

## Briefing

# Ending greenwashing with a science based taxonomy



March 2023

## Summary

In December 2022, the government announced a delay in the implementation of the UK green taxonomy. This is a common framework setting the bar for investments that can be defined as environmentally sustainable. It's vital that the government provides a clear timeline for a legally grounded taxonomy in the forthcoming 'Update to the Green Finance Strategy', expected to be announced later this month.

The green taxonomy was first announced in [November 2020](#) by the then Chancellor Rishi Sunak and aims to provide a common, science based definition of what economic activities count as environmentally sustainable. The government launched an [independent advisory group](#) – the Green Technical Advisory Group (GTAG) - in June 2021 to oversee the delivery of the taxonomy, ahead of its planned introduction in 2023. This briefing covers two areas:

### – Why a legal taxonomy is needed

A legal taxonomy, rather than a voluntary one, is needed to align the financial sector with net zero, tackle greenwashing, inform investment decision making and underpin other green regulatory steps.

### – What the taxonomy should contain

The UK green taxonomy should contain science based transparency frameworks based on environmental objectives, such as the six objectives (eg climate change mitigation) that underpin the EU green taxonomy. It is crucial that the UK taxonomy works with other international taxonomies.

## Why a legal taxonomy is needed:

At COP26, the chancellor at the time, Rishi Sunak, committed the UK to being the "[world's first net zero aligned financial centre](#)". Crucial to achieving this is access to reliable science based information to classify if an investment is 'green'. Although this would not mandate investments, a tool which would bring clarity on what a 'sustainable' investment will be a significant step in aligning financial flows to meet net zero.

## Aligning the UK financial sector with net zero

A UK green taxonomy would provide government, regulators, companies, investors and consumers with credible, science based information on the environmental impact of economic activities. This will:

- **Tackle greenwashing** by providing objective, quantifiable criteria against which to assess businesses 'green' claims. This is sorely needed as confidence is very low. Just [one per cent](#) of financial advisers and wealth managers say they “completely trust” claims made by green and ESG funds.
- **Inform investment decisions** by creating a level playing field, helping investors to understand the environmental impact of their investments and how different companies compare, which is the first step towards greening the financial system. This will drive investment towards low carbon sectors, such as renewable energy.
- **Underpin green regulations** such as mandatory climate related and nature related financial disclosures and net zero transition plans. A common understanding of which economic activities are green will improve the quality and transparency of reporting and transition plans.

## Maintaining the UK's position as a world leader on green finance

The UK has been the top ranked global financial centre for green finance for two consecutive years, ahead of Amsterdam, Singapore and New York.

This can largely be attributed to the government's regulatory approach, providing strong market signals that net zero is the future of the financial sector.

However, progress is now faltering, with the government failing to follow through with legislative and regulatory commitments. This has created uncertainty and vulnerability for the private sector.

The UK taxonomy is emblematic of this problem. A promised consultation on the criteria is still nowhere to be seen, with the UK set to miss its legal deadline to implement it in 2023. On this, the UK lags behind the EU and countries like South Africa and Indonesia, all of which have finalised their taxonomies.

## Driving competitiveness within the UK financial centre

The government is right to focus on making the UK the “[world's most innovative and competitive global financial centre](#)”. The UK financial sector:

- Contributed [£173.6 billion](#) to the UK economy (8.3 per cent of total economic output) in 2021.
- Employs [2.3 million](#) people across the UK with two thirds of these outside London.

Despite its importance to the health of the wider economy, the City has struggled to remain competitive. It has recently been overtaken by [Amsterdam](#) in equity trading and by [Paris](#) as the most valued stock market.

Aligning the financial sector with net zero will drive competitiveness, mobilising capital and financing companies in emerging growth markets. Achieving climate stability is also important to financial stability.

## What the UK's green taxonomy should contain:

### International interoperability

There are over 30 taxonomies around the world and the government needs to inform international standards. The UK's efforts will need to align and work with these.

Eighty per cent of UK holdings are held overseas. The largest proportion of the UK's foreign investment is in the EU (73 per cent). A UK taxonomy that works with the EU's green taxonomy is vital to these investments.

### Science based transparency frameworks based on environmental objectives

The six underlying environmental objectives of the EU's taxonomy are climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity of ecosystems. The UK taxonomy should adopt these technical screening criteria to classify investments as 'green' and promote interoperability.

In the upcoming Green Finance Strategy update, the government should:

- **Publish a revised timeline**, including coverage of sectors and objectives. In May 2022, HMT planned to finalise technical screening criteria by the end of 2023; however, now that progress has been delayed, they should revisit these deadlines.
- **Embed the green taxonomy in legislation**. A legal taxonomy is required to tackle greenwashing, inform investment decision making and underpin other green regulatory steps. A voluntary taxonomy would be insufficient to achieve these objectives.
- **Continue progress with disclosures and transition plans**. A whole economy approach is necessary to increase financial flows towards sustainable activities. Therefore, it is crucial to make progress on the Transition Plan Taskforce sector specific and sector neutral frameworks, alongside progress on the taxonomy.
- **Use public institutions as test cases**. The UK Infrastructure Bank (UKIB), a state owned development bank designed to help reach net zero targets, should extend its exclusion criteria (currently coal and other fossil fuel generation) to fully abide by the green taxonomy.

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