EU's Sustainable Finance Taxonomy

Why in news?

EU has recently agreed to label investments in some gas and nuclear power plants as environment-friendly.

What is the EU's sustainable finance taxonomy?

> *The EU aims to eliminate the net emissions by 2050.*

- The EU taxonomy is a tool to help investors understand whether an economic activity is environmentally sustainable.
- **Objectives**- The taxonomy regulation establishes 6 environmental objectives.
    - Climate change mitigation
    - Climate change adaptation
    - The sustainable use and protection of water and marine resources
    - The transition to a circular economy
    - Pollution prevention and control
    - The protection and restoration of biodiversity and ecosystem
- To be deemed green, an activity must substantially contribute to one of six environmental aims and not harm the other five.
- The taxonomy does not ban investments in activities not labelled green, but it limits which ones companies and investors can claim are climate-friendly.
- The EU Taxonomy is not a mandatory list of economic activities for investors to invest in.
- **Application of the rules**- Providers of financial products, including pension providers in the EU must disclose which investments comply with the taxonomy's climate criteria.
- Large companies and listed firms must also disclose what share of their turnover and capital expenditure complies.
- Polluting companies can get recognition for making green investments.
    - For example, if an oil company invested in a wind farm, it could label that expenditure as green.
- **Rules**- Rules for most sectors came into effect in 2022, covering investments including steel plants, electric cars and building renovations.
- The rules for gas and nuclear energy have been delayed amid intense lobbying from governments who disagree on whether the fuels help fight climate change.

Why do we need an EU Taxonomy?

- **Translates the environmental objectives**- The EU Taxonomy is a tool translating the climate and environmental objectives into clear criteria, to create a common language around green activities.
- **Frame of reference**- It will create a frame of reference for investors and companies.

- **Support for companies**- It will support companies in their efforts to plan and finance their transition and help mitigate market fragmentation.
- **Removes greenwashing**- The rules also aim to stamp out greenwashing, where organisations exaggerate their environmental credentials, among so-called eco-friendly investment products.
- **Sustainable finance framework**- It is an important element of a much broader sustainable finance framework that will deliver a complete toolkit for financing the transition.
- **Aids in the implementation of European Green Deal**- The added value of the EU Taxonomy is that it can help scale up investment in green projects that are necessary to implement the European Green Deal.

The European Green Deal aims to transform the EU into a modern, resource-efficient and competitive economy, ensuring

- *no net emissions of greenhouse gases by 2050*
- *economic growth decoupled from resource use*
- *no person and no place left behind*

What makes a "green" investment?

- The rules classify three types of green investments.
  - Those that substantially contribute to green goals- For example, wind power farms
  - Those that enable other green activities- For example, facilities that can store renewable electricity or hydrogen
  - Transitional activities (Gas and nuclear power plants) that cannot be made fully sustainable, but which have emissions below industry average and do not lock in polluting assets or crowd out greener alternatives

What does the taxonomy say about gas and nuclear energy?

- Under the Commission proposal, for a gas-fuelled power plant to be deemed green,
  - It must emit no more than 270 grams of CO2 equivalent per kilowatt hour (or)
  - Have average emissions of 550g CO2e/kW over 20 years
  - It must also commit to switch to low-carbon gases by 2035
- Countries such as Denmark and Luxembourg say that it is not credible to label gas, a fossil fuel, as green.

References

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