REA Response to UK Green Taxonomy Consultation, November 2024 – HM Treasury

Submitted: 06/02/2025

The Association for Renewable Energy & Clean Technology (REA) is pleased to submit this response to the above consultation. The REA represents renewable electricity, heat and transport, as well as Electric Vehicle charging infrastructure, Energy Storage and Circular Economy companies. Members encompass a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are around 550 corporate members of the REA, making it the largest renewable energy and clean technology trade association in the UK.

1. **To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?**

The REA would like to highlight the distinct value that a UK Taxonomy can bring in supporting the government's objectives of channelling capital towards sustainable activities and preventing greenwashing. The introduction of a well-structured taxonomy will provide a clear and consistent framework for defining environmentally sustainable economic activities, enhancing investor confidence, and aligning the UK's financial markets with global sustainability goals.

A UK taxonomy should be brought it to complement existing policies on sustainability disclosures, transition planning, and transition finance by providing a standardised classification system that reduces ambiguity and ensures comparability. It should be integrated into the SDR and serve as an overarching framework—an umbrella under which various sustainability-related policies and initiatives can be aligned. As new policies are introduced and consulted on, such as those relating to voluntary carbon and nature markets, updates to the UK's Sustainability Reporting Standards (UK SRS), and the Government's Industrial Strategy for long-term sustainable and inclusive growth, a UK Taxonomy can act as a blueprint to ensure coherence across regulations, objectives, and implementation strategies. By providing clear guidelines, it will facilitate alignment across sectors, reduce regulatory fragmentation and fragmentation of effort, and support investor confidence in the UK's sustainable finance landscape. By establishing clear criteria for what constitutes a sustainable activity, it will enable businesses and investors to make informed decisions, fostering transparency and accountability in the market. The REA believes this will be instrumental in directing capital flows to projects that genuinely contribute to the UK's net-zero ambitions.

Additionally, given that globally around 20 jurisdictions, such as the EU, have already implemented government-endorsed green taxonomies, with another 30 jurisdictions considering developing one, the REA is concerned that if the UK government fails to use this opportunity to create a green taxonomy regulatory framework in the UK, then the UK would have a competitive disadvantage. A robust UK

Taxonomy will not only ensure regulatory alignment with international standards but also position the UK as a leader in sustainable finance, by establishing clearer rules that attract foreign direct investment (FDI) from global investors seeking transparency, certainty and accountability in green investments.

a. **Are there other existing or alternative government policies which would better meet these objectives or the needs of stakeholders?**

While there are existing government policies that contribute to the objectives of preventing greenwashing and supporting sustainable finance, such as sustainability disclosure requirements and transition planning frameworks, they do not provide the same level of granularity or sector-specific guidance as a taxonomy. The REA acknowledges that policies such as the UK's Green Finance Strategy and mandatory climate-related disclosures such as the Taskforce on Climate-related Financial Disclosures (TCFD) offer a strong foundation, but a UK Taxonomy will provide an additional layer of clarity and credibility. As such, the REA supports the introduction of a UK Taxonomy as a necessary complement to these initiatives rather than an alternative.

b. **How can activity-level standards or data support decision making and complement other government sustainable finance policies and the use of entity-level data (e.g. as provided by ISSB disclosures or transition plans)?**

Activity-level standards and data play a crucial role in enhancing decision-making by offering detailed, sector-specific criteria that can support the classification of sustainable economic activities, and the REA would encourage the UK Government to continue to use this data when making decisions on what is and is not classed as 'green'. Evidently, these standards work alongside entity-level disclosures, such as those provided by the International Sustainability Standards Board (ISSB) which are and will continue to be incorporated into the UK's SRS, and will continue to work for corporate transition plans, by ensuring that sustainability claims are underpinned by objective, science-based assessments such as the Science-Based Targets Initiative (SBTI).

The REA believes that it is paramount for the UK's green taxonomy to integrate activity-level data with entity-level reporting which will create a more comprehensive and reliable framework for assessing sustainability performance. This approach will enable investors to differentiate between entities genuinely engaged in sustainable activities and those whose sustainability claims may lack substantive backing.

Additionally, a UK Taxonomy can help streamline data collection and reporting processes, ensuring alignment with international best practices while reflecting the UK's specific policy and market needs.

2. **What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.**

The REA identifies several specific use cases for a UK Taxonomy that will contribute to the stated goals:

- Enhancing voluntary corporate disclosures by providing a standardised framework for sustainability reporting.
- Supporting regulatory compliance by aligning taxonomy criteria with government policy and disclosure requirements.

- Facilitating green investment by offering clarity for investors and financial institutions in directing capital towards sustainable activities.
- Strengthening transition finance mechanisms by linking taxonomy criteria with transition plans and corporate sustainability strategies.
- Allow comparability and competitiveness with jurisdictions with existing green taxonomies e.g. EU.

a. What are respondents' views on the benefits of the proposed use case (paragraph 2.2)?

The REA views the proposed use cases in paragraph 2.2 as beneficial in improving transparency, mitigating greenwashing, and ensuring a robust market framework for sustainable investment.

b. Are there any other use cases respondents have identified?

Additional use cases include sector-specific benchmarking, enhancing supply chain sustainability assessments, and supporting the development of sustainability-linked financial instruments.

c. How does each use case identified link to the stated goals?

Each use case supports the stated goals by improving clarity, consistency, and credibility in sustainable finance, ensuring that capital flows align with genuine environmental benefits.

d. Under these or other use cases, which types of organisations could benefit from a UK Taxonomy?

The benefits of establishing a UK taxonomy would be economy wide. Organisations that would benefit include financial institutions, corporations seeking green investment, regulatory bodies, sustainability auditors, SMEs who do not have the resources to jump through various disjointed regulatory hurdles and corporations seeking to implement transition plans.

Additionally, it should be noted that the introduction of a taxonomy; by working at activity and entity level of the economy, consumers will also benefit as its existence will provide users with information about individual activities and processes unlike the ISSB and the Transition Plan Taskforce Disclosure Framework which are mainly focused on providing investors with information.

e. For each use case identified, do respondents have any concerns or views on the practical challenges?

Practical challenges include ensuring usability for all stakeholders, avoiding excessive administrative burdens, and maintaining flexibility to accommodate evolving sustainability criteria. However, regarding the flexibility, periodic updates may create uncertainty in a market that requires long-term confidence about what qualifies as sustainable.

Additionally, the REA would like to highlight that the Government needs to consider the alignment with existing frameworks or consider a transitionary period so that businesses do not face unnecessary hurdles, or situations which lead to potential accusations of greenwashing and costly operational changes.

f. What is the role for government within each use case identified, if any (i.e. to provide oversight, responsible for ongoing maintenance, implement legislation, including disclosure requirements)?

The government's role should include oversight, maintenance, and regulatory alignment, ensuring that the taxonomy remains up to date and effective.

3. **Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.**

The REA believes that a UK Taxonomy is a critical tool in supporting the allocation of transition finance alongside transition planning. By providing a clear, science-based classification system for sustainable economic activities, it ensures that financial flows are directed toward projects that contribute meaningfully to the transition to a low-carbon economy. The taxonomy can enhance the credibility and effectiveness of transition finance by ensuring that funding is aligned with activities that demonstrably support net-zero objectives.

Key design features that would facilitate this include:

- Sector-specific transition pathways that outline clear criteria for industries in transition.
- A phased approach to eligibility, allowing businesses to progressively align with sustainability criteria.
- Integration with transition planning frameworks to ensure that financial products linked to transition finance, such as sustainability-linked bonds and loans, adhere to credible standards.
- Alignment with global taxonomies to ensure consistency and avoid fragmentation in financial markets.

By providing investors with confidence that transition finance is being allocated effectively, a UK Taxonomy can play a vital role in unlocking capital for industries that require structured, long-term support to decarbonise. It will also prevent greenwashing by setting clear and verifiable criteria for eligible transition activities, ensuring that financial instruments marketed as sustainable truly contribute to environmental objectives.

4. **How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?**

Success can be measured through key performance indicators (KPIs) such as increased domestic green investment, improved corporate sustainability disclosures, and enhanced market confidence in sustainable finance mechanisms.

Additionally, consumer confidence in sustainable products and financial instruments should be monitored, as a UK Taxonomy can provide clarity and assurance to consumers regarding the environmental impact of their investments, actions and behaviours.

Foreign direct investment (FDI) inflows into the UK's green economy could serve as another indicator of success, demonstrating that international investors view the UK's sustainable finance framework as reliable and attractive.

Additionally, feedback from small and medium-sized enterprises (SMEs) on the usability and compliance requirements of the taxonomy will be crucial in assessing its practical effectiveness. Ensuring that SMEs can navigate and implement the taxonomy without excessive administrative burdens will be essential in driving widespread adoption and impact.

Regular stakeholder engagement, including consultations with industry bodies, financial institutions, and environmental experts, should be conducted to assess the taxonomy's effectiveness and relevance.

Tracking alignment with international best practices and ensuring that the taxonomy remains adaptive to evolving sustainability challenges will also be key to its long-term success.

5. **There are already several sustainable taxonomies in operation in other jurisdictions that UK based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision making?**

Due to the nature of our work, the REA does not operate in other jurisdictions with taxonomies. However, we are aware that REA members use the EU's green taxonomy for regulatory purposes and compliance, and it is considered when making investment decisions and transition plans.

6. **In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.**

Interoperability with existing taxonomies should focus on format, structure, and key thresholds to ensure consistency and ease of implementation. A UK Taxonomy should align with international frameworks, such as the EU Taxonomy and the Common Ground Taxonomy (CGT), to facilitate cross-border investments and reduce compliance burdens for multinational companies.

Key areas where interoperability would be most beneficial include:

- Common definitions and terminology: Harmonising language and classification systems to ensure clarity and comparability between taxonomies.
- Alignment of metrics and thresholds: Where possible, using globally recognised metrics to minimise inconsistencies and ensure that UK businesses are not disadvantaged in international markets.
- Data compatibility: Ensuring that data requirements and reporting structures align with existing sustainability disclosure frameworks, such as ISSB and TCFD, to streamline compliance and reduce reporting burdens.
- Cross-border investment considerations: Facilitating seamless integration with other jurisdictional taxonomies to attract foreign direct investment (FDI) and enhance the UK's competitiveness as a global hub for sustainable finance.
- Sector-specific approaches: Ensuring that sectoral criteria align with international best practices while reflecting the UK's unique economic and environmental priorities.

By prioritising interoperability in these areas, the UK Taxonomy can enhance market confidence, facilitate smoother regulatory compliance for businesses, and attract greater levels of sustainable investment both domestically and internationally.

7. **Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?**

The REA acknowledges several lessons from other jurisdictional taxonomies that should inform the development of a UK Taxonomy. One key lesson from the EU Taxonomy is the importance of the 'Do No Significant Harm' (DNSH) principle. While the REA supports the inclusion of DNSH as a safeguard to prevent unintended environmental consequences, its current application in the EU framework has been critiqued for being overly complex and open to interpretation. To ensure effectiveness, the UK Taxonomy

should provide clearer, more measurable criteria for assessing DNSH compliance, reducing ambiguity and facilitating consistent implementation across industries.

Another critical lesson from international taxonomies is the role of labelling. The REA advocates for a clear, science-based approach to categorising economic activities. For example, the classification of natural gas as a green investment under the EU Taxonomy has been controversial. The REA believes that natural gas should not be classified as a green energy source due to its reliance on fossil fuel extraction. Conversely, the UK should recognise the role of biomass and energy-from-waste as sustainable energy sources, as they contribute to a circular economy and support waste reduction while generating renewable energy.

Additionally, stakeholder engagement and regulatory certainty are key takeaways from other jurisdictions. Ensuring that businesses, investors, and policymakers are actively consulted throughout the development and implementation of the UK Taxonomy will enhance market confidence and ease adoption. Periodic updates should reflect emerging scientific evidence and industry best practices while ensuring regulatory stability to support long-term investment planning.

8. **What is the preferred scope of a UK Taxonomy in terms of sectors?**

The preferred scope should cover key sectors such as finance and insurance, energy, transportation, agriculture, and manufacturing, aligning with UK sustainability priorities.

9. **What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?**

Environmental objectives should focus on climate change mitigation, biodiversity conservation, pollution prevention, circular economy, and water resource management, with prioritisation based on scientific urgency, economic impact, and alignment with the UK's net-zero goals. While climate mitigation and adaptation remain central priorities, the UK Taxonomy should also incorporate objectives related to nature recovery and ecosystem resilience, recognising the interconnectedness of environmental challenges.

The REA supports a holistic approach that ensures all environmental objectives are clearly defined with measurable criteria to support implementation and compliance. The prioritisation of objectives should be guided by:

- Scientific evidence and environmental urgency: Addressing areas where action is most critical to prevent irreversible environmental damage, such as biodiversity loss and climate change.
- Economic and industrial considerations: Ensuring alignment with the UK's industrial strategy to support green innovation and sustainable economic growth.
- Alignment with international standards: Co-ordinating with other jurisdictional taxonomies to enhance market interoperability and investor confidence.

By incorporating these elements, the UK Taxonomy will ensure that environmental objectives are clearly structured, prioritised effectively, and aligned with both domestic sustainability goals and international best practices.

10. **When developing these objectives, what are the key metrics which could be used for companies to demonstrate alignment with a UK Taxonomy?**

Key metrics could include:

- Carbon intensity and emissions
- Energy efficiency
- Resource circularity and supply chain transparency
- Biodiversity impact- contribution and loss
- Existing ESG regulations and reporting frameworks where relevant (TCFD, GRI, TNFD, CSRD, PCAF, ISSB, SFDR, UK SRS)

11. **What are the key design features and characteristics which would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g. quantitative, qualitative, legislative)**

The taxonomy should feature clear, science-based criteria with a mix of quantitative thresholds and qualitative assessments to balance precision with usability. To maximise its potential, the UK Taxonomy must be user-friendly for both investors and those seeking investment, ensuring accessibility for businesses of all sizes, including SMEs. The framework should provide sector-specific guidance with practical implementation support to facilitate compliance.

Key design features could include:

- Clarity and transparency: Clear definitions and well-structured guidance to reduce uncertainty and enable effective decision-making.
- Granularity and flexibility: A level of detail that captures sector-specific sustainability criteria while allowing for adaptation to emerging green technologies and innovations.
- Science-led thresholds: A combination of quantitative metrics (e.g., emissions intensity, resource efficiency) and qualitative assessments to ensure credibility and usability.
- Integration with existing standards: Alignment with global taxonomies and sustainability reporting frameworks such as ISSB and TCFD to enhance interoperability and streamline reporting requirements.
- Digital accessibility and reporting tools: User-friendly digital platforms that facilitate compliance, support reporting, and provide accessible guidance to businesses and investors.
- Consistency with UK net-zero commitments: Ensuring that the taxonomy remains aligned with the UK's decarbonisation and sustainability goals while adapting to technological advancements.

Additionally, the details of the taxonomy should be developed in consultation with industry stakeholders, such as the REA, to ensure that criteria are practical, achievable, and do not create excessive administrative burdens, particularly for SMEs. The REA believes that ensuring ease of compliance and effective implementation support will be essential in driving widespread adoption and impact.

12. **What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?**

The REA advocates for the Do No Significant Harm (DNSH) principle to be integrated in a way that emphasises sector-specific impact assessments. These assessments would ensure that the principle is applied consistently and appropriately across different industries, considering their unique environmental and social contexts. The DNSH principle can be operationalised by cross-referencing it with established environmental standards to provide a clearer benchmark for identifying potential harm.

The REA would also like to highlight that the UK Government should take the lessons learnt from the EU's DNSH implementation. The EU's experience highlights several challenges, particularly in the subjectivity of determining what constitutes "significant harm." The principle's application can be difficult because of the complexities in measuring the environmental, social, and economic impacts, especially when these are intertwined across different sectors. The DNSH principle is too vague or open to interpretation, leading to inconsistent or subjective implementation.

In order for the DNSH principle to be effective, it would be helpful to standardise assessment frameworks that allow for clearer thresholds and criteria. Additionally, regular monitoring and review mechanisms could help ensure that the principle is being properly applied and that it evolves with new scientific knowledge and regulatory changes.

We must ensure that critical energy transition technologies – energy from waste and biomass power for example - are not caught out by the DNSH thresholds as this risks sending misleading signals to investors and damaging the ability fi the UK to meet its international decarbonisation largest.

The IPCC and CCC, as well as the Government's own Biomass Strategy, see biomass power (BECCS) and bioenergy as critical technologies to reach net zero, so there can be no confusion here.

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.

a. Do you agree with this regularity?

The REA supports regular updates every three years but would like the Government to understand the importance of transitionary periods or cooling off periods as the regulations change. Additionally, whilst a three-year update may work, the Government could consider sector specific updates that range from two to five years depending upon the changes and their impact.

c. Would this pose any practical challenges to users of a UK Taxonomy?

Challenges may include adaptation costs, data availability concerns and could create uncertainty for investors in a market that requires long-term confidence about what qualifies as sustainable.

d. Would this timeframe be appropriate for transition plans?

A longer period may be required to factor in transition plans in large, industrialised industries. This will differ by sector and industry and tie into their own transition plans and trajectories, but as a starting point, it would serve.

Another option would be specific reviews at different timescales for specific sectors (eg energy), to align with transition plans. But for sake of consistency, on balance we agree with providing one overall review timeframe.

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

The REA believes that strong governance and oversight arrangements are essential to ensuring the long-term credibility, usability, and effectiveness of the UK Taxonomy. A clear and transparent governance structure will help maintain stakeholder confidence, facilitate periodic updates, and ensure alignment with evolving scientific evidence, market needs, and international best practices.

Key elements of the governance structure could include:

1. Independent oversight and administration
   - The establishment of an independent advisory body or taxonomy governance council, comprising representatives from government, industry, financial institutions, academia, and civil society.
   - This body should be responsible for ongoing maintenance, review processes, and periodic updates, ensuring that the taxonomy remains relevant and reflects advancements in sustainability science and policy.
   - The governance body should have a clear mandate to provide technical guidance, assess new environmental and economic developments, and oversee dispute resolution mechanisms regarding taxonomy classifications.

2. Regular stakeholder engagement and consultations
   - The UK Taxonomy should be developed and maintained in close consultation with key stakeholders, including businesses, investors, SMEs, regulators, and environmental experts.
   - A structured public consultation process should be conducted before any significant amendments to ensure transparency and inclusivity.
   - Engagement mechanisms should include regular roundtables, working groups, and industry-led advisory panels to gather real-world insights on implementation challenges and areas for improvement.

3. Periodic updates
   - Given the dynamic nature of sustainability science, the taxonomy should be reviewed and updated at least every three years (dependent upon sector and area of change) to incorporate emerging best practices, technological advancements, and regulatory changes.
   - However, flexibility should be built into the system to allow for interim updates where urgent changes are required (e.g., new evidence on environmental impacts, global policy shifts).
   - Updates should always be informed by scientific and technical expert panels to ensure that changes are evidence-based and aligned with the UK's net-zero and biodiversity objectives.

4. Transparency and reporting
   - A clear public disclosure framework should be established to ensure transparency in the taxonomy's governance and decision-making processes.
   - This should include the publication of annual reports detailing updates, consultations, and implementation progress.
   - The taxonomy oversight body should be required to report to Parliament or a relevant government department (e.g., HMT) to ensure democratic accountability.

5. Coordination with international taxonomies
   - The governance framework should include provisions for ongoing alignment with international sustainability taxonomies, such as the EU Taxonomy and the CGT, to support global interoperability.
   - This will be critical in reducing regulatory fragmentation and ensuring that UK-based businesses operating internationally are not disadvantaged by divergent standards.

6. Compliance and enforcement Mechanisms
   - While the taxonomy is intended as a classification tool rather than a regulatory instrument, mechanisms should be in place to prevent misapplication or more importantly, greenwashing.
   - The Financial Conduct Authority (FCA) and other relevant regulatory bodies should have oversight of taxonomy-linked financial products and sustainability claims.
   - A monitoring framework should be introduced to assess compliance and effectiveness, with clear enforcement actions for misleading sustainability classifications. Again, this should be consulted on.

Closing Thoughts

The REA strongly supports the development of a UK Taxonomy as a critical tool for advancing sustainable finance, enhancing market transparency, and aligning investment flows with the UK's net-zero and environmental objectives. A well-governed taxonomy, underpinned by clear oversight, stakeholder engagement, and scientific rigour, will help position the UK as a global leader in green finance, encouraging clearer practices and behaviours and FDI, while ensuring usability for businesses of all sizes. We appreciate the opportunity to contribute to this Consultation and look forward to continued engagement on this important initiative.
For any additional questions or further discussion, please do not hesitate to reach out.