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COVER NOTE

From: Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

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Subject: COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT 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 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

Delegations will find attached document SWD(2021) 153 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT
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 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

{C(2021) 2800 final} - {SEC(2021) 166 final} - {SWD(2021) 152 final}

Executive Summary Sheet

Impact assessment accompanying the Commission Delegated Regulation supplementing Regulation (EU) 2020/852.

A. Need for action

What is the problem and why is it a problem at EU level?

To meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal, direct investments need to be redirected towards sustainable projects and activities. The recently adopted EU framework to promote sustainable investments (the 'Taxonomy Regulation') addresses the lack of clarity on which economic activities can be considered environmentally sustainable. The Taxonomy Regulation requires the Commission to adopt a delegated act that specifies technical screening criteria to determine which economic activities can contribute substantially to climate change mitigation or climate change adaptation without harming the other environmental objectives listed in the Taxonomy Regulation. This report presents the results of a proportionate impact assessment that analyses the way these technical screening criteria are set against the requirements laid down in the Taxonomy Regulation. It is therefore a vital part of EU taxonomy and helps make this classification system for sustainable activities credible and relevant for business and investment decisions.

What should be achieved?

The technical screening criteria should provide the detailed information necessary to identify under which conditions economic activities are environmentally sustainable. The criteria therefore provide the necessary technical information to tackle the problem that the Taxonomy Regulation aims to address – providing harmonised information at EU level on environmentally sustainable economic activities for investment purposes. To achieve this, the technical screening criteria need to comply with the requirements listed in the Taxonomy Regulation. In particular, they should be in line with EU legislation, reflect a high level of environmental ambition, promote a level playing field, and be easy for economic operators and investors to use.

What is the value added of action at the EU level (subsidiarity)?

Subsidiarity and the need for EU action were established in the impact assessment accompanying the legislative proposals on the Taxonomy Regulation put forward by the Commission in May 2018. The delegated act is an integral part of the Taxonomy Regulation and ensures that it can deliver on its objectives. The need for action follows directly from the Taxonomy Regulation. That regulation requires the Commission to adopt a delegated act that specifies the technical screening criteria for the climate objectives.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

The European Parliament and the Council established the key elements of the EU taxonomy in the Taxonomy Regulation, including the environmental objectives, the notion of substantial contribution and 'do no significant harm', and the requirements that the technical screening criteria need to meet. These requirements frame the discretion of the Commission for the delegated act. While this does not allow specific policy options or a baseline to be formulated, different approaches to designing the technical screening criteria are assessed in this report in order to meet these requirements. The preferred approaches to setting technical screening criteria are considered to strike a balance between the Regulation's requirements in the light of the trade-offs involved.

What are different stakeholders' views? Who supports which option?

The main technical input for this assessment is the preparatory work for the delegated act carried out by the Technical Expert Group on Sustainable Finance (the 'TEG'), which actively involved stakeholders through several rounds of consultations and outreach activities informing its work. They have provided numerous comments on specific technical screening criteria proposed by the TEG, which have been carefully considered by both the TEG and the Commission. Most of the comments refer to specific economic activities and relate to some of the requirements used to assess the technical screening criteria in this report. Further, the draft delegated act was published for feedback in November 2020. The large volume of feedback received confirmed the importance of the Taxonomy as a tool to help finance flow towards more sustainable economic activities and accelerate the transition under the European Green Deal. Several concerns were also expressed, with a large polarisation between those proposing more or less ambitious criteria.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

This delegated act will provide clarity on which economic activities can be considered environmentally sustainable. Potential benefits are expected to materialise from using the EU taxonomy, which will depend mainly on its voluntary uptake by economic operators. The extent of these benefits cannot be estimated at this stage. However, depending on the uptake, potential economic benefits from the improved transparency provided by the delegated act are likely to materialise as reduced costs for investors to identify, and for corporates to fund, environmentally sustainable activities. Environmental and social benefits are likely to arise from an increase in capital flows to environmentally sustainable activities, thereby helping to deliver a cleaner, healthier and more climate-resilient living environment.

What are the costs of the preferred option (if any, otherwise of main ones)?

The delegated act in itself does not generate new direct costs, as it merely provides the technical calibration for the EU taxonomy. Indirectly, this calibration can affect usability, and thus costs linked to its use. The broader (mandatory) requirements of EU taxonomy will entail costs, including for companies (falling under the scope of the Non-Financial Reporting Directive) and financial market participants to collect and disclose taxonomy-relevant information on their activities.

What are the impacts on SMEs and competitiveness?

The delegated act does not directly impact SMEs as such, as it merely provides the technical calibration for EU taxonomy. However, SMEs could choose to voluntarily provide some information according to the taxonomy, depending on the perceived balance of costs and benefits of doing so. Overall, the EU taxonomy is set to reduce information asymmetries and improve transparency. Over time, this could help improve the competitive position of companies involved in sustainable economic activities over others.

Will there be significant impacts on national budgets and administrations?

n/a

Will there be other significant impacts?

Beyond the EU, the delegated act may also constitute an important reference point for promoting sustainable investments worldwide.

Proportionality?

The objectives and requirements for the delegated act have been set in the Taxonomy Regulation, which does not exceed what is necessary to achieve its objectives.

D. Follow up

When will the policy be reviewed?

The technical screening criteria in this delegated act are expected to be updated periodically, at least every three to five years, based on advice from the Platform on Sustainable Finance. This will ensure that they keep pace with technological change and remain in line with EU climate and environmental objectives, and will allow including other potential environmentally sustainable activities as appropriate.