

JBCE comments on Draft report on preliminary recommendations for technical screening criteria for the EU taxonomy

The Japan Business Council in Europe (JBCE) wants to reiterate their continuous support for the vision and overarching objectives of the Sustainable Finance Agenda and the Taxonomy. Indeed, shifting investments towards sustainable activities are key targets for both JBCE members and the EU. JBCE has structured its response detailing fundamental issues pertaining to the framework of the environmental objectives of the EU Taxonomy; JBCE has also attached a document detailing specific contributions in relation to the annex report on the technical screening criteria (TSC).

[Generic points]

Although the commission seeks specific and concrete opinions in relation to the draft report, we believe it is important to also provide general feedback in order to ensure the full implementation of the requirements laid out in the Taxonomy Regulation. Given the complexity of the Taxonomy and its complex requirements of disclosure set EU Taxonomy Article 8 delegated act, it is important that companies can navigate the new regulatory landscape, and are incentivised to use the Taxonomy.

- **Due process**
 - In order to understand and follow more clearly the process of the recommendations for the technical screening criteria, the Platform on Sustainable Finance (PSF) should disclose the meeting minutes of the past technical WG meetings and organise frequent information webinars/engagements for stakeholders. We also would like to point out that stakeholders need sufficient time to review the draft recommendation. Reviewing the technical screening criteria recommendations requires technical analysis. Consequently, it can be challenging for stakeholders prepare additional evidence in such a short timeframe. We urge the PSF to provide additional public consultation opportunities before finalising the work of technical WG.

- **Complexity**
 - The current descriptions of economic activities are complex and sometimes confusing, hence more clarity is needed. Lack of clarity could lead to different interpretations from company to company, and result in inaccurate disclosures. This could hamper one of the most important objectives of EU sustainable finance policy, namely to ensure comparability. Vague expressions, such as “various” (p.

240), should be eliminated from the text. It also needs to be clarified which TSC should be referenced in order to be taxonomy aligned, when an economic activity falls under several sections (e.g. seen in both 2.6 and 2.7).

- We also point out that the added complexity will lead companies to overly depend on the support of external experts (consultants) to perform the analysis of a company's portfolio's Taxonomy-alignment (CAPEX, OPEX and turnover calculations). This leads to increased spending on internal assessment procedures. Cost and time proportionality should be considered in order to accelerate the implementation of sustainable finance objectives as intended by the Taxonomy. Examples are: the requirement to perform different LCA, carbon footprint, water footprint, environmental impact studies, which in many cases should be verified by a third party verified (Referred to in "Third party certification" part in this paper).
 - Additionally, we strongly recommend that the Commission develops a practical navigation tool, in addition to the Taxonomy Compass. The tool could include a search engine with the product names (i.e. transformers), that provides navigation to the appropriate Taxonomy. It is also important that user-friendly links are provided when there is a reference to relevant laws, regulations and standards.
- **Level playing field**
 - If we want Europe to continue being a manufacturing hub, which is necessary to ensure European strategic autonomy when it comes to critical products (such as medicines, base chemicals, and computer chips), we need to allow safe levels of uses of SVHCs in Europe. If mining is to be included in the Taxonomy, we must be able to outline the next steps allowing for production of all necessary materials in Europe.
 - Some requirements are stricter than in BREFs: halving the emission bands of all BREFs; continuous measurements required at each relevant source; solvents loss 3%; 99% solvent recovery which is the design standard and is probably not achievable in practice; all plants must do LDAR (leak detection and repair, for which not enough measuring institutes will be available to perform this assessment).
 - The level of ambition of the TSC seems different from section to section. E.g for 2.7(circular electronic equipment) the target is to cover 10-20% best in class while for 2.16(transport), the target requires best or better than average performance. In order to avoid the inequality access to the finance among economic activities, the level of ambition to set the TSC, should be consistent and clear.
 - Proportionality of the TSC for each economic activity should be ensured. There are

several economic activities with a multiple options of TSC(“A” or “B”). However, each criteria is not always proportional. In the case of 2.7 “Manufacture of circular electrical and electronic equipment”, option A is compliance with existing EU Ecolabel criteria or the EU GPP criteria, and option B postulates that where Ecolabel and GPP criteria do not exist, several individual criteria (design for long lifetime/ repair and guarantee/ remanufacturing/ dismantling/ recyclability/ and proactive substitution of hazardous substances) should be applied. Hence, option B is more strict than option A.

- **Consistency with EU and international level frameworks**

- It is highly appreciated that the Taxonomy criteria refer to international standards and existing EU legislations. However, in order to avoid any uncertainty or confusion, the current ongoing discussion on standards and initiatives should not be referred to. The referenced standards and legislations must be final political agreements when used as criteria. Here are some examples:
- They are mainly extracted from ISO TC 207 *Environmental Management*. Recently established ISO Technical Committees such as TC 322 *Sustainable Finance*, TC 323 *Circular Economy*, and TC 331 *Biodiversity* should be more referenced after their publications are made.
- Where offsetting is addressed, the Taxonomy should not set the individual definitions, and we ask that criteria are carefully aligned with international agreements.
- The Taxonomy should also respect other EU legislative principles. Existing chemicals legislation, such as the RoHS Directive or the REACH Regulation, allows for the use of restricted chemicals for exempted case/usage. Such exemptions are approved after assessment on scientific basis, where there is no real alternative available. These exemptions should also be recognised under the EU Taxonomy. We note, with regret, that this is only the case for two substances in the draft proposal. Moreover, the Taxonomy criteria should not hinder the use of chemicals for scientific research and development, as well as for reference materials. Chemicals for scientific research and development are necessary for innovation. Additionally, reference materials are necessary for accurate measurement of hazardous substances.

- **Third party certification**

- Third party assessment requirements are needed for some activities. The criteria

for when to introduce third party certification must be clear and coherent.

- We would like to point out that third party certification performed outside of the EU should also be recognised, considering the global nature of many companies operating in the EU. Where a certificate from a notified body is required, the criteria should be globally harmonised. Certification by notified bodies requires a large amount of money and sufficient competence, which is a particular challenge for SMEs with limited resources. Third party certification should be implemented after above conditions are met.
- Example: PEF/OEF (Recommendation 2013/179/EU) is recommended in some activities, however, other frameworks should also be recognised, such as ISO14040/14044. In the energy and manufacturing chapters in the Climate Adaptation and Mitigation Delegated Act, references are made to ISO 14067(2018) and 14064(2018), which are respectively carbon footprint studies on product or organisational level. In the building sector: EN 15978(2011) is referred to, which is the EU building standard which requires EPDs – environmental product declaration (based on LCAs) for all building materials. Standard FprEN17472 or equivalent is mentioned, which uses EN15978 (environmental), EN16309 (social) and EN16627 (economic performance). Next to this, appendix B and D ask for an Environmental Impact Assessment (EIA) in accordance with Directive 2011/92/EU, with a water impact assessment according to Directive 2000/60/EC. Separately, an externally verified water footprint according to ISO14064 can sometimes be requested.
- In the other four environmental objectives, for CO₂-e levels, references are made to the EU ETS 2016-2017 benchmarks (as 10% best operating industry level for a certain product), which are only available for product benchmarks (a small selection of products).
- If companies have to use more than one (legal or ISO) standard, they are faced with the challenge of gathering all the data to perform all the studies, then having them verified by an independent third party (costs amount to several thousands of euro per study: product eco-profile, carbon or water footprint, EPD). Consequently, companies might get different results for the same products. For example, PEF and OEF take biomass and recycling into account differently as ISO 14067 and 14064. It would make more sense to use one standard for all studies, e.g. internationally recognised ISO14040/14044 for all LCA studies.

In closing, we would like to reiterate the importance of the enabling activities to make a substantial contribution to one or more of the six objectives set by the Taxonomy Regulation. We believe

there are more economic activities which should be classified as enabling activities. For example, analytical and measuring instruments are providing data that help contribute to environmental protection and pollution detection. We believe these instruments should be recognised as enabling activities contributing to the circular economy, pollution prevention and control, and the sustainable use and protection of water and marine resources, and biodiversity. JBCE would like to contribute further to discussions on enabling activities and transitional activities, which is another important category of economic activities in the Taxonomy. As stated at the beginning of this document, we urge the PSF to provide additional public consultation opportunities, before finalising the work of the technical WG, so that it gives us more time to assess the TSC in depth, provide feedback.

About JBCE

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organization representing the interests of about 90 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceutical, textiles and glass products.

For more information: <https://www.jbce.org> / E-mail: info@jbce.org ,

EU Transparency Register: 68368571120-55