POSITION PAPER

8 SEPTEMBER 2020

Cefic views on the Commission Delegated Regulation on Taxonomy-related disclosures by undertakings reporting non-financial information

Cefic supports the objectives of the European Green Deal and EU ambition to become climate neutral by 2050.[1] As a sector "indispensable to Europe's economy"[2] and supplier of many key value chains, climate neutrality requires a deep transformation within limited investment cycles.

As with other EU energy intensive industries (EIIs) operating in complex value-chains while exposed to international competition, the chemical sector contributes to a broad range of technological pathways with potential to deliver significant emission reduction. These solutions involve high technology risks, large capital requirements and higher operating costs in comparison to conventional technologies.[3] To maintain European competitiveness while contributing to the sustainable transformation, the chemical industry requires substantial investment – up to hundreds of billions of euros – meaning access to finance is critical.

Building on Cefic's contribution to the Inception Impact Assessment (IIA) on the first Taxonomy delegated act[4] and with reference to Article 8 of the Taxonomy Regulation, Cefic calls for the following:

1) Adequate flexibility for undertakings to adjust to changing reporting obligations

With this delegated act, the IIA recognizes undertakings under the scope of the Non-Financial Reporting Directive (NFRD) are likely to face additional compliance costs through the collection, organization and disclosure of Taxonomy-relevant information. For the chemical industry, it will require an evaluation of entire value chains.

In this regard, enough flexibility must be afforded to companies to adapt existing financial transaction processing and reporting systems, in addition to the decision-making process on what information is disclosed, how it is used and where it is made available. As the Taxonomy is dynamic and expected to evolve over time, companies must have the flexibility and support to adjust to changing reporting obligations; when new reporting changes are introduced, development of concepts and implementation is a multi-year process, therefore a proportionate and pragmatic approach is required to ensure accurate and cost-effective implementation.

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[1] https://cefic.org/media-corner/newsroom/marco-mensink-cefic-supports-the-green-deal-and-europes-ambition-to-become-climate-neutral-by-2050/

[2] *European Commission Communication on the European Green Deal*

[3] *Masterplan for a Competitive Transformation of EU Energy-Intensive Industries Enabling a Climate-Neutral, Circular Economy by 2050*

[4] *Cefic response to Inception Impact Assessment on the first Taxonomy Delegated Act*

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EU Transparency Register n° 64879142323-90

2) **Coherence with existing reporting requirements and consideration of international circumstances**

Coherence and consistency with existing reporting requirements, measures and definitions set out in other sustainable finance initiatives (i.e. NFRD, Disclosure Regulation), existing financial legislation (i.e. MiFID II/MiFIR) and international standards (i.e. GRI, IFRS) must be considered. Failure to streamline leads to overlapping and potentially inconsistent legislation which may result in non-value adding or duplicative reporting obligations (and associated costs and efforts) on companies.

Additionally, the EU should consider aligning reporting requirements and methodologies with international circumstances, which would avoid conflicting comparability approaches and undue administrative burden, while safeguarding competitiveness of companies with a global footprint. On the latter point, it is critical to properly address confidentiality issues in new reporting obligations related to the EU Taxonomy. As non-EU based competitors are not subject to the EU Taxonomy, they would be privy to substantial commercially sensitive data and information (performance, investments, etc.) from EU-based competitors which undermines the principles of sustainable finance and adversely impacts EU business.

3) **Appropriate transition period and realistic implementation timelines**

Under the Taxonomy Regulation, covered entities will need to provide their first set of disclosures (for climate change mitigation and adaption) from 1 January 2022 for the 2021 reporting period. Given current data availability, reliability and accessibility, and as stated by the Technical Expert Group on Sustainable Finance, the current timetable presents a significant challenge.[5] This leads to compliance challenges and liability risks for market players, in addition to uncertainty for investors. As such, there must be a proper transition period and more realistic implementation timelines.

4) **Greater clarity of key definitions**

For the sound implementation of the EU Taxonomy Regulation, forthcoming delegated acts must have clear definitions of key concepts. Clear definitions will ensure no misinterpretation by users and preparers of Taxonomy-related disclosures, while increasing compliance.

In this regard, "operating expenditure" (Article 8) must be further clarified in the upcoming delegated act to ensure companies are disclosing the correct information without imposing undue administrative burden. Additionally, the Taxonomy Regulation does not clearly define the concept of "directly enabling other activities" (Article 16). In our current reading, it is unclear whether 'enabling' is limited to the next step in the value chain and how it relates to the lifecycle perspective in Article 16 point (b).

Finally, in the absence of an international definition for the principle of "do no significant harm", the EU must further refine the concept to consider companies with many cross-border operations.

5) **Adequate impact assessment and adherence to Better Regulation Guidelines**

As the chemical industry is highly regulated, both at an EU and Member State level, it is important that the Better Regulation Guidelines are followed to ensure legislation remains predictable, workable risk- and evidence-based. Following the recommendations of the European Court of Auditors (ECA), Cefic

[5] *Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance*

strongly supports the principle that EU legislative initiatives must be underpinned with high-quality consultation, evaluation and prior impact assessment.[6]

While the ECA agrees there has been significant improvement in the quantification and monetizing of impacts, only a quarter of impact assessments quantified costs and benefits fully.[7] Within the context of the dynamic Taxonomy Regulation, it is important to conduct an impact assessment that ensures additional reporting requirements remain in balance with the actual value of the information generated for stakeholders. This, coupled with an open development process which allows all relevant stakeholders to provide input, will ensure successful legislative implementation.

Cefic continues to support the European Commission and is ready to positively contribute to the development, analysis and review of sustainable finance initiatives with evidence-based recommendations.

While contributing to this consultation we remain very aware we are all still experiencing unprecedented times, with industry, governments and institutions around the world taking major actions to address the Covid-19 crisis, and introducing large-scale policies which will have significant impacts for years to come. We will continue to support Europe's Member State governments and institutions in their efforts to overcome the socio-economic impacts of the crisis.

When investing for the future, industry, governments and institutions will have to ensure investments align with the policy targets of a climate neutral Europe by 2050. All this also means that the attractiveness of Europe as a re-investment destination, and re-shoring industry back to Europe, will depend more than ever on a favorable policy framework that manages ever-growing differences between the world's regions. We look to the European Commission to undertake the appropriate assessments and to include these wider considerations in the future framework that will be developed.

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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.

[6] *Law-making in the European Union after almost 20 years of Better Regulation*
[7] *Ibid.*