EU TAXONOMY

What does the EU taxonomy tool mean for the Critical Raw Materials sector?

CRM Alliance
Critical Raw Materials

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CRM-A Webinar: EU Taxonomy: how it impacts the CRMs industry

Introduction

On 24 February, the Critical Raw Materials Alliance (CRM Alliance) hosted its first 2021 webinar on 'EU Taxonomy: how it impacts the CRMs industry'. The EU Taxonomy Regulation entered into force in July 2020. As part of the regulation, the European Commission is responsible for issuing a series of technical screening criteria in the form of delegated acts. These delegated acts are designed to develop the taxonomy further and facilitate the EU's transition to a green and sustainable economy as part of the overarching EU Green Deal objectives. To fulfil these requirements, the European Platform on Sustainable Finance, an advisory body of the European Commission, was created to advise on formulation of technical screening criteria under the EU Taxonomy Regulation.

The first delegated act will be published in 2021 and will cover two of the six climate and environmental objectives set out in the taxonomy regulation: climate change mitigation and climate change adaptation. Initially, the official publication of the first delegated act was due 1 January 2021 but the European Commission was forced to revise its agenda due to an overwhelming amount of feedback received during the public consultation period as well as a fierce opposition from many industries. Overall, the draft delegated act proposal was largely criticized for being unrealistic and too demanding.

In its initial proposal, the European Commission proposed to set a one-size-fits-all emission threshold of 100g CO_2/kWh for energy production to sectors listed in climate change mitigation activities. For some producers, the ability to meet such a high requirement is considered as unfair and too hard to reach.

Currently, the European Platform on Sustainable Finance is working on formulating technical screening criteria for the second delegated act under the EU Taxonomy Regulation. The second stage delegated act will be used to determine if a project is substantially contributing and does not cause significant harm to the four environmental objectives:

- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

The mining and extractive sectors were not covered by the first delegated act; however, in the Action Plan on CRMs, the Commission announced that they will develop sustainable financing criteria for these sectors based on the recommendations of the Platform by the end of 2021.

Presentations

Our first speaker, **Marzia Traverso**, Rapporteur of the Technical Working Group (TWG) of the European Platform on Sustainable Finance, presented a detailed overview of the work that is being done by the TWG to define technical screening criteria under the second stage delegated acts on sustainable finance. Mrs. Traverso outlined the structure and methodology used by the TWG, explaining that they cover three horizontal sectors, including the mining and processing sector, and that they divided the work along five subgroups on:

- Regulation review
- Negative and low impact activities
- Social taxonomy
- Data and usability
- Monitoring capital flows

Mrs. Traverso highlighted that the TWG's priority is to develop technical screening criteria for activities that can make a substantial contribution to the six environmental objectives set out in the taxonomy regulation. She explained that their job is to set conditions under which an activity should be considered (1) substantially contributing to one or more environmental objectives (2), respectful of the do 'No Significant Harm' principle and (3) to meet minimum safeguards. Mrs. Traverso also announced that a public consultation on the second stage delegated acts will be held from the end of June until the end of July.

Peter Handley gave the second presentation. Mr. Handley is Head of the Energy Intensive Industries and Raw Materials Unit at DG GROW. In his presentation, Mr. Handley sought to reassure industry about the positive impact of the EU Taxonomy on investments. He explained that the taxonomy criteria should help the financial markets to identify sustainable investments. Mr. Handley highlighted that action 2 of the CRM Action Plan (September 2020) presents the objective for the raw materials value chain: mobilise support for compliant exploration, mining and processing projects for critical raw materials in a sustainable and responsible way. The Commission therefore explained that the taxonomy criteria will be ambitious, as they have to be aligned on the European Green Deal, but that they will explain that transitional investments falling short of these criteria should still be able to access finance.

Our final speaker**, Cristina Cadarso**, Manager of Environment and Sustainable Development & Energy for Spain at Ferroglobe, shared an industry perspective on the taxonomy regulation. She noted that primary industries like ferro-alloys and silicon are at the top of supply chains and have important responsibilities. Primary industries have to deliver their materials to customers while respecting EU legislations, which involve a lot of constraints. In fact, the first steps of supply chains often bear the highest environmental energy burden to the benefit of the overall value chain. Mrs. Cadarso urged the European Commission to take this reality into account. Mrs. Cadarso also concluded that Taxonomy must consider a life-cycle analysis which includes both the so called "greening of" and the "greening by" principles and include indirect emissions linked to the electricity consumption.

Panel Discussion

Throughout the panel discussion, our experts answered a series of relevant questions on EU Taxonomy and its impact on the CRMs sector.

Mr. Handley was asked why the mining sector was not included under the scope of the first delegated act. According to him, it was considered, but the approach was too narrow, focusing only on certain CRMs used in green technologies such as wind and solar energy. It was therefore decided to have a dedicated workstream under the new Platform on the enabling potential of the mining and extractive value chain and on reducing its own impacts on climate and the environment. Both climate and environmental criteria would be included in the second stage delegated act due to be adopted in 2021.

Regarding the emission threshold of 100g CO2/kWh used widely in the first stage delegated acts, Mr. Handley informed us that a high level of GHG emission performance would be maintained. When asked about enforcement, Mr. Handley explained that Taxonomy is intended to be an EU classification system to determine whether an economic activity is environmentally sustainable and therefore does not explicitly require any formal verification of whether activities comply with the technical screening criteria and minimum safeguards of the EU taxonomy. However, Mr. Handley warned that national supervisors will monitor compliance by financial market participants with the taxonomy disclosure obligations. In addition, following good practice, financial market participants are encouraged to seek external assurance on their taxonomy-related disclosures. He explained that companies that fall under the scope of the Non-Financial Reporting Directive (NFRD) must make the relevant taxonomy disclosures as part of their non-financial statements, which does not, as a baseline, require verification (although this might be different based on the transposition by Member States). Mr. Handley reminded however that this may be subject to change depending on the outcome of the currently on-going review of the NFRD. Additionally, the Commission will evaluate the need for setting up mechanisms for verifying compliance with the Taxonomy criteria by autumn 2022.

When the audience asked how the EU Taxonomy could contribute to the resilience of the CRMs sector, Mrs. Cadarso explained that the private sector is expecting finance, public and private, to enable the green and digital transition. She explained that if the investments flows are too thin, then EU Taxonomy will not be able to contribute to the resilience of CRMs industry. Mr. Handley reassured the audience by stating that the European Commission is convinced that the Taxonomy will attract investors in Europe that want to support advanced and technological green projects. To support his argument, Mr. Handley referred to two projects in Sweden and France. He explained that these projects have already proved that investing in green products, in particular green steel, is real and corresponds to what investors are looking for. Mr. Handley highlighted that investors are already acting while EU Taxonomy has not been implemented yet.

Our CRM Alliance board member, Inès Van Lierde, Secretary General from EuroAlliages, intervened during the panel discussion and highlighted the problem of competition for CRMs. She reminded the European Commission that the CRMs sector needs to be able to compete with other States, such as

China, which are very competitive in this field. Peter Handley argued that transparent supply chain requirements should help. He referred to the new batteries rules and explained that his proposal places due diligence requirements on economic operators for battery raw materials. According to him, this should inform consumers how sustainable a product is and make sustainability a competitive advantage. The Commission's sustainable products initiative later this year would address product lifecycle impacts and strengthen the Ecodesign regulatory framework to support the circular economy.

Another question addressed the issue of consistency between existing EU sectoral legislation and the taxonomy criteria. Mr. Handley explained that taxonomy criteria would be aligned on European Green Deal objectives while much existing EU legislation was not yet updated to be Green Deal aligned. He highlighted that this was, for example, the purpose of the Commission's 'Fit for 55%' package coming in Q2 2021.

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