Veblen Institute for Economic Reforms

Public Consultation on the Draft Delegated Regulation Amending EU Taxonomy Reporting Requirements

Veblen Institute Response

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The Veblen Institute is a not-for-profit think tank based in France and dedicated to European economic policies for strategic autonomy and sustainability. We thank the Commission for this consultation opportunity and highlight, in this paper, our opinion on the **economic consequences** of the proposed changes to the Taxonomy. The consequences in terms of business models for European companies, according to our analysis, pose very significant risks.

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General comments on the proposed changes

The Veblen Institute is deeply concerned about several amendments proposed, to the Delegated Act, which seem to us unjustified and undermining both the EU's sustainable finance agenda and the companies that depend on it. Businesses need clear, stable, and reliable indicators to transform their models and attract sustainable investment. Abrupt and unsubstantiated changes to the Taxonomy framework introduce uncertainty, making it harder for companies to adapt and for investors to allocate capital effectively. Weakening the reporting framework at this stage could slow—not accelerate—the transition to sustainability.

Since 2023 (for the 2022 reporting year), companies have been required to report under the Taxonomy. They have already invested in compliance, adapted their internal processes, and provided valuable data—used by the Platform on Sustainable Finance (PSF), the Commission, and other stakeholders. Yet, before fully assessing the benefits of this reporting system, the Commission is now proposing drastic cuts without clear justification or comprehensive supporting data. The existing framework is still in its early stages, and while companies, investors, and regulators are beginning to use it, large-scale, reliable datasets are not yet available. The EU's staff working documents and the proposed amendments rely on private data sources, which are incomplete and do not provide a sufficiently robust basis for decision-making. Prematurely reducing data requirements contradicts the principles of evidence-based policymaking and the Better Regulation Guidelines.

The Commission's assessment of cost reductions in sustainable reporting must be revisited in light of the new PSF Report on Monitoring Capital Flows to Sustainable Investments, where EU Taxonomy data plays a crucial role. This report not only confirms the necessity of granular Taxonomy data but also outlines ways to improve reporting without undermining its core value.

More generally, we fear long-term negative effects on European competitiveness, especially in the field of clean techs. Under the Trump administration, American producers might steer away from the global clean techs competition (as shown by the dismantling of IRA subsidies), but European producers will mostly confront Chinese or Asian competitors. We therefore should not relieve the pressure on transforming technologies and business models by changing the taxonomy thresholds or its scope. This even more so as the taxonomy and the DNSH principle have been developed also to guide public policies and allocating public funds, for instance through the Recovery and Resilience Facility, the Just Transition Fund or the InvestEU Fund.

Below, we outline specific observations and recommendations regarding the proposed changes in the Taxonomy Disclosure Delegated Act and the Appendix C on pollution DNSH criteria.

Specific concerns on priority topics

1. Materiality Threshold

The proposed new thresholds—10% for Taxonomy-eligible turnover and CapEx, and 25% for OpEx—would obscure valuable insights into companies' green performance and create a misleading picture of sustainable investment trends. We recognize the harmful power of greenwashing in the economy, not just for green companies but for all investors who seek control and precise data over what they invest in. The proposed materiality threshold could introduce a new king of greenwashing that would undermine the credibility of taxonomy-aligned products and therefore create imbalance and instability in the associated markets.

Many major energy providers, including large oil and gas companies, currently report a share of Taxonomy-eligible (green) revenues below 10%, with some not even reaching 10% in green capital expenditures (capex). This issue is particularly concerning given that the oil and gas sector is at the heart of the climate crisis and has long asserted its commitment to transitioning toward more sustainable business models. As it stands, the new taxonomy makes it possible to **institutionalize a market failure in the form of an asymmetry of information**, which would be detrimental to other companies in the energy sector, which are really investing to get rid of their carbon infrastructure and transform their business model. They would then face unfair competition from companies in the oil and gas sector, which would be wrongly considered taxonomy eligible.

For investment firms, credit institutions, asset managers, and insurers, the 10% threshold risks excluding key transition activities, distorting green investment assessments, and weakening sustainable finance policies. It also introduces legal uncertainty: will it apply to Taxonomy ratios like the Green Asset Ratio (GAR) or only to portfolio investments? **This ambiguity could increase compliance costs rather than reduce them**, while the threshold's impact on both portfolios and GAR further complicates its application.

<u>Our recommendations:</u>

- The Institute recommends a maximum **2% materiality threshold, possibly extendable for midcaps companies to 5%** (i.e. between 250 and 1000 employees).

- **For OpEx,** in line with PSF recommendations, **we propose keeping R&D expenditures mandatory while also including maintenance of sustainable activities**—such as railways, water and sewage systems, electric grids, and forestry management**. If a materiality threshold is introduced, it should be set at a maximum of 10-15%** to ensure meaningful Taxonomy OpEx disclosure, particularly for large oil and gas companies.

2. Partial alignment

The proposed 'partial alignment' concept in the Disclosure Delegated Act is not reflected in the reporting templates, creating confusion. The Commission, with input from the PSF, needs to clarify how companies should report on transition progress.

While partial alignment seems to focus on DNSH criteria, the Commission has cut DNSH-related disclosure metrics, making it harder to demonstrate alignment. To prevent greenwashing, the tables should include DNSH disclosures.

The Institute does not support partial alignment if it only meets some DNSH criteria for an activity, as this creates confusion and does not ensure full "do no harm" compliance.

A better alternative, suggested by the PSF in 2022, would be an 'intermediate transition' category, where activities meet all DNSH criteria but not SC criteria. This would show that the activity is no longer unsustainable, unlike partial DNSH alignment, which may still leave activities harmful.

Our recommendations:

- **We recommend that the Commission builds on the PSF [report on environmental transition taxonomy]** to create a new transition category, one of "intermediate transition" for activities aligning with complete DNSH criteria but not necessarily SC criteria.
- It must be ensured that the companies opting for this partial alignment will **report the full DNSH alignment disclosures** in the selected templates. This is important to keep clarity in the category and not introduce greenwashing risks, which would create confusion for investors and all financial actors.

3. Concerns with DNSH Criteria (Appendix C on pollution)

Currently, the Delegated Acts cover over 5,700 "substances of very high concern" that must be excluded to meet DNSH criteria.

- Option 1 reduces this list to just 247 substances, allowing many harmful chemicals, with known risks but no EU assessment, to be deemed acceptable.
- Option 2 narrows the list even further, focusing on 1,400 substances that meet specific EU criteria for high concern.

Both options risk enabling greenwashing by allowing products containing thousands of toxic substances to be labelled as sustainable. Examples include galaxolide (a hormone disruptor in cosmetics), NBBS (a neurotoxic plasticizer), and TFA (a harmful "forever chemical").

Limiting the list of disqualified substances may also drive "regrettable substitution," where companies replace harmful chemicals with similar but unlisted alternatives, maintaining the risk of harm.

<u>Our recommendations:</u>

- **Option 2 is less disastrous than Option 1 but still poses significant threats in the long-term for all European citizens exposed to those substances.**
- REACH is expected to undergo a review soon. It would be more prudent to wait for this comprehensive review to ensure consistency with REACH. As businesses consistently point out, frequent changes only add to confusion. **We therefore recommend waiting for the REACH debates to come through** before introducing potentially harmful changes to the legislation, as the use of the products mentioned could have impacts for much longer than the economic perspective the Commission is considering.

Conclusion

We reiterate, once again, the major competitive risks posed by the threat of greenwashing. Over and above a simple problem of transparency, it poses a threat to the financial sector, which could find itself unable to correctly measure the risks and benefits associated with Taxonomy-compliant products.

The Taxonomy is the cornerstone of any long-term European policy, as climate change represents an existential risk that threatens the ability of companies to conduct their business in a stable world. The proposed changes introduce confusion. Confusion is the last thing Europe needs at a time of major geopolitical turmoil.

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