and disposal activities; materials recovery | Sewerage | Sewerage | Forest fire fighting |
| Remediation activities and other waste management services | Waste collection, treatment and disposal activities; materials recovery | Waste collection, treatment and disposal activities; materials recovery | Remediation activities |
| Implementation of nature-based solutions for flood risk prevention and protection for both inland and coastal waters | Remediation activities and other waste management services | Waste Collection | |
| Construction of flood risk prevention and protection infrastructure for inland and coastal floods | Repair of fabricated metal products, machinery and equipment | Materials recovery | |
| | Remediation activities and other waste management services | Remediation activities and other waste management service | |
| | Maintenance and repair of motor vehicles | | |
| | (Sale), maintenance and repair of motorcycles and related parts and | | |

| | | | |
|--|--|--|--|
| | accessories | | |
| | Repair of computers and personal and household goods | | |

Table 23: List of prioritised activities by the contractor

7.2. Stakeholder consultations

Stakeholder views were collected at every stage of the development of the Taxonomy Environmental Delegated Act. Notably, during the preparation of its recommendations to the European Commission, the Platform on Sustainable Finance undertook a call for feedback on a draft report on preliminary recommendations for technical screening criteria regarding the remaining four environmental objectives. In addition, the Commission carried out a public consultation on the draft Delegated Act. Lastly, the Member States Expert Group of the Commission provided its feedback to the recommendations of the Platform and the draft Delegated Act.

Overview of the consultation activities outlined in this Annex:

- Call for feedback by Platform on Sustainable Finance on draft report of preliminary recommendations for technical screening criteria for the EU taxonomy
- Member States Expert Group feedback on Platform recommendations
- Public Consultation of the draft Taxonomy Environmental Delegated Act by the Commission
- Member States Expert Group feedback on Commission draft Delegated Act

7.2.1. Call for Feedback by PSF draft report of preliminary recommendations

The Platform on Sustainable Finance held the call for feedback on draft criteria to the four remaining environmental objectives from 3 August to 28 September 2021. The goal of this opportunity for stakeholder feedback was to gather further evidence and feedback on the draft recommendations for technical screening criteria proposed by the Platform.

The consultation was organized in relatively small set of structured questions to get feedback on Substantial Contribution criteria (5 questions), Do-no-significant-harm criteria (3 questions), Horizontal considerations with respect to the proposed technical screening criteria (2 questions) and a question on general feedback.

In total, 514 unique responses were received to the call for feedback. The largest part of respondents were business associations (38% of all respondents), while non-EU citizens were the smallest group (1%). 32% of the organisations responding to the call for feedback were large (250 employees or more), while 30% of those responses came from micro-organisations (9 employees or less).

Geographically, respondents were mostly based in Belgium (28%), Germany (13%), France (10%) and Sweden (8%). While 63% of respondents operate in the EU, 25% of the respondents operate globally.

Most responses were received for the Manufacturing (15%), Agriculture, forestry and fishing (12%), Electricity, gas, steam and air condition supply (10%). Yet, it should be noted that the Manufacturing sector encompassed more economic activities in the draft made public by the Platform for feedback.

Across the sectors, the comments indicated concerns about the robustness of the scientific basis for the criteria, the administrative burden on reporting companies, the availability of relevant data, the clarity of terms and concepts used and the alignment with existing legislation. The submissions also revealed diverging opinions on the level of ambition seen as adequate by stakeholders. For some sectors and activities, like Civil Engineering, some stakeholders argued that criteria should be adapted to the respective situation in each Member States.

The Technical Working Group of the Platform on Sustainable Finance carefully analysed the comments received and subsequently developed further and improved the technical screening criteria. Changes were made as a result of the comments, but only where those changes and comments were in line with the methodology for criteria development, that were consistent with the Taxonomy Regulation and in line with environmental ambition levels consistent with that Regulation.

7.2.2. Member States Expert Group feedback on Platform recommendations

The Member States Expert Group, which has a formal legal base as an expert group under the Taxonomy Regulation, was given the opportunity to provide feedback on the final recommendations of the Technical Working Group of the Platform in a four-week period. Comments were received in written and were exchanged on 15 December 2022 and 24 January 2023. Member States' comments covered both usability aspects of the EU Taxonomy and its future implementation, as well as technical aspects in the different sectors.

Overall, the Commission received detailed feedback from 13 Member States on the Platform recommendations. In general, Member States welcomed the Platform recommendations and the proposed staged approach of the Commission to prioritise activities for a first Taxonomy Environmental Delegated Act and further work on the remaining activities. Most Member States provided elaborate and sector-specific comments.

With regard to the scope of the feedback, Member States also commented on usability and design questions. Some Member States referred in their comments to the Taxonomy Regulation and expressed the wish for the Commission to clarify certain disclosure requirements.

The summary of Member States' feedback is split into three parts: (1) design and usability questions related to the EU Taxonomy; (2) cross-cutting issues on the criteria and activities; and (3) sector-specific feedback on the Platform recommendations. While the first section does not

fall under the scope of the delegated act, the Commission would like to use the opportunity of the meeting with Member States to clarify outstanding questions. The feedback on the technical annex and cross-cutting issues will be considered by the Commission for the preparation of the delegated act.

7.2.2.1. Usability and Design questions

Further guidance on disclosure obligations

Almost all Member States expressed a wish for additional usability guidance and tools from the Commission. With regard to the disclosure obligations under the Taxonomy Regulation, Member States called on the Platform and the European Commission to enhance the user friendliness and readability of a future delegated act, for the criteria to be easily applicable and intelligible for undertakings and stakeholders as it was applied to the Taxonomy Climate Delegated Act. In particular, Member States mentioned that the headings should clearly indicate the relevant environmental objective to which an economic activity makes a substantial contribution. MS also asked for special attention to be placed on developing criteria with no scope for interpretations and clear definitions, avoiding multiple environmental objectives for the same economic activity to prevent the opening of loopholes. For example, Member States deemed the reference to “essential use” problematic as not yet defined under EU Law. Furthermore, Member States stressed the importance of transparency in the preparation of delegated acts and notes.

Level of ambition

Several Member States have commented on the level of ambition of the defining criteria. Member States mentioned that a coherent level of ambition needs to be ensured across all environmental objectives and the Commission should consider a cross-activity and cross-objective review to ensure consistency of approach with existing EU regulations and national laws. Furthermore, Member States stressed the importance of scientific evidence and strengthening of criteria by a systemic perspective, including through additional value chain considerations, especially in relation to activities contributing to the transition to a circular economy.

Viability

Member States have raised concerns about the viability of the criteria, as some Member States and micro enterprises (SMEs) cannot implement them due to intrinsic conditions, resulting in the obstruction of setting out a sustainable trajectory proportional to its capabilities. Member States worry this could potentially negatively reflect on the respective Member States and entities as non-aligned to the Taxonomy. Therefore, they called the Commission to take into account the specificities of Member States and the viability of meeting specific technical screening criteria in the future delegated act.

7.2.2.2. Cross-cutting remarks

Inconsistencies and factual errors

Some Member States pointed out discrepancies between some of the definitions that are used in the Platform report, e.g. the definition of repair, refurbishment and remanufacturing do not correspond to the definitions in the proposal for Ecodesign for Sustainable Products Regulation. Member States also pointed out that the definition of substances of concern/SVHC needs to be aligned between section. Furthermore, MS noted that the report refers in several places to Implementing Decision (EU) 2017/1442, which was annulled in January 2021 by a judgment of the European Court of Justice (case T-699/17). MS recall if there will not be any redraft approved, the implementing Decision 2017/1442 will expire in January 2024.

Inclusion of further sectors and activities

Several Member States indicated that additional activities should be included, in particular the aviation activity in transport, manufacture of transport, as well as waste to energy and mining activities.

Clarify criteria for enabling activities

Some MS underlined the importance of developing criteria for the bioeconomy as enabling technologies. In addition, MS expressed the need to clarify the threshold for an enabling activity to be considered as an enabling technology.

7.2.2.3. Sector specific remarks

Agriculture and Forestry

On agriculture, Member States generally requested further deliberation on the technical screening criteria proposed by the Platform require considerably as currently set out in reports, the criteria are not proportionate and only practicable for a small number of farm businesses.

Since the TFEU does not refer to a common forestry policy, many Member States recalled on the importance regarding the technical screening criteria of forestry to consider the differences in the natural conditions of Member States as well as their impact on agricultural and forestry practices applicable in the region, following Article 191 TFEU. In preparing its policy on the environment, the Union shall take account environmental conditions in the various regions of the Union, the socioeconomic development of the Union as a whole and the balanced development of its regions.

Furthermore, MS noted that the agriculture criteria should represent a balance between the Platform proposal and the Common Agricultural Policy (CAP) framework. Some Member States also called for organic farming to be included as one of criteria for substantial contribution to biodiversity.

Manufacturing

For manufacturing activities, Member States commented mostly on manufacture of chemical products and manufacture of plastic packaging goods. On manufacture of chemical products, Member States pointed out to include the substitution of PFAS that are not yet restricted under the REACH Regulation. In addition, Member States recalled the concern on the absence of definition of ‘essential use’ for chemicals, as the essential use concept is argued to be established via EU-legislation. Furthermore, Member States stressed the importance of including a concentration limit for chemicals and pharmaceuticals.

In addition, Member States addressed the need of stricter criteria regarding the manufacturing of plastic and packaging goods and highlighted the importance of establishing EU-wide harmonised standards for recycler as well as the need for further improvements of recycling technologies. Member States also thanked the Platform for developing criteria on the manufacture of copper and encouraged further development on the extraction of critical raw materials.

As regards to the fishing of textiles, some Member States tackled the importance of assessing the derogations within the Taxonomy to the use of substances of concern.

Civil engineering and buildings

Member States welcomed the criteria developed by the Platform in the construction and civil engineering sector. However, several Member States expressed concerns that the thresholds set by the Platform regarding the use of recycled or reused materials in the construction or renovation of buildings, as well as in the use of concrete for civil engineering were impossible to achieve due to national constraints. In addition, they asked for further clarifications on the proposed criteria, for instance regarding the use of national documentation as a replacement for the Level(s) framework. Lastly, some Member States commented on the DNSH criteria of the activities, arguing that they were too strict to be applied in practice.

Water supply, sewerage, waste management, remediation, conservation and restoration, tourism and refurbishment of hydropower

MS mostly welcomed the recommendations of the Platform in this sector. They provided mainly technical comments regarding calibration of the technical screening criteria, their alignment with existing legislation, and made varying suggestion regarding the level of ambition.

Regarding hydropower, many Member States advised to avoid absolute thresholds with regards to the size and type of installations for refurbishment of hydropower..

Member States welcomed the inclusion of desalination in the Platform’s report but called for further development of the DNSH criteria for circular economy and pollution.

Transport, Manufacture of transport

Overall, MS commented on the importance of maintaining the EU level of ambition as regards to the technical screening criteria. Some Member States noted that the DNSH criteria for the transition to a circular economy should set light standards that promote the priorities in the

Sustainable Products Initiative and supports the EU’s strategic autonomy. In addition, some Member States encouraged to take into account measures in the area of retrofitting or fuel efficiency programs, as these can achieve CO2 reductions in the existing fleet, which is particularly important in the air freight segment, where alternative, taxonomy-compliant aircraft are only available to a limited extent.

Furthermore, several Member States expressed their strong support for the inclusion of aviation criteria in the Taxonomy. Member States reiterated the inclusion of Sustainable Aviation Fuels (SAF) infrastructure at airports and the recycling of aircraft in 2021 Steer Group Report and partially in the Platform’s previous draft (and subsequently dropped). Member States noted that including airport infrastructure in the EU Taxonomy would allow the possibility of obtaining green financing in the form, for example, of green EU bonds.

7.2.3. Public Consultation of the draft Taxonomy Environmental Delegated Act by the Commission

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7.2.4. Member States Expert Group feedback on Commission draft Delegated Act

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