

Cefic views on the EU Taxonomy and transition financing

Cefic supports the European Green Deal and the ambition to become climate neutral by 2050. Recalling the EU Industrial Strategy and the Chemicals Strategy for Sustainability, the transition towards a climate neutral, circular and sustainable society will require new technologies with investment and innovation to match. **Cefic welcomes European Commission efforts to bring clarity and transparency on environmental sustainability** to investors, companies and issuers. The development of a common language (EU Taxonomy) could enable informed decision-making to foster investment in environmentally sustainable activities and technologies.

In line with the spirit of the Taxonomy Regulation, **the chemical industry strives to continuously improve** its production processes, to lower its carbon footprint and to enable further emissions reductions along the various value chains, while pioneering breakthrough and disruptive technologies.¹ The chemical industry is undergoing a significant transformation requiring an evaluation of complex and interconnected value chains – companies will need adequate flexibility to incorporate the EU Taxonomy into business models. As such, **the EU Taxonomy must be fair and incentivize companies to contribute to the transition journey, while avoiding penalizing those making efforts – the EU Taxonomy is a direction of travel and not a status of today.**

Capital-intensive, the chemical industry requires long lead-time and depends on a level-playing field with the right economic incentives. Cefic notes that implementing the EU Taxonomy is not a linear process and will require a supportive and well-designed regulatory framework that minimizes uncertainty, ensures comparability and safeguards competitiveness.

We welcome the Commission request² to the EU Platform on Sustainable Finance ('EU Platform') for further advice on how the transition to climate neutrality by mid-century could be supported by the EU Taxonomy. As a sector "indispensable to Europe's economy"³ Cefic wishes to supplement the work of the EU Platform by issuing its own response.

1. Can the current EU taxonomy framework be used to provide greater support for attracting capital for the transition of companies towards "sustainable" activities, including in ways not yet proposed by the Commission and if so in which ways?

As outlined in the European Green Deal, a successful transition to climate neutrality by mid-century requires a **fair and inclusive approach considering the regions, industries and workers facing the greatest challenges**. While Cefic recognizes the ambitious thresholds in the current technical screening criteria (TSC) aim to capture the "best performance in the sector or industry", too stringent and continuously changing thresholds undermine necessary transitional and innovative

¹ [Cefic Mid-Century Report – "Molecule Managers"](#)

² [Commission request to the EU Platform on Sustainable Finance to provide advice on financing transition](#)

³ *European Commission Communication on the European Green Deal*

efforts undertaken by the chemical industry, while limiting the investment universe. **Thresholds must be supportive towards frontrunners while creating a constructive pull towards the others.**

For instance, the TSC for the manufacturing of hydrogen do not consider the “**transition phase**” **highlighted in the EU Hydrogen Strategy**. The Strategy outlines that hydrogen made from renewable energy sources is the long term goal; however, **in the short and medium term, other forms of hydrogen will play a key transition role**. Moreover, the Strategy states that **by 2050 investments in the range of €3-18 billion are required for low-carbon hydrogen**.⁴ Low-carbon hydrogen is critical for the decarbonization of energy intensive industry (EII) sectors and will enable renewable hydrogen to become more economically viable.

With reference to the TEG methodology, TSC was developed for economic activities with substantial greenhouse gas emission reduction potential. The 2050 climate neutrality transition will require the participation of all economic sectors in the short, medium and long term; however, **the EU Taxonomy does not appropriately recognize incremental contributions towards climate change mitigation and/or adaptation**. By not considering incremental progress, the EU Taxonomy discourages companies from taking measures that have an immediate positive, and transitional, impact on climate change. While it is useful to define ultimate targets, the EU Taxonomy framework should be used as a way to gradually lead activities and technologies towards the 2050 climate neutrality direction; TSC must reflect the transition journey in order to ensure investments are adequately channeled to contributing sectors.

Finally, as key provisions of the Taxonomy Regulation have not yet been put into practice, it is important to assess implementation, to test usability and to monitor impact on financial markets, before considering its compatibility with, and transferability to, other areas.

2. Can the EU taxonomy framework support finance for companies undertaking activities that do not yet meet, or may be unable to meet, the substantial contribution criteria? And how can this be done?

EIIs, including the chemical industry, already provide the EU market with products and materials of outstanding performance. Due to the manufacturing processes being energy- and CO₂-intensive, multiple RD&I projects are underway to address this challenge, with many of the innovation initiatives requiring joint efforts between the public and private sector.⁵ Given the chemical industry is innovative by nature, a binary approach to the EU Taxonomy assumes an economic activity may not meet the substantial contribution threshold in subsequent revisions of the TSC. To support the transition and to constructively pull economic activities towards best performer status, development and communication of interim thresholds must be considered.

Cefic welcomes the inclusion of Section 9.1⁶ in the TSC as it will be critical in delivering the solutions for a climate-neutral economy. **An EU Taxonomy applied to RD&I must be technologically neutral and consider all possible technological solutions, apply appropriate criteria and methodologies to evaluate technology impact** (as impact may depend on time and location for implementation), and **consider key aspects of technology development** (including time, evaluation of impact and

⁴ [European Commission Communication on A Hydrogen Strategy for a Climate-Neutral Europe](#)

⁵ [Masterplan for a Competitive Transformation of EU Energy-intensive Industries](#)

⁶ Research, development and innovation

elements specific to the scale-up of innovative process technologies in the chemical industry). Section 9.1 must therefore not exclude research into the sustainability of “enabling” and “transitional” activities from its scope. **As multiple commitments have been made by the financial services industry to incorporate the EU Taxonomy, such information should be communicated to investors in portfolio assessment.**

The transition towards climate-neutrality is a dynamic journey comprised of intermediate steps and consistent innovation. In addition to the chemical industry’s contribution to breakthrough and disruptive technologies, it is continuously improving existing technologies and processes, meaning it is important to consider the potential of all sectors and their products contributing to GHG emission reduction.

3. Can the current EU Taxonomy framework support finance for companies active in sectors that are not covered in the Taxonomy Regulation’s Delegated Act?

The EU Taxonomy is meant to incentivize capital flows towards activities positively contributing to set environmental objectives – economic activities not yet covered are not necessarily negative. The current TSC was developed based on which sectors have the most material impact on climate change adaptation and mitigation – unless purposefully excluded, sectors with limited to no negative or positive impact should be eligible for EU Taxonomy inclusion and access to finance. It is recommended the Commission develops clear communication to the users of EU Taxonomy information, especially since not all sectors have been prioritized in the first activity selection.

Additionally, under the Taxonomy Regulation, covered entities are required to report on what is in the TSC at a given point in time. Indeed, companies can voluntarily add to the narrative; however, this is challenging because it requires foresight as to where new TSC is headed. Article 20(2c) states the EU Platform will assist the Commission in analyzing requests from stakeholders to develop TSC for economic activities not yet covered by the EU Taxonomy. Given the innovative nature of the European chemical industry, **a clear timeline for both the EU Platform’s assessment and the Commission’s decision-making processes for the inclusion of new economic activities (and new technologies or processes) must be communicated to users of the EU Taxonomy.**

The European chemical industry is an industry of industries, providing building blocks on which modern societies are built; our materials are found in all industries, from agriculture to construction, food and beverages, energy, healthcare, machinery, textiles, hospitals and transportation. Continuously improving, **the chemical industry is an indispensable provider of safe, sustainable and innovative solutions at the service of society**, including the sustainable use of natural resources, the reduction of energy demand, pollution and emission of GHG, and for the safety of chemical products and their application.⁷

Given multiple banks have made statements of intention to finance EU Taxonomy aligned projects, sectors not yet included, although contributing to the climate-neutral transition, may not be eligible for funding. **Should a company have a roadmap for a low-carbon transition for its own activities or for enabling transitional activities in other sectors (with reliable forward-looking**

⁷ [Final Report of the High Level Group on the Competitiveness of the European Chemicals Industry](#)

information and climate-scenario analysis), all investments and research used to establish such solutions and bring about engineering improvements should be considered as Taxonomy aligned.

4. How does the use of key terminology such as “sustainable”, “green” and “harmful” compare across the taxonomy framework and other relevant sustainable finance frameworks and how can it be clarified and harmonized?

Mirroring the Taxonomy Regulation and its reference to the three dimensions of sustainability at the core of the Sustainable Development Goals (SDGs), Cefic’s Sustainability Charter highlights the European chemical industry’s position that long-term economic success requires integrating all aspects of sustainability – economic, social and environmental – into business strategies.⁸ As such, it is difficult to concretely define “sustainability” given there is a range of definitions, variation in methods for measuring sustainability criteria and lack of comparability in benefits and trade-offs. The Disclosure Regulation defines a “sustainable investment” as an economic activity that contributes to a variety of ESG categories; thus, supporting the multifaceted dimensions of the term.⁹

With reference to the framework Regulation, “green” and “sustainable” are used interchangeably; however, they are different in nature. “Green” has a strong environmental focus but dully considers social and competitive impacts. Sustainability has a wider scope, bringing in additional social considerations (i.e. No Poverty [SDG 1], Zero Hunger [SDG 2]). Given the EU Taxonomy will expand to consider social objectives, usage of the term “green” would not be reflective of the greater definition of sustainable finance which is more holistic.

The final report of the TEG situates the term “harmful” under the umbrella of a “Brown Taxonomy”. **The Commission’s original proposal puts forth a positive approach in the transition towards a climate-neutral economy, encouraging the participation of all sectors.** To mobilize finance towards the most sustainable technologies, the EU Taxonomy must be inclusive to all activities contributing to the climate transition, consider interconnected industrial ecosystems and reflect the real functioning of industrial value-chains, beginning with raw materials and ending with final products. A “Brown” or “harmful Taxonomy” restricts the investment universe and does not consider the innovative properties of the chemicals sector; too narrow of an approach in the EU Taxonomy excludes activities that may develop and improve low-carbon technologies, thus limiting the uptake of new technologies and decarbonization potential.

Finally, concrete and harmonized definitions of the terms are important given that the EU Taxonomy is being referenced in multiple legislative and non-legislative initiatives, including the Chemicals Strategy for Sustainability and the Farm to Fork Strategy. The chemical industry is highly regulated, both at an EU and Member State level, meaning clear and consistent definitions of key terms provide regulatory coherence and ensure compliance. Similarly, clarity and consistency of the EU Taxonomy’s key definitions must be measured across existing EU legislation with sectoral sustainability criteria, such as in RED II, to ensure usability of the framework.

⁸ [Cefic Sustainability Charter](#)

⁹ [Regulation on sustainability-related disclosures in the financial services sector](#)

5. What further avenues could be explored to enable financing the transition through development of the taxonomy framework and beyond?

The EU Taxonomy has not yet been implemented, and as such, it is premature to suggest further developments; however, **Cefic stresses the importance of more explicitly recognizing transitional economic activities in the current TSC and to include activities that have not yet been covered by the EU Taxonomy framework due to low direct emissions, but which enable substantial contributions to GHG emission reduction in other sectors.** This is also important in the context of the upcoming EU Green Bond Standard, as it is recognized green bonds will play an important role in financing assets for the low-carbon transition. In order to issue transition bonds, there is a need for suitable criteria.

Given outstanding key provisions, including the development of TSC for the next four environmental objectives¹⁰ and the Taxonomy-disclosures obligation, an understanding of market uptake and user experience can provide the basis for improvement. To this end, the Commission should promptly conduct a transparent impact assessment on the expected impact of the TSC on the Single Market.

6. Can we clearly address the concerns that the taxonomy will be used to prevent financing of transitional activities, while at the same time ensuring that we are not facilitating “green-washing”?

The Taxonomy Regulation recognizes the transition is “ongoing and necessary”. As such, it is important that transition criteria or KPIs are clearly identified and promoted. With clear transition criteria or KPIs in place, along with “best performer” thresholds, covered undertakings can concretely communicate (and signal to investors) their transition journey. In this regard, the EU Taxonomy does not facilitate “greenwashing”, instead it recognizes that a transition must take place in order to reach “best performance” ambitions.

Cefic continues to support the European Commission and is committed to contributing to the development, analysis and review of all components in the EU Sustainable Finance Agenda with evidence-based recommendations. This includes active participation of our Permanent Representative in the EU Platform on Sustainable Finance.

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About Cefic

Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 16% of world chemicals production.

¹⁰ The sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; and, the protection and restoration of biodiversity and ecosystems.