

Practicability of EU Taxonomy

To the Members of the Committee on Economic and Monetary Affairs of the European Parliament (ECON)

Reference is made to the above-mentioned subject. The practicability and feasibility of the EU Taxonomy remains a subject of utmost concern for European enterprises of the manufacturing industries. Companies across all sectors of the real economy are eager and ambitious to implement the necessary procedures to ensure a smooth and successful start of the EU Taxonomy in order to make their business models sustainable, resilient and fit for the future for the benefit of contributing to the transition process towards a net zero carbon emission economy.

Although the vast majority of companies shares the objectives of the EU Taxonomy, companies are presently confronted with a variety of obstacles in their Taxonomy preparation and implementation efforts, which we would like to bring to your attention:

1. Legal Uncertainties

In order to make the Taxonomy practicable, feasible and capable of delivering valid and comparable data, it needs to be further progressed. It especially requires a unitary system ensuring a common application and uniform definitions of legal terms used within the taxonomy (e.g. What is 'substantial'? What is meant by a 'best performing alternative'?). Companies at the moment are confronted with the challenge of answering these questions individually and find themselves confronted with a magnitude of interpretation possibilities. This stands in contrast to ensuring comparability. The following examples may aid in illustrating this obstacle:

- The 3-year long evaluation periods remain a problem for the strategic planning of companies, since the strategic planning regularly involves longer periods of time. For example, production facilities may well be used for a period of 10 years or even longer.
- OpEx-figures, as required by Article 8, are difficult to identify while not being meaningful due to the variety of interpretation methods offered.

Moreover, the platform on sustainable finance is primarily concerned with the design of additional taxonomy reporting requirements at present that it lacks in engaging into a dialogue with companies on practical implementations-problems. Consequently, companies at present are left alone with problems and challenges although the mandate of the platform provides for an assistance of the latter.

2. Specifically: Art. 11 Draft Delegated Act (DDA)

We appreciate the relief contained in Art. 11 of the DDA for the first year of application. However, Art. 11.2 does not give sufficient guidance on the expected

reporting in the first year of application. Furthermore, clarity from the Commission on the reporting requirements for Non-financial undertakings would be essential and needs to be given in due course.

3. Granularity

The present design of the taxonomy is subject to a vast level of granularity. This especially applies to the relevant CO₂-thresholds for production activities (e.g. 498 kg of CO₂ per produced ton of cement). Such threshold values would need to be amended on a regular basis.

A second problem refers to the vast number of economic activities covered by the taxonomy. BASF SE, for example, engages in about 45.000 economic activities relevant under the taxonomy. As such granular information will be also for investors a big challenge to tackle, the question of a segment/industry-oriented reporting system or even an aggregated reporting-system summarizing certain parts as a sensible alternative to the present taxonomy-structure deserves to be discussed. A segment approach could also ensure a better alignment with the International Financial Reporting Standards (IFRS).

4. Future Developments, Time Frame, Pilot/Test-Phase

A retrospective taxonomy reporting should be refrained from at all costs due to the large cumulative reporting efforts companies are already and will be exposed to in the near future, taking especially also the new CSRD into account.

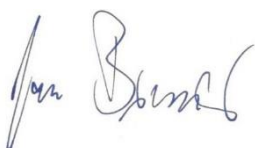
We would like to emphasize the short time frame for application in terms of both data quality and technical data availability especially in connection with the required quality assurance by external auditors. More time is needed in order to provide meaningful data.

Moreover, a pilot- or test-phase should be an essential precondition ahead of the adoption of new reporting requirements for companies.

We kindly ask you to take these aspects into due consideration in the forthcoming proceedings concerning the Draft Delegated Act. European companies need to be supported in their transition efforts with flexible responses to the afore-mentioned aspects.

We would also be pleased to personally explain our position to you in order to explore potential solutions under the participation of company representatives upon your convenience.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jan Bremer', is written over a light blue horizontal line.

Jan Bremer
Head of Legal Department