

The EU
Taxonomy for
sustainable
finance is
coming – and
Construction is
at the heart of
the issue

Question: Are you sustainable?

The EU Taxonomy for sustainable finance is coming and casts a shadow over large construction companies. From 2023, large European companies, including construction companies, will be obliged to disclose in detail to what extent their activities are sustainable. Banks will have to show how sustainable their lending policies are. Marketing of financial products as sustainable will be subject to strict rules.

The Regulation defining the EU Taxonomy is entering into force and with it a series of disclosure obligations and most importantly, the world's first green list of sustainable activities. The latter covers economic activities that can make the most relevant contribution to the reduction of greenhouse gas emissions and improve climate resilience. The Taxonomy covers sectors which together are responsible for almost 80% of direct greenhouse gas emissions, including construction.

In conjunction with these disclosure obligations, the

classification of economic activities is expected to enhance transparency for the purpose of sustainable investments. The objective is to direct financial flows towards truly green activities to drive the transition to sustainable economy and avoid greenwashing. In order to make life easier for investors, companies will have to screen their activities, indicate their alignment with the Taxonomy criteria and disclose this information in their non-financial statements.

BUILDING FOR SUSTAINABILITY

Unsurprisingly, the construction sector is at the heart of this sustainable finance initiative. Almost half the activities covered by the Taxonomy are construction activities. Be it the construction of wind power, the construction of railway infrastructure, the renewal of waste water infrastructure, housebuilding or renovation – the Taxonomy defines a seemingly endless amount of technical criteria. They define how, for example the construction of a new building, can make a substantial contribution to the mitigation of climate change while not doing significant harm to other environmental objectives. By way of illustration, building a highly energy efficient house is only environmentally sustainable when at least 70% of construction waste is recovered and efficient water appliances are used.

BIG OPPORTUNITIES

FIEC's take on the Taxonomy is mixed. We clearly see big opportunities coming along with this initiative. Undoubtedly, the Taxonomy illustrates the

construction sector's key role for achieving a climate friendly Europe. This is what is needed to show clients and investors what construction can deliver. Let us not forget: Construction is a client driven industry. At the same time, the Taxonomy can help construction companies to adapt their business models. Future competitiveness and attractiveness as an employer will depend to a large extent on the sustainable construction services a company can offer. The Taxonomy indicates which services firms have to offer and will foster innovative solutions to meet the demands of ambitious clients and young talent.

AT THE MERCY OF CLIENTS?

Still, we must not be naïve. The Taxonomy must undergo a reality check before one can truly assess its added value. Is Taxonomy compliance a business case? Environmental sustainability is costly in the short term. If the criteria are too restrictive, investing in a Taxonomy-aligned activity will not be a business case and the tool's reach would be limited to pilot projects falling short of mobilising sufficient amounts of capital. Also, Taxonomy reporting is expected to be particularly burdensome.

The biggest concern is whether non-alignment with the Taxonomy criteria will make access to finance more difficult. As stated earlier, construction is a client driven industry. As a result, not being aligned with the Taxonomy is not necessarily the result of a lack of efforts from the side of the company. Clients might simply not purchase construction works which correspond to the Taxonomy criteria. In the worst case, this might lead to

discriminatory practices from investors.

It is only in a few years that we will see whether the Taxonomy has the potential to be a success story. As a Member of the Platform on Sustainable Finance, the European Commission's Expert Group charged with the further development of the Taxonomy, FIEC will monitor the practical functioning and follow-up on potential shortcomings.

SUSTAINABLE FINANCE MUST BE MAINSTREAM

In the meantime, FIEC is co-developing the second generation of criteria. Environmental sustainability has many faces. How can construction make a substantial contribution to a circular economy or to biodiversity? How much recycled material can we use in a new project? How much demolition waste can be recycled? The extension of the green list is in the making. Another set of criteria is in the pipeline. But that is not all: The Expert Group and the European Commission are also working on a social taxonomy and a negative list of activities which are causing significant harm to the environment. And soon, the institutions will explore how to extend the use of the Taxonomy.

Many might criticise this massive amount of initiatives. The Taxonomy is surely among the biggest, most complex and most disputed files on the table. But the transition to a carbon neutral continent has to be financed. And it requires massive amounts of investments. There is no alternative to sustainable finance becoming mainstream. Construction can only benefit from a solid sustainable finance framework.

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