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Taxonomies: Green Taxonomy Advances in the UK

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Taxonomies



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The Green Technical Advisory Group (GTAG) has **recommended** that the UK green taxonomy should diverge from the EU's as little as possible. GTAG was established last year by the UK government to provide independent advice, oversee the delivery of the UK green taxonomy and tackle greenwashing. The UK incorporated wholesale the majority of the EU Taxonomy Regulation. However, the EU's technical screening criteria (TSC), which set forth technical conditions to assess whether an economic activity contributes to climate change adaptation or mitigation and whether it causes no significant harm to other environmental objectives in the Taxonomy, were not adopted because they were introduced after the UK had left the EU. GTAG proposes that the UK adopt some of the EU's TSC in the short term, and then make revisions as appropriate at a later date. GTAG also sets out guidance for such future amendments with the goals of avoiding greenwashing, simplicity, functionality (to avoid unnecessary cost burdens), and consistency with international standards.

The report states that "In general, a strategy that is consistent with the EU taxonomy is likely to have fewer costs and more benefits than one which is more ambitious in some criteria and less in others."

Taking the Temperature: Taxonomies are important to permit companies and investors to understand what businesses or products are deemed sustainable, making consistency among different jurisdictions' taxonomies crucial. With the rapid worldwide expansion of ESG regulatory requirements in recent years, companies will welcome developments that reduce complexity and mitigate international divergence. If the UK were to implement radically different requirements, investors and financial market participants would likely face an even greater regulatory burden as well as increased difficulty in making investment decisions and reporting sustainability characteristics.