

## POSITION PAPER

# EU taxonomy for sustainable activities after two years of application & new circular economy criteria

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- After two years of applying the EU taxonomy, more and more construction companies are **starting to realise the Taxonomy's full potential** and are fully committed to meeting the technical criteria.
- FIEC's 2021 assumption that the framework presents **both opportunities and risks** for the construction industry is still valid.
- Compliance ("**alignment**") with the technical criteria **remains at a low level**. The new circular economy criteria will only accelerate the sector's sustainable transition **if certain conditions are met** (see 5 key messages).

## The EU taxonomy brought opportunities but also posed new challenges for construction companies

Two years into the practical application of the EU taxonomy's technical screening and "Do No Significant Harm" criteria for the first two environmental objectives, more and more construction companies in Europe, even smaller ones, are starting to realise the full potential of this novel tool and are applying it, even though financial institutions still use other indicators to assess the sustainability performance of companies.

At the end of 2023, new technical criteria for the remaining four objectives ("Environmental Delegated Act") and targeted amendments to the Climate Delegated Act were published in the Official Journal of the EU. FIEC, a former member of the *Platform on Sustainable Finance*, reiterates its [2021 position](#)<sup>1</sup>, which remains valid:

The EU taxonomy illustrates the construction sector's **key role for achieving a climate-friendly Europe** as the companies in the sector contribute significantly to the achievement of the climate targets (through energy-efficient renovations, building sustainable infrastructure, etc.). In addition, the framework provides a **clear EU-wide definition of what "sustainable" and "circular" construction and renovation means** and is therefore an essential tool for engaging with sustainability-conscious clients and investors and mobilising much-needed investment for energy-efficient renovations and for the construction of 'greener' buildings. By following the criteria, construction companies can successfully enter the sustainability market.

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<sup>1</sup> "Opportunities and risks of the Taxonomy for the construction sector".

On the other hand, environmentally friendly construction is costly in the short term and the lack of data and complexity of the construction value chain (sub-contracting...) can make **reporting** under the Taxonomy particularly burdensome. This is also true for sustainability reporting under the **CSRD** and the **European Sustainability Reporting Standards (ESRS)**.

## **The Environmental Delegated Act will only accelerate the sustainable transition of the sector if...**

The entry into force of the new technical criteria at the end of 2023 for construction-related activities, in particular for the “*Transition to a circular economy*” objective, is another crucial step towards more sustainable investments in the EU and towards circular construction. However, while FIEC’s member federations and their companies strongly believe in the conceptual strength of the EU taxonomy, **they report a number of problems** in the practical application of the existing criteria. **New practical issues** (e.g. related to the availability of materials and facilities to meet the new recycling and substitution targets) **will emerge** as construction companies continue to learn and as they apply the demanding criteria of the Environmental Delegated Act.

In view of the above, FIEC, which still deeply regrets that the construction industry is not represented in the *Platform on Sustainable Finance’s* second iteration, believes that construction companies will only fully benefit from the EU taxonomy’s **incentive power if:**

- 1. A continuous “reality check” and fine-tuning** of the existing technical criteria is effectively carried out by the *Platform* and the European Commission and new criteria are progressively added to the framework, allowing a **“healthy evolution” of the EU taxonomy**.
- 2. A regular and systematic exchange** between the construction industry, the financial sector and the Commission is (re-)established, so that construction experts can be regularly consulted to advise the *Platform* **(not just on an ad hoc basis)**; and **financial institutions** are supported in assessing the sustainability performance of construction companies, while giving companies sufficient time and **not applying too narrow a reading of their efforts** to become ‘*Taxonomy-aligned*’.
- 3.** It is increasingly **perceived by lenders** as a **reliable** and **credible** framework for assessing sustainability performance compared to other indicators used; to this end, **“grey areas”** and technical errors should be removed as far as possible to avoid misinterpretation and to **ensure sufficient clarity** of the criteria.
- 4.** The framework will be made **more “SME-friendly”** as medium-sized and smaller companies often lack the necessary resources to comply with the framework and report on sustainability KPIs.
- 5.** More sector and **country-specific user guides** are published as starting points for companies and regulatory environments can vary significantly from one country to another which can lead to an **uneven economic playing field** between companies depending on where they are based.



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