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Sustainable Finance - Taxonomy - Position of the Non-Ferrous Metals Industry

Introduction

Eurometaux, representing the European non-ferrous metals industry, supports the Sustainable Finance Action Plan's objective to further mobilise investments in the EU and achieve sustainable growth, job creation and prosperity, as well as the development of a taxonomy at European level to boost investment towards sustainable activities.

The non-ferrous metals industry is a key enabler of the low-carbon transition. Europe will require increasing amounts of metals for low-carbon applications including clean mobility, renewable energy technologies and batteries[1]. It will be essential for the EU to support a sustainable industrial base for producing and recycling those metals domestically. Our sector will require access to investment and long-term predictability to support its transition to low-carbon production processes, which require significant capital investments.

Our key messages for policymakers:

1. **Maintain flexibility:** The taxonomy should still be relatively open and flexible to reflect the evolution of the economy.
2. **Define 'economic activity' meaningfully:** The economic activity in a low carbon economy implies many sectors and industries with varying degrees of carbon footprint, but all necessary for low-carbon technology products and value creation. A life cycle approach assessing the different phases of the value chain is hence needed when assessing a sustainable economic activity.
3. **Ensure alignment and coherence with existing principles:** Given that there is no globally accepted definition of sustainability, regulators shall define the sustainability of an economic activity in line with already existing principles, references and initiatives.
4. **Avoid unduly burdensome reporting duties:** Companies already disclose a wide range of mandatory information in line with their financial and non-financial reporting duties. Overly burdensome reporting duties should be avoided.
5. **Integrate future innovation potential in sustainability reporting:** To determine the degree of sustainability of an economic activity, qualitative and future-focused factors should also be integrated.
6. **Avoid delegated acts when defining sustainability activities:** Criteria defining environmentally sustainable activities should be clarified in the regulation itself and not in delegated acts.
7. **Involve the manufacturing industry in expert groups:** The manufacturing industry, and in particular the non-ferrous metal sector, should be fairly represented in both the Technical Experts Group and the Platform of Sustainable Finance to ensure that sector-specificities are well understood and adequately addressed.

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1. Maintain flexibility

We support the principle of developing a taxonomy at European level, as a harmonized approach will avoid obstacles and dysfunction within the internal capital market.

Our recommendation: We believe that the taxonomy should be flexible to reflect the evolution of technology and the economy. This will ensure the taxonomy provides added value and stays fit for its intended purpose.

2. Define 'economic activity' meaningfully

Companies may be involved in economic activities in various sectors, and within the same sector companies may be involved in different types of economic activities. The taxonomy aims to classify sustainability in economic activity, but it should be considered that investments are made by companies. To be an adequate tool for investors, 'economic activity' must be translatable to company level. As for now, the taxonomy does not sufficiently consider industrial value chains. Essential components of the value chain – such as recycling - should be adequately taken into account.

Our key recommendations:

- **Consider a value chain approach:** The economic activity in a low-carbon economy implies many sectors and industries having a varying degree of carbon footprint and environmental sustainability performance, which are all necessary to the low carbon transition. It is fundamental to look at the entire value chain and consider its contribution to a sustainable economy.
- **Consider the life cycle of a product, including the user phase:** The recyclability of the material at its end of life should also be taken into account. Metals are permanent materials which can be recycled an unlimited amount of times without losing their core properties. They can hence contribute to improvements in carbon footprint in other sectors (despite their energy intensity). Metals can also enable cross-sectoral emission reductions by providing materials that reduce emissions in other sectors, e.g. by lighter weight in transport. Including user phase effects of products is therefore important when assessing sustainability.
- **Base criteria on actual technology improvements:** For instance, criteria related to the use of renewable electricity should be based on physical production where the economic activity is located, and not on the use of tradable mechanisms that could be misleading with regards to the actual source of electricity (guarantee of origin scheme).
- **Recognise heterogeneity of NACE code level activities:** Definition of 'sustainable activity' based on NACE codes is quite broad as each NACE-code can include very different processes, both upstream and downstream. Hence criteria should be developed based on an evaluation of each step of the production process, to facilitate fair comparability.

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3. Ensure alignment and coherence with existing principles

We consider that the proposal's classification of sustainability should cover all activities employing best available technologies, and all companies that operate at higher environmental and efficiency standards than the global average.

Our recommendation: As this initiative is not the first attempt to define what is a 'sustainable investment' and to facilitate the use of a common language, we encourage regulators to refer to existing principles, references & initiatives.

4. Avoid unduly burdensome reporting duties

Companies already disclose a wide range of mandatory information in line with their financial and non-financial reporting duties. The taxonomy should not lead to additional reporting duties or disproportionate cost increases for the real economy. In particular, SMEs and mid-caps have limited capacities and should not be overburdened by additional regulation, nor see their access to capital limited.

Our recommendation: We propose that the regulation largely relies on already disclosed information, without creating overly burdensome requirements.

5. Integrate future innovation potential in sustainability reporting

The suggested approach to determine the degree of sustainability is largely based on a quantitative assessment taking only past investment decisions into account.

Our recommendation: We believe that qualitative and future-focused factors, such as development or innovation potential, should also be included.

6. Avoid delegated acts when defining sustainability activities

The Commission has proposed to legislate via delegated acts the detailed, but crucial, sub-criteria of the taxonomy. This would bypass the obligation to conduct proper impact assessments on requirements with very far-reaching impacts on a range of economic actors. It would also delegate highly political decisions, such as the classification of energy sources, to technical work and make it more difficult for economic operators to participate and bring in industrial know-how.

Our recommendation: We believe that the criteria should be clarified in the regulation itself and not in delegated acts.

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7. Involve the manufacturing industry in Expert Groups

The involvement of industrial actors is necessary to develop criteria that will serve the intention of the legislation. Sustainability criteria should be developed in a transparent and inclusive process with an adequate involvement of industry representatives in both the Technical Experts Group and the Platform for Sustainable Finance.

In the **Technical Expert Group,** the manufacturing industry is strongly underrepresented, as it consists almost exclusively of representatives of the financial industry.

Our key recommendation: Since the task of the Technical Expert Group is to provide support and advice during the setting up of a framework which aims at facilitating sustainable investment, we believe that, to assess the sustainability of complex industrial value chains, expertise from the real economy is needed to bring sectorial expertise and adequately address the specificities of each sector.

The **Platform for sustainable finance** is a good initiative to check the relevance of the technical criteria and adjust them over time if needed, based on a regular monitoring and reporting on capital flows towards sustainable investment.

Our key recommendation: We envisage a higher level of involvement of the real economy in the Platform for sustainable finance and the development of the taxonomy. This should include a high degree of transparency in the governance as well as the balanced inclusion of representatives of the manufacturing industry.

ABOUT EUROMETAUX

Eurometaux is the decisive voice of non-ferrous metals producers and recyclers in Europe. With an annual turnover of €120bn, our members represent an essential industry for European society that businesses in almost every sector depend on. Together, we are leading Europe towards a more circular future through the endlessly recyclable potential of metals.

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[1] Given the growing diffusion of low-carbon applications, demand for metals is expected to increase considerably in the next years as mentioned, among others, by the study of the World Bank "*The Growing Role of Minerals and Metals for a Low Carbon Future",* June 2017.