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European Commission

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	Commission Delegated Regulation on a climate change mitigation and adaptation taxonomy
LEAD DG (RESPONSIBLE UNIT)	Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), Unit B2 – Sustainable Finance
LIKELY TYPE OF INITIATIVE	Commission Delegated Act
INDICATIVE PLANNING	Q4 2020
ADDITIONAL INFORMATION	https://ec.europa.eu/info/business-economy-euro/banking-and-finance/green-finance_en

The Inception Impact Assessment is provided for information purposes only. It does not prejudge the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception impact assessment, including its timing, are subject to change.

A. Context, Problem definition and Subsidiarity Check

Context

In order to meet the EU's climate and energy targets for 2030, its adaptation- and zero pollution ambition for 2050 and in order to protect the EU's natural capital and citizens' health and well-being from environment-related risks in line with the Paris Agreement, it is necessary to reorient investment towards environmentally sustainable projects and activities. The lack of a clear definition of what is "environmentally sustainable" currently presents one of the biggest obstacles to scale up green investment, as outlined in the Action Plan on Sustainable Finance. For this purpose, the Regulation on the establishment of a framework to facilitate sustainable investment ('Taxonomy Regulation') has set out a framework to define environmentally sustainable economic activities for investment purposes. This will ultimately facilitate to mobilise green investments, supporting the objectives of the European Green Deal.

The Taxonomy Regulation requires the Commission to adopt Delegated Acts to establish technical screening criteria for determining under which conditions a specific economic activity is considered to contribute substantially to one or more of the EU's environmental objectives while not causing significant harm to any of the other EU's environmental objectives. This initiative represents the first Delegated Act setting out these economic activities and technical screening criteria, focusing on climate change mitigation and adaptation and building on the recommendations of the Technical Expert Group on Sustainable Finance (TEG). A second Delegated Act will be adopted in 2021 to set out corresponding activities and associated technical screening criteria in relation to the other four environmental objectives defined in the Regulation. The list of economic activities and their associated technical screening criteria will be expanded and updated over time by the Platform on Sustainable Finance that is expected to operate from autumn 2020 on. A separate Delegated Act in mid-2021 will complement the Regulation as regards the requirements for large undertakings to publish information on how and to what extent their activities align with the EU taxonomy.

Problem the initiative aims to tackle

The initiative is necessary to implement the Taxonomy Regulation that has been introduced to address the lack of clarity on which economic activities can be considered environmentally sustainable for investment purposes. As outlined in the impact assessment underpinning the Taxonomy Regulation, several market-led and Member State schemes currently exist that define criteria for environmentally sustainable investments and underlying assets differently. This leads to fragmentation across markets and borders and allows for potential greenwashing. The current situation is also problematic for businesses that would like to reorient their business activities in line with environmental targets to attract the interest of green investors. The situation therefore hampers investments and business decisions that would contribute to the EU's environmental objectives.

Basis for EU intervention (legal basis and subsidiarity check)

The Delegated Act is required under Articles 6(2) and 7(2) of the Taxonomy Regulation. The overarching regulation is based on Article 114 of the Treaty on the Functioning of the European Union, allowing EU initiatives to improve the functioning of the internal market, in this case concerning the market for sustainable investments.

B. Objectives and Policy options

The objectives of the initiative, in line with the Taxonomy Regulation, are to establish technical screening criteria for economic activities that make a substantial contribution to the EU's environmental objectives on climate change mitigation and climate change adaptation while avoiding significant harm to the other environmental objectives. The initiative will need to be developed in accordance with the Taxonomy Regulation, in particular with the principles in Article 14, including the requirement to assess the alignment of the technical screening criteria with existing EU legislation. The objectives of the regulation as well as the requirements for the Delegated Act clearly frame the empowerment to the Commission. The initiative will be designed within these boundaries, benefitting from the work of the Technical Expert Group on Sustainable Finance.

The resulting set of activities and criteria will provide clarity on what can be considered environmentally sustainable for investment purposes and thus enhance the information that businesses and investors have at their disposal.

C. Preliminary Assessment of Expected Impacts

Likely economic impacts

Depending on the uptake of the EU taxonomy and its application by relevant stakeholders, expected economic impacts are those initially foreseen in the impact assessment underpinning the Taxonomy Regulation. The EU taxonomy is set to help directing more investments into environmentally sustainable activities that substantially contribute to the EU's environmental objectives.

The likely economic impacts of this Delegated Act containing the list of economic activities and associated technical screening criteria relate to the increase of harmonised information available to investors and businesses. The Delegated Act will provide technical details on the conditions and granular performance thresholds that an economic activity needs to meet to be considered environmentally sustainable. It is expected to help companies and investors to identify which activities are already substantially contributing to climate change mitigation and adaptation for the sectors covered so far.

Likely social impacts

Depending on the uptake of the taxonomy and as set out in the impact assessment underpinning the Taxonomy Regulation, the EU taxonomy is expected to have indirect social impacts. By directing more investments into environmentally sustainable activities, relating in particular to climate change mitigation and adaptation, the EU taxonomy will help delivering a healthier and more climate-resilient living environment. The transition towards a more low-carbon EU economy also involves structural sectoral changes, and changes in business models and skill requirements. This could result in social impacts, for instance, by affecting employment in transitioning sectors. The taxonomy might accelerate the transition of certain sectors and therefore contribute indirectly to social impacts of the transition.

In addition, the EU taxonomy incorporates minimum safeguards, which will ensure that companies that want to carry out their activities aligned with the EU taxonomy, comply with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the International Labour Organisation's declaration on Fundamental Rights and Principles at Work. Depending on the uptake of the EU taxonomy, companies' monitoring of their compliance with the minimum safeguards might intensify if they want their activities to qualify under the EU Taxonomy. Social impacts are expected to be neutral or marginally positive.

Likely environmental impacts

Depending on the uptake of the EU taxonomy and its application by relevant stakeholders, the taxonomy is expected to have positive environmental impacts once applied in business and investment decisions as outlined in the impact assessment underpinning the Taxonomy Regulation, as more capital can be channelled into those activities that contribute most to the EU's environmental objectives. The EU taxonomy is further designed to ensure that activities that make a substantial contribution to one objective cannot cause significant harm to the other environmental objectives. Hence, impacts are expected to be neutral or marginally positive in other environmental areas, depending on how investors and companies decide to make use of this framework.

The Delegated Act in particular will provide harmonised definitions on which economic activities will deliver a substantial contribution to the environmental objectives climate change mitigation and adaptation and will help to increase transparency for companies and investors. Businesses may be encouraged to re-orient their underlying activities and practices in view of complying with the criteria established by the Delegated Act.

Likely impacts on fundamental rights

Depending on the uptake of the taxonomy and as set out in the impact assessment underpinning the Taxonomy Regulation, the EU taxonomy is expected to have indirect but positive impacts on fundamental rights. The minimum safeguards included in the Taxonomy Regulation will ensure that companies that want to carry out their activities aligned with the EU taxonomy, need to comply with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the International Labour Organisation's declaration on Fundamental Rights and Principles at Work.

Likely impacts on simplification and/or administrative burden

The EU taxonomy will reduce the costs of accessing sustainability information for stakeholders, public authorities and policy makers. At the same time, following from the Taxonomy Regulation requirements, large companies and financial market participants will face new administrative burdens with collecting and disclosing information required under the Taxonomy Regulation. Public authorities will incur additional costs in monitoring and enforcing the new disclosure requirements included in the Taxonomy Regulation.

This Delegated Act does, however, not pose new administrative burdens or simplification as such, as it simply provides the technical details required under the Regulation.

D. Evidence Base, Data collection and Better Regulation Instruments

Impact assessment

A proportionate impact assessment is being prepared to accompany the preparation of this initiative.

Evidence base and data collection

The Commission work will benefit from the report delivered by the Technical Expert Group on Sustainable Finance (TEG), which recommended a list of economic activities and technical screening criteria. This work draws on available scientific literature, international practice based on existing market-led classification systems, and consultations of experts and the public. The Commission will involve experts from concerned DGs including its Joint Research Centre (JRC) in the development of the Delegated Act and include further evidence at its disposal to complement TEG's analysis where needed.

Consultation of citizens and stakeholders

There have been several rounds of open calls for feedback informing the work of the TEG. The TEG consulted on their interim report on taxonomy from December 2018 to January 2019 and on the technical report from June to September 2019. In addition, the TEG organised several workshops in March 2019 with additional experts on the sectors covered by their work. A stakeholder dialogue on the TEG's reports took place on 24 June 2019 and another took place on 12 March 2020. Given the various rounds and forms of stakeholder engagement and feedback of the TEG concerning their recommendations, there will be no further specific public consultation. However, stakeholders will be able to provide feedback on this inception impact assessment. They will also have the opportunity to provide feedback on the expected use of the EU taxonomy more broadly and in the context of the open public consultation on the Renewed Sustainable Finance Strategy and will be consulted on the Draft Delegated Act once it will be published ahead of its expected adoption in Q4.

Will an Implementation plan be established?

As the Delegated Act does not have to be transposed, an implementation plan is not foreseen. However, if deemed necessary, additional guidance on the application and use of the Taxonomy may be provided in the form of Commission guidance.