

The EU taxonomy – what does it mean for buildings?

Briefing Paper developed by PEEB¹

What is the EU Taxonomy for (environmentally) sustainable activities?

The EU taxonomy is one element of the EU Renewed Sustainable Finance Strategy that aims to push the financial and industrial sectors towards more investments for climate neutrality in the EU. The objective of the EU taxonomy is to establish a classification framework to facilitate sustainable investment across six environmental objectives². The taxonomy regulation sets out the general principles; additional delegated acts³ provide a classification (“taxonomy”) for economic activities that are considered to make a substantial contribution to Sustainable Development and Paris Agreement goals (“sustainable activities”).

For investors, this provides the basis to identify which investments are sustainable and can be marketed as such, increasing transparency. The taxonomy does not represent a mandatory list of activities to invest in, nor does it make a judgement regarding financial performances of those activities. Following the enacting of this regulation through the EU and its member states, only investments that comply with technical screening criteria for one of the six environmental objectives, do-no significant harm standards for the other five as well as a set of common minimum social safeguards, can be communicated as “sustainable”.

Implications for the buildings sector

Technical screening criteria have been developed⁴ for economic activities in the buildings sector, some of which are summarized below. Other economic activities relevant to the buildings sector covered by the taxonomy are i.e. installation, maintenance and repair of renewable energy technologies as well as instruments and devices for measuring, regulation and controlling of energy performance of a building. Manufacturing and mining criteria for other economic activities and environmental objectives will equally affect supply chains in the buildings sector.

¹ Based on: Sustainable Finance and the Buildings Sector Paper, PEEB, April 2021

² The six objectives are climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems

³ For every environmental object of the regulation, one delegated act (i.e. EU secondary legislation that supplements the parent regulation) is adopted: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Economic activities are listed in the environmental objective they most contribute to.

⁴ Adapted by the European Commission from recommendations made by the technical expert group

| Type of economic activity | Technical Screening Criteria |
|---|---|
| Construction of new buildings | <ul style="list-style-type: none"> ▪ Primary Energy Demand of new construction is at least 10% lower than nearly zero energy building requirements in national measures. ▪ Energy performance certified by energy performance certificate. ▪ For buildings > 5000m²: life cycle global warming potential calculated, and level of performance is tested post construction, both disclosed to investors and clients |
| Renovation of existing buildings | <ul style="list-style-type: none"> ▪ As applicable in national regulations for major renovations ▪ Reduction of primary energy demand of at least 30%. |
| Acquisition and ownership | <ul style="list-style-type: none"> ▪ Buildings built before 12/2020: at least EPC class A, or within top 15% of national building stock expressed in primary energy demand ▪ Buildings built after 12/2020: meet criteria for “construction of new buildings” ▪ Large non-residential building with HVAC output >290kW: operated efficiently through energy performance monitoring and assessment. |

The accompanying do-no-significant harm standards concern minimum water use criteria for installations, circular economy elements such as re-use, recycling or material recovery of construction waste, pollution minimization, and biodiversity protection through environmental impact assessments and, in the case of new construction, no construction on arable land, forest land, or greenfield land of high biodiversity. Demonstrating compliance thus requires collecting data and information – likely more than usually available.

Reinforced impact by complementary regulations

The taxonomy’s impact is reinforced through new corporate sustainability reporting directive (CSRD) and sustainable finance disclosure regulation (SFDR). The current EU non-financial reporting directive obliges very large or listed companies registered in the EU to report on social, environmental and governance questions alongside their financial reporting using a format of their choice. The proposed new corporate sustainability reporting directive (CSRD) would require all large and listed companies to report sustainability information, and to present the percentage of capital expenditure on activities aligned with the EU taxonomy.

Additionally, the upcoming regulatory technical standards for the sustainable finance disclosure regulation (SFDR) will likely align with the metrics of the EU taxonomy, meaning that any financial product marketed as sustainable in the EU would have to disclose against the taxonomy.

Relevance for actors outside EU

The EU taxonomy is primarily an instrument for EU based market actors, and taxonomy development is ongoing in several jurisdictions (i.e. China). Nevertheless, EU based development finance institutions such as EBRD and EIB will have to integrate the taxonomy criteria into their financing offer and therefore extend its impact beyond the EU. Many EU based actors also hold assets outside the EU, and metrics required to show compatibility with the taxonomy for EU assets may spill over. Certain non-EU fund managers already became subject to the SFDR and taxonomy regulation based on their activities in the investment market. Aligning projects with the EU taxonomy's principles could also be considered an additional competitive advantage for non-EU companies or governments wishing to attract sustainable finance.

Timeline

The EU taxonomy regulation entered into force in July 2020. The delegated acts for EU regulation are expected to be adopted by mid-2021 (for climate change mitigation and adaptation) and late 2021 (for pollution, circular economy, biodiversity, water). The non-financial information reporting directive will be revised by end 2021. In practice, the Taxonomy will apply, and the first reporting take place, from 2022.

Further Information on EU sustainable finance

Further elements developed in the context of sustainable finance are the EU green bond standard, corporate disclosure of climate-related information, and financial stability risk frameworks. The [sustainable finance portal](#) by the EU Directorate-General for Financial Stability, Financial Services and Capital Markets Union provides more information on the background and legislative documents.