

International Platform Sustainable Finance



**Common Ground Taxonomy
Instruction Report– updated
November 2024**

Disclaimer

The present report represents a technical work based on comparison between the EU and China taxonomies within the scope of the instruction report and is not legally binding for IPSF member jurisdictions. The result can be used to enhance the interoperability of taxonomies, whilst it does not create either a 'common' or single standard for IPSF member jurisdictions.

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1. Executive summary

In July 2020, the IPSF established a Taxonomies Working Group (TWG), co-chaired by the European Union (EU) and China, that aims to undertake a comprehensive assessment of the existing taxonomies for environmentally sustainable investments, including identifying the commonalities and differences in their respective approaches and outcomes. In November 2021, the first version of the Common Ground Taxonomy (CGT) report, initially centred on climate change mitigation activities, was released and later updated in June 2022 to include 72 shared activities. This publication is the third version of the CGT report, which now includes 76 climate mitigation activities and 20 activities contributing to the other environmental objectives that share common ground with both the EU Sustainable Finance Taxonomy and China's Green Bond Endorsed Project Catalogue regarding the 'substantial contribution' criteria.

The CGT is a milestone work resulting from an in-depth comparison exercise that puts forward areas of commonality and differences between the EU and China's sustainable finance taxonomies. This updated publication covers the expansion of the work to those sectors and activities contributing to the non-climate environmental objectives.

The scope covers substantial contribution criteria for climate change mitigation, as well as the following environmental objectives: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems. Considering the difference of the environmental legislation system by different jurisdictions, other eligibility features such as Do No Significant Harm were not covered within scope of the first phase.

The Common Ground Taxonomy is...	The Common Ground Taxonomy is not...
✓ An analysis on approaches of the EU taxonomy and China taxonomy, and the methodology for comparing and identifying commonalities and differences between some features of the two taxonomies	- A legal documentation by the EU and China which entails requirement/obligation for either jurisdiction to change their taxonomy.
✓ An evolving tool that may help different actors to understand the types of activities that could be covered under the respective taxonomies within the scope of the comparison exercise	- A single taxonomy or exclusive definition of environmentally sustainable economic activities covering all environmental objectives, such as biodiversity, pollution prevention, etc.
✓ A technical document for voluntary reference by interested parties within	- Covering all eligibility features or all activities in the EU and China

the limits of the scope of the comparison exercise	taxonomies as explained in the instruction report.
✓ An analytical tool or reference for other jurisdictions to consider when developing their own taxonomies	- A proposal for international standards or legal document that imposes any global standard on other jurisdictions.

The CGT can be used to improve the comparability and future interoperability of taxonomies around the world. Hence, it intends to provide more clarity and transparency about the commonalities and differences between approaches and eventually lower the trans-boundary cost of green investments and scale up the mobilization of green capital internationally. It also provides a solid methodology on the basis of which other taxonomies can be compared in the future.

The methodology underpinning the CGT is a key part of the value of this work. The first stage involved (1) extract climate change mitigation and environmental activities from the China Taxonomy, (2) mapping of all activities in both taxonomies to a neutral code so that they could be more easily compared. The International Standard Industrial Classification of All Economic Activities (ISIC) was used as the international reference classification. (3) selection of priority sectors which would significantly contribute to carbon emission reduction or sequestration.

The second stage involved evaluating the detailed description and technical screening criteria for each line to ascribe each line with a scenario based on their overlap as follows:

- **Scenario 1: Areas with clear overlaps** covers activities which have overlaps and can be considered comparable within the scope/for the purpose of the CGT report.
- **Scenario 2: EU criteria are more stringent and/or detailed** was assigned to activities where the EU screening criteria were either narrower in scope or more stringent and/or detailed than Chinese criteria. In this case, the EU criteria were described in the CGT in greater detail.
- **Scenario 3: China criteria are more stringent and/or detailed** was assigned to activities where the China criteria were either narrower in scope or more stringent and/or detailed than EU criteria. In this case, the China criteria were described in the CGT in greater detail.
- **Scenario 4: Identifiable overlap** was assigned to activities that have some alignment in scope of activities, and could be defined by utilising both sets of eligibility criteria.
- **Scenario 5/6: Unclear overlap or obvious divergence:** Scenario 5 was assigned to activities that were very difficult to map in the other taxonomy. Scenario 6 was assigned to activities where there was obvious differentiation.

The Common Ground Taxonomy analysed 96 activities across five sectors in the International Standard Industrial Classification of All Economic Activities (ISIC), Rev. 4:

- Agriculture, forestry and fishing
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water supply; sewage, waste management and remediation activities
- Construction
- Transportation and Storage
- Information and communication (ICT)
- Professional, scientific and technical activities
- Environmental protection and restoration activities
- Art, entertainment and recreation
- Accommodation and food service activities
- Others

These are detailed in the document as followed:

CGT number and activity name	<i>Each activity in the CGT is numbered according to its headline sector e.g. A1.1 is Afforestation which is the first activity under the Agriculture and Forestry sector.</i> <i>Name of activity – China or EU nomenclature is used depending on the scenario (e.g. for Scenario 2 activities, generally EU nomenclature is used)</i>
Description	<i>Description of what is covered under the activity- China or EU nomenclature is used depending on the scenario (e.g. for Scenario 2 activities, generally EU nomenclature is used)</i>
Substantial contribution criteria	<i>Scope of activity and objective to which it substantially contributes</i> <i>Description of Technical screening criteria</i>
Additional notes	<i>Provides reference numbers within the associated activities in the EU and/or China Taxonomy.</i>
Overlap scenario	<i>Provide the scenario ascribed during the research</i>

Future considerations

This phase of the CGT addressed the previous objectives of the IPSF to further expand the scope of the analysis of the EU and China Taxonomies, including additional sectors and additional environmental objectives. A separate report on “Multi-jurisdiction Common

Ground Taxonomy” looks at the inclusion of other jurisdictions’ taxonomies in the comparison analysis, namely the Singapore-Asia Taxonomy was compared against the EU and Chinese taxonomies.

This work remains an important contribution to the international objective of enhancing interoperability of taxonomy frameworks, in line with the **G20 Sustainable Finance Roadmap**¹ and the high-level principles outlined in the input paper from the IPSF and the United Nations Department of Economic and Social Affairs (UNDESA) for the G20 Sustainable Finance Working Group², and it continues guiding the work of the IPSF. More specifically, the IPSF Taxonomy Working Group may include more jurisdictions in its comparative analysis in the future, and explore options to further enhance the interoperability of sustainable finance taxonomies around the world.

¹ The G20 Sustainable Finance Working Group (SFWG) was mandated by Finance Ministers and Central Bank Governors to develop a G20 Sustainable Finance Roadmap (“the roadmap”) to help focus the attention of the G20, international organizations and other stakeholders to key priorities of the sustainable finance agenda and form consensus on key actions to be taken, <https://g20sfgw.org/roadmap/>.

² The IPSF-UNDESA input paper for the G20 SFWG “Improving compatibility of approaches to identify, verify and align investments to sustainability goals” sets out the seven high level principles for jurisdictions and markets for the development of coherent approaches to identify and align investments with sustainability goals, () <https://g20sfgw.org/wp-content/uploads/2021/09/G20-SFWG-DESA-and-IPSF-input-paper.pdf>

2. Introduction

2.1. Background and Objectives

2.1.1. Brief introduction of IPSF's Taxonomy Work

The International Platform on Sustainable Finance (IPSF) is a multilateral forum that enables exchange of practices among policymakers to increase international cooperation on sustainable finance related matters. This in turn contributes to scaling up the mobilisation of private capital towards sustainable investments. Part of this work focusses on deepening cooperation on the development of “sustainable taxonomies” around the world and to help to mitigate fragmentation of global green/sustainability definitions as far as possible. Over twenty jurisdictions around the world have developed or are in the process of developing national or regional sustainable taxonomies (see Annex X)³. Of these jurisdictions, China and the EU were among the first to adopt their respective taxonomies into legislative frameworks.

In July 2020, the IPSF established a Taxonomies Working Group (TWG) (hereafter referred to as the “TWG”) co-chaired by the EU and China. The TWG’s objectives are to undertake a comprehensive assessment of the existing taxonomies for environmentally sustainable activities, including identifying the commonalities and differences in their respective approaches and outcomes. This comparison exercise has become known as the IPSF “Common Ground Taxonomy”.

2.1.2. The Common Ground Taxonomy (CGT): purpose, objectives and users

What is the Common Ground Taxonomy?

The Common Ground Taxonomy (CGT) is a report resulting from an in-depth comparison exercise that puts forward areas of commonality between the EU and China’s taxonomies. The first version of this CGT report was published in November 2021, subject to a public call for feedback to solicit comments. In June 2022, the second version of the CGT report was published, which incorporated feedback received from the general public between November 2021 and January 2022, and included additional climate change mitigation activities not covered in the first version. In 2023, the IPSF agreed on expanding the scope of the CGT to cover more activities and sectors, as well as additional environmental objectives. The current version of the CGT covers 76 climate mitigation activities and 20 non-climate environmental activities that share common ground in both the EU and China taxonomies regarding the ‘substantial contribution’ criteria.

The current version of the CGT covers only areas that are in the current scope of both taxonomies, in terms of objectives, eligibility criteria, activities and thresholds. If there are

³ Ibid.

activities, objectives or eligibility criteria covered by the EU but not China (and vice versa), they are not part of the CGT. To determine eligibility criteria for each activity, it puts forward the criteria that are compliant in both jurisdictions – usually this means referring to the jurisdiction with narrower scope or more stringent/more detailed criteria although in some cases, criteria are the same (and therefore directly eligible) or in others both sets of criteria should be used.

The CGT does not entail any legal implications in either jurisdiction. The detailed activities referenced in the CGT table accompanying this report should not be considered as automatically aligned with the EU taxonomy, as certain eligibility criteria of the EU taxonomy, such as the Do No Significant Harm (DNSH) criteria and the minimum social safeguards, are not considered by this report.

The CGT does not cover the climate change adaptation objective given that in the EU taxonomy the substantial contribution criteria are process-based and their interpretation is context dependent and in the China taxonomy the white list approach has been maintained for all of the objectives. Such divergence in approaches makes it challenging to provide a robust analysis for the purpose of comparison of the criteria across these taxonomies.

The report is a key milestone which provides the first comprehensive activity-by-activity mapping and comparison of the EU and China taxonomies, including relevant technical screening criteria. It creates an important methodology, as detailed in Chapter 3, for improving the comparability and interoperability of taxonomies across jurisdictions, in line with the G20 Sustainable Finance Roadmap.

Purpose of the CGT work

The CGT can be used as a reference to improve the comparability and interoperability of taxonomies around the world. It intends to provide more clarity and transparency about the commonalities and differences between approaches and potentially contribute to the analysis to lower the trans-boundary cost of sustainable investments and scale up the mobilization of sustainable capital internationally. It also provides a solid methodology on the basis of which other taxonomies can be compared in the future.

This does not necessarily mean that taxonomies have to be identical but rather that they are developed based on common sustainability objectives and principles and using a common language making them more comparable and interoperable. This comes across clearly in the high-level principles put forward by the IPSF UNDESA input paper to the G20.⁴

⁴ Ibid.

For instance, the aforementioned input paper points out the common features identified in existing taxonomies such as: (1) Granular and clear, (2) Publicly available, and (3) Science-based.

Better comparability and interoperability are core enablers of international finance globally – if taxonomies are comparable and interoperable, they can help to reduce transaction costs by avoiding complexity and helping facilitate cross border movement of green capital flows.

By highlighting major areas of commonality between the EU and China taxonomies, the CGT represents a crucial step in the process of exploring options for increasing interoperability between taxonomies of the EU and China, and it could also be used as a starting point or reference for other jurisdictions in developing their own taxonomies with common features as described above. The CGT aim is to ultimately help facilitate greater global interoperability and the flow of green finance.

Potential benefits

The findings of this comparison exercise are limited only to some features of the EU and China taxonomies and have no legal value. On this assumption, they may inform a variety of actors, including:

- Issuers of green bonds and other green finance products, and green bonds/assets verifiers;
- Entities trying to assess the alignment of their business with low carbon economy objectives;
- Banks and financial institutions in aligning their activities with low carbon economy objectives;
- Research and academic institutions;
- Development finance institutions and reporting entities interested in market comparisons with the Common Principles for Climate Mitigation Finance Tracking (2015 updated in 2021)⁵ and international definitions of Climate Finance;
- Jurisdictions such as national governments or regional bodies looking for analyse or develop their own taxonomy;
- International standard setting bodies considering the CGT as a reference for working on other sustainable finance standards.

⁵ MDB/IDFC, Common Principles, 2023 ([mdb_idfc_mitigation_common_principles_en.pdf \(eib.org\)](https://www.idfc.org/publications/mdb-idfc-mitigation-common-principles-en.pdf))

2.1.3. Contribution of the CGT to global comparability and interoperability of sustainable finance standards

A green taxonomy is an important building block of a sustainable financial system. It is a tool to help to direct flows of capital to green, sustainable projects. However, enabling the flow of capital into green, sustainable projects around the world requires interoperability of taxonomies. If interoperable, taxonomies can help investors' direct capital across borders more easily, for instance by reducing the costs of verifications/due diligence. Further, given that taxonomies can support other tools such as benchmarks and labels, the interoperability of taxonomies is conducive to creating better consistency across the range of tools in the market.

The CGT is expected to play a pivotal role in increasing comparability of sustainable finance taxonomies and definitions of green, sustainable activities globally, with a view to future interoperability in line with the G20 SFWG indications. This is a role it will play both within the IPSF membership and beyond.

In particular, the G20 SFWG is looking into ways to improve global comparability and interoperability of approaches to align investments to sustainability goals including taxonomies. The paper by IPSF and UNDESA have informed the G20 SFWG work and seeks to promote common principles to improve consistency in sustainable investment approaches⁶. As part of this work, the G20 SFWG has made a number of recommendations to facilitate the interoperability across approaches and tools for identifying, verifying and aligning investments with sustainability goals, including the:

“Different markets can use reference or common taxonomies on a voluntary basis. Such use can facilitate cross-border sustainable financial flows for example by reducing the costs of verifications. For jurisdictions or markets that want to use a taxonomy, but do not have the resources to develop their own taxonomies, they can also choose to adopt an existing taxonomy. Regions with a large number of relatively small economies or markets (e.g., Africa, Central Asia, and Latin America) can consider regional collaboration on taxonomies, including development of taxonomies, to avoid market segmentation and illiquidity while promoting cross-border investment.”⁷

⁶ Improving compatibility of approaches to identify, verify and align investments to sustainability goals (IPSF-UNDESA input paper for the G20 SFWG) (<https://g20sfgw.org/wp-content/uploads/2021/09/G20-SFWG-DESA-and-IPSF-input-paper.pdf>)

⁷ 2021 G20 Synthesis Report of Sustainable Finance Working Group, (https://g20sfgw.org/wp-content/uploads/2021/11/Synth_G20_Final.pdf)

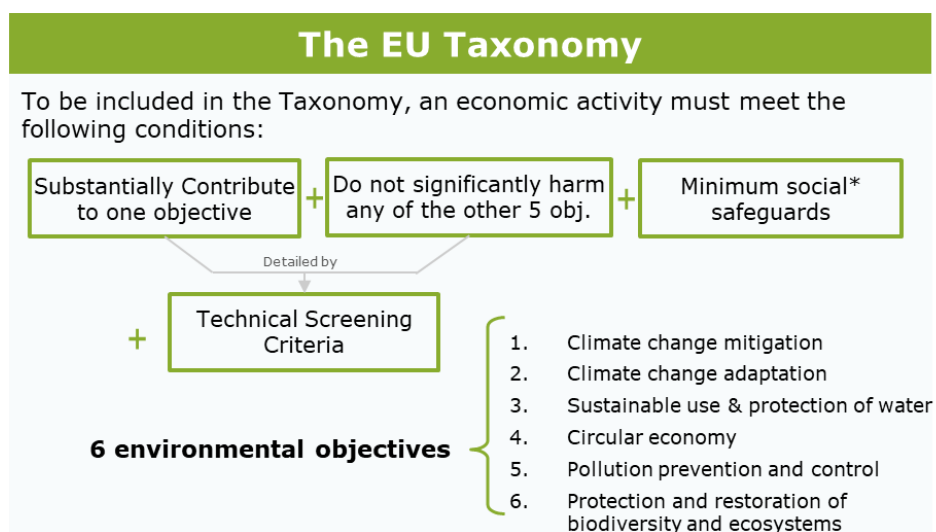
2.2. Overarching comparison of the EU and China taxonomies

2.2.1. History of development process

The European Union

In December 2016, the European Commission established the High-Level Expert Group on Sustainable Finance (HLEG) to help develop an overarching and comprehensive EU roadmap on sustainable finance. The HLEG process culminated in the publication of the report *Financing a Sustainable European Economy* in January 2018⁸ which, among others, recommended ‘establishing an EU sustainability taxonomy’ as a priority action.

In March 2018, the European Commission adopted the Action Plan on Financing Sustainable Growth⁹, outlining a comprehensive EU-level strategy to mobilise private capital towards sustainable investment, enhance transparency and manage risks of climate change and environmental degradation. Based on ten detailed actions in the Action Plan, the European Commission proposed in May 2018, among other legislative initiatives, to create an EU Taxonomy of green, sustainable activities (hereafter referred to as the EU Taxonomy).



This led to the establishment of the EU Technical Expert Group (EU TEG) consisting of 35 members and observers from civil society, academia, business and the finance sector, to develop *inter alia* a list of economic activities and environmental performance requirements for the EU Taxonomy to help to achieve the EU’s climate goals and SDGs.

⁸ Final Report 2018 by the High-Level Expert Group on Sustainable Finance, (https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf)

⁹ See factsheet:

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200108-financing-sustainable-growth-factsheet_en.pdf

In respect of the EU Taxonomy proposal, the TEG mission was to advise the Commission on the screening criteria on economic activities to identify whether they make a substantial contribution to climate change mitigation and climate change adaptation.

In March 2020, the EU TEG officially released several reports,¹⁰ which included the Final Report on Taxonomy¹¹ and its Technical Annex¹².

On 18 June 2020, the EU co-legislators (the European Parliament and the Council) adopted the legislative framework for developing the EU Taxonomy (EU Taxonomy Regulation) which was published in the Official Journal of the European Union, entering into force on 12 July 2020. The advice from the EU TEG informed the Commission's development of the EU Taxonomy Climate Delegated Act (level 2 legislation), adopted on 4 June 2021, defining the technical screening criteria for some prioritised economic activities to meet the taxonomy eligibility requirements for climate change mitigation and climate change adaptation objectives.¹³

In October 2020, the EU Platform on Sustainable Finance (the "Platform"), was established to continue the work of the EU TEG whose mandate ended in September 2020¹⁴. Among other tasks¹⁵, the Platform advised the Commission on the technical screening criteria on the environmental objectives beyond climate. The advice from the Platform informed the Commission's development of the EU Taxonomy Environmental Delegated Act, adopted on 27 June 2023, defining the technical screening criteria for some prioritised economic activities to meet the taxonomy eligibility requirements for the remaining environmental objectives

¹⁰ Technical expert group on sustainable finance website (https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en). In its Annex III, the HLEG-Report included draft Mitigation Criteria proposed by the European Investment Bank (EIB), integrated and agreed by the HLEG. EIB's proposal reflected the conclusions of a "White Paper on the Need for a Common Language in Green Finance" co-authored by the China Green Finance Committee and the EIB. The document mapped the China Green Bond Endorsed Project Catalogue of 2015, using the Green Bond Principles of the International Capital Markets Association (objectives) and the MDB-IDFC Common Principles for Climate Mitigation Finance Tracking (categories) as "Rosetta stone".

¹¹ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020 (https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf)

¹² Updated methodology & Updated Technical Screening Criteria, March 2020 (https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

¹³ Reports of the EU Platform on Sustainable Finance with recommendations on technical screening criteria for the four remaining environmental objectives of the EU Taxonomy (March 2022, https://finance.ec.europa.eu/document/download/c9c66978-63bc-47ca-bbac-fc758c454370_en?filename=220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf, November 2022, https://finance.ec.europa.eu/document/download/7599ea2d-975c-4b25-adca-de1d26533e99_en?filename=221128-sustainable-finance-platform-technical-working-group_en.pdf)

¹⁴ Second extension of the mandate of the Technical expert group on sustainable finance (TEG) (https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/191219-sustainable-finance-teg-extension_en.pdf)

¹⁵ Frequently asked questions Commission Platform on Sustainable Finance (https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/201001-sustainable-finance-platform-faq_en.pdf)

(sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems). The Commission also amended the Climate Delegated Act to include additional activities substantially contributing to the climate objectives in the manufacturing and transport sectors.

The EU Taxonomy is deemed to be one of the biggest strides in helping the financial system reorient capital towards a low-carbon climate resilient economy, in line with the Paris Agreement (see further details in the section 3.1.1).

China

China's government reshuffled the country's financial regulatory structure in 2018, which then consisted of one central bank (the People's Bank of China -PBOC) and three committees (the China Banking Regulatory Commission -CBRC; the China Insurance Regulatory Commission-CIRC; and the China Securities Regulatory Commission –CSRC), overseeing commercial banks, insurance companies, and capital market participants, respectively. CBRC and CIRC merged to form the China Banking and Insurance Regulatory Commission (CBIRC), relinquishing some rule-making and macro-prudential powers to the PBOC central bank relative to its predecessors CBRC and CIRC. Another reason for the establishment of the CBIRC was to better coordinate the regulatory activity of both the CBRC and CIRC, as banks in China become more diversified in their business operations. Meanwhile, China's National Development and Reform Commission (NDRC) holds a role to take charge in the overall management of investment, work with other agencies to decide the government's mandate in approving investment projects, and formulate the catalogue for government-approved fixed investment projects, and promote the implementation of sustainable development strategies.

Therefore, the “green” reform of China's financial system is co-supervised by these government ministries from different perspective and coordinated at different paces. In 2012, the CBIRC began to use a green credit statistical form to collect data of loans related to environmental protection and circular economic activities to monitor the environmental and social risks of bank loans. In 2015, to scale up and populate green finance products, the PBOC published the first version of Green Bond Endorsed Projects Catalogue (2015) along with its green financial bond issuance management regulation. In 2019, the NDRC published the Green Industry Guiding Catalogue (2019), which aims to clarify the scope of green industrial actions throughout the entire economy. Based on the industry catalogue together with its associated technical criteria instruction document, the relevant agencies are able to formulate policies regarding investment, pricing, budgets and taxation to facilitate the development of green industries. In 2020, the PBOC built its own green statistic system based on the NDRC catalogue to collect data on green loans from 24 major Chinese banks. The CBIRC's green

credit statistical form has been updated recently, which differs slightly from the industry catalogue.

On 21 April 2021, in an effort to coordinate green definitions among the financial regulators, the PBOC, together with NDRC and CSRC, jointly released the amended version of the *Green Bond Endorsed Projects Catalogue (2021 Edition)*¹⁶. This represents another major development in China's effort to unify its domestic green definitions. The consolidation of the multiple pre-existing green bond catalogues means that going forward, the identification of the "green" attributes of all bonds will be based on the criteria of the updated and domestically harmonized catalogue, regardless of their type or the market in which they are issued.

The Green Bond Endorsed Project Catalogue (2021 Edition) represents the most up-to-date, unified and clear green definitions at the activity and project level in China. We use the *Green Bond Endorsed Projects Catalogue (2021 Edition)* (hereafter referred to as the *China Taxonomy* for brevity) as China's equivalent to the EU Taxonomy for the purposes of comparison in this report.

2.2.2. Objectives

The EU Taxonomy has six environmental objectives stated below for which the European Commission has adopted technical screening criteria for substantial contribution and 'do no significant harm' (DNSH). Articles 10 – 15 of the EU Taxonomy Regulation define the concept of substantial contribution as it relates to each of the environmental objectives. These are broadly summarised as follows:

1. Climate change mitigation: an activity that contributes substantially to the stabilisation of GHGs at a level which prevents dangerous anthropogenic interference with the climate system consistent with the long-term temperature goal of in line with the Paris Agreement through either the avoidance, reduction of GHG or the increase of GHG removals.
2. Climate change adaptation: solutions that substantially reduce the risk of adverse impact of the current/future climate on an economic activity, or substantially reduce that adverse impact without increasing adverse risks and impacts for people, nature or assets.
3. Sustainable use and protection of water and marine resources: an activity that contributes substantially to achieving the good environmental status of surface water,

¹⁶ Green Bond Endorsed Projects Catalogue (2021 Edition)
(<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>)

groundwater or marine waters or preventing the deterioration of bodies of water (surface, ground, marine) that already have good status.

4. Transition to a circular economy: an activity that substantially uses resources in a more efficient way, increases substantially durability and life/use of products, increases substantially recyclability and the use of secondary raw materials, reduces substantially hazardous content and minimises substantially waste disposal.
5. Pollution prevention and control: an activity that is substantially preventing/reducing pollutants to air/water/land, or improving air/water/soil quality, or cleaning-up pollutants.
6. Protection and restoration of biodiversity and ecosystems: an activity that contributes substantially to protecting, conserving or restoring biodiversity or to achieving the good condition of ecosystems, or to protecting ecosystems that are already in good condition.

China's green taxonomy refers to financial services provided for economic activities that are supportive of environment improvement, climate change response and more efficient resource utilization. These economic activities include the financing, operations and risk management for projects in areas such as environmental protection, energy savings, clean energy, green transportation, and green buildings. Therefore, the environmental objectives of China's green taxonomy include environmental improvement, climate change response and more efficient resource utilization.

While the environmental goals of the EU and China Taxonomies can be broadly mapped against each other at a high level in the figure below, there may be differences at a more granular level.

EU Objectives ¹⁷		China Objectives ¹⁸
Climate change mitigation	Climate change adaptation	Climate change response
Climate change adaptation		
The sustainable use and protection of water and marine resources	The protection and restoration of biodiversity and ecosystems	Environmental improvement (pollution control and ecological conservation)
The protection and restoration of biodiversity and ecosystems		
The transition to a circular economy	Pollution prevention and control	More efficient resource utilization (circular economy, waste recycling and pollution prevention)
Pollution prevention and control		

¹⁷ EU Taxonomy Regulation

¹⁸ Guidelines for Establishing the Green Financial System (2016), Article 1

2.2.3. Scope

The EU and Chinese taxonomies apply to different categories of users.

The EU Taxonomy is a list of activities which can be used by any type of entity. There are however legally required applications of the EU Taxonomy as follows¹⁹:

1. EU Member States and the European Union when they set out any public measures, standards and labels;
2. Financial Market participants²⁰ that make available sustainable financial products; and
3. Large and listed companies under the Corporate Sustainability Reporting Directive (CSRD).²¹ This includes:
 - Non-Financial undertakings, reporting KPIs on their Turnover, Capex & Opex related to taxonomy-aligned activities; and
 - Financial undertakings (large banks, asset managers, investment firms and insurance/reinsurance undertakings), disclosing their KPIs (specified in an additional regulatory act) stemming from taxonomy-aligned activities

Link to label/standards

Currently, the EU Taxonomy and its disclosure requirements are not mandatory for all green bond issuers. However, the European Commission, in November 2023, adopted the European green bond standard (EUGBS),²² establishing an EU voluntary high-quality standard for green bonds under which issuers would be required to allocate at least 85% of the funds (proceeds) raised by their bond to economic activities that meet the EU Taxonomy requirements.

The China Taxonomy is mandatory for all green bond issuers including all financial institutions, corporations and state-owned enterprises, third-party appraisal agencies, and regulatory agencies.²³ The purpose is to clearly define projects eligible for green bonds, lower the possibility of greenwashing (non-green project financing through green bonds), improve the credibility and promote the reputation of green bonds, further regulate the domestic green bond market, and direct funds towards green enterprises, assets and projects. Issuers must

¹⁹ Regulation (EU) 2020/852, Article 1

²⁰ Financial market participants include: banks, insurance companies that provide Insurance Based Investment Product (IBIP), alternative investment fund managers, investment management companies that provide portfolio management, organizations that provide occupational retirement or pension products, private equity and venture capital fund management companies, qualified social enterprise fund management companies, Undertaking for Collective Investment in Transferable Securities (UCITS), index funds

²¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

²² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32023R2631>

²³ In line with the PBOC Announcement [2015] No. 39 and the *Guiding Opinions of the China Securities Regulatory Commission on Supporting the Development of Green Bonds*

use the China Taxonomy to ensure that a green bond target project has strong environmental benefits.

Disclosure obligations

In the EU, Taxonomy disclosure requirements apply to two different types of actors: financial market participants under the scope of the Sustainable Finance Disclosure Regulation (SFDR) and all large and listed companies under the scope of the Corporate Sustainability Reporting Directive (CSRD - including financial and non-financial undertakings).

In accordance with articles 5 to 7 of the EU Taxonomy Regulation, as of mid-2022 for climate objectives, all financial market participants, when they market a product as “environmentally sustainable” or “promoting environmental characteristics”, must disclose:

- 1) the information on the taxonomy environmental objective(s) to which the investment underlying the financial product contributes; and
- 2) a description of how and to what extent the underlying investments are in economic activities that qualify as environmentally sustainable under the EU taxonomy.

If the product is not marketed as one of the above categories, the financial market participant should indicate that ‘the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.’

Following article 8 of the EU Taxonomy Regulation large and listed financial and non-financial undertakings under the scope of the CSRD must disclose, progressively as of 2023 for climate objectives and, as of 2025, for environmental objectives:

- 1) Proportion of green, sustainable activities in turnover, and
- 2) Proportion of green, sustainable activities in capital expenditure or operating costs.

The China Taxonomy is mainly used by financial institutions and corporations for the issuance of green bonds in the Chinese onshore markets, and the disclosure requirements for different types of green bonds are listed in the table below:

<i>Demonstration of compliance in China's Green Bonds Market</i> ²⁴	Green Financial Bond	Green Enterprise Bond	Green Corporate Bond	Green Debt Financing Instrument
Supervisor	PBOC	NDRC	CSRC	NAFMII
Document that determines the eligibility of green projects	China Taxonomy (2021)			
Management of Proceeds	Dedicated account	Unspecified	Dedicated account	Dedicated account
Project Evaluation and Assessment	Third-party verification encouraged	Assessment and Approval by NDRC	Third-party verification encouraged	Third-party verification encouraged
Information Disclosure	Quarterly disclosure and annual reporting on use of proceeds (to PBOC)	Unspecified	Annual disclosure	Annual disclosure; publicly report changes to use of proceeds

2.2.4. Approaches to defining alignment /eligibility

Under the EU Taxonomy, an activity is “taxonomy-eligible” if it has been included into a Delegated Act with Technical Screening Criteria set for that activity. It means the activity is “in-scope” of the Taxonomy.

Taxonomy alignment, to be reported as Green, is a three-step process:

²⁴ Work cited include CBI, China Green Bond Market, 2018 (https://www.climatebonds.net/files/reports/china-sotm_cbi_ccdc_final_en260219.pdf), Hao Zhang, Regulating Green Bonds in the People's Republic of China: Definitional Divergence and Implications for Policy Making, 2020, (<https://www.adb.org/sites/default/files/publication/562076/adbi-wp1072.pdf>), Escalante and alii, MRV System Design: Recommendations for Chinese Green Bonds, 2020 (<https://climatepolicyinitiative.org/wp-content/uploads/2020/06/MRV-System-Design-Recommendations-for-Green-Bonds-in-China.pdf>)

1. The activity must make a ‘substantial contribution’ to at least one of six environmental objectives. Substantial contribution as it applies to each of the objectives is defined in articles 10-15 of the regulation and the Technical Screening Criteria are clearly identified in the Delegated Acts that accompany the regulation
2. In the same time, an aligned economic activity must cause no significant harm to any of the other five environmental objectives, aligning with the Do No Significant Harm (DNSH) Technical Screening criteria defined in the complementary Delegated Act, for the moment only showcasing these criteria for activities making a substantial contribution to the first 2 environmental objectives;
3. Finally, it must meet minimum safeguards, defined in Article 18 of the EU Taxonomy regulation require to ensure the activity alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights

Substantial contribution is further defined by the Technical Screening Criteria, which are the central feature of the Taxonomy and contained in the EU Taxonomy Climate Delegated Act and what are used for comparison in the CGT presented below.

Note that steps 2 and 3 above are not within the scope of the CGT as presented in this document.

EU Taxonomy process for identification of a green activity



China

The China Taxonomy presents a detailed ‘white list’ of eligible economic activities and projects under various sectors and subsectors. It is explicit about best available low-emission and clean

production technological solutions on the domestic market hence not 'technology neutral'. Activities can be eligible only if the activity has been included in the list.

Activities that are included in the China Taxonomy if they have been assessed to meet the following criteria:

1. Serve one or more of the three environmental objectives
2. Align with the requirements listed in the explanatory notes of the Green Industry Guiding Catalogue (2019 Edition) and the corresponding "instructions/conditions" of the China Taxonomy.
3. Adhere to a set of science-based and consistent measures
4. Respect China's present stage of development
5. Comply with relevant safety, environmental protection and quality regulations and policies. And policy documents and standard specification referred to in the taxonomy are the latest version and within the valid period

2.2.5. Legal framework

The document setting up the principles of the EU Taxonomy Regulation (or Level 1 text) was published on 18 June 2020 and took effect 20 days after its publication in the Official Journal of the EU (OJ). The Taxonomy Regulation empowers the European Commission to adopt the following 'Delegated Acts' (or Level 2 regulations) that would provide the detailed requirements:

- A first Delegated Act (Climate Delegated Act), adopted on 4 June 2021: technical screening criteria for economic activities making a substantial contribution to the climate objectives.
- A second Delegated Act (Complementary Climate Delegated Act) adopted on 9 March 2022: additional economic activities in the energy sector making a substantial contribution, under strict conditions, to the climate objectives.
- A third Delegated Act (Environmental Delegated Act), adopted on 27 June 2023 for the remaining objectives (objectives 3-6).
- Amendments to the Climate Delegated Act, adopted on 27 June 2023: technical screening criteria for additional activities making a substantial contribution to the climate objectives.
- Further Delegated Acts will add additional sectors and criteria going forward.
- An additional Delegated Act adopted on 6 July 2021 supplementing Article 8 of the Taxonomy Regulation, which details the disclosure requirements for large companies with regard to the EU Taxonomy.

The PBoC, NDRC, and the CSRC jointly released the "Green Bond Endorsed Projects Catalogue (2021 Edition)" - referred to in this document as the China Taxonomy. It came into effect

nationwide on July 01, 2021. It works together with the information disclosure and green bond issuance guidelines^{25,26, 27} published by the three jurisdictions to enable healthy growth of China's green bond market.

2.2.6. Classification framework

The European Union

The EU Taxonomy is largely based on the NACE (Nomenclature statistique des Activités économiques dans la Communauté européenne)²⁸, classification system as follows:

Climate change mitigation

1. Forestry	1.1. Afforestation 1.2. Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event 1.3. Forest management 1.4. Conservation forestry
2. Environmental protection and restoration activities	2.1. Restoration of wetlands
3. Manufacturing	3.1. Manufacture of renewable energy technologies 3.2. Manufacture of equipment for the production and use of hydrogen 3.3. Manufacture of low carbon technologies for transport 3.4. Manufacture of batteries 3.5. Manufacture of energy efficiency equipment for buildings 3.6. Manufacture of other low carbon technologies 3.7. Manufacture of cement 3.8. Manufacture of aluminium

²⁵ Latham & Watkins LLP, China's Securities Regulator Issues New Green Bond Guidelines, 2017 (<https://www.latham.london/2017/04/chinas-securities-regulator-issues-new-green-bond-guidelines/#:~:text=The%20China%20Securities%20Regulatory%20Commission%20%28CSRC%29%20released%20new,Initiative%20considered%20did%20not%20qualify%20as%20green%20bonds%29>)

²⁶ China Issues First Operating Guidance for Green Bond Evaluation Agencies <https://www.senecaesg.com/blog/china-issues-first-operating-guidance-for-green-bond-evaluation-agencies/>

²⁷ Seneca, Green Finance Platform, Green Bond Guidelines Issued by China's National Development and Reform Commission (NDRC), 2016 (<https://www.greenfinanceplatform.org/policies-and-regulations/green-bond-guidelines-issued-chinas-national-development-and-reform>)

²⁸ Although EU Taxonomy is based largely on NACE, there is no possibility of directly using single NACE codes in all cases. Many activities cut across several NACE codes, some NACE codes have multiple activities under them and some, such as building construction, are actually applicable across almost any NACE codes sector. (ref also later in section 3.2.2 - suggest to make a cross-reference). Some mitigation activities have no NACE codes.

	3.9. Manufacture of iron and steel 3.10. Manufacture of hydrogen 3.11. Manufacture of carbon black 3.12. Manufacture of soda ash 3.13. Manufacture of chlorine 3.14. Manufacture of organic basic chemicals 3.15. Manufacture of anhydrous ammonia 3.16. Manufacture of nitric acid 3.17. Manufacture of plastics in primary form 3.18. Manufacture of automotive and mobility components 3.19. Manufacture of rail rolling stock constituents 3.20. Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable a substantial contribution to climate change mitigation 3.21. Manufacturing of aircraft
4. Energy	4.1. Electricity generation using solar photovoltaic technology 4.2. Electricity generation using concentrated solar power (CSP) technology 4.3. Electricity generation from wind power 4.4. Electricity generation from ocean energy technologies 4.5. Electricity generation from hydropower 4.6. Electricity generation from geothermal energy 4.7. Electricity generation from renewable non-fossil gaseous and liquid fuels 4.8. Electricity generation from bioenergy 4.9. Transmission and distribution of electricity 4.10. Storage of electricity 4.11. Storage of thermal energy 4.12. Storage of hydrogen 4.13. Manufacture of biogas and biofuels for use in transport and of bioliquids 4.14. Transmission and distribution networks for renewable and low-carbon gases 4.15. District heating/cooling distribution 4.16. Installation and operation of electric heat pumps 4.17. Cogeneration of heat/cool and power from solar energy 4.18. Cogeneration of heat/cool and power from geothermal energy 4.19. Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels 4.20. Cogeneration of heat/cool and power from bioenergy 4.21. Production of heat/cool from solar thermal heating 4.22. Production of heat/cool from geothermal energy

	4.23. Production of heat/cool from renewable non-fossil gaseous and liquid fuels 4.24. Production of heat/cool from bioenergy 4.25. Production of heat/cool using waste heat 4.26. Pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle 4.27. Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies 4.28. Electricity generation from nuclear energy in existing installations 4.29. Electricity generation from fossil gaseous fuels 4.30. High-efficiency co-generation of heat/cool and power from fossil gaseous fuels 4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system
5. Water supply, sewerage, waste management and remediation	5.1. Construction, extension and operation of water collection, treatment and supply systems 5.2. Renewal of water collection, treatment and supply systems 5.3. Construction, extension and operation of waste water collection and treatment 5.4. Renewal of waste water collection and treatment 5.5. Collection and transport of non-hazardous waste in source segregated fractions 5.6. Anaerobic digestion of sewage sludge 5.7. Anaerobic digestion of bio-waste 5.8. Composting of bio-waste 5.9. Material recovery from non-hazardous waste 5.10. Landfill gas capture and utilisation 5.11. Transport of CO₂ 5.12. Underground permanent geological storage of CO₂
6. Transport	6.1. Passenger interurban rail transport 6.2. Freight rail transport 6.3. Urban and suburban transport, road passenger transport 6.4. Operation of personal mobility devices, cycle logistics 6.5. Transport by motorbikes, passenger cars and light commercial vehicles 6.6. Freight transport services by road 6.7. Inland passenger water transport 6.8. Inland freight water transport 6.9. Retrofitting of inland water passenger and freight transport 6.10. Sea and coastal freight water transport, vessels for port operations and auxiliary activities

	6.11. Sea and coastal passenger water transport 6.12. Retrofitting of sea and coastal freight and passenger water transport 6.13. Infrastructure for personal mobility, cycle logistics 6.14. Infrastructure for rail transport 6.15. Infrastructure enabling low-carbon road transport and public transport 6.16. Infrastructure enabling low carbon water transport 6.17. Low carbon airport infrastructure 6.18. Leasing of aircraft 6.19. Passenger and freight air transport 6.20. Air transport ground handling operations
7. Construction and real estate activities	7.1. Construction of new buildings 7.2. Renovation of existing buildings 7.3. Installation, maintenance and repair of energy efficiency equipment 7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings 7.6. Installation, maintenance and repair of renewable energy technologies 7.7. Acquisition and ownership of buildings
8. Information and communication	8.1. Data processing, hosting and related activities 8.2. Data-driven solutions for GHG emissions reductions
9. Professional, scientific and technical activities	9.1. Close to market research, development and innovation 9.2. Research, development and innovation for direct air capture of CO ₂ 9.3. Professional services related to energy performance of buildings

Sustainable use and protection of water and marine resources

1. Manufacturing	1.1. Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems
2. Water supply, sewerage, waste management and remediation activities	2.1. Water supply
	2.2. Urban waste water treatment
	2.3. Sustainable urban drainage systems (SUDS)
3. Disaster risk management	3.1. Nature-based solutions for flood and drought risk prevention and protection

4. Information and communication	4.1. Provision of IT/OT data-driven solutions for leakage reduction
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Transition to a circular economy

1. Manufacturing	1.1. Manufacture of plastic packaging goods
	1.2. Manufacture of electrical and electronic equipment
2. Water supply, , sewerage, waste management and remediation activities	2.1. Phosphorus recovery from waste water
	2.2. Production of alternative water resources for purposes other than human consumption
	2.3. Collection and transport of non-hazardous and hazardous waste
	2.4. Treatment of hazardous waste
	2.5. Recovery of bio-waste by anaerobic digestion or composting
	2.6. Depollution and dismantling of end-of-life products
	2.7. Sorting and material recovery of non-hazardous waste
3. Construction and real estate activities	3.1. Construction of new buildings
	3.2. Renovation of existing buildings
	3.3. Demolition and wrecking of buildings and other structures
	3.4. Maintenance of roads and motorways
	3.5. Use of concrete in civil engineering
4. Information and communication	4.1. Provision of IT/OT data-driven solutions
5. Services	5.1. Repair, refurbishment and remanufacturing
	5.2. Sale of spare parts
	5.3. Preparation for re-use of end-of-life products and product components
	5.4. Sale of second-hand goods
	5.5. Product-as-a-service and other circular use- and result-oriented service models
	5.6. Marketplace for the trade of second-hand goods for reuse

Pollution prevention and control

1. Manufacturing	1.1. Manufacture of active pharmaceutical ingredients (API) or active substances
	1.2. Manufacture of medicinal products
2. Water supply, , sewerage, waste management	2.1. Collection and transport of hazardous waste
	2.2. Treatment of hazardous waste
	2.3. Remediation of legally non-conforming landfills and abandoned or illegal waste dumps
	2.4. Remediation of contaminated sites and areas

and remediation activities	
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Protection and restoration of biodiversity

1. Environmental protection and restoration activities	1.1. Conservation, including restoration, of habitats, ecosystems and species
2. Accommodation activities	2.1. Hotels, holiday, camping grounds and similar accommodation

China

The China Taxonomy (2021) has a four-level classification structure and includes six Categories and 204 activities in total.

Six categories	Sector classification	Sector specification	Program
1. Energy-saving and Environmental Protection Industry	1.1 Energy-efficiency improvement 1.2 Sustainable building 1.3 Pollution prevention 1.4 Water Conservation and Unconventional Water Resources 1.5 Comprehensive utilization of resources 1.6 Green transportation	14 items	62 programs
2. Clean Production Industry	2.1. Pollution prevention and treatment 2.2 Green agriculture 2.3 Comprehensive utilization of resources 2.4 Water saving, and efficient use of non-conventional water resources	8 items	19 programs
3. Clean Energy Industry	3.1 Energy efficiency improvement	4 items	26 programs

	3.2 Clean Energy		
4. Ecology and Environment-related sector	4.1 Ecological Agriculture 4.2 Ecological protection and construction	5 items	28 programs
5. Sustainable Upgrade of Infrastructure	5.1 Energy efficiency improvement 5.2 Sustainable buildings 5.3 Pollution prevention 5.4 Water Saving and Non-conventional Water Resources 5.6 Ecological Protection and Construction	11 items	38 programs
6. Green Services	6.1 Consultancy 6.2 Operation Management Services 6.3 Audit, Inspection and Evaluation of Projects 6.4 Monitoring and Detection 6.5 Promotion and Certification of Technical Products	6 items	31 programs

For each activity, the classification structure of the China Taxonomy takes a ‘while list’ approach and is not linked directly to China’s industrial classifications system. An example is provided as below.

Category	Sector classification	Sector specification	Program	Description/Condition
1. Energy-saving and Environmental Protection Industry	1.2 Sustainable building	1.2.1 Green Building Materials	1.2.1.1 Manufacturing of Green Building Materials	Manufacturing and consumption of green building materials/products including energy-saving wall materials, thermal insulation materials for exterior walls, energy-saving glass, prefabricated building components, ready-mixed concrete, ready-mixed mortar, etc. The properties of products

				and technical specifications should meet national and industrial relevant technical requirements for green building materials/products. Glass products for exterior walls shall reduce light pollution and urban heat island effect.
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3. Common Ground Taxonomy Methodology

3.1. Scope of analysis

3.1.1. Objectives and screening criteria

The European Union

From the EU perspective, while the initial analysis covered the climate mitigation objective and all corresponding technical screening criteria to analyse substantial contribution, this version entails also the analysis of environmental objectives (sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems). The analysis looked in detail at each of the technical screening criteria for each line and, where relevant, other applicable EU regulation.

It does not cover the Adaptation objective, the Do No Significant Harm and the Minimum Social Safeguards- see Chapter 6 for some discussion

China

The activities specified in the China taxonomy targets all of its three environmental objectives, but are not mapped to corresponding objectives like in the EU Taxonomy. In the initial version of the bilateral CGT, the climate change objective was most comprehensively covered. In this analysis all remaining objectives have been analysed and mapped to the corresponding EU environmental objectives

The China Taxonomy covers four levels of granularity as well as a description for each of the requirements listed in the explanatory notes of the Green Industry Guiding Catalogue (2019 Edition)²⁹ and the corresponding “instructions/conditions” of the China Taxonomy³⁰ were analysed against the EU activity description and technical screening criteria. These relevant regulations and codes in China which were analysed on a best-efforts basis to understand the comparability in some detail.

²⁹ 2019 Green Industry Guiding Catalogue (<http://www.cnstandards.net/index.php/2019-green-industry-guiding-catalogue/>)

³⁰ Green Bond Endorsed Projects Catalogue, 2021 Edition
(<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>)

3.1.2. Priority sectors

While previous iterations of the bilateral CGT comparison prioritised some of the selected sectors with highest impact with regards to emissions; current analysis covers all sectors material from the climate change mitigation perspective. Additionally, this study entails analysis of economic activities from sectors that are material to the following environmental objectives: sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems.

Climate Change Mitigation

ISIC	Level 1 EU Taxonomy	Level 1 China
A. Agriculture forestry and fishing	1. Forestry	4. Ecology and Environment-related sector
C. Manufacturing	3. Manufacturing	1. Energy Saving and Environmental Protection Industry 3. Clean Energy Industry
D. Electricity, gas, steam and air conditioning supply	4. Energy	3. Clean Energy Industry 5. Sustainable Upgrade of Infrastructure
E. Water supply; sewerage waste management and remediation activities	5. Water supply, sewerage, waste management and remediation.	1. Energy Saving and Environmental Protection Industry 2. Clean Production Industry
F. Construction	7. Construction and real estate activities.	1. Energy Saving and Environmental Protection Industry 5. Sustainable Upgrade of Infrastructure
H. Transportation and storage	6. Transport	5. Sustainable Upgrade of Infrastructure
J. Information and communication	8. Information and communication.	6. Green Services
M. Professional scientific and technical activities	9. Professional, scientific and technical activities	6. Green Services
N. Environmental protection and restoration activities	2.Environmental protection and restoration activities.	4. Ecology and Environment related sector 5. Sustainable Upgrade of Infrastructure

Pollution prevention and control

ISIC	Level 1 EU Taxonomy	Level 1 China
E. Water supply; sewerage waste management and remediation activities	2. Water supply, sewerage, waste management and remediation.	1. Energy Saving and Environmental Protection Industry 2. Clean Production Industry 4. Ecology and Environment related sector

Sustainable use and protection of water and marine resources

ISIC	Level 1 EU Taxonomy	Level 1 China
E. Water supply; sewerage waste management and remediation activities	2. Water supply, sewerage, waste management and remediation.	1. Energy Saving and Environmental Protection Industry 5. Sustainable Upgrade of Infrastructure 6. Green Services
F. Construction	3. Disaster risk management	5. Sustainable Upgrade of Infrastructure 4. Ecology and Environment related sector

Biodiversity and ecosystem protection

ISIC	Level 1 EU Taxonomy	Level 1 China
R - Arts, Entertainment and Recreation	1. Environmental protection and restoration activities	4. Ecology and Environment related sector
I - Accommodation and Food Service Activities	2. Accommodation activities	4. Ecology and Environment related sector

Circular Economy

ISIC	Level 1 EU Taxonomy	Level 1 China
E. Water supply; sewerage waste management and remediation activities	2. Water supply, sewerage, waste management and remediation.	1. Energy Saving and Environmental Protection Industry 2. Clean Production Industry 5. Sustainable Upgrade of Infrastructure
F. Construction	3. Construction and real estate activities.	1. Energy Saving and Environmental Protection Industry

3.2. Section mapping

3.2.1. Mapping against ISIC as a neutral code

The International Standard Industrial Classification of All Economic Activities (ISIC) is the international reference classification. A majority of countries around the world have used ISIC as their national activity classification or derived from ISIC.

The statistical classification of economic activities used in the EU called NACE (Nomenclature statistique des Activités économiques dans la Communauté européenne), is derived from ISIC (the United Nations' International Standard Industrial Classification) of all Economic Activities. The Industrial Classification for National Economic Activities (ICNEA 2017) of China is also derived from the UN ISIC Rev.4. with additional details at lower levels.

The reference to a common classification system allowed the comparison of taxonomies based on a neutral code rather than taking one taxonomy to compare the other. It also helped to group activities in a neutral way when there were differences between the scope of the activities in the two taxonomies. For example, many construction activities could be classified within the construction headlines sector or within the individual sectors that they relate to (e.g. construction of waste treatment facilities) – wherever possible, it is referred to ISIC for this grouping.

3.2.2. Challenges and solutions found: codes mapped against multiple activities, activities without a code etc.

While useful, in many sectors and activities, ISIC (Rev 4.) is not sufficiently granular to capture all the detailed mapping and comparison that is required. This is particularly the case for emerging potentially scalable technologies, such as hydrogen or carbon capture, utilisation and storage (CCUS). Industrial activities are intended to cover economic activities rather than environmental objectives which means that, for example, “Electric power generation, transmission and distribution” is the most granular level of detail available within ISIC for electricity generation but the type of fuel that is used is not covered.

For this reason, the mapping, while following ISIC at the Section and Division levels, also goes beyond ISIC as depicted in the image below.

There were also some areas like Carbon Capture that do not fit into an ISIC classification framework. These were put under 'Other' at the end.

ISIC Section	ISIC Division	Group	Class	Beyond ISIC
D, Electricity, gas, steam and air conditioning supply	35, Electricity, gas, steam and air conditioning supply	351, Electric power generation, transmission and distribution	3510,Electric power generation, transmission and distribution	• Electricity generation from ocean energy technologies • Electricity generation from hydropower • Electricity generation using solar photovoltaic technology
A, Agriculture, forestry and fishing	02,Forestry and logging	021,Silviculture and other forestry activities	0210,Silviculture and other forestry activities	• Afforestation • Forest Management • Rehabilitation and restoration of forests

3.3. Scenario analysis methodology

3.3.1. Description of approach: what is a scenario analysis methodology and why was it used?

Once the mapping complete, the detailed description and technical screening criteria for each line were compared to ascribe each line with a scenario based on their characteristics in terms of comparability.

This methodology allowed us analyse without requiring either taxonomy to change and without requiring either taxonomy to accept other standards or laws as equivalent to their own criteria.

This was a core underpinning of the CGT – that the common ground is based on what currently exists rather than how further common ground might be found if small changes were made to either taxonomy. For future work, see the discussion in Chapter 6 Future considerations.

3.3.2. Scenario description

Scenario 1: Areas with clear overlaps

Some activities in the two taxonomies assessed have overlaps and can be considered comparable within the scope/for the purpose of the CGT report. These have little need for further analysis.

Examples include electricity generation from wind power.

Scenario 2: EU criteria are more stringent and/or detailed

Scenario 2 was assigned to activities which were clear to map but where the EU screening criteria were either narrower in scope or more stringent and/or detailed than Chinese criteria. In this case, the EU criteria were described in the CGT in more detail.

An example is electricity generation from hydropower where EU criteria specific quantitative screening criteria to projects while the Chinese criteria are not quantitative in nature.

Scenario 3: China criteria are more stringent and/or detailed

Scenario 3 was assigned to activities which were clear to map but where the China criteria (as put forward in the taxonomy itself or relevant industrial standards and regulations) were either narrower in scope or more stringent and/or detailed than EU criteria. In this case, the China criteria were described in the CGT in more detail.

All scenario 3 activities were included in the CGT.

Scenario 4: Identifiable overlap

Scenario 4 was assigned to activities that have some alignment in scope of activities.

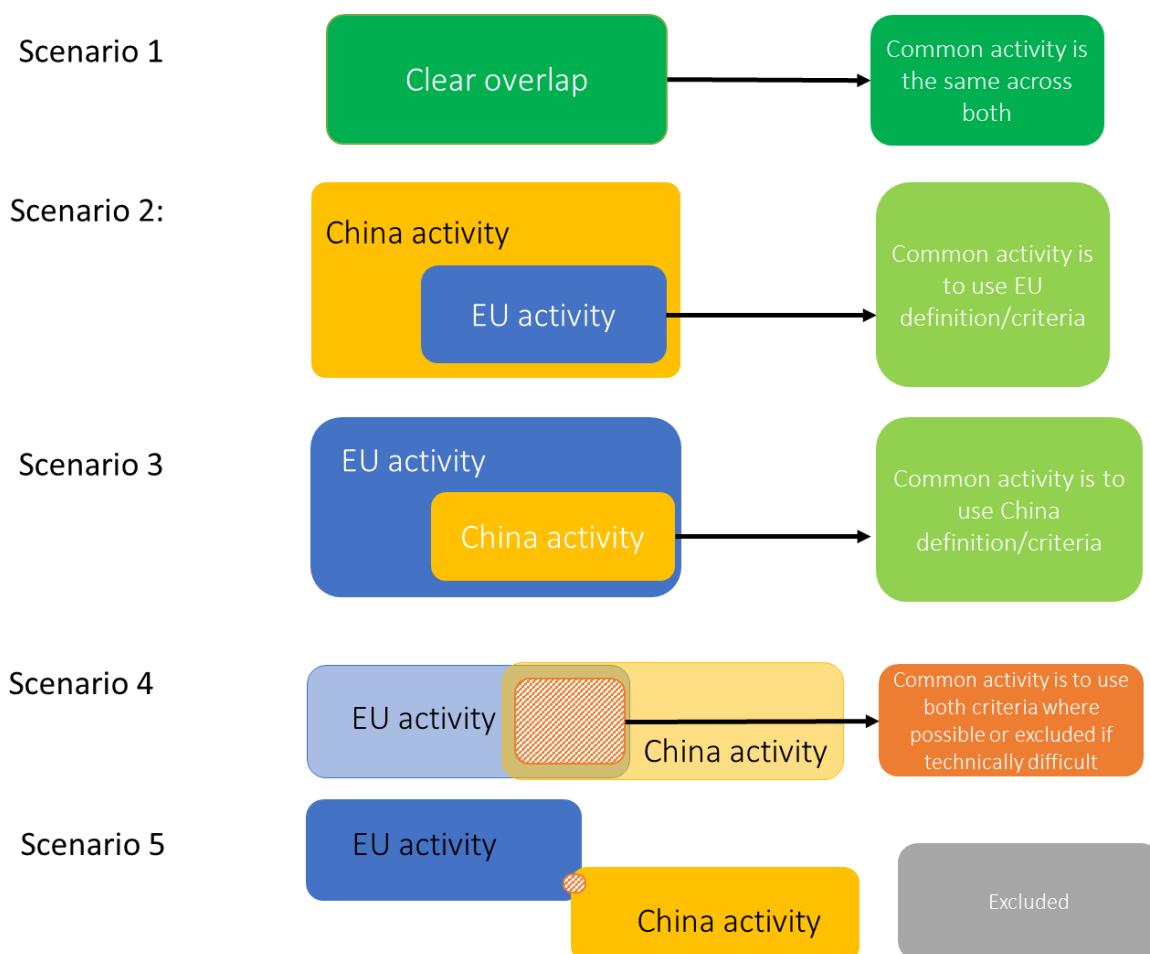
Some scenario 4 activities were included in the CGT after additional work was done to understand the mapping and overlap. However, given the lack of clarity across the criteria, it was not possible to assess their comparability— as a result both the EU and China criteria were described

Scenario 5/6: Unclear overlap or obvious divergence

Scenario 5 was assigned to activities that were very difficult to map in the other taxonomy – for example, the EU includes criteria for landfills but the China taxonomy does not include landfills.

Scenario 6 was assigned to activities where there was obvious differentiation.

Both Scenario 5 and 6 activities were excluded from the CGT.



3.4. Structure of CGT Activities

The total number of common sustainable activities between EU and China adds up to **96** as the result of the Phase II analysis.

Objective 1: Climate Change Mitigation

The current CGT accompanying this report comprises seven sections, sixteen categories and 96 activities from which 76 fall into the climate mitigation, 3 into Pollution prevention and control, 6 into Sustainable use and protection of water and marine resources, 2 into Biodiversity and ecosystem protection and 9 into Circular economy area. A more detailed analysis of the number of activities for each sub-group is shown in the following tables.

Sections	Categories	Activities
A. Agriculture, forestry and logging	A1. Forestry and logging	4
C. Manufacturing	C1. Manufacture of low-carbon footprint materials	3

	C2. Manufacture of clean energy technologies	10
	C3. Manufacture of clean energy vehicle and parts	2
	C4. Manufacture of recycling equipment	3
	C5. Manufacture of energy-saving equipment	13
D. Electricity, gas, steam and air conditioning supply	D1. Electric power generation, transmission and distribution	8
	D2. Steam and air conditioning supply	8
E. Water supply, sewerage, waste management, and remediation activities	E1. Sewage sludge treatment	1
	E2. Waste collection, treatment and recycling	5
F. Construction	F1. Construction and renovation of buildings	2
	F2. Construction of transport infrastructure	4
	F3. Electrical, plumbing and other construction installation activities	2
H. Transportation and storage	H1. Land transport including railways	5
J Information and Communication	J1 Information and Communication	1
M Professional scientific and technical	M1 Professional scientific and technical	2
N Environmental protection and restoration	N1 Environmental protection and restoration	1
X. Others	X1. Underground permanent geological storage of CO ₂	2
	X2. Hydrogen storage	
In total		76

Objective 2: Pollution prevention and control

Sections	Categories	Activities
E. Water supply, sewerage, waste management, and remediation	E3. Water supply, sewerage, waste management, and remediation	3
In total		3

Objective 3: Sustainable use and protection of water and marine resources

Sections	Categories	Activities
E. Water supply, sewerage, waste management, and remediation	E4. Water supply, sewerage, waste management, and remediation	5
F Construction	F4 Construction	1
In total		6

Objective 4: Biodiversity and ecosystem protection

Sections	Categories	Activities
R Arts entertainment and recreation	R1 Arts entertainment and recreation	1
I Accommodation and food services	I1 Accommodation and food services	1
In total		2

Objective 5: Circular economy

Sections	Categories	Activities
E Water supply, sewerage, waste management, and remediation	E5 Water supply, sewerage, waste management, and remediation	7
F Construction	F5 Construction	2
In total		9

For each activity, the following tabular format is used to present the number, name, description, criteria, association with relevant EU or China activities.

CGT number and activity name	<i>Each activity in the CGT is numbered according to its headline sector e.g. A1.1 is Afforestation which is the first activity under the Agriculture and Forestry sector.</i> <i>Name of activity – China or EU nomenclature is used depending on the scenario (e.g. for Scenario 2 activities, generally EU nomenclature is used)</i>
Description	<i>Description of what is covered under the activity- China or EU nomenclature is used depending on the scenario (e.g. for Scenario 2 activities, generally EU nomenclature is used)</i>
Substantial contribution criteria	<i>Scope of activity</i> <i>Description of Technical screening criteria</i>
Additional notes	<i>Provides reference numbers within the associated activities in the EU and/or China Taxonomy. Generally, if it is Scenario 2 (i.e. EU criteria are applied), the additional notes show how it is mapped to China. And vice versa.</i>
Overlap scenario	<i>Provide the scenario ascribed during the CGT work</i>

4. Additional considerations

4.1. Do No Significant Harm

Currently, the Do No significant Harm criterion of the EU Taxonomy is not covered within the CGT given the technical complexity of the exercise. It is anticipated that this will be an area of future work.

Some initial work was done early on in the research phase to ascertain those DNSH criteria which are quantitative in nature and therefore possible to be assessed and compared in line with substantial contribution criteria. While a comprehensive assessment is yet to be carried out, initial analysis shows that there are a number of criteria from the EU and China taxonomies that can be mapped and compared in a similar way to Scenario approach noted above

4.2. Minimum Safeguard

While minimum safeguards are used in both taxonomies, these are not uniform across taxonomies and not easily comparable.

Under article 18 of the EU Taxonomy Regulation, economic activities must also meet the requirements of the minimum social safeguards including but not limited to alignment with:

- the *OECD Guidelines for Multinational Enterprises*,
- the *UN Guiding Principles on Business and Human Rights*,
- the International Labour Organization (ILO) *Declaration on Fundamental Principles and Rights at Work* and its *Eight Fundamental Conventions*, and
- the *International Bill of Human Rights*.

China has minimum safeguards in place, referencing relevant domestic policies and standards. The focus of those requirements – which include the Sanitary Standards for the Design of Industrial Enterprises, and the Regulations on Labour Security Inspection – is more on Environmental, Health and Safety (EHS).

4.3. Climate change adaptation-related activities

While some attempts were made to cover the EU's adaptation objective under the CGT, this has proven to be difficult and as a result more work is required in this area.

The comparison of the criteria for climate change adaptation has proved challenging due to two reasons

- 1) In the China Taxonomy, there are no criteria specified as adaptation criteria under the Taxonomy itself and, generally speaking, the China Taxonomy places greater emphasis on climate change mitigation as part of its climate change objective. However, there is a number of local codes, standards and regulations which have adaptation elements incorporated. Due to the huge number of codes that were required to be assessed, it was not possible to assess them for this updated report.
- 2) Under the EU taxonomy, most activities substantially contributing to climate change adaptation include generic criteria that are process-based and hence more qualitative in nature and their implementation and application depends on the specific context of each assessed activity. The required case-by-case interpretation of the EU criteria proves to be incomparable at the CGT level with the Chinese criteria, which maintain a white-list approach.

5. Usability

5.1. Challenges and potential solutions to ensuring usability for analysis

The CGT as it currently stands provides a starting point to assess common ground across certain features of the two taxonomies. While best efforts have been made to translate local standards into metrics that can easily be used for analysis of taxonomies around the world, there is still some way to go on this to ensure greater usability.

The following section outlines some of the challenges to usability for CGT analysis. These challenges are relevant not just to the EU and China but also to other jurisdictions which intend to pursue a taxonomy-based approach.

Reference to local legislation/ codes

The CGT make references to other pieces of legislation – e.g. European directives and Chinese standards. More work will be required to make these useful for analysis in other jurisdictions.

Need to improve data availability

Some activities contained in the CGT specify criteria that rely on the availability of data which does not exist in all jurisdictions. For example, Energy Performance Certificates are the norm in the EU but are not available universally around the world.

Understanding how metrics compare

While some activities do specify quantitative thresholds, they make use of metrics that are not commonly used in other jurisdictions.

Electricity generation, for example, has fairly standardised metrics that are comparable across jurisdictions. However, sectors like buildings are very difficult to compare and map across jurisdictions and data availability also varies. Some building codes and regulations utilise energy consumption metrics, others have standards for building envelopes and others use emissions.

Primary Energy Demand (PED) used in the EU taxonomy is another example of metrics that are not commonly used in other jurisdictions but has good correlation with energy consumption and GHG emissions in most instances. Currently, the use of other metrics is not possible in the CGT analysis even if they meet the same objectives (substantial reduction in emissions from buildings).

Need to evolve dynamically

Taxonomies are living documents as they follow the development of technologies, and they may expand the coverage over time. Accordingly, regular revisions of the CGT may be necessary to ensure that it is up-to-date.

6. Future considerations

6.1. Pathway to include areas not currently included in CGT

The first phase of the CGT presented a detailed analysis of the EU and China Taxonomies, with an initial focus on climate mitigate activities. The second phase looked at additional climate mitigation activities which were not covered in the previous phase and at activities and sectors substantially contributing to the other environmental objectives. In parallel, the TWG worked on expanding the scope of the comparison exercise to other jurisdictions' taxonomies, starting with the Singapore-Asia Taxonomy. Future work could include additional areas such as the following:

New areas of alignment in existing activities

In some activities where mapping alignment was challenging, there is potential to do more research work to understand possible commonalities. Future work may also embed transition considerations.

Other eligibility features

As noted, DNSH and minimum safeguards are not currently explicitly analysed within the scope of this exercise. These features and criteria could be brought in to strengthen the comparison and interoperability between jurisdictions.

6.2. Options to incorporate other jurisdictions

The China and EU Taxonomies were developed through very different processes at a time when there was limited guidance around taxonomies or even regular use of the word taxonomy in the market.

That is no longer the case. There is now a wealth of information and expertise on global taxonomy development and existing guidelines across jurisdictions. Over twenty countries and regions around the world are currently in the process of developing their own taxonomy or have released versions for comment. Even since the CGT work was started, the landscape has changed dramatically.

The substance and methodology presented by CGT provide a valuable tool to facilitate the future interoperability of taxonomies worldwide. Its analysis can be used and referenced by jurisdictions which intend to pursue a taxonomy-based approach to promote a common language for assessing green assets.

The Common Ground Taxonomy, and particularly, the analytical methodology was also designed to be inclusive and flexible so as to incorporate new jurisdictions which develop taxonomies over time.

In light of this, the IPSF decided to work on the extension of the CGT analysis to additional jurisdictions, starting with the Singapore-Asia Taxonomy. A separate report on the “Multi-jurisdiction CGT” was published alongside this, on 14 November.

The IPSF is a forum which currently includes 20 members, of which at least seven are using or actively looking to develop jurisdictional or regional taxonomies. The TWG may continue working on enhancing the comparability and interoperability of taxonomies and expanding the CGT comparison exercise in the future.