Aldersgate Group response: UK Green Taxonomy consultation

February 2025

Background

The Aldersgate Group represents an alliance of major businesses, academic institutions and civil society organisations which drives action for a competitive and environmentally sustainable UK economy.[1] Our corporate members represent all major sectors of the economy, and include Associated British Ports, Aviva Investors, BT, CEMEX, the John Lewis Partnership, Michelin, Nestlé, Siemens, SUEZ, Tesco, and Willmott Dixon. Aldersgate Group members believe that ambitious environmental policies make clear economic sense for the UK, and we work closely with members when developing our independent policy positions.

You can find the consultation, including the full list of questions, here: https://assets.publishing.service.gov.uk/media/6734cf6a54652d03d51610c5/UK_Green_Taxonomy_Consultation.pdf

Questions

3. **To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**

A UK green taxonomy is distinctly valuable because it is applied at an economic activity level, not at an entity level, as for other government sustainable finance policies. It provides a commonly agreed definition of which economic activities are environmentally sustainable, helping to facilitate the flow of finance and mitigate greenwashing risk for whichever subset of investments is in scope. Corporates, for example, can use taxonomies to underpin their green finance frameworks for the issuance of financial products (like green bonds), support claims of sustainability performance and improving comparability.

A UK green taxonomy would also support the government's wider sustainable finance regulatory framework. For instance, disclosing current and planned alignment of turnover, capital expenditure and operational expenditure against a taxonomy can provide measurable KPIs and data to inform transition plans. Research has found that out of the 1700 companies that published EU green taxonomy reports, 600 identified their revenues and spending as part of their climate transition plans.[2] Additionally, a taxonomy could help channel capital towards hard-to-abate sectors, by providing clarity on 'transitional' activities.

[1] Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.
[2] CDP and Clarity AI, 2023, Stronger Together: Exploring the EU Taxonomy as a tool for transition planning

Considering the significant uplift in regulatory reporting and disclosure expected both in the UK and EU, a UK green taxonomy should be made voluntary for economically significant companies.

A voluntary approach would help ensure that the benefit-to-cost ratio remains proportionate by minimising the reporting burden for companies while still offering a valuable tool to help tackle greenwashing and facilitate investment. This approach would also allow the UK to resolve any potential usability issues that may emerge, while monitoring developments in the EU through its Omnibus proposal, without the need for legislative amendments. This would also give the UK government the option to make taxonomy alignment disclosures mandatory in the future, should it become appropriate.

5. **How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)? (Optional)**

A UK green taxonomy is necessary to underpin and support the government's green regulatory. For example, disclosing alignment of revenue, capital expenditure and operational expenditure against a taxonomy can inform transition planning and provide supporting data.

Crucially, a UK green taxonomy would provide investors with comparable, consistent and decision-useful data to base investment decisions on. This data provides clarity on the green credentials of both the current performance and future investment of companies, highlighting not only top performers across economic sectors but companies actively transitioning.

7. **What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.**

Previous work carried out by the Green Technical Advisory Group highlighted 20 potential use cases of a UK green taxonomy.[3]

A taxonomy could contribute to the government's goal of mobilising capital to facilitate achievement of UK environmental policy goals. First, it could be used to underpin national public finance to ensure capital is flowing into sectors critical for the transition. Public Financial Institutions (PFIs), for example, could use the taxonomy to screen investment decisions to help classify the sustainability and impact of investments. The UK Infrastructure Bank previously committed to "monitor its portfolio's alignment against the UK green taxonomy, when it is finalised" in its 2022 Strategic Plan.[4] The newly established National Wealth Fund, as well as other PFIs like the British Business Bank, could also commit to using the taxonomy in a similar way. Second, the government and data providers could use it to underpin a model for tracking green financial flows. This data would enable the government to track investment (public and private) into the UK's net zero transition, identify key areas where there is underinvestment, and monitor the growth of the UK green economy.

[3] GTAG, 2023, Applying the UK Green Taxonomy to wider policies: the value case and options
[4] UKIB, 2022, Strategic Plan

A robust, science-based taxonomy could also contribute to the government's goal of promoting market integrity and preventing greenwashing by classifying which economic activities can be considered 'environmentally sustainable' as well as 'transitional'. Underpinning corporate green financing frameworks with a UK green taxonomy, and reporting taxonomy alignment of business activities and investments with the taxonomy, could offer investors with measurable KPIs and data to support decision-making and shareholder engagement.

9. Are there any other use cases respondents have identified? (Optional)

A taxonomy could support the government's growth mission, including its Modern Industrial Strategy. The Strategy's primary objective is to "capture a greater share of internationally mobile investment and strategic sectors and spur domestic businesses", while also supporting the net zero transition.[5] Here, a UK green taxonomy could be a useful tool for monitor and evaluating the success of Industrial Strategy. For example, it could be used to track the flow of green finance into the growth sectors identified in the Industrial Strategy, highlighting where there is underinvestment and greater public policy interventions are required.

11. Under these or other use cases, which types of organisations could benefit from a UK Taxonomy? (Optional)

The following types of organisations would benefit from the implementation of a UK Green Taxonomy:

- National and local government – A UK green taxonomy could strengthen the green credentials of public sector borrowing (such as the UK's green gilt) and local authority borrowing (such as municipal bonds), increasing investor confidence.
- Public Financial Institutions (PFIs) – PFIs, such as the National Wealth Fund and British Business Bank, could monitor portfolio alignment against the UK green taxonomy to ensure public investments are supporting environmentally sustainable activities, and the UK's wider climate and environmental goals.
- Investors – Corporate disclosure of taxonomy alignment of turnover, capital expenditure, and operational expenditure could provide investors with consistent and comparable information over time, supporting stewardship and investment decisions.
- Corporates – Using a UK green taxonomy to underpin green finance frameworks and inform climate transition plans could support corporates to attract investment and demonstrate where companies are actively transitioning (for example, if companies have higher green capital expenditure compared to current green revenue).
- Third sector organisations – A UK green taxonomy would enable third sector organisations to monitor financial flows and scrutinise sustainability claims.

[5] HMG, 2024, Invest 2035: The UK's Modern Industrial Strategy

14. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this. (Optional)

Green taxonomies have an important role to play in the provision of transition finance. By developing clear definitions, thresholds and criteria for transitional activities, taxonomies help financial institutions identify and direct capital towards transition areas of the economy with confidence.

The EU Green Taxonomy captures 'transition' both through the 'transitional activities' category and through the dynamic review process where Technical Screening Criteria (TSC) thresholds are ratcheted up over time in line with the transition of the wider economy. Transitional activities must contribute to climate mitigation and a Paris Agreement-aligned pathway. To qualify, these activities must meet three criteria: (1) there are no technologically or economically feasible low-carbon alternatives; (2) greenhouse gas emission levels correspond to the best performance in the sector or industry; and (3) the activity does not lead to carbon lock-in or hamper the development/deployment of low-carbon alternatives.

The inclusion of transitional activities in a UK green taxonomy should be reviewed every 3-5 years to ensure higher-emitting activities are removed when technologically or economically feasible low-carbon alternatives have been developed.

In agreement with the Green Technical Advisory Group, we believe the UK should prioritise the delivery of a credible, robust, and usable green taxonomy before any exploration of a transition taxonomy or 'extended taxonomy'.[6]

15. There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making? (Optional)

Members of the Aldersgate Group report that they use taxonomies to help secure investment. CBRE Investment Management, for example, has aligned its Green Finance Framework with the EU Taxonomy, which has helped it to meet market expectations and reduce the risk of 'green' being interpreted as CBRE IM's own opinion. In 2021, CBRE IM raised €1bn in two issuances of green bonds. The proceeds of these instruments were allocated to green projects, as defined by the EU Taxonomy. In CBRE IM's view, "the EU Taxonomy helped facilitate a successful Green Bond, indicating that the UK Taxonomy could help drive similar green finance activity in the UK".[7]

Members of the Aldersgate Group have also reported that the EU green taxonomy has been useful for internal decision-making regarding future investments, as it provides criteria outlining what would be considered a sustainability activity which can be applied consistently.

[6] GTAG, 2023, Developing a UK taxonomy adopted to the UK's needs in the short and medium term: scope, coverage, and reporting considerations
[7] APPG on ESG, 2022, The UK Green Taxonomy

16. **In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics. (Optional)**

Where possible, the UK green taxonomy should take the same approach as other global taxonomies, which have largely been modelled on the EU green taxonomy. This is critical to avoid divergence which would force companies operating across jurisdictions and markets to apply different classifications to products and services, restricting the international flow of capital and increasing compliance costs. When developing a UK green taxonomy, however, consideration should be given to the UK context, policies, aims and targets to maximise its effectiveness and usability (see answer to question 17).

17. **Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by? (Optional)**

There are several lessons the UK could learn from the implementation of the EU green taxonomy:

- Sequencing. The EU green taxonomy requires financial and non-financial companies to report at the same time. A study of the EU's 100 largest companies identified a data-lag, whereby the financial companies must make an educated guess because of the lack of data. This analysis suggested financial companies are reporting the eligibility of their assets at 60%, compared to non-financial companies, who are reporting that just 37% of their turnover is taxonomy eligible.[8] Should the UK government decide to adopt a mandatory approach to taxonomy alignment disclosures, requirements for corporates should be introduced first, then asset managers, followed by asset owners. This will enable the flow of information through the value chain.
- Integration with other disclosure requirements. In the EU, the definition of taxonomy-eligible activities is not fully aligned to the definition of 'sustainable investment' under the Sustainable Finance Disclosure Regulation, leading to a dual classification system that is inefficient and in some cases contradictory. Should the UK government implement a taxonomy, it must be complementary with other elements of the overarching sustainable finance regulatory framework.
- Science-based. The EU green taxonomy has attracted criticism because of its classification of natural gas, energy from waste, and some forms of agriculture (such as industrial livestock production) as 'green'.[9] The inclusion of these activities undermines the scientific credibility of the EU taxonomy, is inconsistent with the UK's climate commitments, and will hinder investors' ability to identify and channel capital towards environmentally sustainable activities. A UK green taxonomy must use robust, scientific, and evidence-based criteria.
- Assessing economic activities across the life cycle. The EU green taxonomy does not include any pre-construction activities associated with the development of taxonomy-eligible activities, such as renewable energy generation or e-mobility. As a result, pre-construction development expenditure cannot be categorised as taxonomy-aligned

[8] We Mean Business Coalition, 2023, EU green taxonomy in practice
[9] LGIM, 2021, Agriculture risk in the EU's Sustainable Finance Taxonomy

capital, restricting the flow of capital into the development of sustainable infrastructure. A UK green taxonomy should include pre-construction activities to incentivise investment further.

- Do No Significant Harm (DNSH) criteria. The EU green taxonomy's DNSH criteria is repetitive, complex, and highly subjective – with an ambitious definition of 'significant harm'. A UK green taxonomy should look to simplify the DNSH criteria and develop them in a way allows proportional and sector-specific application of good industry practice.

The UK should also look to other jurisdictions to understand the different use cases for taxonomies. Germany, for example, has developed a traffic light taxonomy to better align its export credit guarantee scheme with its climate and environmental goals.[10] Under this proposal, economic activities in the 'green' category, such as renewable energy, power storage, and electricity and heating grids, will receive easier and more attractive cover conditions. Meanwhile, activities in the 'red' category (coal and oil projects) will no longer be eligible for the scheme.

23. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years. Do you agree with this regularity? (Optional)

A UK green taxonomy would require periodic review. This is necessary not only to account for scientific, policy, and technological development, but to ensure the taxonomy remains fit for purpose and continues to drive performance towards its stated goals.

The inclusion of transitional activities should also be reviewed every 3-5 years to ensure they remain in line wither broader environmental and social objectives. Higher-emitting activities, for example, should be removed when technologically or economically feasible low-carbon alternatives have been deployed.

24. Would this pose any practical challenges to users of a UK Taxonomy? (Optional)

The frequency of updates to a UK green taxonomy needs to be considered and communicated carefully to avoid adding complexity. Changing classifications, for instance, could impact firms financing development projects which can take years before they become operational. To mitigate this, the appropriate governing body must signpost the review period with stakeholders early, carry out consultations, and provide a reasonable lead-in time for companies to prepare ahead of changes coming into effect.

26. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

The Green Technical Advisory Group (GTAG) could be re-established (in an updated form as appropriate) to help maintain and update the UK Taxonomy.

[10] Edie, 2023, Germany launches its own green taxonomy for export credits