Linklaters

UK government consults on Green Taxonomy

Annamieke Cook :

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On 14 November, HM Treasury launched a **consultation** on a UK Green Taxonomy. The consultation closes on 6 February 2025. It is not yet clear when the government will announce next steps after that.

The Labour government has said it is committed to learning the lessons from taxonomy implementation in other jurisdictions and gathering the feedback of market participants. This will inform an assessment of the **value of implementing a taxonomy in the UK, and exactly how it could be targeted to ensure it is as effective as possible**, in particular in terms of helping to support "transition" activities.

The previous Conservative government had said it aimed to have a taxonomy in place by the beginning of this year and a great deal of work has already been done by the government's advisers, the Green Technical Advisory Group (GTAG). The new Labour government, however, is taking a slightly more cautious approach and wants to establish first whether there is really a clear need for a UK Green Taxonomy and, if so, how to make sure it can operate properly with taxonomies in other jurisdictions and support the net zero transition.

Quick recap: what is a green taxonomy?

A green taxonomy is a classification tool which provides users (including investors) with a common framework to define which economic activities are considered to support climate, environmental, or wider sustainability objectives. They are generally developed to facilitate an increase in sustainable investment (i.e. to support capital allocation) and/or to reduce greenwashing (by providing a common definition of what is considered "green").

Worldwide, there are now around 20 jurisdictions with government-endorsed taxonomies (the best-known one being the EU Taxonomy) and approximately 30 jurisdictions are considering developing one. As explained in the consultation, the focus and use cases for these taxonomies vary and are often accompanied by voluntary and/or mandatory reporting requirements (e.g. the EU Corporate Sustainability Reporting Directive requires in-scope companies to also report against the EU Green Taxonomy).

For more information on the EU Taxonomy, see the Linklaters Sustainable Finance Survival Guide.

What is the UK government consulting on?

The consultation's primary purpose is to establish whether a UK Taxonomy would be additional and complementary to existing policies in meeting the objectives of mitigating greenwashing and channelling capital in support of the government's net zero and sustainability objectives.

The Labour government have made it clear that they want the UK to become a clean energy superpower and a global hub for sustainable finance, with both of these seen a key drivers for economic growth (see our blog post for other recent sustainable finance announcements).

The consultation builds on previous work by the Green Technical Advisory Group (GTAG) (see our previous blog post), and explains that the UK government is keen to explore specific use cases for a UK Taxonomy which support sustainable growth by contributing to:

- the promotion of market integrity and prevention of greenwashing; and
- the mobilisation of capital into sectors critical for the net zero transition.

The consultation is not seeking detailed feedback on specific activity-level standards (or "technical screening criteria" (TSC) for specific activities), or on wider UK climate and environmental strategies beyond sustainable finance.

The focus of the consultation is on **substantive design elements**, including the preferred sector scope, the environmental objectives respondents would like it to include, and what key metrics could be used to demonstrate alignment:

- **Environmental objectives:** The consultation recognises that the most prominent environmental objectives are climate mitigation and climate adaptation, but that other taxonomies may include biodiversity and ecosystems, circular economy, pollution prevention and control, and sustainable use and protection of water and marine resources. The government welcomes views on what objectives a UK Taxonomy should incorporate. Subject to stakeholder feedback and further consultation, the government proposes that nuclear energy should be classified as green.
- **Do No Significant Harm (DNSH) Principle**: Often a key component in other taxonomies, this is a mechanism aimed to ensure progress against one environmental objective does not cause significant harm to other environmental objectives (the DNSH principle). The government explains it is mindful that any such mechanism should be usable and proportionate, and is seeking views on how to balance being user friendly and robust.
- **Business practice/social safeguards:** The consultation acknowledges that some taxonomies include additional social safeguards relating to good business practice, which are intended as an additional "due diligence check"'. The government is asking for feedback on the value of including these safeguards either as a condition of taxonomy alignment, or separate to the UK Taxonomy (noting that it considers the UK has existing robust requirements to safeguard against human rights abuses and labour exploitation by UK-based business).
- **Frequency of updates**: The government is seeking views on its proposal that the UK Taxonomy be updated every three years. These updates could include adding new activities, responding to emerging environmental pressures, or to reflect major policy changes.

Key focus areas

The UK government is particularly interested in whether a UK Taxonomy would be a useful tool to support the mobilisation of **transition finance**.

The consultation refers to the recently published recommendations of the Transition Finance Market Review (see our previous blog post), which set out the importance of considering how transition activities

would be treated in a UK Taxonomy - as a binary categorisation of activities (i.e. "green" vs "not green") risks failing to properly account for the nuance of differing transition pathways. It seeks views on the value of different approaches to transitional activities (e.g. through a traffic light system, or by using thresholds that may be updated over time).

The consultation also notes that the UK government considers **international interoperability** a particularly important factor in the development of a future UK Taxonomy. It explains that ensuring alignment with well-established and common design features (mentioned above) could create an opportunity for a UK Taxonomy to be more useful by facilitating more efficient data comparisons.

Next steps

The consultation closes on **6 February 2025**.

The responses will inform a further assessment of the value of implementing a UK Taxonomy and how this could be targeted to ensure it is as effective as possible. It is not yet clear when this assessment will take place.