



ERT

Expert Paper

Priorities on the EU Taxonomy

March 2021

Introduction

ERT is a forum of leaders from some of Europe's largest industrial and tech companies, who have declared their support for a climate-neutral Europe by 2050 and a net greenhouse gas emissions reduction target of 55% by 2030, backed by a robust industrial policy.¹ ERT Member companies have in place concrete commitments, actions and projects to contribute to a successful transition of their business and the European economy at large to climate neutrality.²

ERT supports the overall objective of the EU Taxonomy to help to mobilise finance towards environmentally sustainable activities. The practical complexities of the implementation of the EU Taxonomy Regulation need to receive sufficient attention and need to be addressed in more detail, based upon an intensive dialogue with actors from the real economy.

1. Unrealistic Timeline, Uncertainty and extensive Cost and Effort

Under Article 8 of the EU Taxonomy Regulation, companies that are required to report under the EU non-financial reporting directive (NFRD) **must include** in their non-financial statement the proportion of their turnover, capital and operating expenditures that is derived from taxonomy-compliant activities. This means that large companies are **obliged** to report on these three KPIs in their reports published from 2022, i.e. the Annual Report for the financial year 2021.

However, there are significant delays in the adoption of the delegated acts under the EU Taxonomy Regulation which make the implementation of the EU taxonomy de facto impossible at company level:

1. The delegated act for the technical screening criteria of the first two environmental objectives (originally planned to be published already at the end of 2020) is still neither published nor finalised. It is currently expected in April 2021.
2. The delegated act defining in detail the reporting obligations under Article 8 such as the proportion of turnover, capital expenditures (i.e. investments) and operating expenditures associated with sustainable economic activities will only be adopted by 1 June 2021 (if no further delays happen).

Due to these delays in the adoption of the final delegated acts, companies would need to adjust their IT structures in a very short timeframe and even need to gather and report data retrospectively for, at least, the period from January to June 2021.

Successful implementation of relevant processes and systems will be crucial to capture meaningful, reliable and comparable data of high quality. The current timeline does not allow us to achieve this goal. It will urge entities to start the data collection processes manually, relying on preliminary definitions, allocations and other workaround solutions. Companies must have enough time to adapt and implement their systems.

With such a high level of unclarity and very little time left for implementation, **postponing the first application of the new reporting requirements by one year** should be strongly considered. A proper transition and piloting phase would further enhance credibility and allow companies to set up the required structures in the most appropriate way and with the highest quality data.

¹ ERT, Making the most of Europe's climate leadership (Dec 2020), <https://ert.eu/documents/climate-leadership/>

² ERT, Climate Action Case Studies of 30+ ERT Member companies (Dec 2020), <https://ert.eu/wp-content/uploads/2020/12/ERT-Climate-Action-Case-Studies-December-2020-4.pdf>

2. Complexity and high administrative Effort

Companies are required to assess their taxonomy compliance based on a business activity or product level, along global value chains and, in the case of large multinational companies, also for several legal entities.

Under the new reporting obligations, companies must set up new reporting structures and IT systems to capture the activity-based screening requirements and ensure taxonomy compliant and auditable reporting. This requires substantial investments in IT infrastructure, knowledge and resources, and it will take time.

3. Scope of the Taxonomy

We further emphasize that **recognizing transitional and enabling activities is of the utmost importance**. This could be done by adopting a more inclusive approach to include activities that are essential to rapid decarbonisation, even if they may currently not be considered fully green.

To support a clear and stable policy framework for investment in decarbonisation, the Technical Screening Criteria must not go beyond existing legislation that is designed to achieve the same climate objectives.

4. Sensitive Information and Disclosure

Disclosure under the Taxonomy regulation should reflect basic reporting principles and focus on material information, comprehensive but concise data and seek to provide a fair and true picture.

Disclosing specific economic activities or even investment plans, as currently foreseen by the draft technical advice of ESMA may reveal business-sensitive information (which non-EU competitors don't have to do) and put EU companies at a competitive disadvantage.



The European Round Table for Industry (ERT) is a forum that brings together around 60 Chief Executives and Chairmen of major multinational companies of European parentage, covering a wide range of industrial and technological sectors. ERT strives for a strong, open and competitive Europe as a driver for inclusive growth and sustainable prosperity. Companies of ERT Members are situated throughout Europe, with combined revenues exceeding €2 trillion, providing around 5 million direct jobs worldwide - of which half are in Europe - and sustaining millions of indirect jobs. They invest more than €60 billion annually in R&D, largely in Europe.

This paper was developed in the Working Group on Finance & Tax of the European Round Table for Industry.

More info and previous papers on: <https://ert.eu/focus-areas/finance-and-taxation/>

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