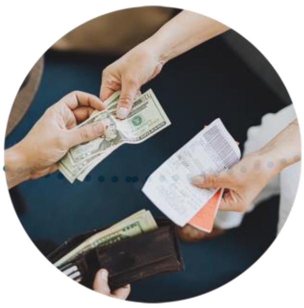
move TO IMPACT

White Paper

EU Taxonomy



Corporation

EU Taxonomy

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Introduction

Move to Impact

Move to Impact is an ESG reporting consultancy, focused on helping organizations prepare for CSRD. Move to Impact developed a process, tools and templates that support the organization in preparing to report on their social and ecological impact.

Welcome to Move to Impact's EU Taxonomy whitepaper. In this whitepaper we will explain the ins- and outs of the European Union Taxonomy, which is an important framework that is going to shape how businesses report on their sustainability efforts. It's all part of the new regulation called the Corporate Sustainability Reporting Directive (CSRD), which starts in 2024 and aims to make organizations across the European Union more transparent about their impact on the society and the planet.

If your organization has to comply with the CSRD, you also have to report based on the EU Taxonomy in your annual report. In this whitepaper, we'll dive into what the EU Taxonomy is all about. We'll explain its background, its implications for businesses, and why it's beneficial for the environment and society. Plus, we've got some practical tips for organizations on how to actually implement the EU Taxonomy, and how to report on how sustainable an organization's investments are.

What is the EU Taxonomy?

The EU Taxonomy is like a guide that tells everyone what actions are truly good for the environment. This makes it easier for businesses and investors to take decisions that support a healthier and greener future. *To be very straight forward: it's a list with activities that are classified as sustainable investments.* These activities have an EU Taxonomy code. All the investments that an organization makes with regards to these activities, both operational expenses and capital expenses, could be linked using these codes. If an investment can't be linked to an EU Taxonomy code, it can't be called a sustainable investment.

In other words, imagine the EU Taxonomy as a "green stamp" for investments in activities and projects. If it has the stamp it means it helps the environment and makes the world a better place. It's like a financial coding system created by the European Union to identify and recognize which investments are good for our planet.

To get the EU taxonomy label the investments should focus on one of the following six important topics:

- Fighting climate change by reducing greenhouse gases
- Preparing for the negative effects of climate change (like extreme weather events)
- Using water and marine resources more wisely
- Increasing material recycling and reusing instead of just throwing away
- Preventing pollution
- Protecting nature and its creatures

When an investment in an activity or project gets the "green stamp" or is considered sustainable according to the EU Taxonomy, it means it meets certain guidelines that prove it's genuinely good for the environment. Making this clear helps companies, investors, and organizations focus on investing in activities that benefit the planet and society.

Background

The EU Taxonomy has its roots in the European Union's commitment to addressing climate change and promoting sustainable development. As concerns about the environmental impact of economic activities grew, the EU recognized the need for a standardized system to identify and support genuinely sustainable investments and projects.

In 2018, the European Commission introduced the Sustainable Finance Action Plan, which aimed to "redirect capital flows towards sustainable investments and foster financial markets' involvement in supporting environmental and social objectives".

As part of this action plan, the EU initiated the development of the EU Taxonomy to create a clear and consistent framework for defining environmentally sustainable economic activities. The primary objective was to establish transparent criteria and guidelines, facilitating green investments and aiding decision-making for businesses, investors, and financial institutions.

Throughout its development, the EU Taxonomy underwent extensive consultations with stakeholders, such as experts from the financial sector, businesses, NGOs, and policymakers. The criteria were carefully designed to align with scientific evidence and best practices, ensuring the credibility and effectiveness of the taxonomy.

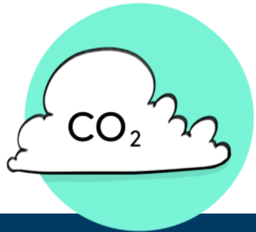
In 2020, the first version of the EU Taxonomy was adopted as part of the EU's Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). This laid the groundwork for its integration into various EU policies, including the Corporate Sustainability Reporting Directive.

Today, the EU Taxonomy plays a central role in the EU's sustainable finance agenda, serving as a powerful tool to guide investments towards activities that support environmental objectives and contribute to a greener, more sustainable future. By emphasizing transparency, scientific basis, and harmonization, the EU Taxonomy drives positive change across the financial and business sectors while aligning the EU with global sustainability goals, such as the Paris Agreement and the UN Sustainable Development Goals.

Key Principles

Climate Change Mitigation:
This means investing in activities that reduce harmful greenhouse gases and slow down climate change. For instance, invest in renewable energy like solar panels or wind farms instead of relying on fossil fuels like coal or gas.

Climate Change Adaptation:
This principle is about getting ready for the changes that climate change might bring. For instance, building flood defences, designing change-resistant crops, or creating green spaces in cities to help manage heavy rain and heatwaves.



Sustainable Use and Protection of Water and Marine Resources:
This is about using water wisely and protecting our oceans and marine life. A good example would be implementing water-saving technologies or supporting sustainable fishing practices.

Transition to a Circular Economy:
This is about being smart with our resources and reducing waste. An example is recycling used materials to make new products, like turning old plastic bottles into new ones. Or making more use of renewable materials instead of single use.

Pollution Prevention and Control:
This focuses on stopping pollution and keeping our air, water, and soil clean. For example, companies can report on how much money they invest in the reduction of harmful emissions or responsible waste management.

Protection and Restoration of Biodiversity and Ecosystems:
This means taking care of nature and its diversity of plants and animals. For example, companies reporting on how much they invest in new farming methods that decrease harm to ecosystems or in restoring natural habitats for wildlife.

Benefits

The EU Taxonomy leads towards several benefits:

- **Clarity and Transparency:** The EU Taxonomy sets clear rules for what counts as environmentally friendly, so there is less room for 'greenwashing'. It's like a guidebook that helps companies and investors understand which activities are good for the planet and which ones aren't.
- **Boosting Sustainable Finance:** The EU Taxonomy is all about encouraging businesses and investors to go green. By promoting sustainable finance, it aligns money with projects that benefit both the economy and the environment.
- **Build a Strong Reputation:** If your company follows the EU Taxonomy's guidelines, you can proudly show off your commitment to sustainability. It's a great way to attract eco-conscious customers and investors who care about making a positive impact.
- **Access to Green Funding:** Being environmentally friendly can pay off! Companies that meet the EU Taxonomy's criteria may get better access to funding sources that support green initiatives. That means lower costs and a boost for your business.
- **Spark Innovation:** The EU Taxonomy encourages businesses to get creative with eco-friendly ideas and technologies. This drive for innovation can lead to awesome new products and services that are good for the planet.
- **Saving the Earth:** Ultimately, the most exciting benefit is that the EU Taxonomy helps protect our planet. By promoting sustainable practices and investments, it fights climate change, preserves biodiversity, and keeps our world greener and healthier.
- **Leading the Way:** The EU's commitment to sustainable finance and the EU Taxonomy's adoption show that we're leading the change in making the world a better place. It sets an example for others to follow and creates a global movement for a more sustainable future.

Implementation

The EU Taxonomy can be seen as a set of rules that helps organizations figure out which activities are good for the environment and which ones aren't. It's like a checklist to make sure we're investing in activities that help the planet.

There are 6 steps to take to implement the EU Taxonomy:

1. **Understanding the EU Taxonomy:** you and your colleagues should learn about the six EU Taxonomy's key principles, like fighting climate change, protecting nature, and being resource-efficient.

2. **Conducting Sustainability Assessments:** your organization needs to document processes and their impact. Within CSRD this is done through the double materiality analysis and reporting this according to the European Sustainability Reporting Standards.

3. **Mapping Activities to Taxonomy Criteria:** Once the assessments are done, the organization can identify which parts of the business align with the EU Taxonomy's criteria. For example, solar panels help reduce greenhouse gas emissions, which is great for the climate change mitigation objective (key principle #1).
   - To make the EU Taxonomy list less overwhelming, it is advised to delete all the rows with activities that the organization is most likely not investing in
   - Create a list of all operational expenses (OpEx) and capital expenses (CapEx)
   - Map the OpEx and CapEx with the EU Taxonomy code

4. **Integrating Reporting and Disclosure Practices:** The company can start reporting on their sustainable investments, like how much money they invested in installing solar panels or cutting down on waste. They'll share this information with their customers and investors.

5. **Updating Investment and Financing Strategies:** For the company's financial decisions, they can now consider investing in projects that are environmentally friendly. This could mean supporting other green businesses or eco-friendly initiatives.

6. **Monitoring and Continuous Improvement:** The company will keep track of their progress and regularly review their sustainability investments.

Want to know more…

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