

CIA Green Finance Position: Taxonomy

Background

The UK chemical and pharmaceutical sector is a key enabler of the 17 UN Sustainable Development Goals set out in Agenda 2030, the objectives of the Paris Agreement and moving towards a more circular economy. Not only has our sector improved operational environmental sustainability, e.g. **83% reduction of scope 1 GHG emissions between 1990 and 2019**, but we also provide many of the solutions to unlock the sustainability transition. From more sustainable mobility enabled by advanced batteries and hydrogen fuel cells, to improved building energy efficiency enabled through insulation materials, the chemical sector plays a crucial role.

The UK Government published in 2019 a Green Finance Strategy, committing to greening the financial system, financing the green transition, and seizing the economic opportunity. During the transition period for the UK withdrawing from European Union membership, the European Union published legislation in June 2020 to establish a framework to facilitate sustainable investment. This is commonly referred to as the EU's 'Taxonomy'. To be considered sustainable under the EU Taxonomy, activities must meet the criteria for 'substantial contribution' to one of the six environmental objectives and at the same time must not breach any of the 'do no significant harm' criteria for the other five objectives. Compliance with minimum social guards, such as the International Bill of Human Rights, is also required. The UK has transposed the EU Taxonomy but not the Technical Screening Criteria, which provide the definitions of requirements that certain economic activities must meet in order to be considered sustainable.

Current status

Previously members through EU, the UK joined in February 2021 the International Platform on Sustainable Finance to contribute to the goal of mobilisation and scale up of environmentally sustainable finance. The European Commission adopted in June 2021 a delegated act setting out the criteria for two of the six environmental objectives: climate change mitigation and climate change adaptation, with the two annexes reaching almost 500 pages. A second delegated act is expected to be adopted in 2022 and will include criteria for the remaining four objectives: circular economy, biodiversity and ecosystems, water and marine resources and conservation, and pollution prevention and control. To advise the Government on developing and implementing a Green Taxonomy, the Green Technical Advisory Group (GTAG) – co-chaired by the Green Finance Institute – was established in June 2021. The needs of the UK chemical sector must be engrained into this fast-paced policy area because the implications are complex and significant for industry. This is CIA's first position on sustainable finance and will be further developed as more detail emerges on the UK's direction of travel.

- i) **Engrain the importance of the supply chain when classifying activities as sustainable and classify investments that enable environmental sustainability as part of the Green Taxonomy.** Materials from the chemical and pharmaceutical industry are used in every industrial sector, including for applications such as renewable

energy. No solar photovoltaic cell or wind turbine is possible without the building blocks provided by the chemicals sector. The downstream benefits of products should be considered. For example, energy efficiency improvements and avoided GHG emissions, which will promote the sustainable technologies themselves by strengthening the entire value chain.

- ii) **Ensure that investments can be considered sustainable where they are directed at improving the sustainability of a company, which may not yet meet the criteria of contributing to sustainability but would meet the criteria as a result.** This will help accelerate the transition.
- iii) **Recognise the significance of divergence and convergence with other existing Taxonomies as well as those in development and the importance for consistency at a global level.** Much of the chemical industry is characterised by multinational companies, many of which are foreign headquartered. Compliance with multiple regimes that are misaligned creates additional costs.
- iv) **Define clear, consistent and internationally agreed standards to measure sustainability.** Numerous initiatives exist that provide frameworks for reporting and quantifying sustainability metrics. Measuring in a consistent manner will be critical to measure progress, set targets, benchmark and identify best practices.

- v) **Develop criteria that are robust, simple to implement and are not limited to a minority of activities.** Approaches to criteria in other regions are complex and may result in a lack of uptake by the financial sector and excessive burdens on businesses in the real economy.
- vi) **Provide a clear overview of policy intentions by bringing forward the 2022 review stated in the Green Finance Strategy to be complete by the end of 2021 to ensure that policy development is well coordinated.** This will also allow for the strategy to be updated in view of the changed policy regarding the 2018 Modern Industrial Strategy but could instead take the form of a communication detailing an action plan and roadmap to cover the Green Taxonomy and all other aspects of sustainable finance e.g. reporting and disclosures. Business needs this transparency to understand the scale of the challenge and opportunity.
- vii) **Fully involve representatives from the manufacturing industry and particularly foundation industries when developing the specific criteria that determine whether an activity can be considered sustainable.** Sustainable development can only occur through technological innovations and scale-up, which means the manufacturing industry will increasingly need access to sustainable finance that will in turn promote environmentally sustainable solutions. Specialised stakeholder participation throughout the development of criteria is essential. For example, the chemical industry provided several corrections and clarifications during the development of the first EU Delegated Act covering significant contributions to climate adaptation and mitigation.
- viii) **Promote the role of chemical recycling in addressing the plastic waste issue and in the move to a circular economy for plastics.** Chemical recycling is an innovative technology to produce virgin quality plastics and chemicals from waste, with the current focus being on post-consumer mixed or contaminated plastics but with substantial potential for increased future applications. The complementary role of chemical recycling to mechanical and other forms of recycling should be recognised for its contribution to climate change mitigation and the transition to a circular economy.
- ix) **Minimum social guards should extend to support the Government's levelling up agenda.** Without this, and by focusing on environmental sustainability in a silo, the transition risks becoming unjust and damaging regions of the UK where investments and competitiveness are most needed. Sustainable outcomes can only be achieved when environmental, social, and economic factors are considered.



CIA believes the above recommendations form the basis of an effective Taxonomy that can help to direct financial flows towards a greater degree of environmental sustainability.

WASTE TO RESOURCES

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