EU’s Sustainable Finance Taxonomy

Context:

Supporters say EU’s sustainable finance taxonomy is the world’s most ambitious green investment rulebook and could direct huge sums of money into fighting climate change. Critics say it’s a “greenwashing” exercise that puts the European Union’s climate change targets at risk.

Relevance:

GS III- Environment and ecology

Dimensions of the Article:

1. What is the EU taxonomy?
2. What does it say about gas and nuclear energy?
3. What’s the taxonomy for?
4. What makes a “green” investment?

What is the EU taxonomy?

- The EU taxonomy is a complex system to classify which parts of the economy may be marketed as sustainable investments.
    - It includes economic activities, as well as detailed environmental criteria that each economic activity must meet to earn a green label.
- Rules for most sectors came into effect this year, covering investments including steel plants, electric cars and building renovations.
- The rules for gas and nuclear energy, however, have been long delayed amid intense lobbying from governments who disagree on whether the fuels help fight climate change.

What does it say about gas and nuclear energy?

- The European Commission made a proposal in February 2022 to add gas and nuclear power plants to the taxonomy if they meet certain criteria.
- The European Parliament supported that proposal, paving the way for it to become law and apply from 2023.
- Under the Commission proposal, for a gas-fuelled power plant to be deemed green, it must emit no more than 270 grams of CO_2 equivalent per kilowatt hour, or have average emissions of 550g CO_2e/kW over 20 years.
- It must also commit to switch to low-carbon gases by 2035.
- The Commission's original proposal for gas, published in late 2020, had included a lower 100g CO_2 limit.
- It was amended following backlash from countries including Poland and Bulgaria, who say gas investments are needed to quit more-polluting coal.
- Others, such as Denmark and Luxembourg, say it is not credible to label gas, a fossil fuel, as green.

What's the taxonomy for?

- 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's goal to **eliminate its net emissions by 2050** will require huge investments, much of it private funding.
- The taxonomy aims to **make truly green activities more visible** and attractive to investors.
- The rules also aim to stamp out greenwashing, where organisations exaggerate their environmental credentials, among so-called eco-friendly investment products.

Who does it apply to?

- Providers of financial products – including pension providers – in the EU must disclose which investments comply with the taxonomy's climate criteria.
- For each investment, fund or portfolio, they must disclose what share of underlying investments comply with the rules.
- Large companies and listed firms must also disclose what share of their turnover and capital expenditure complies.

- That means 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.

What makes a "green" investment?

- The rules classify **three types of green investments.**
  - First, those that substantially contribute to green goals, for example, wind power farms.
  - Second, those that enable other green activities, for example, facilities that can store renewable electricity or hydrogen.
  - Third, transitional activities 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.
- Gas and nuclear power plants are classed as **transitional activities.**

-Source: Indian Express