CANDRIAM ACADEMY
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European Taxonomy

A guide to sustainable investing

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Marketing communication

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What is European Taxonomy?

European taxonomy is a **catalogue of economic activities**, such as electricity production and vehicle manufacturing, and the **criteria** which must be respected for these activities to be considered sustainable. Initially, only activities contributing to **mitigating climate change** or adapting to its consequences are included. More specifically, the **seven business sectors** currently making the strongest contribution to these first two goals are included.

The taxonomy distinguishes between activities which contribute **directly** to the fight against climate change, such as developing well-insulated energy-efficient office buildings, and those which **enable** other activities to achieve this goal, e.g., the production of insulating building materials or the manufacture of low-tension light bulbs.

In addition to contributing towards mitigating climate change, these activities must not **significantly infringe** upon the other four EU environmental goals detailed below and must also respect certain minimum social standards.

Figure 1: Macro sectors within the taxonomy scope of application

- **Agriculture, forestry and fishing**
- **Manufacturing**
- **Electricity, gas, steam and air conditioning supply**
- **Water, sewerage, waste and related remediation**
- **Transportation and storage**
- **Buildings, construction and & estate activities**
- **Information and Communication Technologies (ICT)**

Source: https://indeed.headlink-partners.com/2020/06/03/la-taxonomie-europeenne-une-revolution-pour-la-finance-durable/?utm_source=rss&utm_medium=rss&utm_campaign=la-taxonomie-europeenne-une-revolution-pour-la-finance-durable

Who defined these criteria?

A group of around 50 experts from industry, finance, European institutions and the broader society was set up by the European Commission in 2018 to review taxonomy. The group published several reports, including a final technical review in March 2020 which served as a basis for the regulation adopted by the European parliament and the member states in July 2020.

Why introduce taxonomy?

Europe has set key environmental goals which include **carbon neutrality by 2050**. This objective implies transformation in many sectors towards achieving these goals. The taxonomy defines the standards used to guide these changes.

Capital flows also play an essential role within transformation. For this reason, the taxonomy addresses companies and investors, aiming to redirect capital towards activities which comply with the environmental goals.

Who will use the taxonomy?

Companies	Certain groups such as renewable-energy producers and low-energy building companies are already practically aligned. Others will have to undergo transformation in order to comply with the taxonomy. For example, companies which have a highly negative direct environmental impact, but which produce indispensable goods for sustainable transition, will be subject to stricter energy efficiency and environmental impact reduction criteria before they can be considered sustainable.
Investors	Asset owners, including pension funds and insurance groups, and asset managers will have to disclose the proportion of their investments in taxonomy-compliant companies. They will also be able to develop new financial, savings or investment products which are in line with the taxonomy. Investors will be able to gauge the sustainable rating of their investments through the proportion which comply with the taxonomy. The creation of a European ecolabel for investment products, based largely on taxonomy criteria, will set an initial sustainable pan-European investment product standard. However, as this label will be inherently based on environmental factors, it will struggle to replace the myriad of local generalist ESG labels which already exist.
Government states	The taxonomy provides a guiding framework for subsidies towards sustainable business activities. It could be used by the European Central Bank to launch a bond repurchase programme which takes environmental factors into consideration.

When does it come into force?

Enforcement will be staggered over several years.

From 2022 onwards, investors and companies will have to disclose the sustainable proportion of their investments or activities. For companies, implementation will undoubtedly be staggered over several years.

By 2023, the taxonomy will be extended to the four other EU environmental goals, in addition to the two already covered, i.e. mitigating climate change and adapting to its consequences.

Extending the scope of the taxonomy will enable more companies providing solutions towards achieving environmental goals to be covered than currently.

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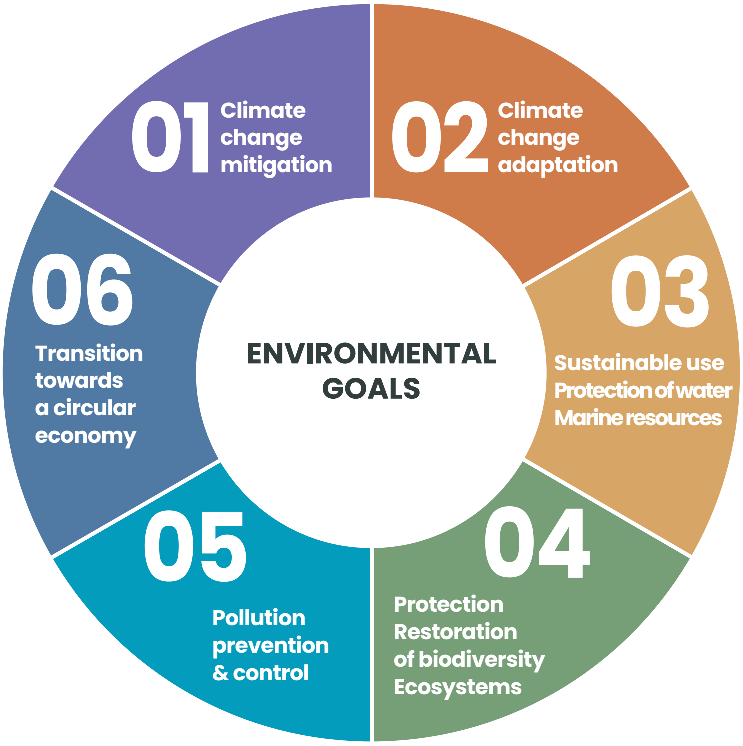
Although European governments agree on environmental goals, as social factors are not yet subject to a broad consensus, this complicates the creation of a specific taxonomy.

Figure 2: Environmental Goals



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And what about social factors?

As referred to above, the taxonomy already includes social factors through the requirement for companies to align by respecting minimum standards in terms of human rights and labour conditions.

For the time being, however, no social taxonomy has been established to define specific criteria. Although European governments agree on environmental goals, as social factors are not yet subject to a broad consensus, this complicates the creation of a specific taxonomy.

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