

ACATIS FAIR VALUE SPECIAL

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(Green) taxonomies continue their march around the globe – Highest level of red tape in the EU

While many medium-sized companies (particularly in Germany) are groaning under the taxonomy which they perceive as an excessive amount of red tape, sustainability taxonomies are being developed worldwide. In some places, there is even talk of a global taxonomy race regarding the interpretation of sustainability and supremacy in setting the global standard.

If we consult the International Platform on Sustainable Finance (in short: IPSF) of the EU Commission, which was established in 2019 (<https://europa.eu/CP69YX>), we would find 20 countries that have formulated their own national taxonomies. This club represents approximately 55% of global CO2 emissions and 55% of the global GNP. Member countries range from industrial nations such as Japan and up-and-coming economies such as China to countries in the so-called “global South” (e.g. Indonesia).

Many national taxonomies used the EU taxonomy as a blueprint that was adjusted to national economic and societal conditions, as well as environmental and social objectives. While the taxonomies feature a similar structure (e.g. all include climate protection goals), a detailed look reveals a diversity of targets, criteria and threshold values. Few have a taxonomy that is so highly graduated and full of detailed instructions as the EU taxonomy: Some taxonomies merely define what a green activity is, while others classify activities on the basis of a rather crude traffic light system (e.g. Singapore).

Even though it is understandable that national taxonomies will consider country-specific aspects, different classifications can lead to different speeds and aspiration levels for global sustainability targets such as the Paris Alignment or the UN Sustainable Development Goals. It may result in distorted competition and trade barriers in the global economy.

These are also the reason why the IPSF repeatedly talks of the need for international consulting and coordination. A Common Ground Taxonomy, which it is developing at the moment, is supposed to reach a global understanding of ecologically sustainable investments in the member countries, as well as cross-country interoperability and comparability. Politically speaking, such a step is considered important for implementing the G20 timetable for sustainable finance.

What is not clear is to what extent (and how) the EU Taxonomy will be able to prevail as the “global standard”, as imagined by the EU Commission. The many criticisms directed at the taxonomy, and the inconsistencies found in the same, have surely also been noted by those outside of the EU.

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