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UK GREEN TAXONOMY
E3G SUBMISSION

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Delivering on the UK's ambition to become the world's premier hub for green and transition finance offers significant economic benefits, with the CBI finding that delivering on net zero could unlock upwards of £104 billion of inward investment by 2040.[1]

Mobilising capital requires government and regulators to pull together as one, developing a whole of economy plan, deploying a range of levers, and updating the UK's regulatory landscape to be appropriate for the 21st century and attractive to investment. This package should include the wider UK SRS, ISSB adoption, mandatory 1.5C-aligned transition plan disclosures and the development of robust transition finance principles following recommendations of the Transition Finance Market Review (TFMR).

Within this UK transition industrial policy suite, a taxonomy could potentially support specific functions such as:

- Guiding investment at activity level and (with relevant disclosure requirements linked to transition planning) at entity level.
- Enabling tracking of green investment at macro level
- Helping to tackle greenwashing by providing clarity on what a credible green investment is.

Implementing a robust, science-based UK Green Taxonomy – as part of a coherent, interoperable reporting package - could incentivise investment in the green finance market and provide much-needed clarity for investors. Without a UK-owned Green Taxonomy alternative work would need to be done to ensure

[1] CBI, 2023, **Going for Green: The UK's net zero growth opportunity**

that this clarity is enshrined. This could include building off of other commonly used taxonomies – such as the EU Green Taxonomy.

The UK has a strong commitment to developing a UK-owned Green Taxonomy. Backing out of this pledge would send a poor signal to investors and partners globally on the UK's commitment to net zero and its clean energy mission. However, since the UK first made this pledge, the global landscape has changed with more than 50 other jurisdictions following suit, many of which have moved faster and already have Taxonomies in place.[2]

If the UK does progress ahead with developing its own Green Taxonomy, it must take steps to ensure that it is impactful and additive in driving capital towards the net zero transition. This requires the taxonomy to be:

- **Science-based, responsibly governed and updated periodically by a credible body**. Above all, the UK Green taxonomy must be science-based, excluding gas and other fossil fuels, and prioritise usability. This would require there to be a clear owner of the taxonomy who could convene sectoral experts and scientists to develop and regularly update the taxonomy – ensuring its credibility and usability.
- **Implemented alongside other key levers and regulatory updates to mobilise capital at the pace and scale required**. Alongside disclosure requirements, the taxonomy must be embedded within a wider whole of economy plan to mobilise net zero investment. An economy wide transition plan, underpinned by a Net Zero Investment Plan, will be essential to provide the regulatory, policy and strategic public investment incentives needed to mobilise capital at scale across the UK.
- **Interoperable with global taxonomies**, particularly the EU. This will be vital to minimise reporting burden and boost business value.

If the UK government does not decide to develop a UK-owned Green Taxonomy then it must still take forwards other key regulatory and policy updates – such as an economy-wide transition plan and mandatory, 1.5C-aligned, entity-level transition plan requirements. To prevent barriers to investment and delivery of a green transition, the government would also need to work to ensure the markets have the right alternative mechanisms to ensure the credibility of 'green' investments.

[2] GTAG, 2025, **International Taxonomy Dashboard**

Q1 To what extent, within the wider context of government policy, including sustainability disclosures, transition planning, transition finance and market practices, is a UK Taxonomy distinctly valuable in supporting the goals of channelling capital and preventing greenwashing?

Requiring that market actors track their investments against a robust, science-based UK Green Taxonomy - as part of a broader sustainability reporting regime - would incentivise investment in the green finance market and provide much-needed clarity for investors. A robust taxonomy, backed by mandatory 1.5°C-aligned transition planning and a credible whole-of-economy green industrial strategy, can guide investment, tackle greenwashing, and drive the transition to a green and growing economy.

The taxonomy could enhance transparency and comparability in sustainability practices among companies, credit institutions, and investors, helping address the issue of greenwashing and emergent reports of greenhushing – where companies deliberately downplay or misrepresent their environmental impact. 87% of investors think corporate reporting contains unsupported sustainability claims[3] reducing confidence in the market and increasing risks for investors.

Taxonomies complement the role that 1.5C-aligned, mandatory transition plans would play in increasing the climate-related risk information available to the market, taxonomies make this information easier to compare and interpret for users including investors, stakeholders and consumers. 86% of investors think disclosure of a climate transition plan is a valuable tool for their investment decision making.[4]

Without a UK-owned Green Taxonomy, the government must outline a consistent approach to verifying the credibility of green claims. Many users are already using alternative taxonomies – such as the EU and SEA Taxonomies – to fulfil this function. However, without endorsement by the UK government, and consistent adoption across UK policy and regulation, the use of alternative taxonomies or approaches will not be sufficient to tackle greenwash in the UK. To cut down on complexity and ensure consistency, the government must work to ensure there is a single, credible approach to verifying claims in the UK.

[3] PwC, 2022, **Global Investor Survey**

[4] E3G, 2025, **Policies to manage climate-related risk could unlock investment in the UK – survey**

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A number of existing and incoming policy initiatives may be better placed to address fulfil this role in the UK. For example, sector roadmaps will provide transparency on the milestones and actions required for the UK economy to transition, giving investors confidence and policy certainty over which activities are at risk of becoming 'stranded', and where capital needs to be reoriented.

Q2 What are the specific use cases for a UK Taxonomy which would contribute to the stated goals? This could include through voluntary use cases or through links to government policy and regulation.

The proposed use case(s) for a green taxonomy will be the most important factor(s) in deciding its design. The Green Technical Advisory group noted a wide range of use cases and suggested how they might be prioritised (see GTAG Advice on the development of a UK Green Taxonomy pp27-28).[5] Key amongst these are:

- Tackle greenwashing
- Encourage better understanding of climate and sustainability risks and opportunities through a required reporting level of taxonomy alignment at company level as part of wider mandatory TCFD and other reporting
- Improve consumer choice and confidence, e.g. by underpinning universal comply or explain or alternatively mandatory product level disclosure requirements.
- Guide future UK Infrastructure Bank [now National Wealth Fund] investment strategy and decisions.
- Creating consistency across government and regulator decision-making especially regarding future policy.
- Use cases within prudential and monetary policy

Any taxonomy must fit within a wider supportive regulatory landscape including mandatory 1.5-aligned transition plans and a Net Zero Investment Plan. These policies will work in tandem with the taxonomy, ensuring that its value is maximised and contributing to a faster transition towards delivery of climate goals.

[5] GTAG, 2022, **GTAG Advice on the development of a UK Green Taxonomy**

Having a taxonomy as a reference point for future regulatory and public finance decision making would provide a helpful signal of confidence to the market in the Government's net zero trajectory, and encourage investors and companies to align with the taxonomy. This would enable the government to use the taxonomy to steer the economy towards a greener, more resilient and just future. The UK could also consider whether it would be helpful to have a 'non-aligned' or 'unsustainable' taxonomy to help firms track and move away from their unsustainable investments.

As has been highlighted consistently by investors and wider stakeholders, there is a need for transparency on the milestones and actions required for the UK economy to transition in the form of more granular sectoral pathways. These must be underpinned by a robust Net Zero Investment Plan (NZIP)[6] if the UK is to meet its climate targets and capture the sizeable economic benefits of the green transition.

The NZIP would be made up of sectoral investment roadmaps, setting out policies, incentives, and public spending needed to leverage investment to power the UK's transition. To support effective policy making, an independent body such as the OBR should be mandated to track investment flows, highlighting where there are investment challenges that need to be addressed. The roadmaps, taken together, would provide a comprehensive, cross-economy strategy for crowding in the investment needed to drive growth and meet the UK's net zero objectives. Financial organisations representing over £10 trillion AUM have called on the government to implement a NZIP.[7]

Q3 Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.

A UK taxonomy can help support the mobilisation of transition finance alongside implementing the commitment for large companies to disclose 1.5 aligned transition plans, but adding transition elements alone won't deliver the scale needed to meet the UK's climate targets and Paris goals. The Government's priority should be developing a whole of economy plan, deploying a range of

[6] E3G, 2023, **Unlocking the economic opportunity of the 21st century through private finance**

[7] E3G, 2022, **Investors managing £3 trillion in assets call on UK government to deliver Net Zero Investment Plan**

levers, and updating the UK's regulatory landscape to be appropriate for the 21st century and attractive to investment.

Including transition elements in a UK-owned Taxonomy should only be done in tandem with the development of robust guardrails as to what can and can't be considered a 'transition' activity. Ahead of incorporating any transition elements into any UK-owned Taxonomy, the government should develop robust transition finance principles following recommendations of the Transition Finance Market Review (TFMR).[8]

GTAG advises that the UK Government should prioritise delivering a credible, robust, usable green taxonomy, keeping decisions about the options to extend (by which GTAG means to cover transition or harmful activities) for later review.[9]

Transition taxonomies may struggle to keep pace with evolving technologies. A rigid classification of activities could lead to the exclusion of activities with decarbonisation benefits. Instead, as recommended by the Transition Finance Market Review,[10] a principles-based approach could better meet market needs, while providing much-needed clarity.

If transition elements are included in the UK Green Taxonomy, robust governance must ensure regular updates aligned with the latest climate science and pathways. Activities would need to be appropriately time bound and/or bound to follow a progression framework such as a traffic light system to show how those activities will change over time to remain aligned with a credible decarbonisation pathway.

Q6 In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.

Above all, the UK Green taxonomy must be science-based, excluding gas and other fossil fuels, and prioritise usability. Interoperability with global taxonomies, particularly the EU, will be vital to minimise reporting burden and boost business value. The UK should take learnings from the EU process. If a taxonomy is developed, it should build on, and simplify mechanisms, from the EU taxonomy.

[8] TFMR, 2024, **Scaling Transition Finance: Findings of the Transition Finance Market Review**

[9] GTAG, 2023, **Applying the UK Green Taxonomy to wider policies: the value case and options**

[10] TFMR, 2024, **Scaling Transition Finance: Findings of the Transition Finance Market Review**

The UK must avoid a race to the bottom with the EU on weakened standards for sustainability and should instead use its diplomatic position to encourage global good practice, maintaining high standards of integrity in line with the 2050 net zero target and interim carbon budgets.

The EU Taxonomy prioritised inclusion of economic activities with the greatest potential to reduce greenhouse gas emissions. While EU Taxonomy coverage does map well to the UK in terms of sectoral emissions, it does not fully cover the UK economy, with GTAG estimates showing only 27% of the UK economy would be covered by the climate change mitigation objective if the UK Taxonomy exactly matched the EU Taxonomy's coverage.

The UK has a clear opportunity to address some of the issues, particularly around Do No Significant Harm (DNSH), that the EU taxonomy faced in its implementation. The Green Technical Advisory Group's recommendations[11] – including on updating DNSH guidance for usability and baking-in interoperability - should be the starting point for any upcoming Government work designing the UK's own approach.

The UK could also work with the International Platform on Sustainable Finance to build interoperability between any UK Green Taxonomy and other taxonomies in other jurisdictions. The Common Ground Taxonomy[12] could be expanded to include any UK Green Taxonomy and the categories of this could be sued as abase for any UK Taxonomy to promote interoperability and simplify the process of comparing activities between jurisdictions.

Q7 Are there any lessons learned, or best practice from other jurisdictional taxonomies that a potential UK Taxonomy could be informed by?

With over 50 taxonomies in development around the world,[13] the longer the UK waits to deliver its own taxonomy, the harder it will be to take a leadership role. Careful design of the UK's approach to designing and implementing a Green Taxonomy is essential to ensure it maintains broad support and is decision useful for the investment and business community alike.

[11] GTAG, 2022, **Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy**

[12] IPSF, 2024, **Common Ground Taxonomy**

[13] GTAG, 2025, **International Taxonomy Dashboard**

It can be expected that taxonomy thresholds for the UK will be subject to a high level of scrutiny from stakeholders. It is also reasonable to expect that those activity thresholds which proved contentious in the EU context will also prove controversial in this country – particularly in sectors such as agriculture, hydrogen, gas, nuclear power, bioenergy, and forestry.

The government must take expert advice and should actively engage with a full range of stakeholders, including real economy, financial institutions, NGOs and Local Authorities, to ensure that the UK's taxonomy is widely understood to be science-based and aligned with UK emissions targets as well as its Paris Agreement commitments. This group should build on advice provided by the 2023 Green Technical Advisory Group, which offered useful guidance as to how a UK green taxonomy could be effectively deployed in the UK to achieve government objectives.

Principles for reviewing EU climate change TSCs and deciding whether to onshore them (in priority order)

Avoiding greenwashing and supporting economic transition:

- 'Green' climate change TSCs should support whole-economy economic transition by setting a clear and specific expectation of what will be required for the activity to be compatible with a net zero and resilient global economy by mid-century, and with the UK's targets for adaptation and for net zero emissions by 2050.
- 'Transition' climate change TSCs should be compatible with the UK's sectoral transition pathways, recognising that within the bounds of these pathways and plans it may be necessary to take a 'Best Available Technology' approach in the short term and provided that this would not encourage lock-in of technology pathways which are inconsistent with the UK's net zero or adaptation goals.

Simple and Usable:

- In order to ensure usability, TSCs should be as simple as possible with clear metrics for companies to report to. Data required must be available or capable of being made available. Alignment between TSCs and the metrics in existing UK reporting regimes should be maximised and aligned over time in order to minimise duplication.

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- In order to ensure that the UK's taxonomy can remain flexible and forward-looking, there should be a demonstrable route to future ongoing UK review and assessment of each TSC in light of the latest technological and scientific developments.

Internationally relevant and consistent:

- In order to send a consistent signal to markets and minimise burden for UK firms, TSCs should to the greatest extent possible be identical or equivalent to TSCs set out or under consideration by other major economies, and/or to those under discussion in relevant multilateral forums which aim to address international alignment or interoperability.
- In order to onshore EU TSCs which relate to EU standards or regulation which may not apply in the UK, or which may not apply in future, including definitions of Significant Harm, it must be possible to adapt the TSC to refer to UK or international standards or regulation which provide equivalent levels of ambition and/or assurance.

Q9 What environmental objectives should a UK taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

To ensure that the UK implements a taxonomy that clearly defines 'green' economic activities and is viewed as a credible, robust and usable tool for the market, there must be clear governance mechanisms to ensure a strong base in the most up to date science.

The six criteria that the EU Green taxonomy uses are a sensible starting point. The priority must be that any UK-owned Green Taxonomy would prioritise climate change mitigation and adaptation. As in the EU, some criteria, such as nature, should also be phased in with the option to develop these objectives – as our understanding of these issues develop - in future iterations of any taxonomy.

The UK should also look to ensure a more streamlined approach to DNSH principles, building off of learnings form the EU. The aim of these should be to provide a clear backstop for environmental harms.

Q12 What are respondents' views on how to incorporate a Do No Significant Harm principle, and how this could work?

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GTAG has provided high quality guidance as to the implementation of a DNSH principle, building off of learnings from the EU.[14] DNSH criteria have the potential to create usability issues for the UK Green Taxonomy depending on how they are administered. The DNSH criteria in the EU Taxonomy are complex and challenging to navigate. While some requirements are unique and forward-looking, inconsistencies and ambiguity exist, particularly in relation to linkages to EU legislation.

GTAG highlights several opportunities to streamline, simplify and improve DNSH compliance requirements, without compromising the robust, science-based nature of the criteria (see GTAG 'Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy' pp37-41).[15]

Q13 It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.

Any UK taxonomy would require regular updates to ensure it remains aligned with the most up to date climate science. Beyond communicating a clear cadence for updates, the government must ensure that the update process has the right governance and consults the right stakeholders (as set out in the answer to question fourteen).

Q14 What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

To ensure the UK Green Taxonomy remains effective and aligned with national priorities, a 'owner' for the taxonomy should be established with a clear mandate to review and update the taxonomy in accordance with UK needs. This body should operate in a structured and transparent manner, ensuring updates are science based and built on sectoral expertise, while maintaining flexibility to reflect evolving market and policy developments.

The 'owner's first priority should be to ensure that the taxonomy is science-based and secondary objectives should be to promote usability and

[14] GTAG, 2022, **Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy**

[15] GTAG, 2022, **Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy**

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interoperability. This will be essential for the credibility of the taxonomy and its long-term efficacy. If a taxonomy is seen as anything less than credible, then users will no longer be able to confidently base their decision making off of information linked to the taxonomy. The government must also implement clear mechanisms to assess progress against these goals – ensuring that standards stay high over time.

To fulfil this role, the 'owner' should work as a convener, bringing together scientists and sectoral experts to ensure that the taxonomy represents the best understanding of the science when applied to the most common understanding of different activities. Keeping a consistent group of experts is likely to reduce the complexity of maintaining the taxonomy over time.

The home could be based within or independently from government but must have the ability to engage with relevant "Policy Owners" across government and regulators.[16] Some areas will be more straightforward to align once the oversight body is in place, while others will require coordination across multiple stakeholders.

If the UK Green Taxonomy remains focused solely on 'green' activities, then the role of the 'owner' will be limited. What is green is unlikely to change significantly although the taxonomy will have to flex to accommodate changes in understanding of the science and the emergence of new technologies.

About E3G

E3G is an independent, not-for-profit climate change think tank. E3G has been a leading expert voice for over 15 years on areas including green and sustainable finance, energy efficiency and zero carbon heat, energy system decarbonisation, and the political economy and governance of climate policy. This evidence reflects these areas of specialisation.

E3G provides secretariat support for the Transition Plan Taskforce, the Green Finance Institute's coalition for the Energy Efficiency of Buildings, the Energy Efficiency Infrastructure Group, the Electrify Heat Coalition, and the Taskforce on Climate-related Financial Disclosures.

[16] GTAG, 2023, **Applying the UK Green Taxonomy to wider policies: the value case and options**