

## TEG Taxonomy – Do Significant Harm Workshop 26 March 2019

### Transcript

Tour de table

Presentation by [REDACTED] (see slides)

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- See in particular table with overview of activities and where DNSH has been done
- External experts having done more than the initially foreseen 10 days? None.
- General themes from round 1 feedback:
  - Value chain considerations
  - Clearer distinction between economic activity, asset, project/action
  - Clearer articulation of environmental criteria – avoid terminology that is open to interpretation. Hence, aim for threshold, quantitative threshold – but challenging in DNSH context.
- DNSH themes from round 1 feedback
  - Location / site specific impacts
  - Criteria should be more concrete, less open to interpretation
    - More use of metrics and quantitative thresholds
  - Life cycle approach – upstream impacts and construction / operation / decommissioning phases
    - TEG can create link with other NACE code to capture systems perspective to a certain extent
  - Circular economy – particularly supply chain, products – needs more consideration
  - Alignment with existing regulations, best practices
- Usability feedback relevant to DNSH
  - Align to existing market practices
  - Technology neutral
    - Stakeholder: “Technology neutrality is not respected with criteria such as avoidance of lock-in and excluding economic activities that undermine the mitigation objective”.
    - More relevant to mitigation discussion
  - Flexibility to take into account national differences
- Usability discussion
  - Stakeholder: water is location-specific, intensive use of water is not a problem if it is a water-rich area (e.g. cultivating avocados). Geographical criteria to be included.
    - [REDACTED]: experts should define water-scarcity level which would exclude avocado cultivation from Taxonomy
  - Stakeholder: life-cycle impacts – criteria should be defined for the whole life cycle and apply across the supply chain
    - [REDACTED]: working with NACE code, need to set boundaries, solution is to recommend other NACE code
  - Stakeholder: Executive summary - “show that *all* operations are compliant”

- [redacted]: to show the format, content still in draft format, percentage of operations
- Stakeholder: “promise to improve” is not sufficient. Plant vs. activity vs. company level? Which financial products?
- Stakeholder: location is very important for new production plants (e.g. chemical production and steam pressure). LCA analysis resource-intensive but

### **Presentation on portfolio management perspective**

- State of play of responsible investments
- ESG analysis, concepts started in equity, now beginning to be applied to fixed income
- Step 1. Desktop analytics
  - Sustainability rating companies provide data to investors
  - Complemented by in-house capacity (ESG analysts job offers)
  - How is this company generating returns on investments
- Step 2. Drilling into specific issues, beyond what is published on company website
  - E.g. Aluminium – red mud,
  - Overweighting of a specific sector
- Step 3. Engaging with the company
  - Investors meet with management
  - Contacting the company, calling.
  - If company is not doing what investors thinks it should: tracking, plan to address, milestones, year later at general assembly
- Step 4. Investors use levers to influence company decisions
  - Voting at general assembly, buy or selling shares
  - Cf. Activist investors in news
- Question: at which step can the Taxonomy be relevant?
- I would argue somewhere between 1 and 2 – getting investors more familiar with specific issues.
- [Slide 2] Available tools. Broad ESG view, proxies for environmental performance vs. Taxonomy zooms in to E, very detailed, ground level impacts
- [Slide 3] Example of aluminium, supply chain analysed (note: most production goes on outside the EU)
- Taxonomy should not repeat the work that has already been done.

### **Questions**

- [redacted]: Social vs. environment – how are they weighted?
- [redacted] depends on sector – oil & gas, strong focus on E; mining, many social issues. Also, depends on news flow – reactive to this.
- [redacted] how do investors interact with investees on these topics
- [redacted]: at present, the engagement is very high-level. Do you acknowledge there is a problem? What are you doing to address it? Then back 6 months later.
  - Reality check at operational level: most facilities do not fully comply with
- Stakeholder: proliferation of ratings, rankings – used by investors?
- [redacted]: increasingly in-house capacity, analytics – may use these rankings / ratings as first
- Stakeholder: sustainability reports?
- [redacted]: if addressing the relevant issues in your sectors, investors will recognise / reward this. Investors want to work with these companies. Do not want to police companies. (NB: Many asset managers are forced to do this, to get AUM, competitive advantage)

- Stakeholder: supply chain - aluminium producer respects all Taxonomy thresholds but purchases 100% of its alumina from the worst company in the world. For key impacts, need to define criteria further upstream.
- [redacted]: agree, when very important, may need to define criteria for sourcing of materials
- [redacted]: rare for companies to go beyond tier-1 supply chain. For some cases, supply chain control, auditing – staff going to 10 mines in Indonesia.
- Stakeholder: where does Taxonomy fit in to the current state of play of responsible investing? Executive summary helps investors today. But Taxonomy goes beyond that, right?
- [redacted]: clarify – asked [redacted] to do a “typical day in life of an investor”. Taxonomy idea is to go well beyond business usual.
- Stakeholder: what is the deliverable?
- [redacted]: criteria and thresholds + rationale.
- Stakeholder: due diligence – how will the finance sector assess if the Taxonomy is complied with?
- [redacted]: for bonds, assurance requirement. For equity, voluntary mechanisms (probably)

### ***Sectoral discussions [split into sub-groups]***

#### **Sub-group: waste and water [notes incomplete]**

- [redacted]
- Around 50% of emissions are a result of not being circular
- Rainwater collection systems – adaptation?
- Green roofs – relatively low tech

#### **Sub-group: Manufacture of EE equipment for buildings [notes incomplete]**

- Water intensity – perhaps relevant for glass fiber
- Circular economy – design of equipment
  - Awaiting publication of CEN/CENELEC standard – once published, companies will be able to report
- Critical raw materials – low amounts in terms of weight but critical for the production process

### ***Debriefing [plenary]***

- Forestry
  - Two activities completed, two under revision from round 1 – need to include feedback
  - Internal deadline: 1<sup>st</sup> draft for each objective next week
  - Share with [redacted] 16 April
- Cement and concrete: weekly calls, not much discussion today, no scope from mitigation group, we defined boundaries ourselves. Emissions from transport..., but also co-processing to improve material efficiency. Raw materials (sand,...) usually quite far away from point of use (mostly Asia, China). Need to find ways to substitute raw materials, but new sources dubious. Removing sand and sediments has a large impact on ecosystems on coastal territories, in turn affecting climate resilience.
  - [redacted] to produce an executive summary by 10 April
- Non-ferrous metals: EU legislation is a minimum standard, *regardless of where the activity takes place*. Where do we place the information for the investor? Idea of executive summary (cf. [redacted]'s contribution) and reference to more detailed part of the document.
- Iron and steel:
- Aluminium: [redacted] to process comments and update executive summary draft

- [REDACTED]: No further update compared to today. Based on BREF. Attempted some qualitative requirements (practices, things to check) for e.g. waste. Also based on BREF – includes qualitative requirements. Will do the executive summary
- EE equipment for buildings: scope proposed by DNSH group and sent to mitigation group. Criteria under development. Executive summary to be started
- General manufacturing: possibility that this will be deleted.
- Energy round 2:
  - Production of electricity
  - Transmission and distribution of electricity – no thresholds so far, some qualitative requirements. Will start working on storage – call for volunteers on DNSH for storage.
  - Steam and AC supply – on hold. No priority on this activity
  - Manufacture of gas – recently scope, only blue and green hydrogen (vs. grey hydrogen – i.e. from natural gas, by product is CO<sub>2</sub>). Call for volunteers.
    - Reform of hydrogen – avoid duplication and coordinate.
  - Trade of gas through mains – scope under discussion since distribution of gas through mains is another activity. Env impacts come from distribution rather than trade.
    - [REDACTED]: probably trade of gas will be dropped off
- Energy round 1 – expert integrating feedback, [REDACTED] did solar panels, can try CSP
- Water and waste: [REDACTED] leads on sewerage (but on leave as of Friday for two weeks), [REDACTED] on collection, treatment and disposal of non-hazardous waste,
  - Call on Friday 2 p.m. GMT
- Transport: not discussed today
- ICT: difficult to get it to fit in NACE code. Discussion with mitigation group over lunch, now obtained their document, list of ICT “enabling activities” / greening by.
  - Generation of waste
  - Dawn to follow-up with [REDACTED]